Sharing Our Growth

MTR

Annual Report 2012

Sharing Our Growth

We continue to grow and enhance our core businesses in Hong Kong, while at the same time accelerating our expansion in the Mainland of China and overseas through sharing our expertise in developing sustainable communities based on rail transport. In support of these goals, we are strengthening our Hong Kong corporate citizen reputation by listening and responding to the voices of Hong Kong people. In our Annual Report, we share our progress with stakeholders, and outline our plans for the future.

Contents

MTR Corporation In Numbers – 2012

Consolidated Financials

Total Revenue
HK$35.7billion

Underlying Profit
HK$9.78billion

Total Assets
HK$206.9billion

Net Debt-to-Equity Ratio
10.9 %

Hong Kong Transport Operations

Share of Franchised Public Transport Market
46.4%

Domestic Service Fare Revenue Per Passenger
HK$7.01

Passenger Journeys on-time
99.9%

Total Route Length
218km

Total Patronage
1.77billion

Hong Kong Network Expansion

5 New Rail Projects
are progressing well

which will add 56km
to our network in Hong Kong

Hong Kong Property and Other Businesses

Investment Property Portfolio in Hong Kong Includes

13 Shopping Malls

18 Floors of Two ifc

Property Development Profit

HK$3.2 billion

Hong Kong Station Commercial Business

Station Commercial Revenue

16.0% of Total Revenue in Hong Kong

Mainland of China and International Businesses

1.17 billion

Passengers Carried by Our Rail Operations in

6 Cities

Outside of Hong Kong

Human Resources

22,155

Staff Worldwide

Caring

for life's journey

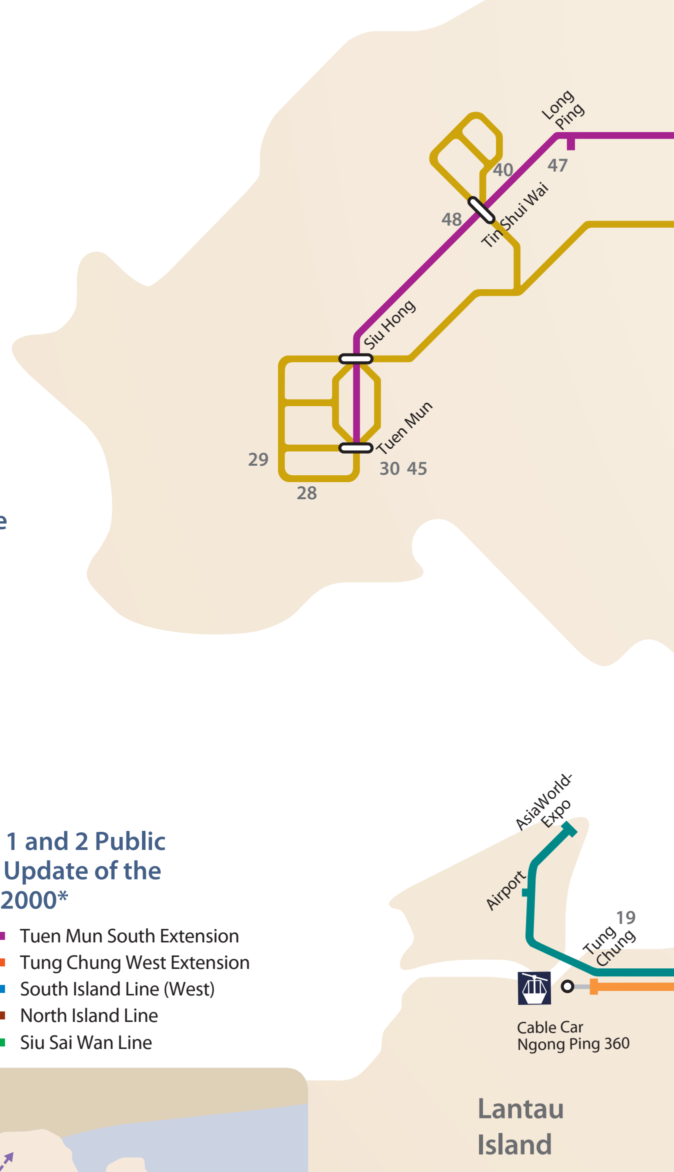
Hong Kong Operating Network with Future Extensions

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

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

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

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



Properties Owned / Developed / Managed by the Corporation

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

Property Developments Under Construction / Planning

34 LOHAS Park Package 3-10
39 Tai Wai Station
40 Tin Shui Wai Light Rail
41 Austin Station Site C
42 Austin Station Site D
52 Wong Chuk Hang Station
53 Ho Man Tin Station

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

43 Nam Cheong Station
44 Yuen Long Station
45 Tuen Mun Station
46 Tsuen Wan West Station
47 Long Ping Station
48 Tin Shui Wai Station
49 Kam Sheung Road Station
50 Pat Heung Maintenance Centre
51 Kwai Fong Site

Schemes Proposed in the Stage 1 and 2 Public Engagement of the Review and Update of the Railway Development Strategy 2000*

- Existing Network
- Northern Link
- Tuen Mun to Tsuen Wan Link
- Hong Kong - Shenzhen Western Express Line
- Tuen Mun South Extension
- Tung Chung West Extension
- South Island Line (West)
- North Island Line
- Siu Sai Wan Line

* Stage 1 and 2 Public Engagement Consultation Document of the Review and Update of the Railway Development Strategy 2000, undertaken by the Hong Kong SAR Government

Shenzhen
Lo Wu
Lok Ma Chau
Sheung Shui
Kwu Tung
Fanling
Tai Wo
33 Tai Po Market
New Territories
University
Racecourse*
27 35 Fo Tan
31 Sha Tin
Yuen Long 44
Kam Sheung Road
49
50
Intercity Through Train Route Map
Beijing Line
Shanghai Line
Guangdong Line
Beijing
Shanghai
Zhaoqing
Guangzhou
Foshan
Dongguan
HONG KONG SAR
Ma On Shan
36 Wu Kai Sha
Heng On
Tai Shui Hang
Shek Mun
City One
Sha Tin Wai
38 Che Kung Temple
39 37 Tai Wai
Hin Keng
Tsuen Wan West 46
Tsuen Wan 05
Tai Wo Hau
Kwai Hing 07
Kwai Fong 06 51
Lai King
Mei Foo
Tsing Yi 18
Sunny Bay
Disneyland Resort
Lai Chi Kok
Cheung Sha Wan
Sham Shui Po
Lok Fu
Wong Tai Sin
Diamond Hill
Kowloon Tong
Kowloon
25 Choi Hung
Kowloon Bay 01
Ngau Tau Kok
Kwun Tong
Lam Tin
Yau Tong
43 Nam Cheong
Prince Edward
Shek Kip Mei
Mong Kok
Mong Kok East
Kai Tak
To Kwa Wan
Ma Tau Wai
Ho Man Tin 53
04
Yau Ma Tei
20 Olympic
41 42 Austin
Jordan
Whampoa
Hung Hom 32
21 Kowloon
West Kowloon Terminus
Tsim Sha Tsui
East Tsim Sha Tsui
Po Lam
24 Hang Hau
23 Tseung Kwan O
26 Tiu Keng Leng
34 LOHAS Park
10 Fortress Hill
Exhibition
Causeway Bay North
North Point
Quarry Bay
09 Tai Koo
17 Sai Wan Ho
12 Shau Kei Wan
15 Heng Fa Chuen
13 Chai Wan
16 Tin Hau
Causeway Bay
14 Wan Chai
22 Hong Kong
Tamar
02 Central
Central South
Admiralty 03 08
11 Sheung Wan
Sai Ying Pun
Hong Kong University
Kennedy Town
Hong Kong Island
Cyberport
Wah Fu
Aberdeen
52 Wong Chuk Hang
Ocean Park
Lei Tung
South Horizons

MTR Corporation at a Glance

MTR is recognised as one of the world's leading railway operators, with a successful track record of building sustainable communities based on an integrated approach to rail transport and property development. We opened our first railway line in Hong Kong over 30 years ago, since when our activities have increased in size, scale, geographic coverage and diversity. Our strategy for future growth is accelerating, as we significantly expand our network in Hong Kong and our portfolio of rail-related operations in the Mainland of China and overseas.

Hong Kong Transport Operations

Business Description

We operate a predominantly rail-based transportation system in Hong Kong, comprising Domestic and Cross-boundary services, a dedicated high-speed Airport Express railway and a light rail system. The entire system stretches 218.2 km and has 84 stations and 68 Light Rail stops. Our network is one of the most intensively used in the world, and its reliability, safety and efficiency are held in high regard. We also provide intercity services to and from the Mainland of China as well as a small bus operation in Hong Kong offering convenient feeder services.

2012 Highlights

- Record passenger numbers and overall market share
- Award winning high levels of service performance
- Significant service improvements as train capacity was increased
- Construction works for the South Island Line (East), Kwun Tong Line Extension, West Island Line and Hong Kong section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link all made good progress
- Works also now underway on the Shatin to Central Link, following the project's approval by Government

Hong Kong Station Commercial Business

Business Description

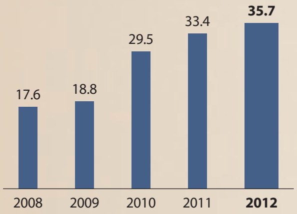
We leverage on our Hong Kong railway assets and expertise into other businesses, including rental of station retail space, advertising in trains and stations, and telecommunications.

2012 Highlights

- Positive rental reversions and increase in shop areas boosted rental income
- New Duty Free licence at Lo Wu and Hung Hom stations concluded at significantly higher rents starting from 1 January 2013
- Advertising revenue continued to increase due to economic growth and introduction of new formats
- Provision of more data capacity and 4G services continue to enhance mobile services for passengers

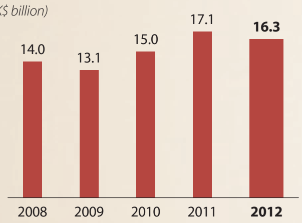
Turnover

(HK$ billion)



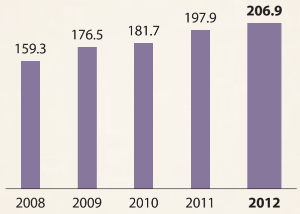
Operating Profit Before Depreciation, Amortisation and Variable Annual Payment

(HK$ billion)



Total Assets

(HK$ billion)



Hong Kong Property and Other Businesses

Business Description

In Hong Kong, we develop for sale mainly residential properties in conjunction with property developers. We hold investment properties, principally shopping malls and offices, managing these and other properties. Our investment portfolio primarily includes 13 shopping malls and 18 office floors of the Two International Finance Centre ("Two ifc") office tower. We also engage in cable car operations, the Octopus card payments system, consulting and project management.

2012 Highlights

- Units at the three phases of Festival City all sold and good results were achieved from pre-sale of The Riverpark at Che Kung Temple Station and Century Gateway, the Tuen Mun Station property development Phase 1 (where we act as agent for the relevant subsidiary of Kowloon-Canton Railway Corporation)
- Tenders for the Tsuen Wan West Station (TW5) Cityside and Bayside, and the Long Ping Station (North) sites awarded on behalf of relevant subsidiaries of Kowloon-Canton Railway Corporation
- The Company's shopping malls and its 18 floors of Two ifc were close to 100% let
- New lease for 19,038 square metres of office space at Two ifc signed with an existing major tenant at a higher rent, effective from mid 2014

Mainland of China and International Businesses

Business Description

We have invested in urban rail networks in the Mainland of China, and "asset-light" operating concessions in the UK, Sweden and Australia. We continue to pursue new railway and rail-related business opportunities in these and other markets.

2012 Highlights

- The Daxing Line and Beijing Metro Line 4 continued to deliver very high levels of service performance
- Shenzhen Metro Longhua Line performance exceeded targets and official endorsement was given for the development of the Depot Site Phase 1
- Hangzhou Metro Line 1 commenced operations
- Concession agreement was initialled for Beijing Metro Line 14
- London Overground Rail Operations Limited met the challenge of the London Olympics
- Operating performance of the Stockholm and Melbourne franchises improved further

Chairman's Letter

"MTR's financial results for 2012 showed further strength, as our recurrent businesses maintained their momentum and our growth strategy moved ahead."

Dr Raymond Ch'ien Kuo-fung
Chairman

Dear Shareholders and other Stakeholders,

MTR's financial results for 2012 showed further strength, as our recurrent businesses maintained their momentum and our growth strategy moved ahead. Our Hong Kong transport operations achieved record patronage and market share while our station commercial and property rental businesses saw strong revenue increases. Property development profits were lower than 2011. In 2012, we had profit bookings from The Riverpark, as well as from the sale of inventory units at Festival City, Lake Silver and The Palazzo. Our rail franchises outside of Hong Kong increased their overall contribution.

Operationally, we have begun to see increasing rewards from our Listening • Responding programme in Hong Kong, which more specifically focuses on the views and needs of our passengers. As a result, we are spending HK$1 billion on targeted improvements that are already making a positive impact. The more than 1,200 train trips added per week in 2012 have helped reduce waiting time for our passengers as well as ease crowding on platforms and in trains. Even with a more frequent train service, we have not only been able to maintain our world-class on-time performance of 99.9%, but there has also been a considerable reduction in the number of delays when compared to the year before. Stations too have benefited from more lifts, ramps, and seating, as well as the addition of toilet facilities.

MTR's operating profit before property development, depreciation, amortisation and variable annual payment increased by 7.9% to HK$13,083 million, with recurrent profit after tax, being all underlying profit before property development and investment property revaluation, increasing by 13.3% to HK$7,071 million. However, as a result of the lower property development profit, underlying profit before revaluation of investment property decreased by 6.6% to HK$9,775 million. Including investment property revaluation, net profit attributable to shareholders was HK$13,532 million, representing underlying earnings per share of HK$2.34. In line with our progressive dividend policy, your Board has proposed a final dividend of HK$0.54 per share, giving a full year dividend of HK$0.79 per share, which is an increase of 3.9% compared to the previous year.

We are also pleased to note that thanks to the Company's strong performance, Government will be entitled to over HK$5.1 billion for 2012, in the form of paid and proposed dividends as well as fixed and variable annual payments, to enter the community's coffers.

Fare Adjustment

In June 2012, an overall fare increase of 5.4% was applied under the Fare Adjustment Mechanism ("FAM"), which was based on the annual changes in inflation as measured by the composite consumer price index as well as wage levels in the transportation sector. In putting together our fare promotion package for the year, the Company listened very closely to the views of the community regarding MTR fares and fare promotions. The package was designed to be attractive and effective, benefiting a wide range of customers with different travel patterns. These fare promotions included the popular "Ride 10 Get 1 Free", "10% Discount for Every Same-day Second-Trip", "Free Child Travels on Weekends and Public Holidays" and "Tung Chung – Hong Kong Monthly Pass". These are in addition to the many existing fare promotions and concessions for children, the elderly, eligible persons with disabilities and Hong Kong students that already benefit our society to the tune of over HK$1.8 billion in 2012.

Under our Operating Agreement, the FAM is subject to review once every five years and Government initiated the first such review in August 2012. We believe that the current FAM, with its transparency and objectivity, has served MTR and the travelling public well over the last five years. We continue to discuss the review with Government in order to reach a solution acceptable to all stakeholders.

Creation of Long Term Value

One of the most important tasks we accomplished during the year was a review of our Corporate Strategy, which was completed in July 2012. While re-affirming the direction we have taken in recent years, we have increased our focus on future growth. The strategy recognises that Hong Kong

is our home base, where we will continue to improve and invest in our services and enhance our corporate citizen reputation, whilst looking to achieve further growth and maximise the value of our core businesses. Outside of Hong Kong, we will build on our achievements and accelerate expansion.

During 2012, we furthered these strategic goals. In Hong Kong, construction work has commenced or continued on the five major projects that will bring the benefits of our integrated rail and property network to new parts of Hong Kong. These five projects, namely the West Island Line, the Hong Kong section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link, South Island Line (East), Kwun Tong Line Extension and the Shatin to Central Link, are of great significance not just to the Company but also to the community, as they will generate enduring economic, social and environmental benefits. Apart from these five new lines, Government is also undertaking a Review and Update of the Railway Development Strategy 2000 ("RDS-2U") to map out the long-term railway development blueprint of Hong Kong. Stage 1 public consultation on this study was completed in July 2012 with positive responses from the public and other stakeholders and stage 2 public consultation was launched earlier in February 2013. As Chief Executive, Mr CY Leung, highlighted in his Policy Speech, our railway network is the backbone of Hong Kong's public transport system. Hence, we will continue to work with Government on the RDS-2U to fulfil public aspirations for a sustainable rail development that not only enhances movement across the city, but also unleashes the economic potential of areas along the railway lines.

In the Mainland of China, Hangzhou Metro Line 1 commenced operation and our 49% owned joint venture company, Beijing MTR Corporation Limited, initialled the concession agreement for Beijing Metro Line 14.

In the UK, we submitted a bid for the Essex Thameside franchise in 2012, as well as being shortlisted for the Thameslink franchise. However, due to an independent review of the UK's entire franchise process, the tender process for these two franchise opportunities has been deferred until later this year.

Sustainability and Corporate Responsibility

The Company's integrated "Rail plus Property" model enables us to be a financially sustainable urban transport system.

In 2012, we continued to formalise the engagement process to understand and reflect the interests of our stakeholders better. Specifically, in a financially prudent manner, we have sought progress in areas such as asset enhancements, customer service, environmental protection and community engagement.

Addressing climate change, the Company signed the World Business Council for Sustainable Development's "Manifesto for Energy Efficiency in Buildings" during the year, joining leading global businesses in a commitment to reduce energy use and carbon emissions in the building sector. All of our shopping malls also participated in the Hong Kong Government's "Energy Saving Charter" by setting the indoor temperature at between 24 and 26 degrees Celsius during the summer months.

Our Sustainability Report 2011, which we published in June 2012, discusses our progress towards sustainability in detail. Our 2012 report will be available by May 2013.

Community Care Action

Our Community Care Action programme focuses on Youth Development, Art & Culture, Green & Healthy Living and Community Outreach.

To help encourage young people to meet life's many challenges, we run an eight-month mentoring scheme called "'Friend' for life's journeys" for secondary school students every year. The latest of these kicked off in November 2012, involving over 120 secondary school students in Kwun Tong. Alongside this, our 10-day "'Train' for life's journeys" programme has given another 100 senior secondary school students new insights into their personal and social responsibilities.

Art was a particular focus during the year. In July 2012 we announced our "MTR New Railway Lines Art in Station 2012" programme, which builds upon our long-running "Art in MTR" initiative. Public art is for everyone to enjoy on a daily basis and in the context of MTR, this means millions of people seeing it each day. Through the programme, we will look for new icons and inspirational works that will light up our station environments. The art we display will thus signify our commitment to delivering a world-class environment as well as a world-class service.

The MTR HONG KONG Race Walking, held in October which we co-organise with the Hong Kong Amateur Athletic Association, has become one of the most significant annual events promoting healthy living in Hong Kong. The 2012 event attracted over 1,500 enthusiastic participants and raised more than HK$1.27 million for the Hospital Authority's Health InfoWorld to support its "Ideal BMI" disease prevention project.

These are just some of the most significant ways in which we reached out to communities during the year. Overall in 2012, 239 community projects were organised under our "More Time Reaching Community" banner, involving over 5,800 volunteers.

Recognition for Sustainability and Corporate Responsibility

Recognition for our efforts towards sustainability continues to increase. We now rank as the leading Hong Kong company on the Hang Seng Corporate Sustainability Index. The Company remains listed on the Dow Jones Sustainability Indexes and the FTSE4Good Index, and is one of the 16 companies designated a "New Sustainability Champion" by the World Economic Forum. We were also awarded a "Sustainability Excellence Award" by The Chamber of Hong Kong Listed Companies and the Centre for Corporate Governance and Financial Policy of Hong Kong Baptist University. For the first time, in 2012 we scored full marks in the Corporate Social Responsibility Index launched by the Hong Kong Quality Assurance Agency and The Hong Kong and Shanghai Banking Corporation Ltd. This result marks a significant milestone in recognition of our Corporate Responsibility best practices. Our contribution towards the environment was recognised in many awards, including the "Prime Awards for ECO-Business" for the fifth consecutive year, where this year, the Company was awarded the Platinum Award in the Logistics Sector. We have again received the "5 Years Plus Caring Company Logo" from the Hong Kong Council of Social Service and gained a "Corporate Social Responsibility Award" in the Hong Kong Service Awards from East Week Magazine.

Management Transition and Board Appointments

The changes over the last 18 months in senior management and at the board level have gone smoothly with all of us focused on implementing our new strategy.

I wish to take this opportunity formally to welcome Professor Anthony Cheung Bing-leung who was appointed to the post of Secretary for Transport and Housing on 1 July 2012, and by virtue of his appointment, becomes a non-executive Director of the Company. He replaces Ms Eva Cheng whom we thank for her contribution.

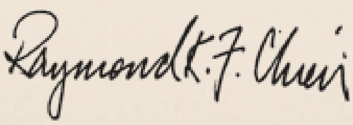
I also welcome Mrs Ingrid Yeung Ho Poi-yan, who was appointed to the post of Commissioner for Transport with effect from 8 October 2012, and by virtue of her appointment, also becomes a non-executive Director of the Company. We would also like to thank Mr Joseph Lai Yee-tak and Miss Susie Ho Shuk-yee for their contributions during the year.

I was honoured to be re-appointed Non-Executive Chairman of MTR for a further term of three years from 1 January 2013 to 31 December 2015 and I look forward to working with the Board and all the dedicated men and women of MTR globally to deliver on our exciting strategy.

As part of the process of strengthening our team, Mr Lincoln Leong, MTR's Finance and Business Development Director, was appointed Deputy Chief Executive Officer with effect from 16 July 2012. Mr Leong will take primary responsibility for realising our growth strategy in the Mainland of China and overseas. Mr Morris Cheung was appointed Human Resources Director on 17 July 2012 upon the retirement of Mr William Chan. Ms May Wong was appointed General Manager – Corporate Relations on 10 January 2013 upon the retirement of Mrs Miranda Leung. I welcome Morris and May to the senior management team and express my deep appreciation to William and Miranda for their contributions over their many years of service.

Conclusion

2012 was another year of achievement for MTR in delivering sustainable shareholder value whilst contributing to the well-being of our communities. I would like to thank my fellow directors for their work during the year, all of our staff for their commitment to excellence, and our other stakeholders for their invaluable support.



Dr Raymond Ch'ien Kuo-fung, *Chairman*
Hong Kong, 11 March 2013

CEO’s Review of Operations and Outlook

“Whilst handling more passengers than ever before, we continued to maintain world class operational and safety standards throughout our network.”

Jay H Walder
CEO

Dear Shareholders and other Stakeholders,

MTR in 2012 saw continued solid performance across all our businesses whilst achieving new milestones in our growth initiatives. In early 2012 we undertook a review of MTR's corporate strategy which re-affirmed the overall direction pursued in recent years, but added new impetus in our drive for service excellence and growth. The strategy recognises that Hong Kong is our home base, where we will continue to improve and invest in our services and enhance our corporate citizen reputation, whilst looking to achieve further growth and maximise the value of our core businesses. Outside of Hong Kong, we intend to build on our recent achievements and accelerate our growth in the Mainland of China and overseas.

Alongside our strategy review, we launched the Listening • Responding programme in Hong Kong in March 2012 to raise service levels in areas that our passengers focus on, including those to reduce waiting time for passengers as well as ease crowding on platforms and in trains. Over the year, more than 1,200 train trips per week have been added to our schedule, boosting carrying capacity by some 3 million passenger trips a week. Good progress has also been made to progressively enhance station facilities with the installation of new external lifts, platform seats and public toilets for the additional comfort and convenience of our passengers. Customer satisfaction surveys show our passengers have noticed a visible difference and welcome the enhancements.

We achieved significant milestones in our growth strategy both within and outside of Hong Kong. Growth in Hong Kong saw an important development with the signing of the Entrustment Agreement for the Shatin to Central Link, the last of the five new rail lines being built under the current expansion programme. When these five lines are completed, our network in Hong Kong will be expanded by some 25%. However, our railway extension strategy in Hong Kong now looks beyond these five new rail lines. We are working with Government on the next era of rail development in the Review and Update of the Railway Development Strategy 2000 ("RDS-2U"). Outside of Hong Kong, the opening of Hangzhou Metro Line 1 ("HZL1") and the initialling of the concession agreement for Beijing Metro Line 14 ("BJL14") were key milestones.

In 2012, our rail and bus passenger services in Hong Kong achieved a record-breaking ridership of 1,770.6 million trips. Whilst handling more passengers than ever before, we continued to maintain world class operational and safety standards throughout our network. Even though more trains were operated in 2012, our train reliability continued to improve and was in fact the best we have had since the rail merger. The number of delays of five minutes or more dropped considerably, especially those delays related to equipment fault. Our train service delivery and passenger journeys on-time across the network were maintained at 99.9%, a standard that puts MTR among the very best railways in the world.

As always, the safety of our passengers and workforce is our top priority and our railway operation continues to be the safest mode of public transport in Hong Kong and one of the best globally in terms of safety. The same detailed attention to safety is evident in our rail and property construction works, our property management business and our businesses outside of Hong Kong.

Financially, 2012 was a strong year for MTR as we leveraged off continued sound economic conditions in Hong Kong. Revenue from our recurrent businesses in Hong Kong increased, benefiting from patronage growth, rental rate increases in our station retail and property rental businesses as well as strong performance in our advertising business.

In our property development business, we booked profits relating to The Riverpark at Che Kung Temple Station as well as from the sale of inventory units at Festival City, Lake Silver and The Palazzo. Our businesses outside of Hong Kong also increased their contribution.

Compared to the previous year, total revenue for the year 2012 was 6.9% higher at HK$35,739 million. Operating profit before property development, depreciation, amortisation and variable annual payment increased by 7.9% to HK$13,083 million. Excluding contributions from our Mainland of China and international subsidiaries, revenue rose by 9.2% and operating profit by 6.9%, with operating margin at 54.4%. Net profit after tax from our recurrent businesses before property development and investment property revaluation increased by 13.3% to HK$7,071 million. Post-tax property development profit was lower at HK$2,704 million compared to HK$4,225 million in 2011, and was derived mainly from the booking of profits at The Riverpark at Che Kung Temple Station. Due to lower property development profits, excluding investment properties revaluation, net profit from underlying businesses attributable to equity shareholders decreased by 6.6% to HK$9,775 million, representing earnings per share of HK$1.69. Gain from revaluation of investment property was HK$3,757 million as compared with HK$5,088 million in the prior year. With the change in accounting standards, deferred taxation will no longer be charged against such revaluation gains. As a result, net profit attributable to equity shareholders after such revaluation was HK$13,532 million, equivalent to earnings per share of HK$2.34. Your Board has proposed a final dividend of HK$0.54 per share, giving a full year dividend of HK$0.79 per share, which is an increase of 3.9% compared to the previous year.

Hong Kong Transport Operations

Our transport operations in Hong Kong performed well in terms of both operational and financial results.

Financially, total revenue in 2012 from our Hong Kong transport operations, comprising predominantly fare revenue but also including rail related ancillary income, was HK$14,523 million, an increase of 7.5% over 2011. Operating costs of our Hong Kong transport operations increased by 6.5% to HK$7,829 million, resulting in the operating profit for this business increasing 8.8% to HK$6,694 million, with an operating margin of 46.1%.

Patronage

Total patronage from all of our rail and bus passenger services in Hong Kong increased by 4.7% to a record 1,770.6 million in 2012. Excluding Intercity service, total patronage would have increased by 4.7% to 1,766.6 million.

Solid economic growth and increased tourist arrivals continued to support our Domestic Service which comprises the Kwun Tong, Tsuen Wan, Island, Tung Chung, Tseung Kwan O, Disneyland Resort, East Rail (excluding Cross-boundary Service), West Rail and Ma On Shan lines. Total patronage for our Domestic Service reached a record 1,431.0 million, a 4.7% increase over 2011.

The Cross-boundary Service to Lo Wu and Lok Ma Chau reported patronage of 109.7 million in 2012, a 5.6% increase, while passenger traffic on the Airport Express increased by 7.6% to 12.7 million, supported by an increase in air travel to and from Hong Kong as well as service frequency enhancements. Passenger volume on Light Rail and Bus in 2012 was 213.2 million, a 3.9% increase, while patronage on Intercity was 4.0 million, increasing by 6.4%.

Average weekday patronage for all of our rail and bus passenger services in Hong Kong rose by 4.5% to 5.07 million trips in 2012. Excluding Intercity service, average weekday patronage would have increased by 4.5% to 5.06 million trips. The Domestic Service again accounted for the majority of this patronage, recording an increase of 4.5% to 4.15 million trips per weekday.

Market Share

The Company's overall share of the franchised public transport market in Hong Kong increased further in 2012 to 46.4%, as compared to 45.4% in 2011. Within this total, our share of cross-harbour traffic rose to 66.7% from 66.2%. Our market share of Cross-boundary business declined slightly from 54.5% to 54.2%, with strong competition particularly from buses. The Company's market share to and from the airport was maintained at 21.8%.

Fare Revenue

Total Hong Kong fare revenue in 2012 was HK$14,389 million, a 7.7% increase over 2011. Of this total, Domestic Service accounted for HK$10,035 million or 69.7%. Average fare per passenger on our Domestic Service increased by 2.9% to HK$7.01.

Fare revenue of the Cross-boundary Service for 2012 was HK$2,847 million, an increase of 8.1% over 2011. Fare revenue of the Airport Express was 5.9% higher at HK$795 million. Average fares per passenger on the Cross-boundary Service and the Airport Express were HK$25.95 and HK$62.59 respectively. Light Rail and Bus fare revenue in 2012 was HK$578 million, a 5.7% increase over 2011, while fare revenue from Intercity was HK$134 million, increasing by 6.3%.

Under the Fare Adjustment Mechanism ("FAM"), on 17 June 2012 a weighted average increase of 5.4% was applied to applicable fares. This adjustment was accompanied by a package of fare promotions which included the popular "Ride 10 Get 1 Free", "10% Discount for Every Same-day Second-Trip", "Free Child Travels on Weekends and Public Holidays" as well as "Tung Chung – Hong Kong Monthly Pass". Under our Operating Agreement, the FAM can be reviewed once every five years and Government initiated discussions on such a review in August 2012. In the review process, we recognise the importance of a fair and transparent mechanism that is acceptable to stakeholders, including shareholders and the travelling public. We continue to discuss with Government on this review in order to reach a solution acceptable to all stakeholders.

Service and Performance

In 2012, we again well exceeded the targets set out in the Operating Agreement and our own more demanding Customer Service Pledges. As in prior years, this service excellence was recognised both locally and internationally. We were honoured to receive the awards of "Best Metro Asia-Pacific" as well as the "Best Customer Experience Initiative" at the 2012 Metrorail Awards in London, reflecting our world-class service standards and outstanding achievements. In Hong Kong, we also won the "Reader's Digest Trusted Brands Platinum Award" (Public Utility Provider Category in Hong Kong) and the "Top Service Awards 2012" in the Public Transportation Category from Next Magazine.

As part of our new Listening • Responding programme, we increased train frequencies significantly during the year. Over the course of the year, more than 1,200 train trips per week were added to the Domestic Service, providing capacity for 3 million extra passenger journeys each week. During December 2012, we also provided an extra 1,500 train trips on weekends and for the Winter Solstice to make it even more convenient for passengers to get around over the Christmas period. By the end of 2012, ten new trains previously committed were made available for passenger service under the Listening • Responding programme, which helped to make these service frequency enhancements possible. Train frequencies on the Airport Express were also increased in January 2012, with headway shortened from 12 minutes to ten minutes between the start of traffic and midnight.

Even as more train services were added, passenger journeys on-time and train service delivery were maintained at a world-class standard of 99.9%. In addition, the number of delays of five minutes or more reduced by 23% due to improvements in preventive maintenance and faster recovery when delays did occur. Even more tellingly, delays caused by equipment fault were reduced by 31% from what were already world class standards.

To improve accessibility further, most of our trains have been modified to accommodate enlarged multi-purpose areas. The installation of priority seats is underway on the East Rail, West Rail and Ma On Shan lines. Under our Listening • Responding programme, we have committed to ensuring that all of our full-time stations will have more barrier-free access, and as a result, we aim to provide external lifts, connecting station concourses to the street level, at ten stations by 2015. New passenger lifts were completed during the year at four stations, while ramps for the disabled came into service at two stations. Under our Listening • Responding programme, we also aim to provide public toilet facilities in ten interchange stations by 2020. During the year, toilet facilities were installed at Sheung Wan Station, while the programme of adding 231 more seats at 50 stations was completed. New entrances were added at three stations, while the installation of automatic platform gates at the aboveground stations on our Kwun Tong, Tsuen Wan, and Island lines was completed. New mobile apps designed to deliver useful travel information to passengers directly and effectively in real time were also launched during the year.

Safety is a pre-requisite at MTR and is embedded in our values and culture. Leveraging on our global operations, we engaged with a number of our franchise operations outside of Hong Kong during 2012 to learn and share safety best practices in order to seek continuous improvement. In January 2013, the Company announced its new Corporate Safety Strategy, with the aspirations of being amongst the very best in safety performance globally in all of our businesses and the safest mode of public transport in every place where we operate. This strategy will help us to foster a safety-first culture and focus on continuous enhancements to our safety systems and processes in order to meet future challenges, as well as establish strategic safety priorities and actions domestically and internationally.

Hong Kong Station Commercial Business

Revenue from Hong Kong station commercial business rose by 7.5% in 2012 to HK$3,680 million, as higher station shop rental and advertising revenue offset lower revenue from telecommunications. Operating costs of our Hong Kong station commercial business increased by 10.9% to HK$397 million, resulting in the operating profit for this business increasing 7.1% to HK$3,283 million, with an operating margin of 89.2%. Excluding the one-off income in relation to the termination of 2G telecommunication contracts in both 2011 and 2012, revenue would have increased by 11.6%, and the operating margin would have been 89.1%.

Station retail revenue increased by 12.4% to HK$2,142 million, due to increases in shop areas and a revised trade mix as well as higher rental rates. The number of station shops at year end increased by 37 over the previous year to 1,331 following renovations at ten stations. Total station retail space rose by 966 square metres to 55,898 square metres. Branding campaigns reinforced the "Stylish Convenience" positioning of MTR Shops, increasing their appeal. The licence on Duty Free premises at Lo Wu and Hung Hom stations, which was re-tendered and awarded in 2012, at significantly higher rental rates than the previous licence, became effective on 1 January 2013.

Advertising revenue in 2012 increased by 12.0% to HK$1,000 million. We continued to bring innovation in advertising formats to increase their appeal. These included digital panel zones, the "MTR InterActiveAds Experience Station" at Tseung Kwan O Station and a pilot in-station mobile shopping scheme. Digital advertising was also extended to the East Rail Line.

Revenue from telecommunications in 2012 decreased by 20.8% to HK$396 million, mainly due to smaller one-off receivables in 2012 compared to 2011, from the termination of certain 2G contracts. Excluding such one-off receivables, revenue in 2012 would have increased by 4.3%. During 2012, we facilitated telecom operators to install their equipment for enhancing 3G data capacity and signal reception. Also by end of February 2013, 4G mobile phone services were available at 66 stations.

Hong Kong Property and Other Businesses

Continued low interest rates and high liquidity supported sentiment in the residential property market during most of 2012. However, transactions in both the primary and secondary residential property markets fell sharply at the end of the year following Government's announcement of new stamp duty measures in October 2012. Office leasing activities in Central remained subdued owing to reduced demand from traditional major occupiers such as global investment banks, while strong demand from international brands continued to lend support to the retail property market.

Property Development in Hong Kong

Profit from property development in 2012 was HK$3,238 million comprising mainly our share of profits from The Riverpark at Che Kung Temple Station, for which the Occupation Permit was obtained in September 2012. We also booked profits on inventory units sold at Festival City, Lake Silver and The Palazzo.

During the year, we launched presales for The Riverpark, with over 83% of the 981 units sold by year end. Strong sales were also achieved at Century Gateway, the Tuen Mun Station property development Phase 1, where we only act as agent for the relevant subsidiary of Kowloon-Canton Railway Corporation ("KCRC"), with 97% of the 1,075 units sold by year end.

In our tender activities, the property development site at Tai Wai Station was tendered in May but, following detailed analysis of the tenders received, we decided not to accept any of the tenders offered. The Tin Shui Wai Light Rail site was put out to tender in January 2013 but no bids were received by the deadline. We are examining these development packages with a view to putting these projects out to tender again over the next 12 months, subject to market conditions.

The tender programme for West Rail property developments, where we only act as agent for the relevant subsidiaries of KCRC, was active in the year. We awarded the Tsuen Wan West Station (TW5) Cityside site to a member company of the Chinachem Group in January 2012. In July, we re-tendered the Tsuen Wan West Station (TW5) Bayside site, which was awarded to a subsidiary of Cheung Kong (Holdings) Limited in August. The Long Ping Station (North) site was tendered in September and was awarded to a consortium formed by K. Wah International Holdings Limited and Sino Land Company Limited in October 2012. Tender for the Tsuen Wan West Station (TW6) site was invited in December 2012 with the project awarded to a consortium formed by New World Development Company Limited and Vanke Property (Hong Kong) Company Limited in January 2013.

We continue to progress property development plans at other sites. Progress was made and approval obtained in February 2013 from the Town Planning Board for the Master Layout Plan for the Wong Chuk Hang Depot site along the South Island Line (East). Along the West Rail Line, approval was granted for the revised Master Layout Plan for the Long Ping Station (South) site from the Town Planning Board in June 2012.

Property Rental and Management Businesses in Hong Kong

Revenue from our Hong Kong property rental and property management businesses in 2012 increased by 10.3% to HK$3,401 million. Operating costs increased by 6.8% to HK$627 million, resulting in the operating profit for this business increasing 11.1% to HK$2,774 million, with an operating margin of 81.6%.

Total property rental income in Hong Kong was 10.5% higher than 2011 at HK$3,198 million. Our shopping mall portfolio achieved an average 16% increase in rental reversion for the year. At the end of December 2012, the occupancy level of our 13 shopping malls in Hong Kong and the Company's 18 floors at Two International Finance Centre ("Two ifc") remained close to 100%. As at 31 December 2012, the Company's attributable share of investment properties in Hong Kong comprised 212,612 square metres of lettable floor area of retail properties, 40,969 square metres of offices and 13,642 square metres of other properties.

We continued to invest in our property rental portfolio. Our thirteenth shopping mall in Hong Kong, PopCorn, which is located directly above Tseung Kwan O Station, was opened in March 2012. A revamp of the trade mix at The Edge commenced in September 2012 and these works will be completed in phases in 2013. Across the portfolio, we continued our programme of planned asset replacements to enhance their appeal to shoppers and sustain energy efficiency. We entered into a new five-year lease with an existing major tenant for 19,038 square metres of office space at Two ifc at rates significantly higher than those currently paid by the same tenant. The new lease will commence in mid 2014.

Hong Kong property management revenue in 2012 increased by 6.8% to HK$203 million. As at 31 December 2012, the number of residential units under our management in Hong Kong increased to 86,266. The area of managed commercial space increased by 20,000 square metres to 764,725 square metres after the opening of PopCorn at Tseung Kwan O.

Other Businesses

The Ngong Ping cable car and associated theme village posted a 7.8% decrease in revenue in 2012 to HK$249 million. This was mainly due to a nine-week suspension of cable car service for repairs and maintenance works following a service disruption in late January 2012. Visitor numbers for the year reached 1.36 million, supported by various thematic events and promotions.

Revenue from consultancy business in 2012 was HK$102 million, a decrease of 2.9% over 2011. Major contracts were signed or in place in Hong Kong, Macau and Australia.

Octopus made further inroads in the retail sector and the Company's share of Octopus' net profit for 2012 was HK$211 million, a 15.9% increase over 2011.

Project management income, relating predominately to entrustment works for Government on the Hong Kong section of the Guangzhou-Shenzhen-Hong Kong Express

Rail Link ("Express Rail Link") and Shatin to Central Link, was HK$969 million in 2012, 64.8% higher than 2011. Income from such entrustment works is currently charged to Government on a cost recovery basis only.

Mainland of China and International Businesses

Revenue in 2012 from Mainland of China and international subsidiaries was HK$12,786 million, of which our railway subsidiaries outside of Hong Kong, namely Metro Trains Melbourne Pty. Ltd. ("MTM"), MTR Stockholm AB ("MTRS") and MTR Corporation (Shenzhen) Limited ("SZMTR"), contributed HK$12,650 million, an increase of 3.0% over 2011, mainly due to the inclusion of results for SZMTR for a full year as well as increases in receipts by MTM. Revenue from our Mainland of China property rental and management subsidiaries totalled HK$136 million. Operating costs for our railway subsidiaries outside of Hong Kong were HK$12,066 million, resulting in a 30.1% rise in operating profit to HK$584 million and an operating profit margin of 4.6%. Although MTM is performing financially to original bid expectations, both MTRS and SZMTR are currently not meeting such targets.

Our associates, Beijing MTR Corporation Limited ("BJMTR"), London Overground Rail Operations Limited ("LOROL") and Tunnelbanan Teknik Stockholm AB all improved their performance, with a noticeable enhancement in results from BJMTR aided partly by a one-off accounting adjustment after the finalisation of its accounts for the year 2011. We have also included the results of our 49% owned associate in Hangzhou, namely Hangzhou MTR Corporation Limited ("HZMTR"), with the commencement of operation of HZL1 on 24 November 2012. Total contribution from these four associates rose by HK$126 million compared with 2011 to HK$242 million. Excluding the one-off BJMTR adjustment, the total contribution would have been HK$176 million in 2012.

Total passengers carried by our rail subsidiaries and associates outside of Hong Kong was approximately 1,171 million in 2012, against approximately 1,065 million in 2011.

Railway Businesses in the Mainland of China

In the Mainland of China, BJMTR, the operator of Beijing Metro Line 4 ("BJL4") and the Daxing Line, maintained very high levels of punctuality and delivery, and was ranked amongst the top three metro operators in the Mainland of China by the China Communications and Transportation Association and the Urban Rail Transport Professional Committee. Combined ridership in 2012 was 427 million passenger trips, with average daily patronage of over 1.17 million. BJMTR, which currently has two lines with 35 stations and a route length of 50 km, has now carried over 1 billion passengers since BJL4 service commenced in September 2009.

In its first full year of operations, Shenzhen Metro Longhua Line's operational performance has exceeded targets and contractual commitments. Patronage for the year was 117 million, with average daily patronage reaching 320,000. This is below original expectations and is partly due to the under development of areas along the alignment. The line runs 20.5 km and has 15 stations.

In November 2012, HZMTR commenced operation of HZL1, which has a route length of 48 km and 31 stations. Since its opening, HZL1's service performance has been very reliable, with average daily patronage of 150,000.

Railway Businesses Overseas

In the UK, the final phase of the East London Line was commissioned in December 2012, completing the orbital loop around London and adding a further two stations and 12 km to the LOROL network, which now extends to 57 stations and 124 km. LOROL successfully met the considerable transport challenges presented by the 2012 London Olympics, with on-time performance of 98%, even though passenger numbers were 25% above normal levels. Compliments were received from the UK Department for Transport and Transport for London, which recognised both our excellent performance and our significant support for the Olympic events through a cooperative and effective partnership. LOROL also achieved a customer satisfaction rating of 90% or more during the year, which is among the highest of any franchise or concession in the UK, according to the survey conducted by the independent passenger watchdog, Passenger Focus. These achievements were recognised when LOROL was named London's Public Transport Operator of the Year for the second year in a row as well as receiving the World's Most Improved Metro at the Metrorail Awards in London in 2012. In recognition of its outstanding performance over the past five years, LOROL has secured a two-year extension of its franchise to operate and maintain the London Overground rail services to November 2016. For the year, patronage was approximately 80 million, with average weekday patronage reaching 380,000.

In Stockholm, although MTRS has been underperforming financially due to higher than expected expenses relating to station cleaning, its operating performance has continued to improve, with punctuality reaching 95.2% in 2012, which is above contractual requirements. Patronage for the year was 320 million, with average weekday patronage reaching 1.2 million. The line has 100 stations and runs 110 km.

In Melbourne, MTM's network expansion during the year has increased the number of stations from 212 to 217, with the route network expanding from 372 km to 390 km. Timetable changes and a continued focus on operational performance resulted in steadily improving punctuality to 91.1% for the year, which is the highest since the commencement of franchise in November 2009. Patronage for the year was around 221 million, with average weekday patronage remaining steady at around 790,000 journeys per day.

Property Development, Rental and Management Businesses in the Mainland of China

During the year, MTR Property Development (Shenzhen) Company Limited was established to develop associated properties at Shenzhen Metro Longhua Line Depot Site Phase 1 after receiving official endorsement from the Ministry of Finance in Beijing in November 2012. Land premium of RMB1,977 million was paid on 24 January 2013 and the development is expected to cost approximately RMB4 billion. The total developable gross floor area of the development is approximately 206,167 square metres.

Revenue from our property rental and property management businesses in the Mainland of China increased by 3.0% to HK$136 million in 2012. Our shopping mall in Beijing, Ginza Mall, maintained its occupancy rate of 98% at the end of 2012 and rental reversion for the year was 7.2%. The Company's managed commercial and residential space in the Mainland of China totalled 233,000 square metres at the end of 2012.

Future Growth

During 2012, works continued on the five major projects to expand our rail service to more districts of Hong Kong, whilst we progressed with opportunities in the Mainland of China and international markets.

Growth in Hong Kong

The 3-km West Island Line, an extension of the Island Line, was 65% complete by the end of 2012 and it is targeted to open in 2014. Key developments for the year included the tunnel breakthrough between Sai Ying Pun and Sheung Wan stations, with all excavation for the line now substantially completed. Track laying works have commenced and Electrical and Mechanical ("E&M") contractors began installation works in Kennedy Town Station and Entrance C2 of Hong Kong University Station.

The 7-km South Island Line (East) will extend MTR services from Admiralty to the Southern District of Hong Kong Island, with a train depot located in Wong Chuk Hang. As at year end the project was 30% complete and it is due to open in 2015. Foundation works for the expanded Admiralty Station have been completed and excavation has commenced. Excavation works for the Nam Fung tunnel from Admiralty Station to the south side of Hong Kong Island were 14% complete at year end. The major civil works contracts, including construction of viaducts, bridges, the four new stations and the Wong Chuk Hang Depot, progressed satisfactorily. E&M contracts have been awarded and are in the detailed design stage.

The 2.6-km Kwun Tong Line Extension will extend the Kwun Tong Line from its existing terminus at Yau Ma Tei Station to new stations in Ho Man Tin and Whampoa. At year end, the project was 31% complete and it is targeted to open in 2015. The scheme amendment incorporating the integrated entrances at Whampoa Station was authorised in August 2012. Excavation of Ho Man Tin Station was 68% complete by the year end and tunnel excavation between Yau Ma Tei and Ho Man Tin has now commenced. The re-provisioned Club de Recreio was handed over in September 2012. Detailed design of E&M works is underway.

The 26-km Express Rail Link, which is funded by Government, will provide high speed cross-boundary rail services connecting Hong Kong to Shenzhen, Guangzhou and the Mainland of China's high-speed intercity passenger rail network. It will be served by the West Kowloon Terminus comprising 15 platforms for short-haul and long-haul services.

Tunnelling works commenced at Nam Cheong in January 2012 and six Tunnel Boring Machines are now at work. By the year end, 60% of the required excavation was complete for the project, including tunnels and the terminus. Concrete placement commenced for the track slab level at the terminus in September 2012. All major

E&M contracts, including signalling and rolling stock, have been awarded. As at the year end, the project was 31% complete. Services are planned to start in 2015.

On 27 March 2012, the Chief Executive-in-Council announced the authorisation of the 17-km Shatin to Central Link under the Railways Ordinance. This was followed by funding approval, receipt of the environmental permits and signing of the Entrustment Agreement in May 2012.

The 17-km line consists of ten stations, including six interchange stations, and runs from Tai Wai to Admiralty. The first section from Tai Wai to Hung Hom is planned to open in 2018 and the second section from Hung Hom to Admiralty in 2020. Ground-breaking ceremony was held in June 2012. Procurement of civil and E&M contracts has progressed, including the contract for the modification of East Rail platforms to accommodate new rolling stock. By the end of the year, more than HK$20 billion of contracts for the project had been awarded. District Council and Community Liaison Group consultations continued throughout the year. Works for the new Central Mail Centre, which is being relocated from Hung Hom to Kowloon Bay, were 70% complete by year end.

With construction underway involving over 7,000 workers on 125 sites across Hong Kong, the Company has worked closely with contractors to raise worker safety culture and risk awareness, and ensure high standards of health and safety are maintained on all of our sites, including the reduction of commonly occurring finger and toe injuries. A New Workers Caring Programme to improve safety awareness among new workers and a Workers Life Insurance Scheme were introduced. A new Mobile Incident Control Centre has enhanced further our ability to respond rapidly to any major incidents on our project sites.

The RDS-2U Stage 1 Public Engagement by Government was completed in July 2012. It has earned positive responses from the public and other stakeholders regarding further sustainable rail development in Hong Kong. In line with our Corporate Strategy for growth in Hong Kong, the Company will continue working with Government on RDS-2U which will lead to confirmation of the implementation plan for future new lines.

Growth in the Mainland of China and Overseas

In Beijing, BJMTR signed an interim Operating and Maintenance Agreement for BJL14 in October 2012 and also initialled the Concession Agreement with the Beijing Municipal Government in November 2012. BJL14 will have a capital cost of approximately RMB50 billion. Under the 30-year Public-Private-Partnership agreement, BJMTR will be mainly responsible for the E&M and rolling stock assets estimated to cost RMB15 billion, funded by a combination of equity and debt, whilst the Beijing Municipal Government will fund the balance. MTR will contribute additional equity investment in BJMTR of approximately RMB2.2 billion. The line runs 47.3 km and has 37 stations, including ten interchange stations. Construction work started in 2010, with the line opening in phases. Phase 1 of approximately 12.7 km is expected to open in mid 2013, Phase 2 in 2014 and Phase 3 in 2016.

In the UK, we submitted a bid for the Essex Thameside franchise in September 2012, but following a legal challenge from one of the failed bidders on the tendering of another franchise, the UK Government suspended all franchise competitions in October 2012 and initiated an independent review of the UK's entire rail franchising process. This review was completed in early 2013 and the Department for Transport announced that a revised invitation to tender for the Essex Thameside franchise will be issued to bidders later in 2013. Similarly in the case of the Thameslink franchise, for which we were also shortlisted, we expect a revised timetable for the tender competition to be announced in the spring of 2013.

Financial Review

In 2012, the Group generated total revenues of HK$35,739 million, 6.9% higher than 2011. Our Hong Kong businesses, comprising railway operations, station commercial, property rental and management and other businesses, reported a 9.2% increase in revenue to HK$22,953 million while our Mainland of China and international subsidiaries recorded a 3.0% growth in revenue to HK$12,786 million. Total operating costs of the Group were HK$22,656 million, increasing by 6.4% to support our revenue growth as well as our corporate strategy on service enhancement and performance improvement in Hong Kong and new business developments outside of Hong Kong. As a result, operating profit before property developments, depreciation, amortisation and variable annual payment increased by 7.9% to HK$13,083 million, with operating margin increasing by 0.3 percentage point to 36.6%. Excluding contributions from Mainland of China and international subsidiaries, operating margin decreased by 1.2 percentage points to 54.4% due mainly to more costs incurred on bids for UK franchises as well as pre-operating expenses for HZL1. Property development profit decreased by HK$1,696 million to HK$3,238 million in 2012, derived mainly from the completion of The Riverpark at Che Kung Temple Station and sale of inventory units. After deducting depreciation and amortisation charges of HK$3,208 million and variable annual payment of HK$883 million, operating profit before interest and tax decreased by 7.4% to HK$12,230 million. After accounting for interest and finance charges of HK$879 million, investment property revaluation gain of HK$3,757 million, share of profits from non-controlled subsidiaries and associates of HK$456 million and income tax of HK$1,893 million, net profit attributable to equity shareholders of the Company in 2012 decreased by 13.0% to HK$13,532 million, or HK$2.34 per share. An accounting standard change effective on 1 January 2012 results in deferred tax no longer being chargeable on investment property revaluation with corresponding prior year adjustments. Excluding investment property revaluation, underlying profit decreased by 6.6% to HK$9,775 million, or HK$1.69 per share, due to the lower property development profit in 2012.

As at 31 December 2012, the Group's net assets increased by 7.3% to HK$144,480 million, with total assets increasing by 4.6% to HK$206,915 million and total liabilities decreasing by 1.2% to HK$62,435 million. The increase in total assets was mainly due to investment property revaluation gains, capitalisation of further construction costs of the South Island Line (East) and Kwun Tong Line Extension, as well as a capital injection into the associate company in Hangzhou. These asset additions were partly offset by the reduction in property development in progress upon completion of The Riverpark and a lower investment in securities upon redemption of matured medium term notes. The decrease in total liabilities was mainly due to the utilisation of Government grant received in previous years for the construction of the West Island Line and settlement of enabling works costs for the Tai Wai Station property site. The Group's net debt-to-equity ratio improved from 11.4% at 31 December 2011 to 10.9% at 31 December 2012.

During 2012, the Group generated cash inflow of HK$13,151 million from operating activities before working capital movements and tax payments, an increase of 7.8% from last year. After accounting for these working capital movements and tax payments as well as government subsidy for the Shenzhen Metro Longhua Line operation, net cash inflow from operating activities was HK$13,539 million. Cash receipts from property developments were HK$5,677 million. Including further cash receipts of HK$645 million derived from other activities such as dividend distribution and loan repayment from affiliates and proceeds from issuing shares under the share option schemes, total cash inflow in 2012 was HK$19,861 million. Total cash outflow in the same period was HK$20,361 million, comprising mainly HK$11,125 million of capital expenditures, HK$2,734 million of equity injection into HZMTR, HK$1,397 million of fixed and variable annual payments to KCRC, HK$438 million of net interest payment and HK$4,519 million of dividend payments. As a result, the Group's net cash outflow before financing was HK$500 million, which was covered by existing cash balances. Redemption of bank medium term notes, together with a net loan drawdown of HK$385 million, increased the Group's cash balance at year end by HK$2,509 million to HK$18,609 million.

In line with our progressive dividend policy, the Board has recommended a final dividend of HK$0.54 per share, which, when added to the interim dividend of HK$0.25 per share, gives a total dividend of HK$0.79 per share for the year, an increase of HK$0.03 per share or 3.9% from last year.

Human Resources

The number of people employed by the Company together with our controlled subsidiaries was 15,200 in Hong Kong and 6,955 outside of Hong Kong as at 31 December 2012.

During the year, business growth was supported by an integrated approach to recruitment and retention in Hong Kong and our other centres of operation. Over 1,800 new hires were recruited for our Hong Kong business, with a number of engineering professionals hired from overseas for their project expertise. We also increased the intake of trainees, including Graduate Trainees and Engineers, Functional Associates and Apprentices in Hong Kong to meet future growth. At 4.2%, staff turnover remained low despite a rebound in the employment market.

Training of staff at all levels continued throughout the year. Established schemes for executives, managers, supervisors, trainees and apprentices helped our staff to enhance their skills and identified those with the potential for leadership positions.

To reinforce two-way communication between line managers and staff, over 5,000 sessions of the "Enhanced Staff Communication Programme" were organised in 2012 involving more than 60,000 participating headcount. The Staff Attitude Survey 2012 was conducted in October 2012 with a very high participation rate of 96.9%. The survey result will be released to staff in the first quarter of 2013. In September 2012, the semi-annual Management Communication Meeting communicated the re-vamped Corporate Strategy to over 1,100 managers. Webcast communication meetings on this re-vamped strategy were extended to cover over 670 supervisory staff representatives from various departments. Besides internal communications, staff have been kept engaged through various motivational schemes.

Community Engagement

Listening and responding to the views of our customers and our community was a key emphasis in 2012. To collect views, we held surveys and MTR Opinion Zones in stations and on trains throughout the year, which enabled us to speak directly with passengers about their personal experiences and to ask them where they think we can make improvements. Other initiatives designed to enhance communication and foster better understanding about our work included live phone-in radio programmes and a series of TV segments entitled "MTR Presents: We Listen • We Respond". Furthermore, our Society Link gatherings regularly bring together senior Operations managers with representatives of different community groups to discuss our service.

We held over 600 meetings with community liaison groups, residents, local committees and councils over the course of the year to collect community opinion on our five new railway projects under construction in various parts of Hong Kong. These meetings help ensure that from the design stage to construction and ultimately operation of the rail lines, we are addressing the needs of the communities they serve.

Outlook

Continued economic growth in Hong Kong will benefit our recurrent businesses, increasing patronage, enhancing rental reversions as well as furthering our advertising business. The 5-year review of the FAM is being conducted and is planned to be concluded by end of March, with implementation of the mechanism in June 2013 as it has been in previous years. It should be noted that the financial costs of some of the concessions and promotions given in June 2012 at the last FAM review will continue to be an expense in 2013. Our businesses outside of Hong Kong should see revenue enhancements given the growing maturity of our rail lines in the Mainland of China as well as contractual increases for our overseas franchises.

In our Hong Kong property development business, based on the existing construction programme, we do not expect to book profits for any of our projects currently under development in 2013. However sale of inventory units may contribute to property development profits. In our property tender activities, subject to market conditions, we aim to tender the developments at the Tai Wai Station site, Tin Shui Wai Light Rail site and another site at LOHAS Park Package 4 over the next 12 months. For West Rail property developments where we only act as agent for the relevant subsidiaries of KCRC, we will also look to tender out the Long Ping Station (South) site.

Finally I take this opportunity to thank my fellow Board Members and all my MTR colleagues for their significant contributions during the year. They are truly the heroes of MTR.

Jay H Walder, *Chief Executive Officer*
Hong Kong, 11 March 2013

Key Figures

	2012	2011	% Increase/ (Decrease)
Financial highlights *(HK$ million)*			
Revenue			
– Hong Kong transport operations	**14,523**	13,509	7.5
– Hong Kong station commercial business	**3,680**	3,422	7.5
– Hong Kong property rental and management businesses	**3,401**	3,083	10.3
– Mainland of China and international subsidiaries	**12,786**	12,411	3.0
– Other businesses	**1,349**	998	35.2
Operating profit before property developments, depreciation, amortisation and variable annual payment	**13,083**	12,124	7.9
Profit on property developments	**3,238**	4,934	(34.4)
Operating profit before depreciation, amortisation and variable annual payment	**16,321**	17,058	(4.3)
Profit attributable to equity shareholders arising from underlying businesses	**9,775**	10,468	(6.6)
Total assets	**206,915**	197,870#	4.6
Loans, other obligations and bank overdrafts	**23,577**	23,168	1.8
Obligations under service concession	**10,690**	10,724	(0.3)
Total equity attributable to equity shareholders	**144,273**	134,463#	7.3
Financial ratios			
Operating margin *(%)*	**36.6**	36.3	0.3% pt.
Operating margin (excluding Mainland of China and international subsidiaries) *(%)*	**54.4**	55.6	(1.2%) pts.
Net debt-to-equity ratio* *(%)*	**10.9**	11.4#	(0.5%) pt.
Return on average equity attributable to equity shareholders arising from underlying businesses *(%)*	**7.0**	8.2#	(1.2%) pts.
Interest cover *(times)*	**13.2**	14.5	(1.3) times
Share information			
Basic earnings per share *(HK$)*	**2.34**	2.69#	(13.0)
Basic earnings per share arising from underlying businesses *(HK$)*	**1.69**	1.81	(6.6)
Dividend per share *(HK$)*	**0.79**	0.76	3.9
Share price at 31 December *(HK$)*	**30.50**	25.15	21.3
Market capitalisation at 31 December *(HK$ million)*	**176,692**	145,490	21.4
Operations highlights			
Total passenger boardings in Hong Kong *(million)*			
– Domestic Service	**1,431.0**	1,366.6	4.7
– Cross-boundary Service	**109.7**	103.9	5.6
– Airport Express	**12.7**	11.8	7.6
– Light Rail and Bus	**213.2**	205.2	3.9
Average number of passengers *(thousand)*			
– Domestic Service *(weekday)*	**4,148**	3,968	4.5
– Cross-boundary Service *(daily)*	**299.7**	284.6	5.3
– Airport Express *(daily)*	**34.7**	32.3	7.3
– Light Rail and Bus *(weekday)*	**597.3**	576.7	3.6
Fare revenue per passenger *(HK$)*			
– Domestic Service	**7.01**	6.81	2.9
– Cross-boundary Service	**25.95**	25.35	2.4
– Airport Express	**62.59**	63.62	(1.6)
– Light Rail and Bus	**2.71**	2.67	1.5
Proportion of franchised public transport boardings *(%)*	**46.4**	45.4	1.0% pt.

* *Including obligations under service concession and loan from holders of non-controlling interests as components of debts and investments in bank medium term notes, if any, as component of cash.*

\# *Restated upon the adoption of Amendments to Hong Kong Accounting Standard 12 as described in note 2A(iii) to the accounts.*

Key Events in 2012

January

At the start of his tenure, CEO Mr Jay Walder emphasised the Company's continual commitment to developing stronger connections between MTR and the community while striving for continued growth in Hong Kong, the Mainland of China and overseas.

The Company enhanced the frequency of the Airport Express service from 12 to 10 minutes a train each day between the start of traffic and midnight.

February

The Governor of Guangdong Province, Mr Zhu Xiaodan, together with Guangdong provincial government officials visited the Company for an update on the Hong Kong section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link.

March

The Company launched the Listening • Responding programme to directly address service improvement requests from customers. The initiative focuses on reducing waiting time for our passengers as well as easing crowding on platforms and in trains, improving station access and providing more facilities for the comfort and convenience of passengers.

用心聽 Listening 用心做 Responding

The Company was shortlisted by the UK's Department for Transport to bid for two rail operating franchises – the Essex Thameside franchise and the Thameslink franchise.

The thirteenth MTR Mall, PopCorn, opened on 31 March. It is located above Tseung Kwan O Station.

April

The first external lift under the MTR Corporation's Listening • Responding programme opened for public use at Cheung Sha Wan Station.

Austin Station Residential Developments achieved the BEAM (Building Environmental Assessment Method) Plus V1.1 for NB Gold Certification (Provisional Assessment).

The Company was named "Best Metro Asia-Pacific" at the prestigious 2012 Metrorail Awards in London and was recognised for offering the "Best Customer Experience Initiative".

May

An Entrustment Agreement for construction of the main works and commissioning of the Shatin to Central Link was signed with Government.

Two new external lifts at Sham Shui Po and Jordan stations opened for public use.

June

A new package of fare promotions was launched at the same time that fares were adjusted according to the Fare Adjustment Mechanism. The first promotion rolled out was the "Ride 10 Get 1 Free" scheme. In addition, the Company implemented Government's HK$2 Public Transport Fare Concession Scheme for the Elderly and Eligible Persons with Disabilities from 28 June, the first public transport operator to do so.

The Company held a ground-breaking ceremony to mark the start of construction of the Shatin to Central Link Project.

Pre-sale of The Riverpark at Che Kung Temple Station was launched.

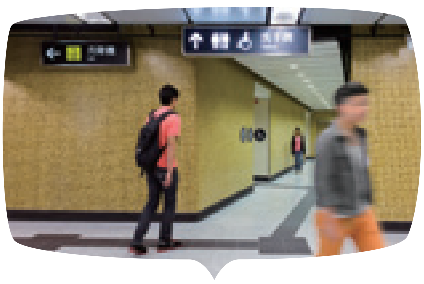
July

The Company organised an open competition, "MTR New Railway Lines Art in Stations 2012", to collect proposals of original artworks to grace the new stations along the West Island Line, South Island Line (East) and the Kwun Tong Line Extension.

The Company appointed Mr Lincoln Leong as Deputy Chief Executive Officer with effect from 16 July.

August

A brand new entrance was opened at Causeway Bay Station to provide seamless connectivity between the station and Hysan Place, a new landmark in vibrant Causeway Bay.



New public toilet facilities and two new lifts were opened for public use at Sheung Wan Station, marking the completion of two years of major renovation works under the West Island Line project.

The Company was awarded an AA+ rating and ranked top among all Hong Kong companies listed on the Hang Seng Corporate Sustainability Index.

September

The new entrance at University Station opened in September and was awarded Precertification Silver-level in the LEED (Leadership in Energy and Environment Design) Certification Scheme (Core and Shell category) by the US Green Building Council.

The Company launched two new mobile apps, "Traffic News" and "Intercity Train". All apps are under the new "MTR Mobile" portal.

October

More than 1,500 participants took part in the MTR HONG KONG Race Walking 2012 in support of healthy living. London Olympic medalist Mr Si Tianfeng participated in the race and provided a demonstration of race walking techniques to the participants.

Dr Raymond K F Ch'ien was reappointed as Chairman of MTR for a period of three years from 1 January 2013 to 31 December 2015.

November

Hangzhou MTR Corporation Limited, the Company's 49% associate joint venture with Hangzhou Metro Group Company Limited, commenced service of Hangzhou Metro Line 1 on 24 November.

Beijing MTR Corporation Limited, the joint venture company comprising MTR Corporation Limited, Beijing Infrastructure Investment Corporation Limited and Beijing Capital Group Limited, initialled a Concession Agreement with the Beijing Municipal Government for the Public-Private-Partnership project for Beijing Metro Line 14.

With the new batch of enhancements implemented in November, the overall number of train trips was boosted by 62,000 a year. The first batch of train service enhancements was introduced on the Tung Chung, Kwun Tong, Tsuen Wan, Island, Tseung Kwan O and West Rail lines under the Listening • Responding programme in March.

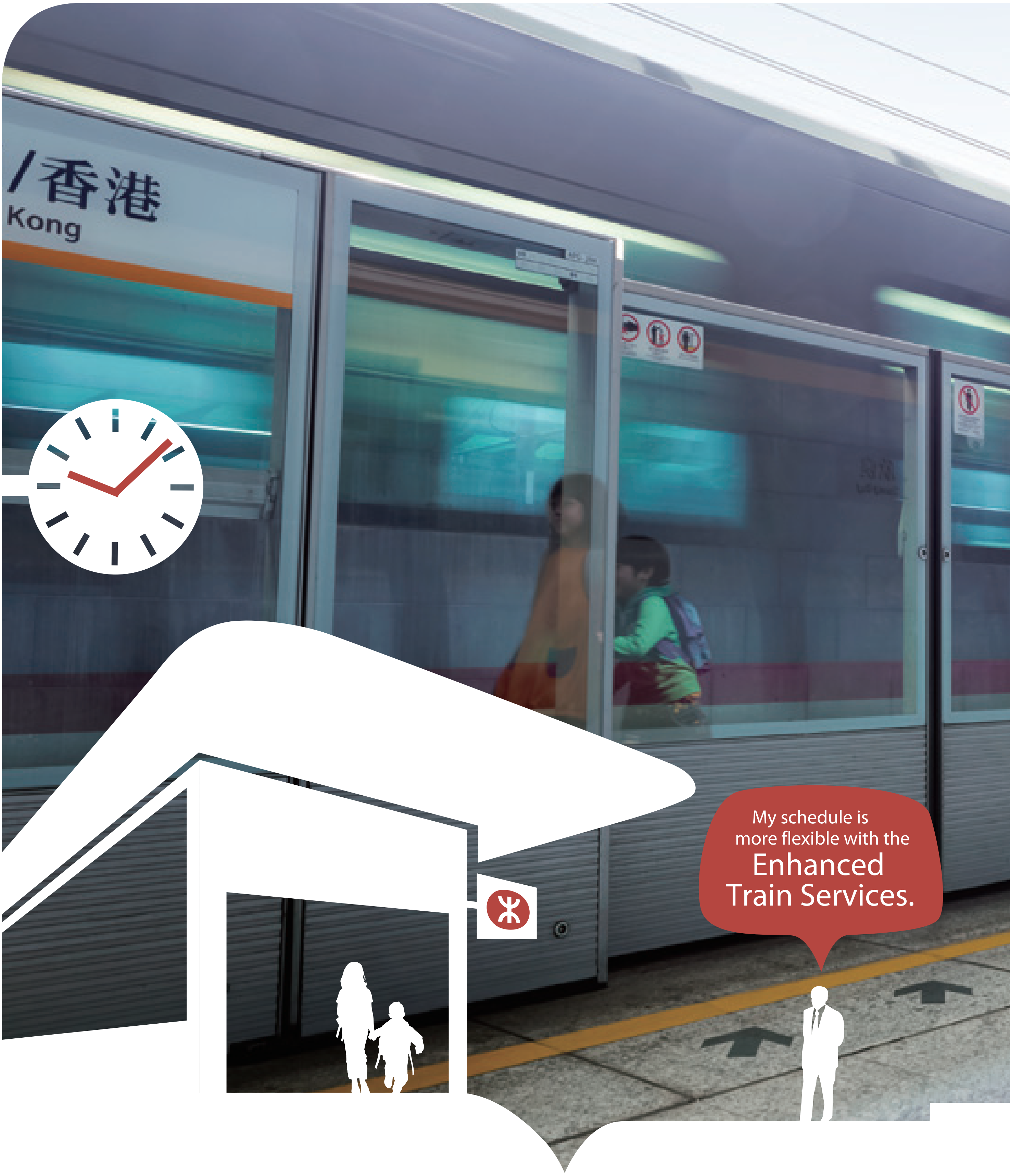
The breakthrough of the West Island Line tunnel from Sheung Wan to Kennedy Town via Sai Ying Pun and the University of Hong Kong was completed.

December

The Company won triple recognition for excellence in corporate management practices. It was ranked as having the highest risk maturity level by CoMET and was awarded the "Sustainability Excellence Award 2012" in the Hong Kong Corporate Governance Excellence Awards 2012 as well as the Gold Award (Hang Seng Index Series) in the Hong Kong Institute of Certified Public Accountants 2012 Best Corporate Governance Disclosure Awards.

The Shatin to Central Link celebrated its first project milestone with the Topping Out Ceremony for the new Central Mail Centre in Kowloon Bay.

The Company launched the "10% Discount for Every Same-day Second Trip" promotion on 31 December.



Shared Journeys


You will find a new
Public Toilet
over there!
It's convenient
to take the new
Lift to the station!

MTR's sustainable transport system underpins the Hong Kong economy

Hong Kong Transport Operations

Added
1,200
Train Trips
per week

Added
231
Seats
at 50 stations

Train frequencies of
Airport Express
improved to
10
minutes

Our transport operations in Hong Kong performed well in terms of both operational and financial results.

Financially, total revenue in 2012 from our Hong Kong transport operations, comprising predominately fare revenue but also including rail related ancillary income, was HK$14,523 million, a 7.5% increase over 2011. Operating costs of our Hong Kong transport business increased by 6.5% to HK$7,829 million, resulting in the operating profit for this business increasing 8.8% to HK$6,694 million, with an operating margin of 46.1%.

Patronage

Total patronage from all of our rail and bus passenger services in Hong Kong grew by 4.7% to a record 1,770.6 million in 2012. Excluding Intercity service, total patronage would have increased by 4.7% to 1,766.6 million.

Total patronage on our Domestic Service reached a record 1,431.0 million, a 4.7% increase over 2011, supported by solid economic growth and increased tourist arrivals. Our Domestic Service comprises the Kwun Tong, Tsuen Wan, Island, Tung Chung, Tseung Kwan O, Disneyland Resort, East Rail (excluding Cross-boundary Service), West Rail and Ma On Shan lines.

The Cross-boundary Service to Lo Wu and Lok Ma Chau reported patronage of 109.7 million in 2012, a 5.6% increase over 2011.

Passenger traffic on the Airport Express increased by 7.6% as compared with 2011 to 12.7 million, supported by an increase in air travel to and from Hong Kong as well as service frequency enhancement.

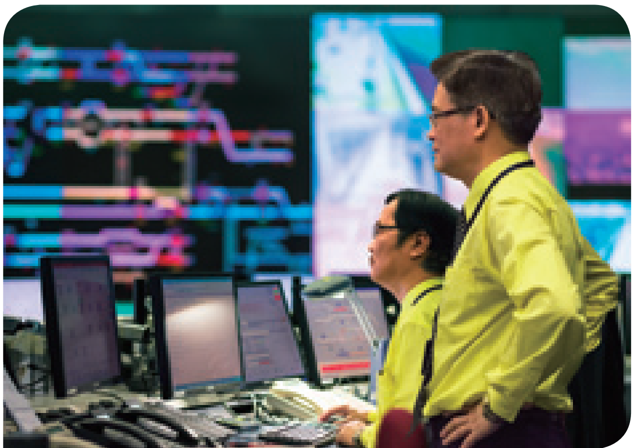
Passenger volume on Light Rail and Bus services in 2012 was 213.2 million, a 3.9% increase over 2011, while patronage on Intercity service was 4.0 million, increasing by 6.4%.

Average Weekday Patronage

Average weekday patronage for all of our rail and bus passenger services in Hong Kong rose by 4.5% to 5.07 million trips in 2012. Excluding Intercity service, average weekday patronage would have increased by 4.5% to 5.06 million trips. The Domestic Service again accounted for the majority of this patronage, recording a rise of 4.5% to 4.15 million trips per weekday.

Market Share

The Company's overall share of the franchised public transport market in Hong Kong increased further in 2012 to 46.4%, as compared to 45.4% in 2011. Within this total, our share of cross-harbour traffic rose to 66.7% from 66.2%. Our market share of Cross-boundary business declined slightly from 54.5% to 54.2% due to strong competition, particularly from buses. The Company's market share to and from the airport was maintained at 21.8% for 2012.

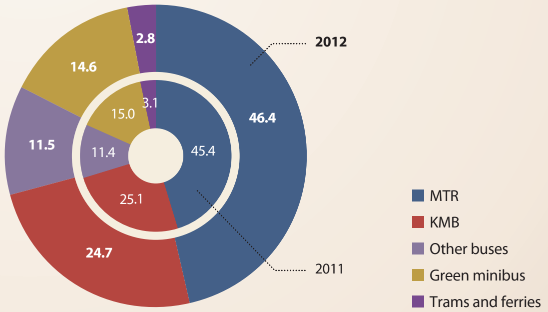


The Operations Control Centre plays a key role in ensuring efficiency

Market Shares of Major Transport Operators in Hong Kong

The Company's overall market share increased from 45.4% in 2011 to 46.4% in 2012.

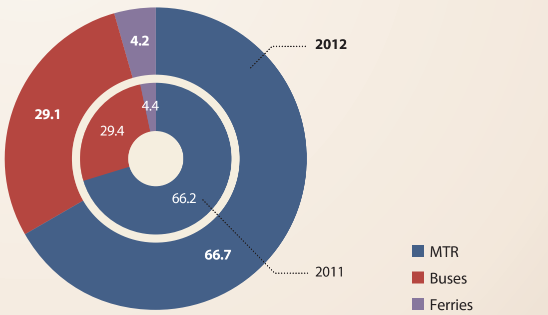
(Percentage)



Market Shares of Major Transport Operators Crossing the Harbour

The Company's market share of cross-harbour traffic rose to 66.7%.

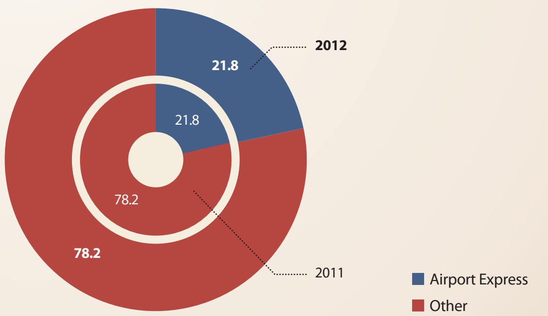
(Percentage)



Market Share of Airport Express

The proportion of air passengers using the Airport Express maintained at 21.8%.

(Percentage)



Fare Revenue

Total Hong Kong fare revenue in 2012 was HK$14,389 million, a 7.7% increase over 2011. Of this total, Domestic Service accounted for HK$10,035 million or 69.7%. Average fare per passenger on our Domestic Service increased by 2.9% to HK$7.01.

Fare revenue of the Cross-boundary Service for 2012 was HK$2,847 million, an increase of 8.1% over 2011. Fare revenue of the Airport Express was 5.9% higher at HK$795 million. Average fares per passenger on the Cross-boundary Service and the Airport Express were HK$25.95 and HK$62.59 respectively. Light Rail and Bus fare revenue in 2012 was HK$578 million, a 5.7% increase over 2011, while fare revenue from Intercity was HK$134 million, increasing by 6.3%.

Under the Fare Adjustment Mechanism ("FAM"), on 17 June 2012 a weighted average increase of 5.4% was made to applicable fares. This adjustment was accompanied by a package of fare promotions which included the popular "Ride 10 Get 1 Free", "10% Discount for Every Same-day Second Trip", "Tung Chung – Hong Kong Monthly Pass", "Free Child Travels on Weekends and Public Holidays", and HK$20 MTR Shops coupons for monthly pass purchasers. Under our Operating Agreement, the FAM can be reviewed once every five years and Government initiated discussions on such a review in August 2012. In the review process, we recognise the importance of a fair and transparent mechanism that is acceptable to stakeholders, including shareholders and the travelling public. We continue to discuss with Government on this review in order to reach a solution acceptable to all stakeholders.

Promotions and Concessions

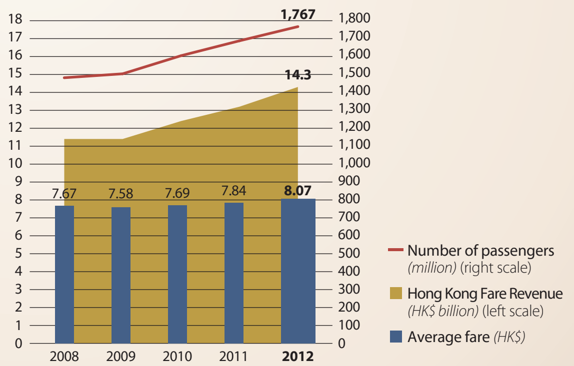
A number of other promotions were offered to attract people to use our network and support patronage and revenue growth.

Several schemes were introduced to underpin the attractiveness of our cross-boundary services. A Lok Ma Chau advertising campaign was launched in December 2012 to encourage more leisure travel on the Shenzhen Metro via Lok Ma Chau Station, including advertisements and a travel e-book highlighting attractions in Shenzhen. At the same time, a similar advertising campaign was initiated in Guangdong Province to promote travel to Hong Kong via Lok Ma Chau Station. In addition, a 20% fare discount was offered between April and June 2012 for passengers travelling to Lok Ma Chau Station from catchment areas with a lower ridership including most Island Line stations.

To encourage more tourists to use our services, a tourist ticket promotion was introduced during the year, encompassing discounts at major local attractions such as Ngong Ping 360, Hong Kong Disneyland, Madame Tussauds and sky100. Other tourist ticket promotions included special editions of tourist tickets for Ocean Park and special offers from MTR shopping malls.

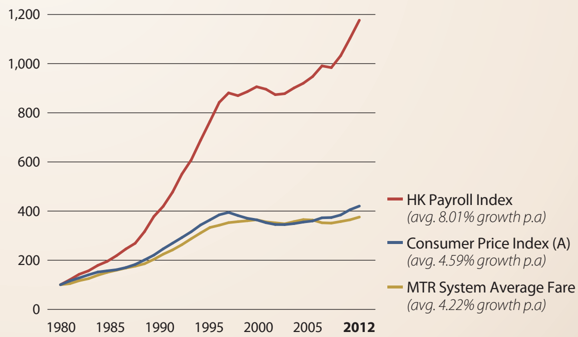
Passengers and Fares (Hong Kong Transport Operations excluding Intercity)

Economic growth and buoyant tourist arrivals supported the increase in fare revenue and patronage.



Fare Trend

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



To promote travel on the Airport Express, we partnered with major financial institutions and offered discounts to passengers who purchased tickets online with designated credit cards. We also successfully launched a group tickets promotion, offering instant gifts, travel packages to various destinations plus lucky draw prizes. Free rides were provided for children during the main holidays, which helped generate incremental ridership.

We now have more than 1.3 million MTR Club members. A bonus point scheme was launched between April and July 2012 to encourage our Club members to ride and shop within the MTR network and malls.

The MTR network carries about 5 million people per weekday efficiently and safely

To encourage passengers further to use our train service, two new fare saver machines were installed during the year, bringing the number of such machines operating in Hong Kong and Shenzhen to 33 as of 31 December 2012.

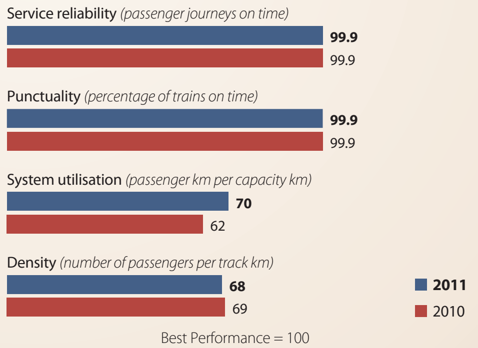
Service and Performance

In 2012, we again well exceeded the targets set out in the Operating Agreement and our own more demanding Customer Service Pledges. Even though more trains operated than ever before, our train reliability continued to improve and was in fact the best we have had since the rail merger. Furthermore, train service delivery and passenger journeys on-time across the network were all at 99.9%, a standard that puts MTR among the very best railways in the world. We also performed well in the CoMET international benchmarking.

Benchmarking Comparisons

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

MTR performance vs. Best Performance



The new entrance at University Station is one of many service improvements

The Airport Express is a fast and convenient option for air travellers

Our service excellence was recognised in numerous local and international awards, some of which are listed in the table below:

Awards Received in Hong Kong	Organisation
Sing Tao Excellent Services Brand Award 2011 – Category Award of Public Transportation	Sing Tao Daily
Hong Kong Service Awards 2012: • Hong Kong Service Awards – Public Transportation Category • Outstanding Honours Award in Corporate Social Responsibility Category • Corporate Social Responsibility Award	East Week Magazine
Top Service Awards 2012 in the Public Transportation Category	Next Magazine
Reader's Digest Trusted Brands Platinum Award (Public Utility Provider Category in Hong Kong)	Reader's Digest
Hong Kong Star Brands Award 2012 (Enterprise)	Hong Kong Small and Medium Enterprises Association and Hong Kong Trade Development Council
Best App by Government/Community – Mob-Ex Silver Award 2012 *(for MTR Mobile App)*	*Marketing* Magazine

Awards Received Outside of Hong Kong	Organisation
Best Metro Asia-Pacific and Best Customer Experience Initiative	Metrorail Awards in London, UK
Customer Service Excellence Award *(for Airport Express)*	Global AirRail Awards 2012 in Stockholm, Sweden
Award for Brand Excellence in Guangzhou-Hong Kong Leisure Travel Service *(for Ktt service)*	Tourism Administration of Guangzhou Municipality, Mainland of China

Customer satisfaction as recorded by our regular surveys remained high during 2012. The Service Quality Index for Domestic and Cross-boundary services and for the Airport Express stayed at 74 and 84 respectively, being the same as those for 2011. The Fare Index, which measures the level of customer satisfaction with fares, changed to 63 from 64 for the Domestic and Cross-boundary services over the past year and stayed at 70 for the Airport Express.

Service Enhancements

In response to listening to our travelling public, we launched our HK$1 billion Listening • Responding programme in March 2012 and identified enhancement opportunities in our network.

Over the course of the year, we increased train frequencies significantly, adding over 1,200 train trips per week to our network, providing capacity for 3 million extra passenger journeys each week. These train trips were added to six of our lines, namely the Tung Chung, Kwun Tong, Tsuen Wan, Island, Tseung Kwan O and West Rail lines. During December 2012, we also provided an extra 1,500 train trips on weekends and for the Winter Solstice to make it even more convenient for passengers to get around over the Christmas period.

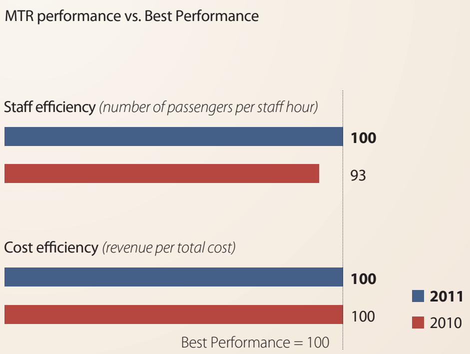
To support such service enhancements, the ten new trains previously committed were brought into passenger service under the Listening • Responding programme during the year as planned.

To attract more passengers to use the Airport Express, starting from January 2012, train service headway was enhanced from 12 to ten minutes between the start of traffic and midnight by adding 245 train trips per week.

While more trains were operated in 2012, the number of delays of five minutes or more reduced by 23% due to improvements in preventive maintenance and faster recovery when delays did occur. Even more tellingly, delays related to equipment fault were down by 31% from what were already world class standards.

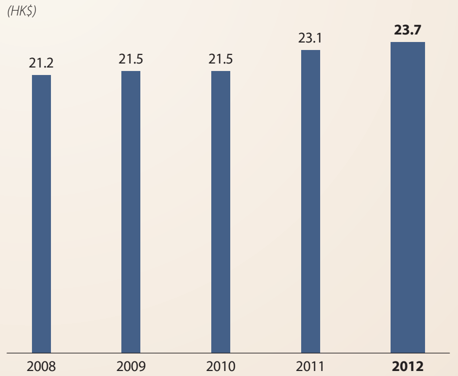
Staff Efficiency and Cost Efficiency

New initiatives continue to be introduced to enhance operating efficiency.



Operating Costs Per Car-km Operated For Hong Kong Transport Operations

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



In a survey of customers we conducted in November 2012, up to 80% of interviewees found our trains and platforms less crowded while up to 90% were satisfied with the waiting time for trains.

Also by the year end, 29 refurbished and modernised Phase I Light Rail vehicles had re-entered passenger service, offering a fresher look and a more comfortable travelling environment.

Other enhancements to trains have included installation of LED lighting and noise attenuation technology respectively to save energy and respond to public concerns on saloon noise levels.

To improve bus feeder services in 2012, we put into service 18 new double-decker buses with Euro V engines that meet the latest stringent environmental standards. Six more new buses were purchased and will be delivered in 2013.

To deliver useful travel information to passengers directly, effectively, and in real time, we launched new and enhanced mobile apps during 2012. The new MTR Traffic News App launched in September 2012 provides instant updates on train service arrangements during typhoons, festive holidays and serious train service disruptions. The Next Train App, which became available in June 2012, provides real time train schedules for the next four trains on the Airport Express and Tung Chung Line. MTR Tourist App assists passengers to plan their leisure trips in Hong Kong. All mobile apps were migrated to a single portal, MTR Mobile 5.0, allowing them to be seen at one glance and downloaded more conveniently.

In collaboration with the Hong Kong Computer Society, the MTR App Talent Quest conducted its award ceremony in October 2012. The HK$100,000 Grand Prize was won by a role play game promoting good passenger behaviour.

Improving accessibility to our trains and stations remains a key task for the Company. To accommodate passengers in need better, most of our trains on the Island, Tseung Kwan O, Kwun Tong and Tsuen Wan lines have been modified to allow an enlarged multi-purpose space. The installation of priority seats was completed on the Island, Tseung Kwan O, Kwun Tong and Tsuen Wan lines, while those for the East Rail, Ma On Shan, West Rail, Tung Chung lines and Light Rail are in progress.

Under our Listening • Responding programme, we have committed to ensuring that all of our full-time stations will have more barrier-free access, and as a result, we aim to provide external lifts, connecting the station concourses to the street level, at ten stations by 2015. During the year, new passenger lifts were completed at Jordan, Cheung Sha Wan, Sham Shui Po and Sheung Wan stations. In addition, a total of 52 additional wide gates have been ordered for service by 2013. The programme to add 231 more seats at 50 stations was completed on schedule in 2012, while ramps for the disabled came into service at Quarry Bay and Lok Fu stations.

We also aim to provide public toilet facilities in ten interchange stations by 2020 under our Listening • Responding programme. During the year, toilet facilities were installed at Sheung Wan Station. Detailed designs for Mong Kok and Prince Edward stations are in progress, together with a preliminary design for Admiralty Station.

Convenient and modern new entrances were completed during the year at University, Tseung Kwan O and Causeway Bay stations, while the installation of automatic platform gates at aboveground stations on the Kwun Tong, Tsuen Wan and Island lines has been completed.

Safety on the Network

Safety is an absolute pre-requisite for our transport operations. We remain the safest mode of public transport in Hong Kong. We also continue to be ranked among the best operators for safety performance in international benchmarking.

In October and November 2012, staff from our Hong Kong transport operations participated in joint peer review exercises with their counterparts from the Company's railway franchises outside of Hong Kong. The purpose of these reviews is to continuously enhance our safety management through sharing, learning and adopting relevant best practices. Safety training and attachments to Hong Kong transport operations were arranged for safety staff from our subsidiaries. We also supported the safety assessment of new railway franchises outside of Hong Kong.

Extensive maintenance programmes ensure continued efficiency and reliability

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

Initiatives to educate the public on safety included escalator safety campaigns, with prominent safety messages printed on the walls and handrails of selected escalators, deployment of Escalator Safety Ambassadors and repainting of green footmarks on 45 escalators. A safety programme targeting the elderly was also launched jointly with a local radio station in November 2012. On the Light Rail service, safety belts and backing plates for wheelchair users were installed in 118 vehicles, 999 platform gap fillers were installed at Light Rail stops and a Light Rail Road User Safety Campaign was launched.

"Safety is an absolute pre-requisite for our transport operations. We remain the safest mode of public transport in Hong Kong."

We continue to promote workplace safety for our staff and contractors' staff. A comprehensive 12-month programme was held, aiming at reducing incidents including the use of human factor techniques. A "Double Safety Walk" campaign saw senior managers and supervisors participate in more safety inspections and discussions with frontline staff. In December, a new mobile app for hazards and near-misses reporting was launched.

Our staff and contractor staff safety efforts were recognised through various schemes including the new annual "Railway Safety OSCAR Awards". In January 2013, the Company announced its new four-year Corporate Safety Strategy, with the aspirations of being amongst the very best in safety performance globally in all of our businesses and the safest mode of public transport in every place where we operate. This strategy fosters a safety-first culture, drives continuous improvement and engages stakeholders to meet future challenges, with strategic safety priorities and relevant actions established to achieve sustained domestic and international growth.

System and Market Information

Railway operation data	2012		2011	
Total route length *(km)*	**218.2**		218.2	
Number of rail cars	**2,050**		1,965	
Number of stations (Island Line, Tsuen Wan Line, Kwun Tong Line, Tseung Kwan O Line, Tung Chung Line, Disneyland Resort Line, West Rail Line, Airport Express, East Rail Line and Ma On Shan Line)	**84**		84	
Number of Light Rail stops	**68**		68	
Number of e-instant Bonus machines in stations	**49**		49	
Number of station kiosks and mini-banks in stations	**1,331**		1,294	
Number of advertising points in stations	**21,081**		21,064	
Number of advertising points in trains	**23,570**		23,669	
Daily hours of operation				
Island Line, Tsuen Wan Line, Kwun Tong Line, Tseung Kwan O Line, Tung Chung Line, Disneyland Resort Line, West Rail Line, Airport Express and Light Rail	**19.0**		19.0	
East Rail Line and Ma On Shan Line	**19.5**		19.5	
Minimum train headway *(second)*	**Morning Peak**	**Evening Peak**	Morning Peak	Evening Peak
– Tsuen Wan Line	**120**	**120**	128	130
– Kwun Tong Line	**126**	**144**	128	144
– Island Line	**120**	**130**	120	150
– East Rail Line				
Hung Hom to Sheung Shui	**212**	**212**	212	212
Hung Hom to Lo Wu	**327**	**327**	327	327
Hung Hom to Lok Ma Chau	**600**	**600**	600	600
– Ma On Shan Line	**180**	**240**	180	240
– Tseung Kwan O Line	**150**	**150**	150	150
– Tung Chung Line				
Hong Kong to Tung Chung	**360**	**360**	360	480
Hong Kong to Tsing Yi	**240**	**240**	240	240
– Airport Express	**600**	**600**	720	720
– West Rail Line	**180**	**210**	180	240
– Disneyland Resort Line	**270**	**270**	270	270
– Light Rail	**270**	**300**	270	300

International Performance Comparisons: the 14-member Community of Metros (CoMET)

Metro system network data (2011)	**MTR ***	Metro A	Metro B	Metro C	Metro D	Metro E	Metro F	Metro G	Metro H	Metro I	Metro J	Metro K	Metro L	Metro M
Passenger journeys *(million)*	**1,470**	1,040	940	1,183	1,595	639	2,389	1,667	1,607	483	642	1,284	812	566
Car kilometres *(million)*	**254**	229	188	494	354	204	737	561	245	101	131	328	129	94
Route length *(km)*	**175**	287	229	439	201	283	306	480	216	115	104	425	65	102
Number of stations	**82**	143	132	270	147	247	169	424	302	66	100	249	58	89

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

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

Operations Performance in 2012

Service performance item	Performance Requirement	Customer Service Pledge Target	**Actual Performance**
Train service delivery			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, Tung Chung Line, Disneyland Resort Line and Airport Express	98.5%	99.5%	**99.9%**
– East Rail Line (including Ma On Shan Line)	98.5%	99.5%	**99.9%**
– West Rail Line	98.5%	99.5%	**99.9%**
– Light Rail	98.5%	99.5%	**99.9%**
Passenger journeys on-time			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, Tung Chung Line and Disneyland Resort Line	98.5%	99.5%	**99.9%**
– Airport Express	98.5%	99.0%	**99.9%**
– East Rail Line (including Ma On Shan Line)	98.5%	99.0%	**99.9%**
– West Rail Line	98.5%	99.0%	**99.9%**
Train punctuality			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, Tung Chung Line and Disneyland Resort Line	98.0%	99.0%	**99.8%**
– 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, Tung Chung Line, Disneyland Resort Line and Airport Express	N/A	500,000	**4,203,807**
– East Rail Line (including Ma On Shan Line) and West Rail Line	N/A	500,000	**7,113,301**
Ticket reliability: magnetic ticket transactions per ticket failure			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, Tung Chung Line, Disneyland Resort Line, Airport Express, East Rail Line (including Ma On Shan Line) and West Rail Line	N/A	8,000	**18,784**
Add value machine reliability			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, Tung Chung Line, Disneyland Resort Line and Airport Express	98.0%	99.0%	**99.5%**
– East Rail Line (including Ma On Shan Line)	98.0%	99.0%	**99.9%**
– West Rail Line	98.0%	99.0%	**99.7%**
– Light Rail	N/A	99.0%	**99.6%**
Ticket machine reliability			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, Tung Chung Line, Disneyland Resort Line and Airport Express	97.0%	99.0%	**99.5%**
– East Rail Line (including Ma On Shan Line)	97.0%	99.0%	**99.6%**
– West Rail Line	97.0%	99.0%	**99.5%**
– Light Rail	N/A	99.0%	**99.9%**

Operations Performance in 2012 *(continued)*

Service performance item	Performance Requirement	Customer Service Pledge Target	**Actual Performance**
Ticket gate reliability			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, Tung Chung Line, Disneyland Resort Line and Airport Express	97.0%	99.0%	**99.8%**
– East Rail Line (including Ma On Shan Line)	97.0%	99.0%	**99.9%**
– West Rail Line	97.0%	99.0%	**99.9%**
Light Rail platform Octopus processor reliability	N/A	99.0%	**99.9%**
Escalator reliability			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, Tung Chung Line, Disneyland Resort Line and Airport Express	98.0%	99.0%	**99.9%**
– East Rail Line (including Ma On Shan Line)	98.0%	99.0%	**99.9%**
– West Rail Line	98.0%	99.0%	**99.9%**
Passenger lift reliability			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, Tung Chung Line, Disneyland Resort Line and Airport Express	98.5%	99.5%	**99.8%**
– East Rail Line (including Ma On Shan Line)	98.5%	99.5%	**99.9%**
– 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	97.0%	**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	90.0%	**99.9%**
Cleanliness			
– Train compartment: cleaned daily	N/A	98.5%	**99.9%**
– Train exterior: washed every 2 days (on average)	N/A	99.0%	**100.0%**
Northwest Transit Service Area Bus Service			
– Service Delivery	N/A	99.0%	**99.8%**
– Cleanliness: washed daily	N/A	99.0%	**100.0%**
Passenger enquiry response time within 6 working days	N/A	99.0%	**100.0%**


Wow!
4G network
is available here!
The app
"MTR Mobile"
is really helpful!
iCentre

Shared Passion

With over 1,300 outlets, MTR Shops provide a wide choice of goods and services

Hong Kong Station Commercial Business

4G data access along the journey

Over 280 Brands offering shopping convenience to passengers

Innovative Advertising Formats to increase their appeal

"Revenue from Hong Kong station commercial business rose by 7.5% in 2012 to HK$3,680 million, as higher station shop rental and advertising revenue were offset by lower revenue from telecommunications."

Revenue from Hong Kong station commercial business rose by 7.5% in 2012 to HK$3,680 million, as higher station shop rental and advertising revenue were offset by lower revenue from telecommunications. Operating costs of our Hong Kong station commercial business increased by 10.9% to HK$397 million, resulting in the operating profit for this business increasing 7.1% to HK$3,283 million, with an operating margin of 89.2%. Excluding the one-off income in relation to the termination of 2G telecommunication contracts in both 2011 and 2012, revenue would have increased by 11.6% and the operating margin would have been 89.1%.

Station Retail

Station retail revenue increased 12.4% to HK$2,142 million, as shop areas increased, rental rates moved higher and trade mixes were refined. The number of station shops at the end of 2012 had increased by 37 over the previous year to 1,331 following renovations at Tai Wo Hau, Tseung Kwan O, Sheung Wan, University, Hong Kong, Tai Wai, Yau Tong, Tung Chung, Kowloon Tong and Sheung Shui stations. Over the year, the area of station retail space rose by 966 square metres to 55,898 square metres, mainly due to increases at Tseung Kwan O and Tung Chung stations.

Branding campaigns helped reinforce the "Stylish Convenience" positioning of MTR Shops, increasing their appeal to preferential trades, tenants and passengers. These included thematic advertising programmes together with a series of new shop posters, advertorials and a "My Favourite MTR Shops Voting Campaign". The licence on the Duty Free premises at Lo Wu and Hung Hom stations, which was re-tendered and awarded in 2012, at significantly higher rental rates than the previous licence, became effective on 1 January 2013.

Interactive advertising has been a big hit with passengers

"Station retail revenue increased 12.4% to HK$2,142 million, as shop areas increased, rental rates moved higher and trade mixes were refined."

Advertising

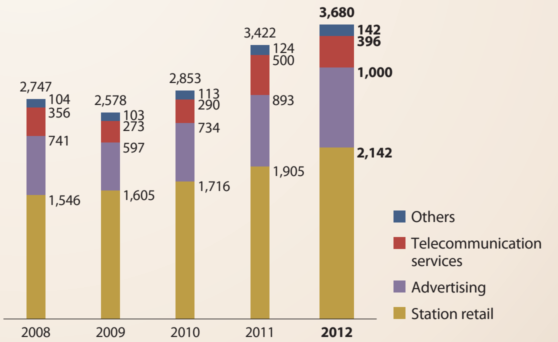
Advertising revenue in 2012 increased by 12.0% to HK$1,000 million, as the good economic conditions in Hong Kong encouraged advertisers to increase spending. As at the end of 2012, the number of advertising units for advertisers was 44,651, with 21,081 on stations and 23,570 on trains. We continued to launch innovative advertising formats to increase their appeal and impact. These included the digital panel zones in Central and Causeway Bay stations, the "MTR InterActiveAds Experience Station" at Tseung Kwan O Station, and in December 2012, a pilot in-station mobile shopping scheme. Digital advertising was extended to the East Rail Line with plasma TV rings at Sha Tin and Mong Kok East stations, while the in-train Newsline Express was introduced in trains on the Kwun Tong Line. We also launched more advertising formats targeting Mainland travellers.

MTR provides some of Hong Kong's most innovative advertising formats

Revenue from Hong Kong Station Commercial Business

Revenue increased in 2012 due to a marked improvement in station shop rental and advertising revenues.

(HK$ million)



Telecommunications

Revenue from telecommunications in 2012 decreased by 20.8% to HK$396 million, mainly due to smaller one-off receivables in 2012 compared to 2011 arising from the termination of certain 2G contracts. Excluding such one-off receivables, revenue in 2012 would have increased by 4.3%. During the year, we facilitated telecom operators to install equipment for enhancing 3G data capacity and signal reception at 49 stations, while an extensive telecommunication system upgrade was completed at Admiralty and Central stations. By the end of February 2013, 4G mobile phone services were available at 66 stations and technical trials of 4G using new infrastructure between Hong Kong and Kowloon stations had been completed.

The trade mix is constantly refined to improve passenger satisfaction

Shared Dreams


Let's watch a movie at
PopCorn!
We love
living in this
Green
environment!

Our property management staff serve owners and residents with their hearts

Hong Kong Property and Other Businesses

86,266 households enjoy **Quality Living** in our managed properties

13 MTR Shopping Malls to enhance customers' shopping experience

Development Sites with over 1 Million sq.m. Gross Floor Area awarded pending completion

Continued low interest rates and high liquidity supported sentiment in the residential property market, with prices rising strongly during the first part of the year and primary sales volumes for 2012 surpassing that achieved in 2011. Transactions in both the primary and secondary residential property market fell sharply at the end of 2012 following Government's announcement of new stamp duty measures (namely the Buyer's Stamp Duty and the modified Special Stamp Duty) in October. Office leasing activities in Central remained subdued owing to reduced demand from traditional major occupiers such as global investment banks, although decentralised areas such as Kowloon East and Tsim Sha Tsui performed well. Strong demand from international brands continued to lend support to the retail property market.

Property Development in Hong Kong

Profit from property development in 2012 was HK$3,238 million. This mainly comprised our share of profits from The Riverpark at Che Kung Temple Station, for which the Occupation Permit was obtained in September 2012. We also booked profits on inventory units sold at Festival City, Lake Silver and The Palazzo, with units from all three phases of Festival City sold as at year end.

During the year, we launched presales for The Riverpark, with over 83% of the 981 units sold by the end of the year. Strong sales were also achieved at Century Gateway, the Tuen Mun Station property development Phase 1, where we only act as agent for the relevant subsidiary of Kowloon-Canton Railway Corporation ("KCRC"), with 97% of the 1,075 units sold by year end.

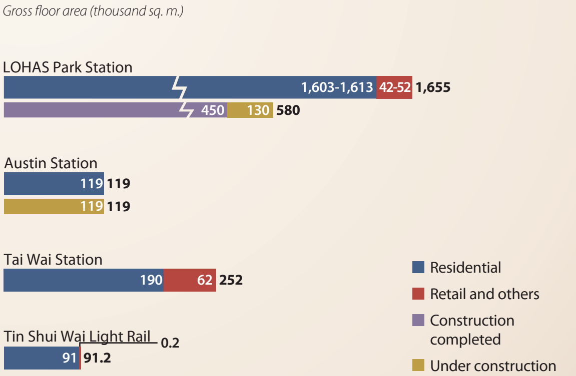
"... we launched presales for The Riverpark, with over 83% of the 981 units sold by the end of the year."

In our tender activities, the property development site at Tai Wai Station was tendered in May but, following detailed analysis of the tenders received, we decided not to accept any of the tenders offered as acceptance would have exposed the Company to a substantial risk of not recovering the costs of the development. The Tin Shui Wai Light Rail site was put out to tender in January 2013 but no bids were received by the deadline. We are examining these development packages with a view to putting these projects out to tender again over the next 12 months, subject to market conditions.

The tender programme for West Rail property developments, where we only act as agent for the relevant subsidiaries of KCRC, was active in the year. We awarded the Tsuen Wan West Station (TW5) Cityside site to a member company of the Chinachem Group in January 2012. In July, we re-tendered the Tsuen Wan West Station (TW5) Bayside site, which was awarded to a subsidiary of Cheung Kong (Holdings) Limited in August. The Long Ping Station (North) site was tendered in September and was awarded to a consortium formed by K. Wah International Holdings Limited and Sino Land Company Limited in October. The tender for the Tsuen Wan West Station

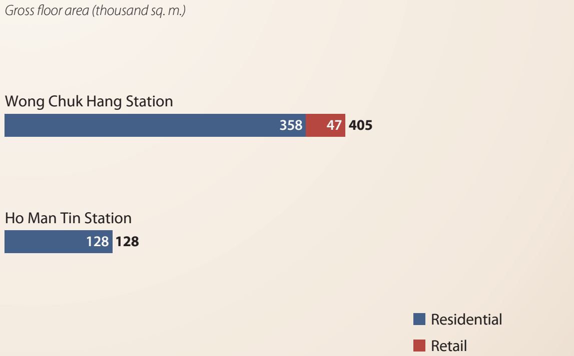
Property Development Packages for Operating Network – Plan and Progress

Occupation Permit for The Riverpark at Che Kung Temple Station and La Splendeur, Package Two of LOHAS Park were issued in September and December 2012 respectively.



Property Development Packages for Future Extensions

Master Layout Plan for the Wong Chuk Hang Depot site along the South Island Line (East) was approved by the Town Planning Board in February 2013.



(TW6) site was invited in December with the project awarded to a consortium formed by New World Development Company Limited and Vanke Property (Hong Kong) Company Limited in January 2013.

We continue to progress property development plans at other sites. Progress was made and approval obtained in February 2013 from the Town Planning Board for the Master Layout Plan for the Wong Chuk Hang Depot site along the South Island Line (East). Along the West Rail Line, approval was granted for the revised Master Layout Plan for the Long Ping Station (South) site from the Town Planning Board in June 2012.

In response to Government's request, we continue to explore opportunities for other new developments along railway lines to provide more housing supply.

West Rail Line Property Development Plan

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

Station/Site	Site Area *(hectares)*	Actual/(Expected) Period of packages awarded	Expected completion date
Property Development Packages awarded			
Tuen Mun	2.65	Aug 2006	By phases from 2012 – 2013
Tsuen Wan West (TW7)	2.37	Sep 2008	2013
Nam Cheong	6.18	Oct 2011	By phases from 2017 – 2019
Tsuen Wan West (TW5) Cityside	1.34	Jan 2012	2018
Tsuen Wan West (TW5) Bayside	4.29	Aug 2012	2018
Long Ping (North)	0.99	Oct 2012	2018
Tsuen Wan West (TW6)	1.38	Jan 2013	2018
	19.20		
Property Development Packages to be awarded			
Long Ping (South)	0.84	(2013)	Under review
Tin Shui Wai	About 3.48	Under review	Under review
Yuen Long	About 3.46	Under review	Under review
Kam Sheung Road	About 9.37	Under review	Under review
Pat Heung Maintenance Centre	About 23.56	Under review	Under review
Kwai Fong	About 1.92	Under review	Under review
	42.63		
Total	**61.83**		

The Riverpark at Che Kung Temple Station sold well in 2012

Property Rental and Property Management Businesses in Hong Kong

Revenue from our Hong Kong property rental and property management businesses in 2012 increased by 10.3 % to HK$3,401 million. Its operating costs increased by 6.8% to HK$627 million, resulting in the operating profit for this business increasing 11.1% to HK$2,774 million, with an operating margin of 81.6%.

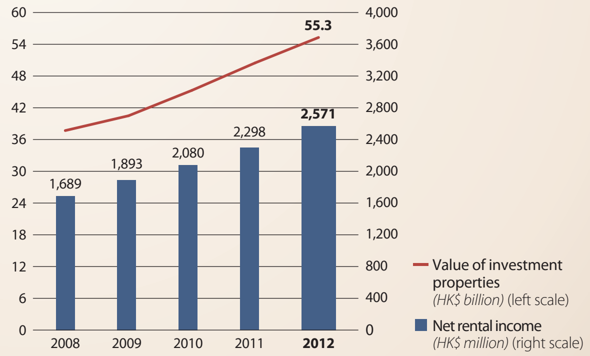
Total property rental income in Hong Kong was 10.5% higher than 2011 at HK$3,198 million. Our shopping mall portfolio achieved an average 16% increase in rental reversion for the year. At the end of December 2012, the occupancy level of our 13 shopping malls in Hong Kong and the Company's 18 floors at Two International Finance Centre ("Two ifc") remained close to 100%.

As at 31 December 2012, the Company's attributable share of investment properties in Hong Kong comprised 212,612 square metres of lettable floor area of retail properties, 40,969 square metres of offices, and 13,642 square metres of property for other use.

We made further investments in our property rental portfolio to sustain its attractiveness. A new MTR Mall, PopCorn, was opened in March 2012. This mall is situated above Tseung Kwan O Station and has around 100 retailers, occupying a gross floor area of over 20,000 square meters. PopCorn provides a wide range of offerings and exclusive brands, a selection of international cuisine, as well as the STAR cinema which features a unique movie experience for the Tseung Kwan O area. A revamp of the trade mix at The Edge shopping mall commenced in September 2012 and these works will be completed in phases during 2013. Across our retail property portfolio, we continued our programme of planned asset replacement to sustain high energy efficiency, through measures such as upgrading electrical and mechanical systems to the latest applicable technology. We have also launched incentive schemes to encourage food waste reduction and food waste recycling among MTR Malls food and beverage operators, and supported Government's energy saving initiative through our active participation in the "Energy Saving Charter 2012" across all MTR Malls.

Investment Properties

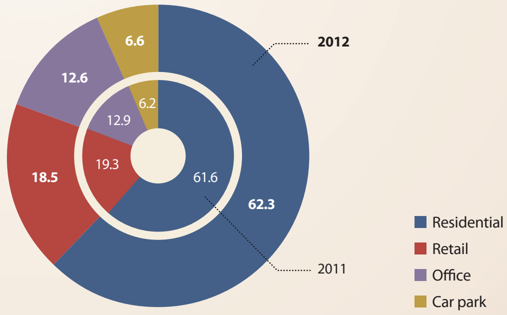
Rental income continued to grow with good rental reversion in our shopping malls.



Distribution of Hong Kong Property Management Income

At the end of the year, the Company had 86,266 residential units and 764,725 sq.m. of commercial and office space under management in Hong Kong.

(Percentage)



Our shopping malls garnered numerous awards during the year, including most recently, the "Most Favourite Shopping Mall Award" given by Hong Kong Economic Times, the "Platinum Prime Award for Eco-Business 2012" given by Prime Magazine and the Business Environment Council, the "Sales and Marketing Excellence Award 2012 – The Best Sales Promotion at Shopping Malls" given by Capital Weekly, the "Hong Kong Top Brands Award – The Most Popular Consumption Brand in Hong Kong" from MetroInfo & Shenzhen Radio and the "HKMA/TVB Awards for Marketing Excellence 2012 – Merit Award" from The Hong Kong Management Association. We entered into a new five-year lease with an existing major tenant for 19,038 square metres of office space at Two ifc at rates significantly higher than those currently paid by the same tenant. The new lease will commence in mid 2014.

"We entered into a new five-year lease with an existing major tenant for 19,038 square metres of office space at Two ifc at rates significantly higher than those currently paid by the same tenant."

Our latest shopping mall – PopCorn at Tseung Kwan O Station – offers an exciting shopping experience

Hong Kong property management revenue in 2012 increased by 6.8% to HK$203 million. As at 31 December 2012, the number of residential units under our management in Hong Kong had risen to 86,266. The area of managed commercial space increased by 20,000 square metres to 764,725 square metres after the opening of PopCorn in Tseung Kwan O.

Our property management operations continued to attain numerous awards from Government and industry bodies. The quality of our horticulture maintenance in particular was recognised when we received the "Gold Award – Best Landscape Award for Private Property Development (Class 2 – Horticultural Maintenance)" at The Capitol, Le Prestige and LOHAS Park from the Leisure and Cultural Services Department in 2012. We also successfully assisted Owners' Committees to implement energy-saving projects that are funded by Government's Environment and Conservation Fund, with 38 out of 49 identified projects approved by the fund as at year end.

Other Businesses

Ngong Ping 360

The Ngong Ping cable car and associated theme village posted a 7.8% decrease in revenue in 2012 to HK$249 million as a result of a nine-week suspension of the cable car service for repair and maintenance works, including replacement of bullwheel bearings following a service disruption in late January 2012. Visitor numbers for the year reached 1.36 million, supported by a series of promotional initiatives, such as the "Sky-Land-Sea" Lantau adventure packages, and events

such as the inaugural Lantau-themed "360 Lantau Carnival", the "Shaolin and Wu Dang Martial Arts Extravaganza", as well as the "360 Year of The Dragon Pass" designed to encourage repeat visits.

Consultancy Business

Revenue from consultancy business in 2012 was HK$102 million, a decrease of 2.9% over 2011. A contract was signed with UGL Unipart Rail Services Pty Ltd. to support its rolling

"Our property management operations continued to attain numerous awards from Government and industry bodies."

PopCorn provides a new focal point for the community

stock maintenance works in New South Wales in Australia. A Memorandum of Understanding was signed with Abu Dhabi Department of Transport to establish a long term partnership to develop sustainable rail services in the emirate. In Hong Kong, the subcontract for the Automated People Mover midfield concourse extension at Hong Kong International Airport was signed. In Macau, we have provided an Electrical and Mechanical System Design Submission Review for the Macau Transportation Infrastructure Office ("GIT").

Octopus

Octopus made further inroads in the retail sector. By 31 December 2012, over 5,000 service providers in Hong Kong were using the Octopus service. Total Octopus cards and other Octopus stored value devices in circulation at year end were 22.3 million. Average daily transaction volume and value were 12.5 million and HK$128.9 million respectively. The Company's share of Octopus' net profit for 2012 was HK$211 million, a 15.9% increase over 2011.

Project Management

Project management income in 2012 was HK$969 million, 64.8% higher than 2011. This is mainly from the entrustment works for Government on the Hong Kong section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link ("Express Rail Link") and Shatin to Central Link. Income from such entrustment works is currently charged to Government on a cost recovery basis only.

Property Development Packages Completed during the year and Awarded

Location	Developers	Type	Gross floor area *(sq. m.)*	Period of package tenders	Expected completion date
LOHAS Park Station					
Package Two (Le Prestige, Le Prime, La Splendeur)	Cheung Kong (Holdings) Ltd.	Residential Kindergarten	309,696 800	Awarded in January 2006	By phases from 2010-2012
Package Three	Cheung Kong (Holdings) Ltd.	Residential Kindergarten	128,544 1,000	Awarded in November 2007	2014
Che Kung Temple Station					
The Riverpark	New World Development Co. Ltd.	Residential Retail Kindergarten	89,792 154 708	Awarded in April 2008	2012
Austin Station					
Sites C and D	New World Development Co. Ltd. and Wheelock Properties Limited	Residential	119,116	Awarded in March 2010	2014
Tuen Mun Station#					
Century Gateway	Sun Hung Kai Properties Ltd.	Residential Retail	119,512 25,000	Awarded in August 2006	By phases from 2012 – 2013
Tsuen Wan West Station#					
City Point	Cheung Kong (Holdings) Ltd.	Residential	113,064	Awarded in September 2008	2013
TW5 Cityside	Chinachem Group	Residential Retail	66,114 11,210	Awarded in January 2012	2018
TW5 Bayside	Cheung Kong (Holdings) Ltd.	Residential Retail Kindergarten	167,100 40,000 550	Awarded in August 2012	2018
TW6	New World Development Co. Ltd. and Vanke Property (Hong Kong) Company Limited	Residential	62,711	Awarded in January 2013	2018
Nam Cheong Station#					
Nam Cheong	Sun Hung Kai Properties Ltd.	Residential Retail Kindergarten	214,700 26,660 1,000	Awarded in October 2011	By phases from 2017 – 2019
Long Ping Station#					
Long Ping (North)	K. Wah International Holdings Limited and Sino Land Company Limited	Residential	48,675	Awarded in October 2012	2018

as a development agent for the relevant subsidiaries of KCRC

Property Development Packages to be Awarded Notes 1 and 2

Location	No. of packages envisaged	Type	Gross floor area (sq. m.)	Period of package tenders	Expected completion date
LOHAS Park Station	6 – 10	Residential Retail	1,025,220 – 1,035,220 39,500 – 49,500	2013 – 2017	2020
Tai Wai Station	1	Residential Retail	190,480 62,000	2013	2018 – 2019
Tin Shui Wai Light Rail	1	Residential Retail	91,051 205	2013	2018
Wong Chuk Hang Station	3 – 6	Residential Retail	357,500 47,000	2015 – 2020	2024
Ho Man Tin Station	2	Residential	128,400	2015 – 2018	2021

Notes:

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

Investment Property Portfolio in Hong Kong (as at 31 December 2012)

Location	Type	Lettable floor area *(sq. m)*	No. of parking spaces	Company's ownership interest
Telford Plaza I, Kowloon Bay, Kowloon	Shopping centre	39,461	–	100%
	Car park	–	993	100%
Telford Plaza II, Kowloon Bay, Kowloon	Shopping centre	19,331	–	50%
	Car park	–	136	50%
Luk Yeung Galleria, Tsuen Wan, New Territories	Shopping centre	11,232	–	100%
	Car park	–	651	100%
Paradise Mall, Heng Fa Chuen, Hong Kong	Shopping centre	18,772	–	100%
	Wet market	1,216	–	100%
	Car park	–	415	100%
Maritime Square, Tsing Yi	Shopping centre	29,089	–	100%
	Kindergarten	920	–	100%
	Car park	–	220	100%
	Motorcycle park	–	50	100%
The Lane, Hang Hau	Shopping centre	2,629	–	100%
	Car park	–	16	100%
	Motorcycle park	–	1	100%
The Edge, Tseung Kwan O	Shopping centre	7,814	–	70%
	Car park	–	50	70%
PopCorn, 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	39,373	–	100%
– One and Two ifc	Car park	–	1,308	51%
Phase I, Carpark Building, Kornhill, Quarry Bay, Hong Kong	Car park	–	292	100%
Roof Advertising Signboard, Admiralty Centre, No. 18 Harcourt Road, Hong Kong	Advertising signboard	–	–	100%
Ten Shop Units, First Floor Podium, Admiralty Centre, No. 18 Harcourt Road, Hong Kong	Shop unit	286	–	50%
Olympian City One, Tai Kok Tsui, Kowloon	Indoor sports hall	13,219	–	100%
Olympian City Two, Tai Kok Tsui, Kowloon	Shop unit	1,252	–	100%
Choi Hung Park & Ride Public Car Park, No. 8 Clear Water Bay Road, Choi Hung, Kowloon	Car park	–	54	51%
	Motorcycle park	–	10	51%
	Park & ride	–	450	51%
Elements, No. 1 Austin Road West, Kowloon	Shopping centre	45,800	–	81%
	Car park	–	898	81%
Cross Border Coach Terminus, No. 1 Austin Road West, Kowloon	Coach terminus	5,113	–	100%
Kindergarten, No. 1 Austin Road West, Kowloon	Kindergarten	1,045	–	81%
Plaza Ascot, Fo Tan	Shopping centre	7,662	–	100%
Royal Ascot, Fo Tan	Residential	2,784	–	100%
	Car park	–	20	100%
Ocean Walk, Tuen Mun	Shopping centre	6,111	–	100%
	Car park	–	32	100%
Sun Tuen Mun Shopping Centre, Tuen Mun	Shopping centre	9,022	–	100%
	Car park	–	421	100%
Hanford Plaza, Tuen Mun	Shopping centre	1,932	–	100%
	Car park	–	22	100%
Retail Floor and 1-6/F, Citylink Plaza, Shatin	Shopping centre	12,054	–	100%
Portion of G/F and portion of 1/F, MTR Hung Hom Building, Hung Hom	Office	1,596	–	100%
The Capitol, LOHAS Park	Shop unit	391	–	100%
	Residential care home for the elderly	2,639	–	100%
Le Prestige, LOHAS Park	Kindergarten	800	2	100%

Investment Property Portfolio in Hong Kong (as at 31 December 2012) *(continued)*

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

- *Telford Plaza I and II, Luk Yeung Galleria, Maritime Square, New Kwai Fong Gardens, IFC, Olympian City, Elements, Cross Border Coach Terminus and Kindergarten at No. 1 Austin Road West, Plaza Ascot, Royal Ascot, Ocean Walk, Sun Tuen Mun Shopping Centre and 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*
- *The Edge where the Government Lease expires on 27 March 2052*
- *Citylink Plaza and MTR Hung Hom Building where the Government Leases expire on 1 December 2057*
- *LOHAS Park where the Government Lease expires on 16 May 2052*

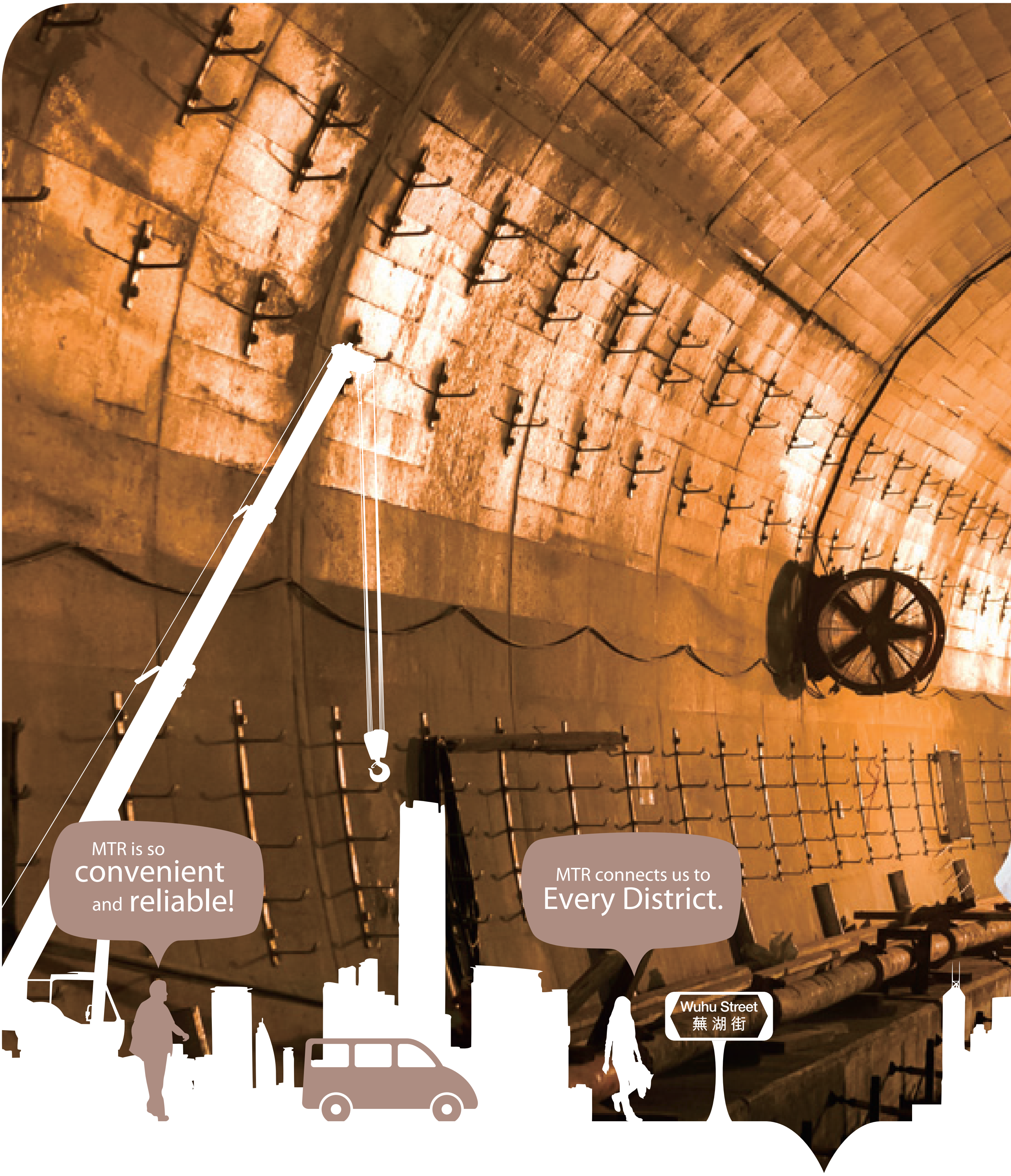
Properties held for sale (as at 31 December 2012)

Location	Type	Gross floor area *(sq.m.)*	No.of parking spaces	Company's ownership interest
Island Harbourview, No. 11 Hoi Fai Road, Kowloon	Car park	–	353	40%
Olympian City One, No. 11 Hoi Fai Road, Kowloon	Shopping centre Car park	6,026* –	– 330	40% 40%
Bank of China Centre, No. 11 Hoi Fai Road, Kowloon	Car park	–	117	40%
The Arch, No. 1 Austin Road West, Kowloon	Residential Car park	548 –	– 12	38.5% 38.5%
Residence Oasis, No. 15 Pui Shing Road, Hang Hau, Tseung Kwan O	Motorcycle park	–	18	71%
The Grandiose, No. 9 Tong Chun Street, Tseung Kwan O	Motorcycle park	–	24	70%
Harbour Green, No. 8 Sham Mong Road, Kowloon	Car park Kindergarten	– 1,299	24 –	35% 50%
Coastal Skyline, No. 12 Tung Chung Waterfront Road, Tung Chung	Car park	–	146	20%
The Palazzo, No. 28 Lok King Street, Shatin	Residential Retail Car park Motorcycle park	1,022 2,000 – –	– – 239 15	55% 55% 55% 55%
Lake Silver, No. 599, Sai Sha Road, Shatin	Residential Retail Kindergarten Car park Motorcycle park	2,105 3,000 1,000 – –	– – – 309 36	93% 93% 93% 93% 93%
Festival City, No. 1 Mei Tin Road, Shatin	Car park	–	231	100%
Le Prestige, LOHAS Park, Tseung Kwan O	Car park	–	337	52.93%
The Riverpark, No. 8 Che Kung Miu Road, Shatin	Residential Car park Motorcycle park	24,508 – –	– 249 24	87% 87% 87%

* *Lettable floor area*

Managed properties in Hong Kong (as at 31 December 2012)

Number of managed residential flats	86,266 units
Area of managed commercial and office space	764,725 sq.m.



Shared Future


The MTR is coming to our neighbourhood!
Smithfield Road
士美菲路

West Island Line will be a "Community Railway" into Western District

Hong Kong Network Expansion

West Island Line
is targeted to open in
2014

Hong Kong railway network to expand
25%
or 56km by 2020

The Shatin to Central Link
will provide a fourth rail
Harbour Crossing

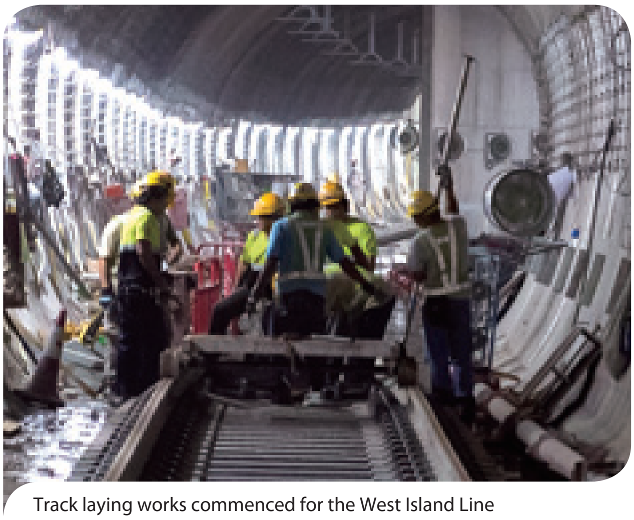
During 2012 works continued simultaneously on the five major Hong Kong railway extension projects that will expand our efficient, affordable and environmentally sustainable rail service to more districts. All five projects are now in the construction stage and making steady progress.

With construction activities involving over 7,000 workers located on 125 sites across Hong Kong, the Company has worked closely with contractors to raise worker safety culture and risk awareness, and ensure high standards of site health and safety are maintained, including the reduction of commonly occurring minor finger and toe injuries. A New Workers Caring Programme was introduced in 2012 to improve safety awareness among new workers and a Workers Life Insurance Scheme was launched in April 2012. A Mobile Incident Control Centre was procured during the year to enhance our ability to manage major incidents on site. Training and education have continued, and we continue to encourage best practice among contractors through sharing of initiatives, lessons learned, monitoring and awards.

Following completion of the Review and Update of the Railway Development Strategy 2000 ("RDS-2U") Stage 1 Public Engagement by Government in July 2012, we are aware of the public support and views from the communities and stakeholders towards sustainable long term rail development in Hong Kong. The Company looks forward to proactive participation in the RDS-2U for timely implementation of new railway projects to meet future demand for domestic and cross boundary travel, and we are prepared to work with Government in the forthcoming Stage 2 Public Engagement in 2013 to shape the plans and roadmap for future new lines such that railway planning and land development can be properly integrated.

West Island Line

The 3-km West Island Line is an extension of the Island Line. As at the end of 2012, the project was 65% complete and is targeted to open in 2014. All tunnel excavation for the line has been substantially completed. Following two years of major renovation works at Sheung Wan Station, new public toilets and lifts were opened to the public in August 2012, and the uptrack refuge siding at the station reopened the following month. Track laying works commenced in the uptrack running tunnel between Sai Woo Lane and Sheung Wan in June 2012, and removal of a section of the existing tunnel overrun was successfully completed, allowing the tunnel excavation to be completed for the downtrack tunnel between Sai Ying Pun and Sheung Wan stations. Excavation works for the Hong Kong University and Sai Ying Pun station caverns were completed in July 2012 and structural concrete works are in progress. Uptrack tunnel lining works between Kennedy Town and Sai Ying Pun stations have also been completed, giving access for track laying works in October 2012. Electrical and mechanical ("E&M") contractors commenced installation works in Kennedy Town Station and Entrance C2 of Hong Kong University Station in September 2012.



Track laying works commenced for the West Island Line

South Island Line (East)

The 7-km South Island Line (East) will extend MTR services from Admiralty to the Southern District of Hong Kong Island, with a train depot located in Wong Chuk Hang. As at year end 2012, the project was 30% complete and is on track to open in 2015.

Construction of viaducts spans across southern district

Foundation works for the new section of Admiralty Station have been completed and excavation has commenced. The first blast for the Nam Fung tunnel was carried out in August 2012 and tunnel excavation works are progressing satisfactorily. The spans of the railway viaduct near Aberdeen Road Tunnel have been completed. Foundation works for the new Ocean Park and Wong Chuk Hang stations, as well as excavation works for the Wong Chuk Hang Depot formation, have been completed and superstructure works are progressing well. The two piers for the Aberdeen Channel Bridge have been completed and construction of the balanced cantilever bridge deck continued. Excavation for the Lei Tung cut and cover tunnel was completed in mid 2012 and the tunnel box construction is progressing satisfactorily. Drill and blast excavation for the Lei Tung to South Horizons main running tunnel is making good progress. E&M contracts have been awarded and are in the detailed design stage.

Kwun Tong Line Extension

The 2.6-km Kwun Tong Line Extension will extend the Kwun Tong Line from its existing terminus at Yau Ma Tei Station to new stations in Ho Man Tin and Whampoa. As at year end 2012, the project was 31% complete and is targeted to open in 2015.

The scheme amendment incorporating the integrated entrances at Whampoa Station was authorised in August 2012. Blasting at Ho Man Tin Station commenced in June with 68% of station excavation completed by the end of 2012, and tunnel excavation between Yau Ma Tei and Ho Man Tin has now commenced. The re-provisioned Club de Recreio was handed over in September 2012. Temporary cofferdam piling and traffic deck installation for the construction of Whampoa Station was more than 60% complete as at year end.

Express Rail Link

The 26-km Express Rail Link, which is funded by Government, will provide high speed cross-boundary rail services connecting Hong Kong to Shenzhen, Guangzhou and the Mainland of China's high-speed intercity passenger rail network. It will be served by the West Kowloon Terminus, a building complex which is some 30 times larger than the average MTR station, with 15 platforms for both short-haul and long-haul services. The project was 31% complete as at year end, with the line opening planned in 2015.

Works for the tunnelling and the West Kowloon Terminus have both progressed satisfactorily. The first Tunnel Boring Machine ("TBM"), launched from Mai Po in 2011, continues excavation. Tunnelling works commenced at Nam Cheong in January 2012 with the launch of the second TBM in April 2012. Three further TBMs were launched successively during the year to allow tunnelling works to proceed for the cross-boundary tunnels north of the Shenzhen River and at Shek Kong. Tunnel blasting activities progressed at Kwai Chung, Shing Mun, Shek Yam, Pat Heung, Tai Kong Po and Ngau Tam Mei.

For the terminus, traffic diversions on Jordan Road were successfully implemented to enable the completion of the remaining diaphragm walls, piles and utilities diversion for the approach tunnels. By the end of 2012, 60% of the required excavation was complete for the project including tunnels and the terminus. Concrete casting commenced for the track slab level at the terminus in September 2012. All major E&M contracts including signalling and rolling stock had been awarded by March 2012.

Shatin to Central Link

The 17-km Shatin to Central Link consists of ten stations, including six interchange stations, namely Tai Wai, Diamond Hill, Ho Man Tin, Hung Hom, Exhibition and Admiralty. It will integrate into the rail network in areas in East Kowloon District such as Ho Man Tin, To Kwa Wan, Ma Tau Wai and Kai Tak, aiding the urban renewal in these areas. The 11-km section between Tai Wai and Hung Hom is expected to be completed in 2018, followed in 2020 by the 6-km Hung Hom to Admiralty section, which interfaces with other infrastructure projects, including the Wan Chai Development Phase II and Central-Wan Chai Bypass. It is estimated that the project will create some 15,000 jobs throughout the construction period.

On 27 March 2012, the Chief Executive-in-Council announced the authorisation of the project under the Railways Ordinance. This was followed in May 2012 by approval of the funding application by the Finance Committee of the Legislative Council, receipt of the environmental permits and signing of the Entrustment Agreement.

Ground breaking ceremony was held in June 2012. Procurement of civil and E&M contracts has progressed, including the contract for the modification of East Rail platforms to accommodate new rolling stock. By the end of the year, approximately HK$20 billion of contracts for the project had been awarded. District Council and Community Liaison Group consultations have continued throughout the year. The overall works for the new Central Mail Centre were 70% complete by year end, with the structural works completed in October 2012. Building services installation and architectural fitting are in progress for completion in mid 2013.

Project Funding Model

Two of our Hong Kong railway extension projects, namely the South Island Line (East) and Kwun Tong Line Extension, are being constructed under our proven "Rail plus Property" model. The West Island Line, on the other hand, is being constructed under the capital grant model. The ownership of these three projects belongs to the Company. The remaining two, namely the Express Rail Link and the Shatin to Central Link, are financed and owned by Government and the Company will be invited to operate and maintain these lines under the "Service Concession" model.

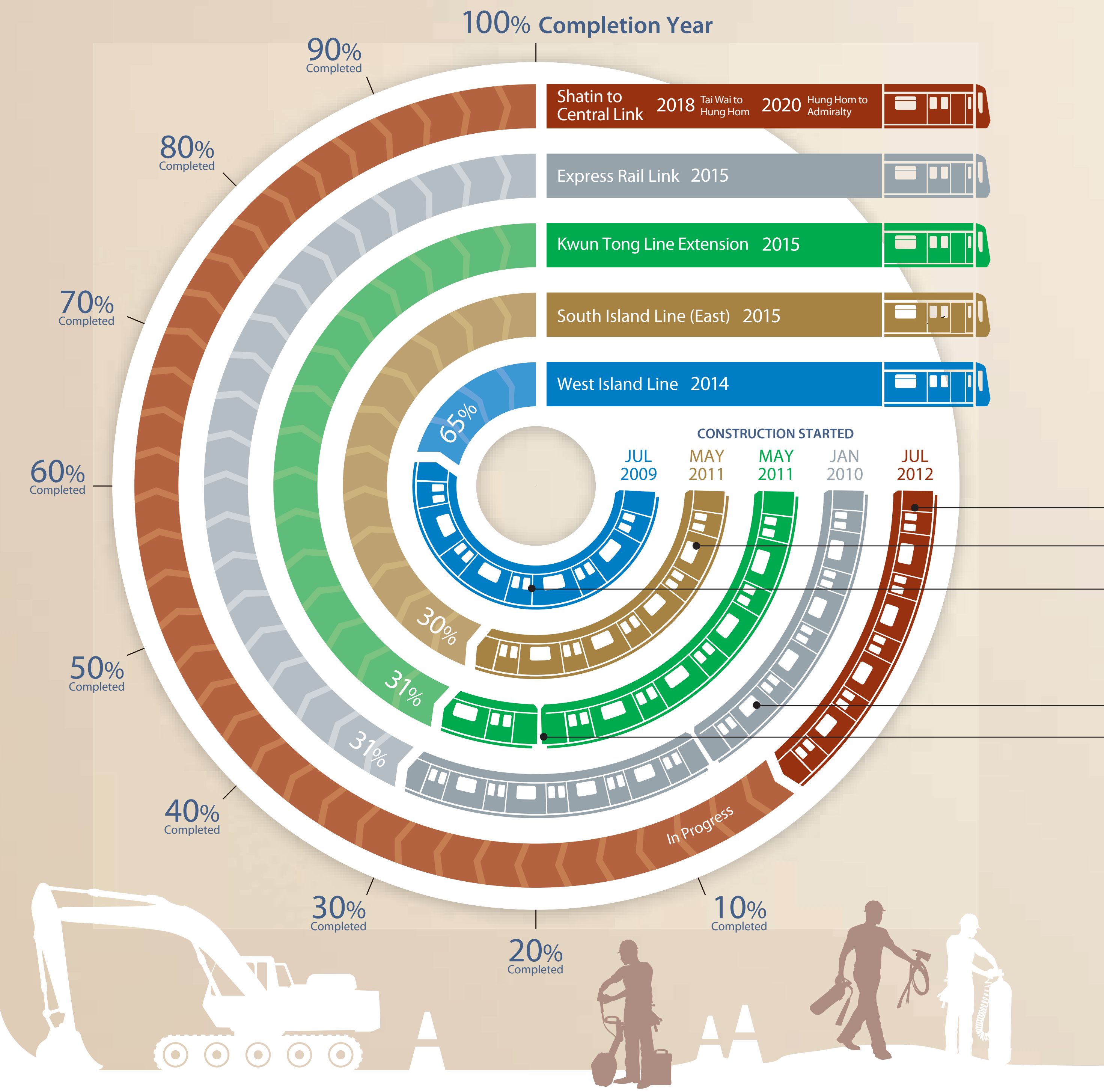
> "... the five major Hong Kong railway extension projects that will expand our efficient, affordable and environmentally sustainable rail service to more districts."

Other developments

To enhance the convenience and accessibility of our network, we continue with our programme to construct new entrances, subways and pedestrian links. During 2012, new entrances were opened at Tseung Kwan O and Causeway Bay stations, as well as an environmentally-friendly new entrance at University Station. Construction of the Central Station Club Street subway remains on schedule for public use by 2013. The scheme for the Tsim Sha Tsui Station Carnarvon Road subway project was gazetted in April 2012 and that for the Wan Chai Station Lee Tung Street subway project in September 2012. The statutory approval for the Tsim Sha Tsui Station entrance A1 enhancement works is being processed. Other new entrances are being planned or constructed at Che Kung Temple, Austin, Tuen Mun and Yuen Long stations.

Tunnelling work forges ahead on the Hong Kong railway expansion

Progress of 5 New Railway Projects in 2012



	West Island Line	South Island Line (East)	Express Rail Link	Kwun Tong Line Extension	Shatin to Central Link	
	Sheung Wan to Kennedy Town	Admiralty to South Horizons	West Kowloon to Guangzhou South	Yau Ma Tei to Whampoa	Tai Wai to Hung Hom	Hung Hom to Admiralty
No of Stations	3	5	1	2	8	2
Route Length (km)	3	7	26*	2.6	11	6
Project Funding	Capital Grant	Rail plus Property	Service Concession	Rail plus Property	Service Concession	
Estimated Journey Time (min)	8 (Kennedy Town to Sheung Wan) 14 (Kennedy Town to Tsim Sha Tsui)	11 (Tsim Sha Tsui to Ocean Park) 4 (Admiralty to Ocean Park)	14 (West Kowloon to Futian) 48 (West Kowloon to Guangzhou South)	5 (Yau Ma Tei to Whampoa)	17 (Tai Wai to Admiralty) 5 (Tai Wai to Diamond Hill)	

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

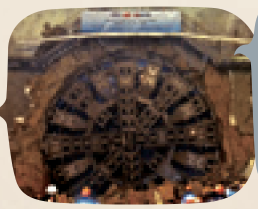
Ground breaking ceremony for Shatin to Central Link was held in June

Entrustment Agreement for Shatin to Central Link signed with Government in May

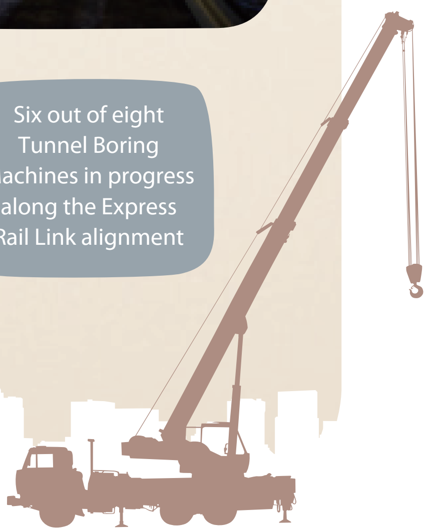
All tunnel excavation of West Island Line has been substantially completed

The first blast for Nam Fung tunnel of South Island Line (East) was carried out in August

Blasting at Ho Man Tin Station of Kwun Tong Line Extension commenced in June



Six out of eight Tunnel Boring Machines in progress along the Express Rail Link alignment




19 Hässelby str.
I'll arrive in 5 mins
by Metro here!

Shared World

Mainland and Overseas Growth

742 km total route length of railway operations outside of Hong Kong

Hangzhou Metro Line 1 commenced operation in **November 2012**

Excellent Performance in supporting London Olympics 2012

The Company's business in the Mainland of China has grown steadily

Revenue in 2012 from Mainland of China and international subsidiaries was HK$12,786 million, of which our railway subsidiaries outside of Hong Kong, namely Metro Trains Melbourne Pty. Ltd. ("MTM"), MTR Stockholm AB ("MTRS") and MTR Corporation (Shenzhen) Limited ("SZMTR"), contributed HK$12,650 million, an increase of 3.0% over 2011, mainly due to the inclusion of results for SZMTR for a full year as well as increases in receipts by MTM. Revenue from our Mainland of China property rental and management subsidiaries totalled HK$136 million. Operating costs for our railway subsidiaries outside of Hong Kong were HK$12,066 million, resulting in a 30.1% rise in operating profit to HK$584 million and an operating profit margin of 4.6%. Although MTM is performing financially to original bid expectations, both MTRS and SZMTR are currently not meeting such targets.

Our associates, Beijing MTR Corporation Limited ("BJMTR"), London Overground Rail Operations Limited ("LOROL") and Tunnelbanan Teknik Stockholm AB, all improved their performance, with a noticeable enhancement in results from BJMTR aided partly by a one-off accounting adjustment after the finalisation of its accounts for the year 2011. We have also included the results of our 49% owned associate in Hangzhou, namely Hangzhou MTR Corporation Limited ("HZMTR"), with the commencement of operations of Hangzhou Metro Line 1 ("HZL1") on 24 November 2012. As a result, total contribution from these four associates rose by HK$126 million to HK$242 million compared with 2011. Excluding the one-off BJMTR adjustment, the total contribution would have been HK$176 million in 2012.

Total passengers carried by our rail subsidiaries and associates outside of Hong Kong was approximately 1,171 million in 2012, against approximately 1,065 million in 2011.

Railway Business in the Mainland of China

In the Mainland of China, BJMTR, the operator of Beijing Metro Line 4 and the Daxing Line, continued to deliver very high levels of punctuality and delivery. As a member of the China Communication and Transportation Association which assesses quarterly performance, BJMTR was ranked amongst the top three metro operators in the Mainland of China. Combined ridership in 2012 was 427 million passenger trips with average daily patronage of over 1.17 million. BJMTR, which currently has two lines with 35 stations and a route length of 50 km, has now carried over 1 billion passengers since BJL4 service commenced in September 2009.

In its first full year of operation, Shenzhen Metro Longhua Line's operational performance has exceeded targets and contractual commitments. Ridership for the year was 117 million, with average daily patronage reaching 320,000. This is below original expectations and is partly due to the under development of areas along the alignment. The line runs 20.5 km and has 15 stations.

In 2010, we established a joint venture, HZMTR, with Hangzhou Metro Group Company Limited, in which MTR Corporation holds 49% and Hangzhou Metro Group Company Limited holds 51%, to operate HZL1. HZMTR commenced operation of HZL1, which has a route length of 48 km and 31 stations, in November 2012. Since its opening, HZL1's service performance has been very reliable, with an average daily patronage of 150,000.

Railway Business Overseas

In the UK, the final phase of the East London Line was commissioned in December 2012, completing the orbital loop around London and adding a further two stations and 12 km to the LOROL network, which now extends to 57 stations over 124 km. LOROL successfully met the considerable transport challenges presented by the 2012 London Olympics, with on-time performance of 98%, even though passenger numbers were 25% above normal levels. Compliments were received from the UK Department for Transport and Transport for London, which recognised both our excellent performance and our significant support for the Olympic events through a cooperative and effective partnership. LOROL also achieved a customer satisfaction rating of 90% or more during the year, which is among the highest of any franchise or concession in the UK, according to the survey conducted by the independent passenger watchdog, Passenger Focus. These achievements were recognised when LOROL was named London's Public Transport Operator of the Year for the second year in a row in 2012. It was also recognised as the World's Most Improved Metro at the Metrorail Awards in London. In recognition of its outstanding performance over the past five years, LOROL has secured a two-year extension of its franchise to operate and maintain the London Overground rail services to November 2016. For the year, ridership was approximately 80 million, with average weekday patronage reaching 380,000.

CEO Jay Walder is equally "hands on" in Stockholm

In Sweden, although MTRS has been underperforming financially due to higher than expected expenses relating to station cleaning, its operating performance has continued to improve, with punctuality reaching 95.2% in 2012, which is above contractual requirements. Ridership for the year was 320 million, with average weekday patronage reaching 1.2 million. The line has 100 stations and runs 110 km.

In Melbourne, MTM's network expansions during the year have increased the number of stations from 212 to 217, with the route network expanding from 372 km to 390 km. Timetable changes and a continued focus on operational performance resulted in steadily improving punctuality to 91.1% for the year, which is the highest since the commencement of franchise in November 2009. Ridership for the year was around 221 million, with average weekday patronage remaining steady at around 790,000 journeys per day. Works on the Regional Rail Link Project have been ramping up and the project remains on schedule for completion by 2015. This new line will provide a dedicated alignment for V-line trains into the Melbourne central business district, alleviating disruption to MTM's metro network.

Property Development, Rental and Management Businesses in the Mainland of China

During the year, MTR Property Development (Shenzhen) Company Limited was established to develop associated properties at Shenzhen Metro Longhua Line Depot Site Phase 1, after receiving official endorsement from the Ministry of Finance in Beijing in November 2012. Land premium of RMB1,977 million was paid on 24 January 2013 and the development is expected to cost approximately of RMB4 billion. The total developable gross floor area of the site is approximately 206,167 square metres and when completed will comprise of around 1,700 flats.

Revenue from our property rental and property management businesses in the Mainland of China increased by 3.0% to HK$136 million in 2012.

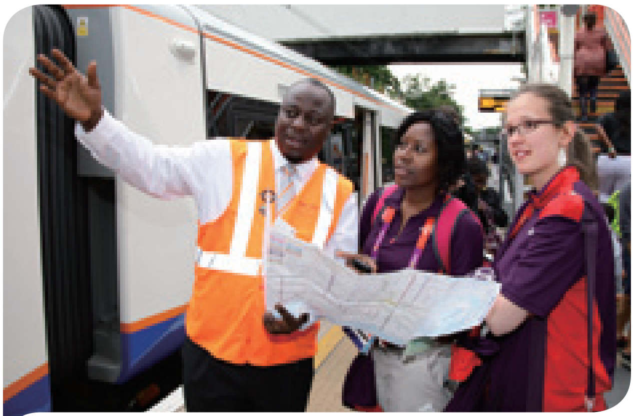
Our shopping mall in Beijing, Ginza Mall, maintained its occupancy rate of 98% at the end of 2012 and rental reversion for the year was 7.2%.

The Company's managed commercial and residential space in the Mainland of China was 233,000 square metres at the end of 2012. This comprises AO City Fortune Centre in Beijing, with 22,000 square metres of commercial and 63,000 square metres of residential space, and the shopping mall and office of the North Star in Beijing with 148,000 square metres of commercial space.

Growth in the Mainland of China and Overseas

In Beijing, BJMTR signed an interim Operating and Maintenance Agreement for Beijing Metro Line 14 ("BJL14") in October 2012 and initialled the Concession Agreement with the Beijing Municipal Government in November 2012. BJL14 will have a capital cost of approximately RMB50 billion. Under the 30-year Public-Private-Partnership agreement, BJMTR will mainly be responsible for the E&M and rolling stock assets estimated to cost RMB15 billion, funded by a combination of equity and debt, whilst the Beijing Municipal Government will fund the balance. MTR will contribute additional equity investment of approximately RMB2.2 billion to BJMTR. The

Hangzhou Metro Line 1 trains began operations in November 2012



LOROL met the challenge of the 2012 London Olympics

"Total passengers carried by our rail subsidiaries and associates outside of Hong Kong was approximately 1,171 million in 2012..."

47.3-km line has 37 stations with ten interchange stations. It stretches from Zhangguozhuang Station in the southern Fengtai District to Shangezhuang Station in the eastern Chaoyang District. Construction work for the line started in 2010 and it is planned to open in phases. Phase 1 of approximately 12.7 km is expected to open in mid 2013, Phase 2 in 2014 and Phase 3 in 2016.

In the UK, we submitted a bid for the Essex Thameside franchise in September 2012, but following a legal challenge from one of the failed bidders on the tendering of another franchise, the UK Government suspended all franchise competitions in October 2012 and initiated an independent review of the UK's entire rail franchising process. This review was completed in early 2013 and the Department for Transport announced that a revised invitation to tender for the Essex Thameside franchise will be issued to bidders later in 2013. Similarly in the case of the Thameslink franchise, for which we were also shortlisted, we expect a revised timetable for the tender competition to be announced in the spring of 2013.

In Australia, we have joined a consortium to bid for the Sydney North West Rail Link "Operations, Trains and Systems Package".

Mainland of China and Overseas Railway Businesses at a Glance

	In Operation							Pending Finalisation of Agreement
	Mainland of China				Overseas			
	Beijing Metro Line 4 ("BJL4")	Daxing Line of BJL4	Shenzhen Metro Longhua Line	Hangzhou Metro Line 1	London Overground, United Kingdom	Stockholm Metro, Sweden	Melbourne Metro, Australia	Beijing Metro Line 14, Mainland of China
MTR Corporation Shareholding	49%	49%	100%	49%	50%	100%	60%	49%
Business Model	Public-Private-Partnership ("PPP")	Operations and Maintenance ("O&M") Concession	Build-Operate-Transfer ("BOT")^	PPP	O&M Concession	O&M Concession*	O&M Concession	PPP
Commencement of Franchise/ Expected date of commencement of operation	Sep 2009	Dec 2010	Phase 1: Jul 2010 Phase 2: Jun 2011	Nov 2012	Nov 2007	Nov 2009	Nov 2009	Phase 1: Mid 2013 Phase 2: 2014 Phase 3: 2016
Franchise/Concession Period *(years)*	30	10	30	25	9	8	8	30
Number of Stations	24	11	Phase 1: 5 Phase 2: 10	31	57[@]	100	217	Phase 1: 7 Phase 2 and 3: 30
Route length *(km)*	28	22	Phase 1: 4.5 Phase 2: 16	48	124	110	390	Phase 1: 12.7 Phase 2 and 3: 34.6

^ *Shenzhen Metro Longhua Line Phase 1 assets are owned by the Shenzhen Municipal Government and MTR Corporation (Shenzhen) Ltd took over the operation of Phase 1 in Jul 2010.*

* *Rolling stock maintenance under a 50:50 joint venture between MTR Stockholm and Mantena AS.*

@ *This represents the number of stations operated and managed by LOROL. The total number of stations served by London Overground is 83.*


TEAMWORK
Innovate, Share and Learn.
Communicate and build Trust.

Shared Goals

Human Resources

5,000
Enhanced Staff Communication Sessions
involved over 60,000 participating headcount

6.3
Training Days
per employee,
2.6 times
the market average

A Stable and Engaged Workforce
with a **Low Voluntary Staff Turnover Rate**
4.2%

Open communication is an integral part of our corporate culture

The number of people employed by the Company together with its controlled subsidiaries stood at 15,200 in Hong Kong and 6,955 outside of Hong Kong as at 31 December 2012.

Recruitment and Retention

The Company's recurrent businesses and growth strategies require a stable and growing pool of operational, technical and managerial talent.

In support of this, proactive manpower resourcing and advance recruitment were conducted across the Company to meet manpower needs, with over 1,800 people joining during the year. To support future business growth, 26 Graduate Engineers were recruited, while eight Functional Associates and six Graduate Trainees were taken on in 2012. Overseas recruitment was strengthened to help meet manpower requirements for new railway extensions in Hong Kong, especially for engineering professionals.

As part of this effort, an employer branding campaign and a recruitment exercise for specialised disciplines were launched in the UK.

We continued to collaborate with tertiary institutions to attract graduates from Engineering, Construction and Property Management related disciplines, which resulted in 51 graduates starting work in mid 2012. We also conducted labour forums and job fairs to reach out to job applicants in Hong Kong, as well as partnering with industry bodies and NGOs under the umbrella of the Community Recruitment Programme to provide employment opportunities to qualified candidates.

"The number of people employed by the Company together with its controlled subsidiaries stood at 15,200 in Hong Kong and 6,955 outside of Hong Kong as at 31 December 2012."

To meet the manpower demand peaks of our Hong Kong network extension projects, the structured Apprentice and Technician Associate training schemes, with different training durations designed to develop a high quality technical workforce, have moved up a gear. In 2012, 52 Craft Apprentices, 24 Technician Apprentices and 13 Technician Associates were recruited, bringing the total number of Apprentices and Technician Associates to 299 as at the end of December 2012.

Various initiatives were put in place to support growth in the Mainland of China and overseas. Human resources strategies on resourcing, including setting up a core team to support Mainland of China and International businesses, were developed. An external consultant was engaged to work on human resources systems and policies to enable global mobility. Localisation of critical Mainland operation positions continued and external recruitment agents were engaged for the BJL14 and HZL1 projects, to accelerate the local manpower build-up.

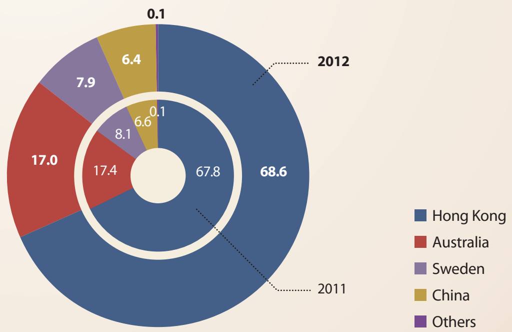
Staff Motivation and Engagement

At 4.2%, staff turnover remained low despite a rebound in the employment market. This testifies to the competitive nature of our salary and benefits provision as well as our recognition of staff contributions through various awards, including the MTR Grand Awards for Outstanding Contribution, the Performance Award and the Living the MTR Values Award. The clear career growth paths that staff members enjoy also aided retention.

To build pride in our staff, a series of short motivational videos entitled "MTR People Making a Difference" was developed, featuring stories about the work of the frontline staff in different departments. The unscripted sharing of experiences by the interviewees inspired the audience and showed how collaborative efforts enable us to provide excellent services to Hong Kong society. The first two series of nine stories, released via the Intranet during the year, received very positive responses from staff and recorded more than 92,000 viewings and 11,700 positive comments. For the third series, the first three stories received over 34,000 viewings and 5,000 positive comments.

Staff Distribution by Geographical Location

(Percentage)



Leadership Development

Throughout the year we continued to identify and develop leadership talent at all levels.

Newly recruited Graduate Trainees attended the orientation programme in July 2012, with team building exercises, appreciation visits and action learning projects. These young talents have followed a customised curriculum in both Hong Kong and the Mainland of China that includes job rotations, as well as training and development programmes. Members of the 2009 intake were appointed to supervisory level positions in 2012.

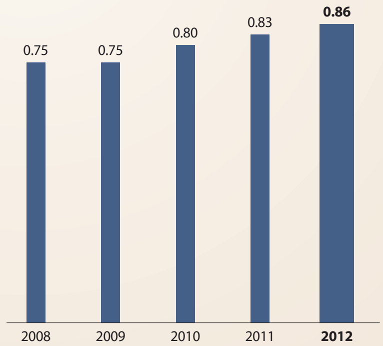
To groom high potential senior supervisors and junior managers for higher level responsibilities, we have a three-year Executive Associate Scheme which includes cross-functional rotation, mentoring, experiential learning, study trips and sharing forums. During 2012, a new batch of Executive Associates was selected for entry to the Scheme.

In October 2012, another round of assessment was conducted to identify high potential staff at the senior manager level with strong potential for further progression.

Staff Productivity – Earnings Per Employee*

** Hong Kong businesses excluding property development*

(HK$ million)



Training and development activities foster a culture of excellence, teamwork, learning and continuous improvement

At the executive level, the Executive Continuous Learning Programme continued to keep executives and senior managers abreast of business best practices through blended modes of training, including ten in-house seminars, workshops and e-learning initiatives. Learning resource guides have also been distributed on a bi-monthly or quarterly basis. Three Executive Excellence Consortiums held in 2012 brought leaders of renowned corporations and organisations to the Company to share their experiences.

A Culture of Excellence, Learning and Caring

We continued to train our people, to improve their competency, as well as to foster a culture of excellence, learning and caring.

"Leading for Excellence, Actions for Pride" was reinforced during the year by the "LEAP" programme. Under this, 91 workshop sessions were held, helping to communicate the programme to some 10,000 Operations staff. Other programmes brought together senior management with staff, including as mentors. The Company's Vision, Mission and Values were promoted through awards and the introduction of new promotion materials.

To build a caring service culture, refresher training was held from June 2012 onwards for over 3,400 Operations staff, supplemented by field coaching sessions to frontline supervisors in stations. In August 2012, the Academy of Excellent Service was set up to drive the service message home even more deeply.

Our aim is to be a learning organisation, fostering a collaborative innovation and learning culture in which staff members are encouraged to innovate, share and learn. This aim was reinforced during the year in workshops and via multimedia learning.

The regular training programme for managers, supervisors and non-supervisors was supplemented throughout the year by customised training and development solutions to cater for specific training needs. Creative methodologies were explored in training and self-learning was promoted via the e-Learning Centre, together with the provision of mobile learning resources, facilitating staff learning anywhere, at any time. To this end, the Learning Resource Centre also enhanced its services.

Our success in the field of training and development has earned wide recognition during the year. In Hong Kong, this included the 2012 Manpower Developer Award from the Employees Retraining Board and the 2012 Best Practice Award from Best Practice Management. Internationally, we received the American Society for Training & Development Excellence in Practice award, the 2012 Asian Most Admired Knowledge Enterprise Award from the KNOW Network in the UK and the 2012 Asian Human Capital Award from the Human Capital Leadership Institute in Singapore.

Employee Communication

To reinforce two-way communication between line managers and staff on the shop floor, over 5,000 sessions of the "Enhanced Staff Communication Programme" were organised in 2012 with more than 60,000 participating headcount. The Staff Attitude Survey 2012, for the first time adopting an electronic format, was conducted in October 2012 with a high participation rate of 96.9%. The survey result will be released to staff in the first quarter of 2013.

In September 2012, the semi-annual Management Communication Meeting communicated the re-vamped Corporate Strategy to over 1,100 managers. Webcast communication meetings on this re-vamped strategy were extended to cover over 670 supervisory staff representatives from various departments.

To enhance internal staff communications, the electronic platforms "CEO My Post" and "MTR Corporate Strategy" were developed to keep staff abreast of the latest business developments and corporate strategies. More than 54,300 views were recorded during the year. A digital display system, M-Board, located in the main office buildings, was also used to relay corporate messages. Other electronic channels have been explored to enhance communication effectiveness.

Communication initiatives for employees at our Mainland operations have been stepped up. In particular, regarding the employment transfer of around 2,200 local employees relating to the HZL1 project, 16 communication sessions were arranged in October 2012 to enhance staff's understanding regarding the formation and management structure of the joint venture, its vision, mission, the transfer arrangements and career paths.

Driving Work Improvement

The Staff Suggestion Scheme is a well established platform for staff to give suggestions to enhance productivity. Driving the commitment of everyone in the Company to find and implement more efficient ways of working is another strategy designed to nurture individual and corporate growth.

> "We continued to train our people, to improve their competency, as well as to foster a culture of excellence, learning and caring."

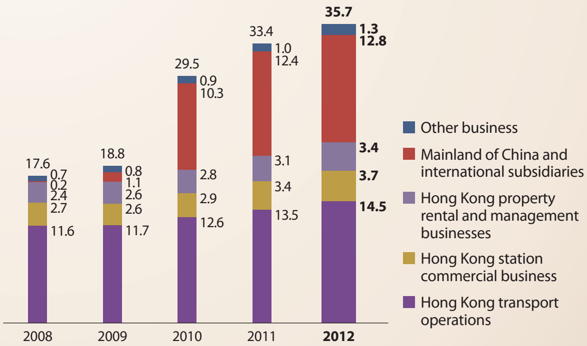
During the year, Work Improvement Team training encouraged staff to strive for collective innovation and continuous improvement using problem solving and innovative learning tools. In November 2012, a "Quality Improvement & Experience Sharing Convention" was held to share best practices, and staff participated in quality improvement events during the year in the Mainland of China and Malaysia, gaining awards.

Financial Review

Turnover

With the continued stable economic conditions and improved performance of Mainland of China and international subsidiaries, turnover in 2012 increased across all business segments to a total of HK$35.7 billion.

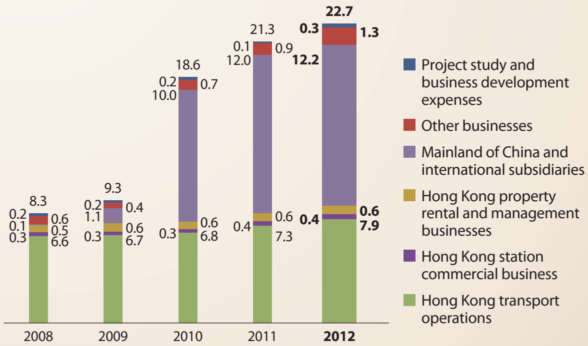
(HK$ billion)



Operating Expenses

More operating expenses were incurred in 2012 to support the revenue growth, service enhancement under the Listening • Responding Programme as well as new business developments outside of Hong Kong.

(HK$ billion)



Review of 2012 Financial Results

Profit and Loss

In 2012, the Group continued to leverage off stable economic conditions to deliver strong financial results.

Fare revenues from Hong Kong transport operations in 2012 increased by 7.7% to HK$14,389 million as a result of strong patronage growth due to favourable economic conditions as well as increased tourist arrivals. Patronage of the Domestic Service, Cross-boundary Service and the Airport Express rose by 4.7%, 5.6% and 7.6% respectively while total patronage of Light Rail and Bus rose by 3.9%. Average fares of the Domestic Service, Cross-boundary Service as well as Light Rail and Bus increased by 2.9%, 2.4% and 1.5% respectively as a result of the fare changes in accordance with the Fare Adjustment Mechanism ("FAM") net of fare promotions, while the average fare of the Airport Express, which is not subject to the FAM, decreased by 1.6% mainly due to the change in passenger mix. Fare revenues in 2012 amounted to HK$10,035 million for the Domestic Service, HK$2,847 million for the Cross-boundary Service, HK$795 million for the Airport Express and HK$578 million for Light Rail and Bus with growth in the range of 5.7% to 8.1%. Including fare revenues from Intercity of HK$134 million and other rail related income of HK$134 million, total revenue from Hong Kong transport operations grew by 7.5% to HK$14,523 million. Expenses relating to Hong Kong transport operations increased by 6.5% to HK$7,829 million mainly due to increased level of manpower, energy, repairs and maintenance as well as costs associated with the service enhancement initiatives under the Listening • Responding Programme coupled with rate increase in staff salaries, energy tariff and government rent and rate assessment. Operating profit from Hong Kong transport operations in 2012 was HK$6,694 million, an increase of 8.8% compared to 2011 with an operating margin of 46.1%

Hong Kong station commercial business reported a 7.5% increase in revenue to HK$3,680 million in 2012. Excluding the non-recurring income in relation to the termination of 2G telecommunication contracts in both 2011 and 2012, revenue growth would have been 11.6% mainly due to the good performance in advertising and station shop rentals driven by the buoyant retail market coupled with patronage growth. Income from advertising increased by 12.0% to HK$1,000 million whilst rental revenue from station shops including the Duty Free Shops increased by 12.4% to HK$2,142 million. Expenses in relation to Hong Kong station commercial business increased by 10.9% to HK$397 million mainly due to increased advertising agency fees in line with advertising revenue growth as well as government rent and rates. Operating profit from Hong Kong station commercial business therefore increased by 7.1% to HK$3,283 million with operating margin at 89.2%.

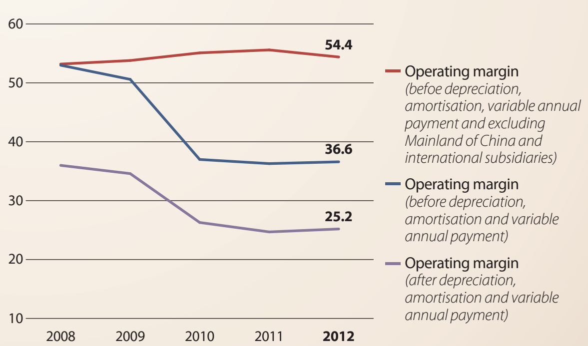
Hong Kong property rental and management businesses also benefited from the strong retail environment to generate a 10.3% increase in revenue to HK$3,401 million. Property rental income rose by 10.5% to HK$3,198 million due to favourable rental reversion, increased turnover rent as well as the opening of PopCorn in March 2012. Property management income rose by 6.8% to HK$203 million due to intake of new managed properties in 2012 and the full-year impact of the 2011 additions. Expenses relating to Hong Kong property rental and management businesses increased by 6.8% to HK$627 million. The resulting operating profit from Hong Kong property rental and management businesses was HK$2,774 million, an increase of 11.1% from last year with an operating margin of 81.6%.

Mainland of China and international subsidiaries, comprising rail franchise operations in Stockholm, Melbourne and Shenzhen as well as property rental and management activities in the Mainland of China, reported a 3.0% increase in revenue at HK$12,786 million and a 1.8% increase in operating expenses at HK$12,184 million. Operating margin was at 4.7%. The resulting operating profit increased significantly by 34.7% to HK$602 million mainly due to the first full-year of operation of the Shenzhen Metro Longhua Line as well as

Operating Margin

Operating margin excluding Mainland of China and international subsidiaries slightly decreased in 2012 due to more project management services to the Government at zero profit margin and increase in business development expenses.

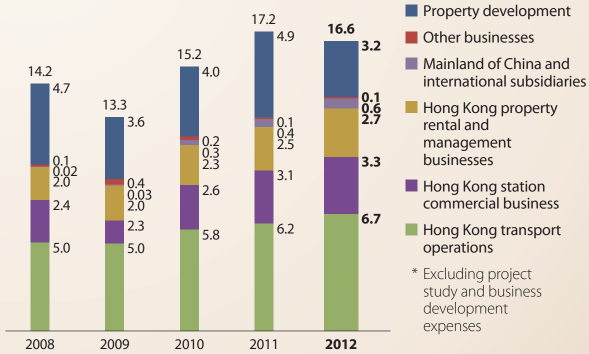
(Percentage)



Operating Profit Contributions*

Contribution from non-recurrent property development profits fluctuated while recurrent business profit achieved steady growth over the years.

(HK$ billion)



continuous improvement in the performance of Metro Trains Melbourne Pty. Ltd.. The franchise operations in Stockholm and Melbourne reported operating profit increases of 1.8% and 16.8% respectively to HK$56 million and HK$467 million respectively. On a constant exchange rate basis, the profit growth would have been 8.8% and 17.9% respectively. Operating profit from Shenzhen Metro Longhua Line was HK$61 million while operating profit from property rental and management businesses was HK$18 million.

Other businesses, comprising Ngong Ping 360, consultancy business and project management service to the Government for the entrustment works regarding the Express Rail Link and Shatin to Central Link, contributed an operating profit of HK$53 million, a 37.6% decrease from last year. The decrease was attributable to Ngong Ping 360 in relation to the expenses on unscheduled repairs and maintenance works and loss in revenue during the suspension of cable car service. With the signing of the final entrustment agreement with Government in relation to the Shatin to Central Link, booking of the related project management fees on a cost recovery basis commenced in 2012.

Including expenses on project studies and new business development of HK$323 million, which increased by 162.6% due to bidding expenses for the Essex Thameside and Thameslink franchises in the UK as well as mobilisation cost of HK$119 million for the opening of Hangzhou Metro Line 1, operating profit before property development, depreciation, amortisation and variable annual payment increased by 7.9% to HK$13,083 million. Operating margin improved from 36.3% in 2011 to 36.6% in 2012. Excluding contributions from the Mainland of China and international subsidiaries, operating margin decreased from 55.6% to 54.4% due to the increase in zero margin project management services to the Government and the above noted increase in expenses on project studies and new business development; excluding such factors, the profit margin would have improved by 0.5 percentage point.

Property development profit in 2012 was HK$3,238 million, comprising profit recognition from The Riverpark at Che Kung Temple Station, surplus from the sale of inventory units mainly at Festival City in Tai Wai and The Palazzo in Fo Tan and agency fee from the West Rail property development at Tuen Mun. Compared with 2011 when we booked significant profit relating to the Festival City development, property development profit in 2012 decreased by HK$1,696 million.

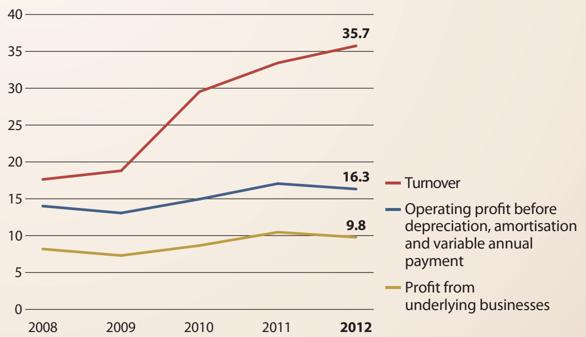
Depreciation and amortisation was at similar levels to 2011 at HK$3,208 million. Variable annual payment to Kowloon-Canton Railway Corporation ("KCRC") was HK$883 million, increasing by 36.5% as relevant revenues have reached the highest 35% band. Although the weighted average cost of borrowing increased from 3.1% in 2011 to 3.3% in 2012, net interest and finance charges decreased by 4.6% to HK$879 million due to an increase in deposit interest and investment income. Investment property revaluation gain recognised in 2012 was HK$3,757 million versus HK$5,088 million in 2011. With a change in accounting standard effective on 1 January 2012, deferred tax provision on investment property revaluation is no longer required and corresponding adjustments have been made for prior years.

The Group's share of profits from non-controlled subsidiaries and associates increased significantly by 53.5% to HK$456 million even after accounting for the HK$60 million of our share of loss from Hangzhou MTR Corporation Limited ("HZMTR") after commencement of service on Hangzhou Metro Line 1 in November 2012. Profit sharing from Octopus Holdings Limited grew by 15.9% to HK$211 million while the share of profit from Beijing MTR Corporation Limited ("BJMTR") increased by 200% to HK$252 million, of which HK$66 million was attributable to the finalisation of accounting adjustments relating to prior years. Share of profits from the other associates increased by 71.0% to HK$53 million mainly due to good performance of our associate companies in London and Stockholm.

Net Results from Underlying Businesses

Underlying business profit in 2012 slightly decreased to HK$9.8 billion due to reduction in property development profits.

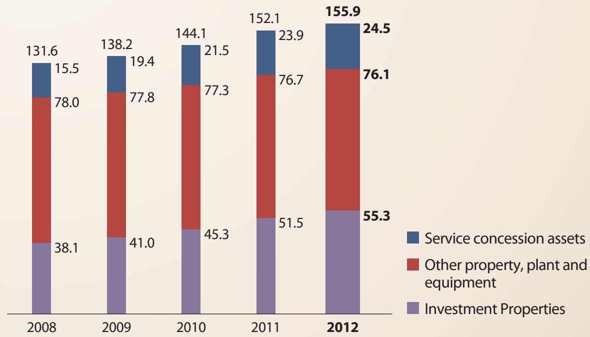
(HK$ billion)



Fixed Assets Growth

Fixed assets at 2012 year-end further increased to HK$155.9 billion with the revaluation gains in investment properties and capital expenditures on additional service concession assets.

(HK$ billion)



With lower property development profit and investment property revaluation gain, net profit attributable to shareholders after deducting HK$1,893 million of income tax and HK$139 million of profit shared by non-controlling interests was HK$13,532 million, decreasing by 13.0% from prior year. Earnings per share therefore decreased from HK$2.69 to HK$2.34. Excluding investment property revaluation, the underlying profit attributable to equity shareholders was HK$9,775 million with earnings per share also decreasing from HK$1.81 in 2011 to HK$1.69. Underlying profit saw a strong contribution from our recurrent businesses with a 13.3% increase in profitability to HK$7,071 million but a reduction in post-tax property development profits from HK$4,225 million to HK$2,704 million.

In line with our progressive dividend policy, the Board has recommended a final dividend of HK$0.54 per share, which, when added to the interim dividend of HK$0.25 per share, will bring the full year dividend to HK$0.79 per share, an increase of HK$0.03 per share or 3.9% from last year.

Balance Sheet

The Group's balance sheet further strengthened during the year with net assets increasing from HK$134,649 million at the beginning of 2012 to HK$144,480 million at the end of 2012.

Total assets increased from HK$197,870 million at 2011 year-end to HK$206,915 million at 31 December 2012. Total fixed assets increased by HK$3,826 million to HK$155,894 million mainly due to revaluation gains on investment properties and self-occupied properties. Railway construction in progress increased by HK$3,892 million to HK$7,458 million with further construction works for the South Island Line (East) and Kwun Tong Line Extension. Interest in associates increased by HK$2,877 million mainly due to the equity injection of HK$2,734 million (RMB2,225 million) into our new associate, HZMTR. With the recognition of property development profits from The Riverpark and sale of inventory units, property development in progress and properties held for sale both decreased by HK$1,534 million and HK$741 million to HK$10,430 million and HK$3,016 million respectively. During 2012, all the remaining investment in bank medium term notes was redeemed upon maturity. As a result, investment in securities decreased by HK$2,581 million to HK$393 million while cash, bank balances and deposits increased by HK$2,564 million to HK$18,664 million.

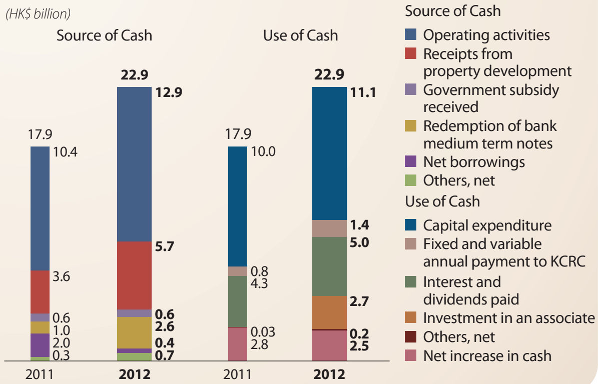
Total liabilities decreased from HK$63,221 million at 2011 year-end to HK$62,435 million at 31 December 2012 mainly due to decreases in creditors and accrued charges as well as amounts due to related parties. Creditors and accrued charges decreased by HK$1,283 million to HK$15,119 million as a result of further utilisation of the government grant for construction of the West Island Line, the cumulative project costs of which, including interest capitalisation, at 2012 year-end was HK$11,191 million. Amounts due to related parties decreased by HK$420 million to HK$1,061 million mainly due to reimbursement to KCRC of property enabling works cost incurred for the Tai Wai Station site in accordance with the Rail Merger agreements. These reductions in liabilities were partly offset by the increase in contract retention of HK$305 million following the progress of railway extension projects, increase in tax liabilities of HK$168 million and increase in total loan outstanding of HK$409 million to HK$23,577 million.

Share capital, share premium and capital reserve increased by HK$219 million to HK$44,281 million from new shares issued under the share option schemes. Together with the increase in retained earnings, net of dividends paid, of HK$9,139 million and increase in fixed asset revaluation reserve and other reserves of HK$452 million, total equity attributable to shareholders of the Company increased by HK$9,810 million to HK$144,273 million at 31 December 2012.

The net debt-to-equity ratio improved from 11.4% at 2011 year-end to 10.9% at 2012 year-end.

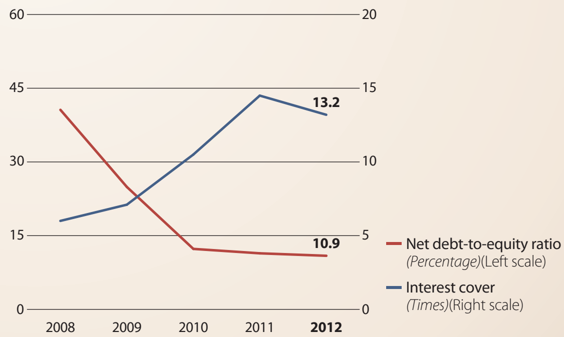
Cash Utilisation

The increase in cash inflows from operating activities and property developments in 2012 were utilised to pay off the increase in capital expenditures and dividends as well as equity injection into an associate.



Debt Servicing Capability

Gearing ratio further improved to 10.9% in 2012.



Cash Flow

Excluding working capital movements, net cash inflow generated from operating activities of the Group before tax payment increased by 7.8% to HK$13,151 million. During the year, working capital movements resulted in a net cash inflow of HK$1,550 million, a significant increase from HK$289 million in 2011 mainly due to receipts of rental deposits for the renewed Duty Free Shop licence. After receipt of the government subsidy of HK$637 million (RMB522 million) for the Shenzhen Metro Longhua Line and tax payment of HK$1,799 million, net cash inflow from operating activities was HK$13,539 million, a 22.8% increase from last year. Cash receipt from property developments was HK$5,677 million mainly relating to the units sold at Festival City and land premium recovered in respect of The Riverpark. Including HK$489 million of dividend and loan repayments received from non-controlled subsidiaries and associates and HK$156 million of receipts from the aggregate impact of new shares issued under the share option schemes, disposal of fixed assets and net amount for investment in securities, total cash inflow in 2012 was HK$19,861 million.

Total capital expenditure outflow in 2012 was HK$11,125 million, including HK$2,327 million for the purchase of assets for Hong Kong transport and related operations, HK$6,353 million for the West Island Line, South Island Line (East) and Kwun Tong Line Extension projects, HK$852 million for settlement of retention and other construction costs relating to the construction of Shenzhen Metro Longhua Line Phase 2 and HK$1,544 million for property developments, renovation and fitting-out works. During the year, the Company paid HK$148 million of net payment in respect of the entrustment works of the Shatin to Central Link and injected HK$2,734 million of equity injection into HZMTR. After settlement of fixed and variable annual payments of HK$1,397 million, net interest payment of HK$438 million and dividend payments of HK$4,519 million, total cash outflow of the Group in 2012 was HK$20,361 million.

As a result, the Group recorded a net cash outflow of HK$500 million, which was covered by existing cash balances. Redemption of bank medium term notes, together with net loan drawdown of HK$385 million, increased the Group's cash balance by HK$2,509 million to HK$18,609 million at 31 December 2012.

Financing Activities

With economic growth in the US remaining weak and unemployment relatively high, the US Federal Reserve continued an extraordinarily accommodative monetary policy in 2012. This, combined with political uncertainties created by the US 'fiscal cliff' and capital flight from Europe, led to substantial safe haven demand for US Treasuries and significant decline in yields.

Under these circumstances, 10-year Treasury yield sank to a historical low of 1.3875% per annum in July before finishing the year at 1.7574% per annum after the 'fiscal cliff' situation was temporarily resolved and the European sovereign debt crisis stabilized. Mirroring the Treasury market, yields on Hong Kong Exchange Fund Notes trended down with 10-year yield reaching an all-time low of 0.5% per annum in November before ending the year at 0.598% per annum.

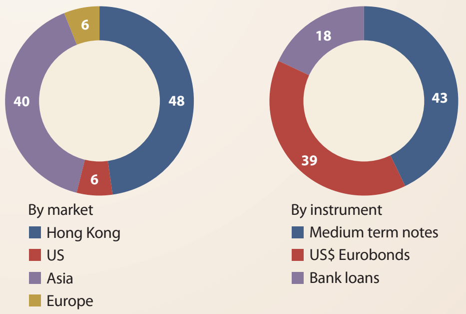
Short-term interest rates were slightly higher in both the US and Hong Kong reflecting tighter liquidity in the bank markets. Average 3-month US$-LIBOR and 3-month HK$-HIBOR rose to around 0.43% per annum and 0.40% per annum in 2012 from 0.34% per annum and 0.27% per annum respectively.

Supported by historically low Treasury yields, tightening credit spreads and strong demand from investors wanting to diversify risks, the US dollar bond market for Hong Kong issuers was exceptionally strong in 2012 with record issuance volume and issuers readily able to obtain sizeable financings. Taking advantage of such favourable conditions, the Group launched a 5-year US$300 million public bond in March. With a strong order book of US$1.7 billion, the bond was priced at

Sources of Borrowing

Although Hong Kong is our main market, our strategy is to diversify our funding sources and maintain ready access to other important international markets.

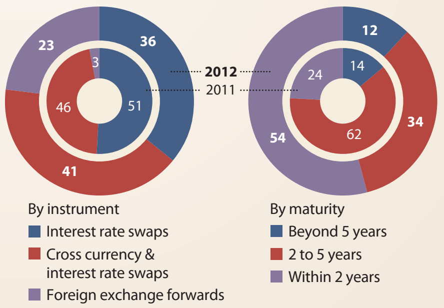
(Percentage) (As at 31 December 2012)



Use of Interest Rate and Currency Risk Hedging Products

The Company uses derivative financial instruments for hedging purposes, and has a strict policy of limiting their usage for hedging purposes only.

(Percentage) (As at 31 December 2012)*



* Calculated based on nominal value

a coupon rate of 2% per annum, the lowest achieved by an Asian issuer at the time, and an effective yield of 2.175% per annum, or 115 basis points over 5-year Treasury.

In response to reverse enquiries to meet unsatisfied demand for our 5-year US dollar bond and to take advantage of further decline in Treasury yields and credit spreads, the Group followed up with a US$250 million re-opening of this 5-year bond in November 2012. With an order book of US$773 million, the new bonds were priced at a yield of 1.456% per annum, or 80 basis points over 5-year Treasury, one of the lowest ever achieved by an Asian issuer for a US dollar 5-year bond.

The favourable condition in the bond market however was not matched in the loan market. During the year banks remained reluctant to lend as they continued to deleverage and face higher funding costs resulting from the more stringent liquidity and capital requirements under the Third Basel Accord, which will be phased in from 1 January 2013.

Despite these challenges, the Group leveraged our strong banking relationships to arrange total bilateral banking facilities amounting to HK$5,200 million, comprising 3- to 5-year revolving term loan facilities at attractive all-in costs.

Supplementing these transactions, the Group also issued a number of medium term notes through private placement out of our Debt Issuance Programme, including an Australian Dollar 50 million 5-year fixed-rate note converted to floating-rate HK dollars, a HK$500 million 5-year fixed-rate note, a HK$300 million 8-year fixed-rate note and a HK$500 million 10-year fixed-rate note.

Cost of Borrowing

The Group's consolidated gross debt position increased slightly from HK$23,168 million at 2011 year-end to HK$23,577 million at 2012 year-end. Weighted average borrowing cost increased slightly to 3.3% per annum, from 3.1% per annum in 2011 as a result of higher average floating rate borrowing costs in Hong Kong and Mainland China as well as increased finance charges incurred for new financings. Despite higher average debt level and higher average borrowing cost in 2012, net interest expense charged to the Profit and Loss Account, after interest capitalised of HK$103 million and the set-off of part of the government grant to MTR Corporation (Shenzhen) Limited of HK$254 million, decreased to HK$879 million from HK$921 million in 2011, primarily due to increase in interest income from the Group's surplus cash.

Treasury Risk Management

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

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

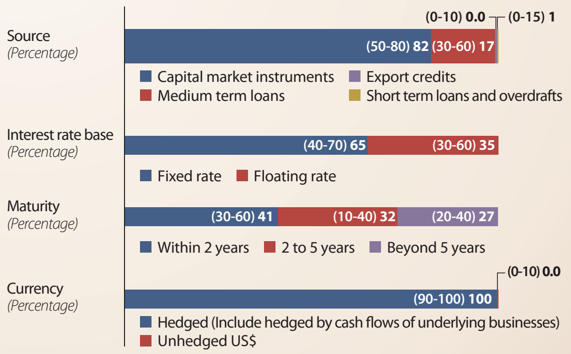
In accordance with Board policy, derivative financial instruments shall only be used for controlling or hedging risk exposures, and not for speculation. Derivative instruments currently used by the Group are over-the-counter derivatives comprising mainly interest rate swaps, cross currency swaps and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

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

Preferred Financing Model and Debt Profile

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

(Preferred Financing Model) *vs.* **Actual debt profile** *As at 31 December 2012*



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

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

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

In managing liquidity risk, the Group will maintain sufficient cash balance and undrawn committed banking facilities to provide forward coverage of at least 6 to 15 months of projected cash requirements. The Group also conducts regular stress testing of projected cash flow to identify and estimate potential shortfall, and would arrange new financings or take other appropriate actions if such stress tests reveal significant risk of material cash flow shortfall.

Credit Ratings

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

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

In October, the Company's issuer and short-term credit ratings were affirmed by Rating & Investment Inc. of Japan at respectively "AA+" and "a-1+", with a stable outlook.

This was followed in December by S&P's affirmation of the Company's long-term corporate credit and short-term ratings of respectively "AAA" and "A-1+" with a stable outlook.

Financing Capacity

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

Capital expenditure for Hong Kong railway projects comprises investment in and expenditures relating to new ownership projects, including the West Island Line, South Island Line (East) and the Kwun Tong Line Extension, as well as outlays for maintaining and upgrading the existing rail lines. Concession projects such as the Express Rail Link are generally funded by the Government although for the Shatin to Central Link, the company has agreed to pay for certain portions of costs for rolling stock and signalling.

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

Based on current programme, total net capital expenditure for the next three years from 2013 to 2015 (inclusive) is estimated at HK$28.7 billion for Hong Kong railway projects, HK$17.1 billion for Hong Kong property investment and development, and HK$7.0 billion for Mainland China and overseas investments, a total of HK$52.8 billion. Out of this total, it is estimated that HK$29.0 billion will be incurred in 2013, HK$13.5 billion in 2014, and HK$10.3 billion in 2015.

At the end of 2012, the Company had total cash and bank deposits of HK$16,616 million as well as undrawn committed banking facilities of HK$4,900 million, which, together with future projected cash flow, will help provide forward coverage of the Company's funding needs well into 2013.

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

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

Ten-Year Statistics

	2012	2011	2010	2009	2008	2007#	2006	2005	2004	2003
Financial										
Consolidated Profit and Loss Account *(HK$ million)*										
Turnover	**35,739**	33,423	29,518	18,797	17,628	10,690	9,541	9,153	8,351	7,594
Operating profit before depreciation, amortisation and variable annual payment	**16,321**	17,058	14,951	13,069	14,009	14,229	11,032	11,259	9,110	9,116
Depreciation and amortisation	**3,208**	3,206	3,120	2,992	2,944	2,752	2,688	2,695	2,512	2,402
Interest and finance charges	**879**	921	1,237	1,504	1,998	1,316	1,398	1,361	1,450	1,539
Investment property revaluation gain/(loss)	**3,757**	5,088	4,074	2,798	(146)	8,011	2,178	2,800	2,486	–
Profit *	**13,671**	15,688	12,844	10,101	8,035	16,584	8,139	8,953	6,978	4,450
Profit attributable to equity shareholders arising from underlying businesses	**9,775**	10,468	8,657	7,303	8,185	8,571	5,962	6,140	4,492	4,450
Dividend proposed and declared	**4,575**	4,396	3,405	2,977	2,715	2,522	2,328	2,299	2,259	2,215
Earnings per share *(HK$)* *	**2.34**	2.69	2.21	1.77	1.43	2.98	1.48	1.65	1.31	0.85
Consolidated Balance Sheet *(HK$ million)*										
Total assets *	**206,915**	197,870	181,660	176,492	159,345	155,668	120,421	113,666	106,674	102,366
Loans, other obligations and bank overdrafts	**23,577**	23,168	21,057	23,868	31,289	34,050	28,152	28,264	30,378	32,025
Obligations under service concession	**10,690**	10,724	10,749	10,625	10,656	10,685	–	–	–	–
Deferred income	**488**	403	605	167	156	515	1,682	3,584	4,638	5,061
Total equity attributable to equity shareholders *	**144,273**	134,463	121,914	110,479	101,431	94,889	79,242	71,969	63,496	57,292
Financial Ratios										
Operating margin *(%)*	**36.6**	36.3	37.0	50.6	53.0	55.4	54.7	55.9	54.4	49.3
Operating margin (excluding Mainland of China and international subsidiaries) *(%)*	**54.4**	55.6	55.1	53.8	53.2	55.9	55.3	55.9	54.4	49.3
Net debt-to-equity ratio *(%)* *	**10.9**	11.4	12.3	24.9	40.6	46.5	35.1	38.8	47.4	55.2
Interest cover *(times)*	**13.2**	14.5	10.5	7.1	6.0	9.0	6.7	7.6	6.1	5.6
Employees										
Corporate management and support departments	**1,600**	1,486	1,362	1,319	1,235	1,530	823	810	792	793
Station commercial businesses	**148**	144	144	137	125	138	82	82	67	61
Operations	**9,460**	9,244	9,026	8,789	8,708	8,937	4,521	4,600	4,669	4,730
Projects	**2,495**	2,109	1,794	1,365	995	942	260	242	362	398
Property and other businesses	**1,273**	1,282	1,291	1,242	1,170	1,141	832	688	660	642
Mainland of China and international businesses	**224**	179	212	239	197	135	112	83	–	–
Offshore employees	**6,955**	6,851	6,672	7,059	1,646	1,311	733	486	5	5
Total	**22,155**	21,295	20,501	20,150	14,076	14,134	7,363	6,991	6,555	6,629

	2012	2011	2010	2009	2008	2007#	2006	2005	2004	2003
Hong Kong Transport Operations										
Revenue car km operated *(thousand)*										
Domestic and Cross-boundary	**260,890**	254,407	253,067	247,930	245,856	128,041	115,784	114,449	114,364	112,823
Airport Express	**23,134**	19,603	19,833	19,643	19,891	19,956	20,077	17,122	16,081	15,227
Light Rail	**10,453**	10,166	9,586	8,950	8,984	755	–	–	–	–
Total number of passengers *(thousand)*										
Domestic Service	**1,431,040**	1,366,587	1,298,714	1,218,796	1,205,448	915,755	866,754	857,954	833,550	770,419
Cross-boundary Service	**109,707**	103,881	99,954	94,016	93,401	8,243	–	–	–	–
Airport Express	**12,695**	11,799	11,145	9,869	10,601	10,175	9,576	8,493	8,015	6,849
Light Rail	**167,210**	161,289	154,522	143,489	137,730	11,100	–	–	–	–
Bus	**45,962**	43,956	40,883	37,522	34,736	2,757	–	–	–	–
Intercity	**4,028**	3,787	3,244	2,921	3,220	285	–	–	–	–
Average number of passengers *(thousand)*										
Domestic Service – weekday average	**4,148**	3,968	3,770	3,544	3,514	2,662§	2,523	2,497	2,403	2,240
Cross-boundary Service – daily average	**300**	285	274	258	255	–@	–	–	–	–
Airport Express – daily average	**35**	32	31	27	29	28	26	23	22	19
Light Rail – weekday average	**466**	451	433	402	385	–@	–	–	–	–
Bus – weekday average	**131**	126	118	107	99	–@	–	–	–	–
Intercity – daily average	**11**	10	9	8	9	–@	–	–	–	–
Average passenger km travelled										
Domestic and Cross-boundary	**10.9**	10.9	10.9	10.7	10.4	7.9	7.7	7.6	7.7	7.7
Airport Express	**29.0**	29.4	29.4	29.5	29.4	29.5	29.7	30.4	30.2	29.7
Light Rail	**2.8**	2.8	2.8	2.9	3.0	3.0	–	–	–	–
Bus	**4.5**	4.5	4.5	4.6	4.6	4.6	–	–	–	–
Average car occupancy *(number of passengers)*										
Domestic and Cross-boundary	**65**	63	60	57	55	58	58	57	56	53
Airport Express	**16**	18	17	15	16	15	14	15	15	13
Light Rail	**45**	45	45	46	46	45	–	–	–	–
Proportion of franchised public transport boardings *(%)*	**46.4**	45.4	44.3	42.6	42.0	26.7	25.0	25.2	24.8	24.3
HK$ per car km operated (Hong Kong Transport Operations)										
Total revenue	**47.6**	45.9	43.2	40.8	40.9	47.9	48.3	48.1	45.8	43.2
Operating costs	**23.7**	23.1	21.5	21.5	21.2	21.6	22.1	22.8	22.3	22.5
Operating profit	**23.9**	22.8	21.7	19.3	19.7	26.3	26.2	25.3	23.5	20.7
HK$ per passenger carried (Hong Kong Transport Operations)										
Total revenue	**8.20**	7.99	7.86	7.74	7.83	7.55	7.48	7.31	7.09	7.11
Operating costs	**4.08**	4.02	3.91	4.08	4.07	3.40	3.43	3.47	3.45	3.71
Operating profit	**4.12**	3.97	3.95	3.66	3.76	4.15	4.05	3.84	3.64	3.40
Safety Performance										
Domestic, Cross-boundary and Airport Express										
Number of reportable events ^	**1,761**	1,769	1,592	1,539	1,514	989	826	748	701	641
Reportable events per million passengers carried ^	**1.13**	1.19	1.13	1.16	1.16	1.05	0.94	0.86	0.83	0.82
Number of staff and contractors' staff accidents Δ	**58**	44	46	60	42	26	23	31	25	33
Light Rail										
Number of reportable events ^	**151**	164	165	146	136	6	–	–	–	–
Reportable events per million passengers carried ^	**0.90**	1.02	1.07	1.02	0.99	0.54	–	–	–	–
Number of staff and contractors' staff accidents Δ	**2**	7	5	11	5	0	–	–	–	–

* *Prior years' figures have been restated upon the adoption of Amendments to Hong Kong Accounting Standard 12, as described in note 2A(iii) to the accounts.*

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

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

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

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

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

Investor Relations

The Company has been in the international capital markets for nearly 30 years and its high standard of corporate governance and disclosure practices has made it one of the leaders in investor relations practices in Asia.

We have a wide base of institutional and retail investors, with whom we maintain good relations through continuous and active dialogue. We believe that shareholder value can be enhanced by clearly communicating the Company's corporate strategies, business development and future outlook to stakeholders.

Communicating with Institutional Investors

Our proactive approach to investor relations has made the Company one of the most widely covered companies in Hong Kong. A significant number of local and international brokers publish reports on the Company, often on a regular basis. We are also followed by a wide range of institutional investors.

Management takes great efforts to maintain an open dialogue with the investment community to ensure a thorough understanding of the Company and its business strategies. To this end, we participate in investor conferences and roadshows. During 2012, nearly 300 meetings were held with institutional investors and research analysts in Hong Kong and internationally.

Access to Information

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

In addition to the shareholder services offered by Computershare, the Company's dedicated hotline answered more than 50,000 enquiries from individual shareholders in 2012.

Index Recognition

The Company's position in the Hong Kong market as a blue chip stock is affirmed through the continued inclusion of our stock in some of the most important indices. The stock is currently a constituent member of the Hang Seng Index, MSCI Index and FTSE Index Series. Since 2002, our achievements in the areas of sustainability and corporate responsibility have been recognised by the Dow Jones Sustainability Indexes and the FTSE4Good Index Series. Since 2010, MTR has also been included in the Hang Seng Corporate Sustainability Index and ranked first among all Hong Kong companies with an AA+ rating in 2012, the highest rating that has ever been assigned to an eligible company.

Market Recognition

The Company's 2011 Annual Report won awards at the 2012 International Annual Reports Competition ("ARC") Awards organised by MerComm, Inc. in New York on 20 September 2012. The ARC Awards attracted more than 2,200 entries from 32 countries. For the 24th consecutive year, our Annual Report also achieved recognition in the Hong Kong Management Association Annual Report Awards, with the 2011 report winning the Silver Award under the "General Category" in the 2012 Best Annual Reports Awards Competition. In addition, the Annual Report won the Gold Award (Hang Seng Index Series) in the 2012 Best Corporate Governance Disclosure Awards organised by the Hong Kong Institute of Certified Public Accountants.

Key Shareholder Information

Financial Calendar 2013

Announcement of 2012 annual results	11 March
Annual General Meeting	9 May
Last day to register for 2012 final dividend	14 May
Book closure period	15 to 21 May (both dates inclusive)
2012 final dividend payment date	On or about 5 June
Announcement of 2013 interim results	August
2013 interim dividend payment date	September
Financial year end	31 December

Principal Place of Business and Registered Office

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

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

Share Information

Listing

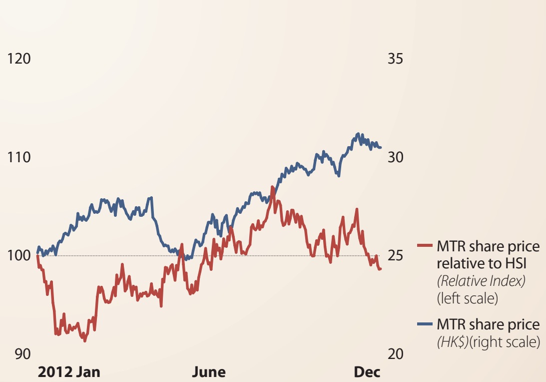
MTR Corporation Limited's shares are listed on the Stock Exchange of Hong Kong. In addition, shares are traded in the United States through an American Depositary Receipt ("ADR") Level 1 Programme sponsored by JPMorgan Chase Bank, N.A.

Ordinary Shares *(as at 31 December 2012)*

Shares outstanding	5,793,196,650 shares
Hong Kong SAR Government Shareholding	4,434,552,207 shares (76.5%)
Free float	1,358,644,443 shares (23.5%)

Nominal Value	HK$1 per share
Market Capitalisation *(as at 31 December 2012)*	HK$176,692 million

Share Price Performance



Dividend Policy

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

Dividend per Share

	(in HK$)
2011 Total Dividend	0.76
2012 Interim Dividend	0.25
2012 Final Dividend	0.54

ADR Level 1 Programme

ADR to Ordinary Shares Ratio	1:10
Depositary Bank	JPMorgan Chase & Co. P.O. Box 64504 St. Paul, MN 55164-0504 U.S.A.

Stock Codes

Ordinary Shares

The Stock Exchange of Hong Kong	66
Reuters	0066.HK
Bloomberg	66 HK
ADR Level 1 Programme	MTRJY

Annual Report 2012

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

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

If you are not a shareholder, please write to:

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

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

Shareholder Services

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

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

Telephone: (852) 2862 8555
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 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

Risk Management

The Company's Enterprise Risk Management ("ERM") framework continues to provide a simple and effective management process that aids business units across the organisation to identify and review risks and prioritise resources to manage those that arise. It also provides management with a clear view of the significant risks facing the Company and is used to support decision making and project execution, in turn helping to deliver better business performance.

The Enterprise Risk Committee ("ERC"), which is chaired by the Legal Director & Secretary and comprises management representatives from key business functions, has accountability for the ERM framework. ERC steers the implementation and improvement of the framework, reviews the Top 30 and emerging risks every quarter and reports the key risks to the Executive Committee every six months. Every year, the Audit Committee reviews the risk management process and the Board maintains an oversight of the Top Ten risks and other risk "hot spots".

The regular review and reporting of the Top Ten and Top 30 risks at the Board, Executive and management levels are essential processes to sustain a risk-informed and risk-aware culture in the organisation.

Management of Key Risks

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

- The construction of the five major railway extension projects in Hong Kong is in full swing. There are also many improvement works on the existing network and new property development projects. The Company is fully committed to ensuring that these projects are delivered safely, during both construction and operation, on time, within budget and with the minimum unfavourable impact on society, the environment and the existing railway operations.
- The Company is taking steps to deepen its presence in the Mainland of China and overseas in the railway and property businesses while remaining committed to its Hong Kong core businesses. The Company is taking a prudent approach to enable its businesses both within and outside of Hong Kong to grow sustainably.
- To support its growth in Hong Kong, the Mainland of China and overseas in the coming few years, the Company has launched various initiatives to steer manpower planning, succession planning and training and development at all levels. The Company has developed functional training and development programmes at divisional levels to address specific needs as well as management development programmes at the corporate level to align the strategic focus of the teams and ensure staff members are prepared for the challenges of growth. In addition, to assure a high level of safety performance, the Company offers safety induction training to all new recruits and refresher safety training to existing staff to enhance/reinforce staff safety awareness.

Continuous Improvement of the Risk Management Process

The ERM framework has been in operation since early 2006. We maintain a strong desire to improve our systems and tools through annual reviews with users, cross-industry benchmarking and experience sharing. We also engage independent consultants to review our existing framework and identify improvement initiatives. The key activities undertaken during 2012 included:

- Sharing and learning from the fifth UK ERM roundtable and the fourth HK ERM roundtable on best practice for governance of subsidiaries and enhancement of ERM process
- Participating in an enterprise risk management benchmarking exercise run by CoMET to identify better practices from other leading metro operators
- Engaging an ERM consultant to review and identify pragmatic improvement initiatives to further enhance the ERM framework
- Conducting regular meetings with our insurance broker for risk analysis

Recognition of Achievement

The Company participated in an "International benchmarking of Enterprise Risk Management Practice in Metros" organised by CoMET recently. Among the 15 participating metro companies, CoMET ranked the Company with the highest risk maturity level and commended the Company for its clear objectives for and commitment towards ERM, with fully embedded and improving ERM practice.

Sustainability

Our Corporate Sustainability Policy commits us to meeting the needs of the present without compromising those of future generations. This has made the Company a recognised leader in transport development.

Rail Plus Property

The Company's integrated "Rail plus Property" model enables us to be a financially self-sustaining urban transport system in Hong Kong. By owning land assets and air rights, we have promoted new land uses through high-density living centres linked by rail. This enables us to leverage the economic opportunity derived from enhanced residential and commercial properties above and around rail stations. Internationally, our expertise in transit oriented development is helping provide the backbone of low-carbon transport in cities around the world.

From an environmental point of view, locating residential and transport facilities in close proximity means that commuting trips can be made in a more environmentally friendly way through our rail network, reducing traffic congestion and air pollution. Furthermore, by creating high-density community hubs around our rail stations, valuable green zones between stations are preserved.

Social aspirations and environmental excellence are incorporated into our property developments, an idea that the spacious, green community living at LOHAS Park brings to life. We are also developing businesses in the Mainland of China and overseas, striving to connect and grow new communities based on safe and efficient public transport.

Creating Sustainable Competitive Advantage

We employ a unique 'Sustainable Competitive Advantage' approach towards sustainable development. We systematically identify, prioritise and manage enterprise risks, balancing this with robust stakeholder engagement. Managing business risks, reducing costs, and adding value to our customers and communities becomes synonymous with our caring service.

In 2012, we continued to formalise the stakeholder engagement process to understand and respond better to the interests of our stakeholders. In this regard, we have demonstrated progress in areas such as asset improvement, customer service, environmental protection and community engagement, and balanced these aspirations with our commercial risks. Internationally, we continue to apply our expertise in these areas and are experiencing improvements in areas such as customer service, resource efficiency and asset optimisation.

Carbon Management

The Company has reported its carbon emissions since 2002, and has continuously participated in the Carbon Disclosure Project since 2006. Ongoing initiatives are in place to maximise energy efficiency across our operations. In 2012, the Company signed the World Business Council for Sustainable Development's Manifesto for Energy Efficiency in Buildings, joining leading global businesses in a commitment to reduce energy use and carbon emissions in the building sector. Also in 2012, all MTR malls participated in the Hong Kong Government's Energy Saving Charter, increasing the ambient temperature to 24-26 degrees Celsius. These new initiatives complement the MTR directive of developing our properties according to the Hong Kong BEAM Plus Gold standard. The Company also put into passenger service 18 new buses in 2012 and purchased six more buses for 2013 which meet the latest and most stringent environmental standards.

Our recently updated Design Standards Manual includes requirements that focus on energy efficient design. All new railway projects shall consider carbon impacts and facilitate carbon emissions reductions throughout the project cycle. Tools have been developed and are now being used to monitor the embodied carbon in our railway infrastructure and our operating railway, enabling a life cycle assessment of carbon, a first for the railway industry. This process has now been rolled out to several existing projects and will be implemented in all future railway projects.

Sustainability Leadership

Since 2000 we have published annual Sustainability Reports using recognised global standards or best practices, including GRI G3.1 Sustainability Reporting Guidelines and CoMET benchmarking. In 2012, we also followed the Hong Kong Exchange's Guidelines for Environmental, Social and Governance reporting, demonstrating our support of local best practices for listed companies.

Our achievements continue to attract international recognition. In August 2012, we were ranked the top Hong Kong company listed on the Hang Seng Corporate Sustainability Index. The Company also remains listed on the Dow Jones Sustainability Indexes and the FTSE4Good Index, and is one of 16 companies designated a 'New Sustainability Champion' by the World Economic Forum. Locally, we were awarded a "Sustainability Excellence Award" by The Chamber of Hong Kong Listed Companies and the Centre for Corporate Governance and Financial Policy, Hong Kong Baptist University.

The 2012 Sustainability Report will be published in May 2013, as a stand alone report with a supplementary website. The report will focus on "Clarity of Focus", and is our first Sustainability Report to include a discussion of material issues from our majority owned subsidiaries.

Shared Care


Cherish our
community.

Corporate Responsibility

Our Corporate Responsibility Policy focuses on six areas, which guide our adoption of best practices designed to promote balance and resilience in our businesses. Implementation of the policy is monitored by the Corporate Responsibility Committee of the Board, which is chaired by the Chairman of the Company.

Environmental Protection

Protection of the environment is a core value that we strive to achieve through innovation and continuous improvement.

The five new railway lines we are currently constructing in Hong Kong will help create a more environmentally sustainable transportation system. In conjunction with these lines, we are developing high quality living environments that take account of environmental factors. Together, these developments will contribute to a reduction in Hong Kong's carbon footprint.

During 2012, we supported and participated in an independent research study by Civic Exchange with respect to the "Walkability" of Hong Kong and its contribution to the liveability of our city. The study gave a clear assessment of the issues as well as the opportunities to bring about a more sustainable direction in public policy. The study also demonstrated that a broader definition of street space should be adopted, as both a corridor for pedestrian flows and an urban space for people to stay in. A walkable Hong Kong will enhance pedestrian movement with more people walking, and walking for longer distances to gain easy access to the stations in a safe and environmentally friendly manner.

Water conservation is another area where we focus our efforts, in response to global concerns about fresh water resources. Our buildings incorporate features designed to reduce water consumption. For example, the Grey Water Treatment System in LOHAS Park collects and treats 440,000 litres of grey water from homes every day for use in watering the landscaping and in cleaning outdoor public areas.

To reduce construction waste in our property developments, we will continue our best practice of recycling demolition waste for other uses such as the manufacture of road paving blocks. We will extend this practice to the property development in Tsuen Wan West Station (TW5) Cityside site, where we plan to recycle the construction waste resulting from the demolition of the multi-storey car park at the site.

In our managed properties, we have initiated a "Glass Bottle Recycling Programme" in which we have collected and recycled 61.7 tonnes of glass bottles, from the launch of the programme in August 2011 up to December 2012, for the manufacture of road paving blocks.

We launched various initiatives during the year to help reduce food wastage and encourage food waste collection and recycling in our managed properties. In The Capitol of LOHAS Park, we successfully assisted the Owners' Committee to apply for the Government Environment and Conservation Fund for installation of food waste composting facilities, so that collection and recycling of food waste could start in 2013. In our shopping malls, incentive schemes will be launched to reduce food wastage and promote food waste composting recycling for our tenants. We also plan to install food waste composting facilities in our shopping centre at Maritime Square in 2013.

To promote the use of low emission vehicles, we provide electric vehicle charging facilities in MTR Malls including Telford Plaza, Elements, Maritime Square and PopCorn.

Stringent environmental impact assessments are carried out on new railway lines to minimise adverse effects on the environment. The result of these assessments can be seen in projects such as that to preserve trees during the construction of the West Island Line and South Island Line (East), with trees of high ecological value being retained or transplanted as far as is practicable. For those that cannot be retained or transplanted, we will make new plantings to ensure there is a net gain in the total number of trees along these lines.

Engaging and Building Communities

The Community Liaison Groups we have established as a forum for dialogue on the new railway lines have been very active, helping to ensure the lines enjoy the full support of local communities. We also make every effort to minimise the disruption from railway construction to the local neighbourhood, through measures including noise mitigation, dust suppression and temporary traffic management. Adding to the partnerships established in the Community Liaison Groups, we have an outreach programme that organises events such as school visits to improve knowledge about railway and urban development.

More widely, our "Community Care Action" programme continues to gain overwhelming support among local communities. During 2012, more than 120 secondary school students joined the mentoring initiative "'Friend' for life's journeys" while 100 students were selected for the "'Train' for life's journeys" programme that provides multi-dimensional training. In addition, over 20,000 primary school students joined the "MTR x Hong Kong Repertory Theatre – Master of Railway Safety School Tour" that offers an exciting and effective way to develop children's appreciation of the arts while passing on valuable messages about the need for safe and courteous behaviour in the MTR.

Our staff members have shown their enthusiastic support through their active participation in volunteering work organised under the "More Time Reaching Community" scheme. There were a total of 239 such community projects in 2012, involving over 5,800 volunteers.

Ensuring Service of Value to Customers

We introduced our Listening • Responding programme in March 2012 to enhance customer service in a number of areas, including installing passenger lifts to improve access, providing public toilet facilities at interchange stations for passengers' convenience, adding new trains to ease crowding and reduce waiting time at platforms, and providing more wide gates and platform seats to serve passengers in need.

Developing People

We take care to ensure our people are well-equipped for their tasks, and to nurture talent at all levels for advancement. Specific training and development schemes are in place for graduate and technical trainees, supervisors, junior and senior managers and executives. Regular courses are supplemented as needed by those tailored to address specific needs.

Beyond this, we encourage a corporate culture of excellence, continuous learning and caring through a variety of events and delivery channels over the course of the year. Development of our people extends to their health and well-being. The Company's Healthy Living Programme involves bi-monthly seminars to enhance the staff knowledge of the wellness of "Body", "Heart", "Mind" and "Relationship". "Healthy Mind, Healthy Habits" workshops encourage staff to develop healthy habits in personal and professional life and a body mass index campaign has promoted weight control.

Providing Reasonable Returns to Investors

In 2012 we saw continued solid performance in our rail and property businesses in Hong Kong, the Mainland of China and overseas. We are also making good progress on our five new rail projects in Hong Kong. These network extension projects are all at the construction stage and making good progress towards completion. We monitor the risks involved in these and other projects and adopt a prudent policy of closely examining the risks involved in new investments.

We take care to communicate these developments to our investors. We have established effective channels to disclose clear and up-to-date information, in an equal manner, to all categories of investors. The Company ranks as the leading Hong Kong company on the Hang Seng Corporate Sustainability Index. The Company also remains listed on the Dow Jones Sustainability Indexes and the FTSE4Good Index, and is one of 16 companies designated a 'New Sustainability Champion' by the World Economic Forum.

Promoting Safe and Ethical Business Practices

The Company publishes guidance on Corporate Safety Governance to promote a safety-first culture. Other best Corporate Governance practices support our enterprise risk management in addressing the changing nature of our operating environment. Our current operations and expansion plans all need to take into account constantly evolving public agendas and social aspirations. We take great care to identify and examine the risks involved, and their potential impacts. We then formulate strategies to mitigate the risks, together with programmes of engagement and transformation. We collaborate with stakeholders in this process, focusing on environmental protection, preservation of local heritage, and minimising impacts on communities during construction.

MTR Volunteers dedicate to caring for our community

Corporate Governance Report

Corporate Governance Practices

The Company firmly believes that good corporate governance is fundamental in ensuring that the Company is well managed in the interests of all of its stakeholders.

The Company's commitment to the highest standards of corporate governance is driven by the Board who, led by the Chairman, assume overall responsibility for the governance of the Company, taking into account the interests of the Company's stakeholders, the development of its business, and the changing external environment.

The Company's efforts in this regard were recognised by the Hong Kong Institute of Certified Public Accountants, who for the second year in a row awarded the 2011 Annual Report the Gold Award (Hang Seng Index Category) in the 2012 Best Corporate Governance Disclosure Awards.

This Report describes the corporate governance best practices that the Company has adopted and specifically highlights how the Company has applied the principles of the Code.

Corporate Governance Code Compliance

The Company applied the principles of the former Code on Corporate Governance Practices (the "former Code") contained in Appendix 14 of the Listing Rules and, in accordance with the commitment of the Board referred to above, adopted a number of requirements of the new Corporate Governance Code (the "new CG Code") and the associated Listing Rules announced by the Stock Exchange on 28 October 2011 in advance of their formal dates for implementation.

During the year ended 31 December 2012, the Company has complied with the Code Provisions set out in the former Code and the new CG Code contained in Appendix 14 of the Listing Rules, for the period from 1 January to 31 March 2012 and from 1 April to 31 December 2012 respectively.

The Board held seven regular Meetings in 2012, exceeding the requirement of the new CG Code which requires every listed issuer to hold Board Meetings at least four times a year.

The composition of the Board, with 11 non-executive Directors out of the 12-member Board, of whom 7 are independent non-executive Directors (the "INED(s)"), well exceeds both the requirements of the former Code (every board of directors of a listed issuer to have at least 3 INEDs), as well as the new CG Code (to have INEDs representing at least one-third of the board).

The Company has, for some time, established a Remuneration Committee, Nominations Committee and Audit Committee with written terms of reference to oversee particular aspects of the Company's affairs. In advance of the new CG Code implementation, the Board, at the January 2012 Board Meeting, adopted revised Terms of Reference for these three Committees in order to meet the requirements of the new CG Code. All these revised Terms of Reference are available on both the Company and the Stock Exchange websites.

As mentioned earlier, the Board recognises that corporate governance should be the collective responsibility of all Members of the Board. In light of the new CG Code provision on corporate governance functions and alongside the adoption of both the relevant Terms of Reference for the Board, and the revised "Protocol: Matters Reserved for the Board" (the "Protocol"), the Board confirmed at the January 2012 Board Meeting that a separate corporate governance board committee would not be established by the Company.

The Company has shown its support to the Stock Exchange's consultation on board diversity by providing a positive response in October 2012, reflecting its recognition of the benefits of diversity in the boardroom in ensuring that the board is effective and able to support the execution of a company's business strategy. Although the new provisions in the CG Code on board diversity will not become effective until 1 September 2013, the Company has already taken steps to comply with it. In this connection, the Board approved a new Board Diversity Policy (the "Policy") in March 2013, which will be posted on the Company's website. The Nominations Committee will give consideration to the Policy when identifying suitably qualified candidates to become members of the Board, although Board appointments will continue to be made on a merit basis, and the Board will review the Policy on a regular basis to ensure its effectiveness.

The Stock Exchange published consultation conclusions on environmental, social and governance ("ESG") reporting in August 2012 and revised the Listing Rules to encourage disclosure of information set out in their proposed ESG Guide in companies' annual reports or as a separate report. The Company's Sustainability Report 2012, which will continue to be published separately, will be fully compliant with the Guide and will be available on the Company's website in late May 2013.

Corporate Strategy Review

Over the first six months of 2012, the Company's Executive team undertook an exercise to review the Company's strategic direction for the next decade. Its outcome was presented to the independent non-executive Directors and other non-executive Directors in June and August 2012 respectively, and their comments have been taken into account in formulating and delivering the Company's new strategy.

The new corporate strategy was formally adopted at the October 2012 Board Meeting.

The Board of Directors

The overall management of the Company's business is vested in the Board. Pursuant to the Articles of Association and 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 strategies, treasury policies and fare structures.

As outlined earlier, the Company has 7 INEDs on the 12 – member Board, and the Chief Executive Officer ("CEO") is the only executive Director on the Board.

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

Mr. Chow Chung-kong retired from the position of CEO and ceased to be a Member of the Board of Directors and a Member of the Executive Directorate on 31 December 2011.

Mr. Jay Herbert Walder was appointed as CEO for an initial term of 30 months with effect from 1 January 2012. He became both a Member of the Executive Directorate and a Member of the Board of Directors with effect from the same date. Before joining the Company, Mr. Walder was Chairman and Chief Executive Officer of the New York Metropolitan Transportation Authority, the largest passenger transportation authority in the United States.

The Chief Executive of the HKSAR may, pursuant to Section 8 of the MTR Ordinance, appoint up to three persons as "additional directors". At present, two of the non-executive Directors (being the office of the Secretary for Transport and Housing ("S for T&H") and the office of the Commissioner for Transport ("C for T")) are appointed as the "additional directors" (the "2 Additional Directors"). During the year, Ms. Eva Cheng held the post of the S for T&H up to 30 June 2012, and Professor Anthony Cheung Bing-leung became S for T&H from 1 July 2012. For the post of C for T, Mr. Joseph Lai Yee-tak held it up to 27 May 2012, Ms. Carolina Yip Lai-ching (Acting C for T) held it from 28 May 2012 to 15 July 2012, Miss Susie Ho Shuk-yee held it from 16 July 2012 to 7 October 2012, and Mrs. Ingrid Yeung Ho Poi-yan has held it since 8 October 2012. Another non-executive Director, Professor Chan Ka-keung, Ceajer, is the Secretary for Financial Services & Treasury ("S for FS&T"). The Government, through The Financial Secretary Incorporated, holds approximately 76.55% of the issued share capital of the Company.

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

The Company's recognition of the importance and benefits of diversity in the boardroom was not only reflected in its early adoption of a Board Diversity Policy as mentioned above, but is also evidenced in the existing composition of the Board, on which both genders are represented, together with a broad range of ages, nationalities and professional backgrounds.

For the year ended 31 December 2012, the Company has received confirmation from each INED about his/her independence under the Listing Rules. As part of its duties set out in its revised Terms of Reference, the Nominations Committee has reviewed these confirmations and assessed the independence of the INEDs, and continues to consider each of them to be independent.

Each Director ensures that he/she can give sufficient time and attention to the affairs of the Company. In light of the new CG Code provision on directors' time commitments, the Chairman held a private Board Meeting (without the presence of the CEO and other Members of Executive Directorate) in April 2012 to review the contribution required from a director to perform his/her responsibilities to the Company, and whether he/she is spending sufficient time in performing them.

Regarding disclosure of the number and nature of offices held by Members of the Board in public companies or organisations and other significant commitments as well as their identity and the time involved (the "Commitments") to the issuer, all Members of the Board have, at the Board Meeting in January 2012, agreed to disclose their Commitments to the Company in a timely manner. The Company's current practice of requesting Members of the Board to make a disclosure to the Company twice a year will continue.

Save as disclosed in this Annual Report, none of the Members of the Board and the Executive Directorate has any relationship (including financial, business, family or other material or relevant relationships) between each other, although the two Additional Directors were both appointed by the Chief Executive of the HKSAR, Professor Chan Ka-keung, Ceajer is the S for FS&T of the Government, and Ms. Christine Fang Meng-sang, Mr. Vincent Cheng Hoi-chuen and Mr. Alasdair George Morrison sit on various government advisory committees.

A list of Members of the Board and the Executive Directorate and their roles and functions is available on both the Company and the Stock Exchange websites. Biographies of the Members of the Board and the Executive Directorate, and the other Member of the Executive Committee are set out on pages 116 to 123.

As permitted under its 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's Insurance and Risk Strategy Committee undertook a detailed review of the Company's D&O insurance policy in September 2012 in light of recent trends in the insurance market. The review benchmarked the amount of cover against other similar companies and considered whether separate cover was required for Members of the Executive Directorate or Members of the Board. The conclusion of the review was that the level of cover was adequate and, given this limit, together with the indemnity provided by the Company to Members of the Board, the broad policy wording and the financial strength of the insurance panel, no additional cover was required.

In January 2012, a questionnaire was sent to all Members of the Board in order to enable the performance of the Board to be evaluated. The questionnaire sought their views on, for example, the overall performance of the Board, the composition of the Board, conduct of Board Meetings and provision of information to the Board. The responses to the questionnaire were thoroughly analysed and discussed at the Private Board Meeting held in April 2012 and any suggestions made by Members of the Board have been incorporated as further improvements to the overall corporate governance regime.

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

Chairman and Chief Executive Officer

The posts of Chairman and CEO are distinct and separate (please also refer to their appointments on page 95). The non-executive Chairman is responsible for chairing and managing the operations of the Board, as well as monitoring the performance of the CEO and other Members of the Executive Directorate. Apart from making sure that adequate information about the Company's business is provided to the Board on a timely basis, the Chairman provides leadership for the Board, and ensures views on all principal and appropriate issues are exchanged by all Directors (including the non-executive Directors) in a timely manner, by encouraging them to make a full and effective contribution to the discussion. Under the Chairman's guidance, all decisions have reflected the consensus of the Board.

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

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

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

At regular Board Meetings, Members of the Executive Directorate together with senior managers report to the Board on their respective areas of business, including the railway operations, station commercial and retail related business, progress of projects, property and other businesses, financial performance, legal issues, safety governance, risk management, corporate governance, human resources, sustainability, corporate responsibility and outlook. The CEO also submits his Executive Summary ("CEO Executive Summary") which focuses on the overall strategies and principal issues of the Company, to the Board. These reports, together with the discussions at Board Meetings, ensure that Members of the Board have a general understanding of the Company's business and provide information to enable them to make informed decisions for the benefit of the Company.

The CEO Executive Summary has been made available to Members of the Board on a monthly basis since April 2012.

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

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

Unless specifically permitted by the Articles of Association, a Director cannot cast a vote on any contract, transaction, arrangement or any other kind of proposal in which he has an interest and which he knows is material. For this purpose, interests of a person who is connected with a Director (including any of his associates) are treated as the interests of the Director himself. Interests purely as a result of an interest in the Company's shares, debentures or other securities are disregarded. A Director may not be included in the quorum for such part of a meeting that relates to a resolution he is not allowed to vote on but he shall be included in the quorum for all other parts of that Meeting. This reduces potential conflicts which might otherwise arise between the Company's business and an individual Director's other interests or appointments. The removal by the Stock Exchange of the 5% threshold exemption for voting on a resolution in which a director has an interest and its implications have been brought to the attention of Members of the Board at the January 2012 Board Meeting.

(Please also refer to the "Material Interests and Voting" section on page 100.)

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

Board Meetings

The Board held seven regular Meetings in 2012.

During 2012 and in addition to the regular reports on the business and financial performance, examples of other key matters discussed at Board Meetings included Hong Kong's train service (including the Listening & Responding Programme of service enhancement initiatives and the operation of the Fare Adjustment Mechanism), railway projects (such as South Island Line (East), Kwun Tong Line Extension and Shatin-Central Link), contract awards relating to railway projects (e.g. Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link, South Island Line (East), Kwun Tong Line Extension and Shatin-Central Link), Mainland of China's railway projects (e.g. Shenzhen Metro Line 4 and Beijing Metro Line 4's operations), overseas train operations (e.g. London Overground, Stockholm's Metro and Melbourne's Metropolitan train system), 2013 Budget and Longer Term Forecast, shareholders' analysis and investors' feedback, corporate governance, enterprise risk management, safety governance, internal control system, corporate responsibility, sustainability and pay review.

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

The matters in relation to (i) US$3 Billion Debt Issuance Programme – Supplemental Prospectus, (ii) Tender Submission of an Overseas Franchise, and (iii) Intercity Fare Arrangement, were approved by Members of the Board by circulation because the timing of approval did not meet the scheduled regular Board Meetings. Neither the substantial shareholder nor a Member of the Board has any interest in these three matters.

Private/Other Board Meetings

In addition to the above regular Board Meetings which dealt with the business of the Company, the Chairman held three private/other Board Meetings during the year.

The first Meeting was held on 26 April 2012 with all non-executive Directors to: (i) discuss the summary of responses to the Board Evaluation Questionnaire, (ii) review the contribution required from a Director to perform his/her responsibilities to the Company, and whether he/she was spending sufficient time in performing them, and (iii) discuss Executive Directorate performance and succession. LD&S assisted the Chairman in facilitating the discussion. The CEO attended the meeting for item (iii), but there were no other Executive Directors or staff present at the meeting.

The second Meeting was a Special Board Meeting held on 30 May 2012 with Members of the Board and the Executive Directorate to discuss a property development project in the Mainland of China.

The third Meeting was held on 9 July 2012 with non-executive Directors and the CEO to discuss the appointment of the Deputy CEO.

The attendance record of each Member of the Board (and relevant Members of the Executive Directorate) is set out below:

Meetings Held in 2012

	Board	Private/ Other Board	Audit Committee	Remuneration Committee	Nominations Committee	Corporate Responsibility Committee	Annual General Meeting
Number of Meetings	7	3	4	2	2	2	1
MEMBERS OF THE BOARD							
Non-executive Directors							
Dr. Raymond Ch'ien Kuo-fung (Chairman)	7/7	3/3			2/2	2/2	1/1
Commissioner for Transport (Joseph Lai Yee-tak up to 27 May 2012)	3/3	1/1	2/2				1/1
(Carolina Yip Lai-ching (Acting Commissioner for Transport) from 28 May 2012 to 15 July 2012)	1/1	2/2					
(Susie Ho Shuk-yee from 16 July 2012 to 7 October 2012)	1/1		1/1				
(Ingrid Yeung Ho Poi-yan since 8 October 2012)	2/2		1/1				
Secretary for Transport and Housing (Eva Cheng up to 30 June 2012)	3/3	1/2 (Note 1)			2/2	1/1	0/1
(Professor Anthony Cheung Bing-leung from 1 July 2012)	3/4 (Note 2)	1/1				0/1 (Note 2)	
Professor Chan Ka-keung, Ceajer	4/7 (Note 3)	2/3 (Note 3)		1/2 (Note 3)	2/2		1/1
Independent Non-executive Directors							
Vincent Cheng Hoi-chuen	6/7 (Note 4)	3/3		2/2 (Note 4)		1/2	1/1
Christine Fang Meng-sang	7/7	2/3			2/2	2/2	1/1
Edward Ho Sing-tin	6/7	3/3		2/2	2/2		1/1
T. Brian Stevenson	6/7	3/3	4/4 (Note 5)	1/2			1/1
Ng Leung-sing	6/7	2/3	4/4		1/2		1/1
Abraham Shek Lai-him	6/7	3/3 (Note 6)			2/2	2/2	1/1
Alasdair George Morrison	6/7 (Note 7)	3/3	4/4 (Note 7)	1/2			1/1
Executive Director							
Jay Herbert Walder (CEO)	7/7	3/3				1/1 (Note 8)	1/1
MEMBERS OF THE EXECUTIVE DIRECTORATE							
Gillian Elizabeth Meller (Legal Director & Secretary)						2/2	
Morris Cheung Siu-wa (Human Resources Director since 17 July 2012)						2/2 (Note 9)	

Notes

1 *The alternate director of Ms. Eva Cheng attended the other Private/Other Board Meeting.*
2 *The alternate directors of Professor Anthony Cheung Bing-leung attended the other Board Meeting and Corporate Responsibility Committee Meeting.*
3 *The alternate directors of Professor Chan Ka-keung, Ceajer attended the other Board Meetings, Private/Other Board Meeting, and the other Remuneration Committee Meeting.*
4 *Mr. Vincent Cheng Hoi-chuen attended two Board Meetings and the two Remuneration Committee Meetings by teleconference.*
5 *Mr. T. Brian Stevenson attended one Audit Committee Meeting by teleconference.*
6 *Mr. Abraham Shek Lai-him attended one Private/Other Board Meeting by teleconference.*
7 *Mr. Alasdair George Morrison attended one Board Meeting and one Audit Committee Meeting by teleconference.*
8 *Mr. Jay Herbert Walder was invited to attend the October 2012 Corporate Responsibility Committee Meeting and appointed as a member of the Corporate Responsibility Committee at the October 2012 Board Meeting.*
9 *Mr. Morris Cheung Siu-wa was appointed as a member of the Corporate Responsibility Committee at the October 2011 Board Meeting.*

Material Interests and Voting

Please refer to the "Board Proceedings" section on page 97 regarding the common law duty of the Directors to act in the best interests of the Company and the prohibition on them to vote on any contract, transaction, arrangement or any other kind of proposal in which they have a material interest.

Government's Representatives on the Board

The Government is a substantial shareholder of the Company and has nominated three representatives (the two Additional Directors and Professor Chan Ka-keung, Ceajer) as Members of the Board and, like any other Director, they are obliged to act in the best interests of the Company.

On appointment to the Board and, as for any other Director, each Government-nominated Director is given a comprehensive, formal and tailored induction programme highlighting, among other things, his/her duties under general law, statutes and the Listing Rules (including the fiduciary duty to act in good faith in the best interests of the Company as a whole, considering the interests of all its shareholders, majority or minority, present and future).

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

There are a number of contractual arrangements that have been entered into between the Company and the Government (and its related entities), some of which are continuing in nature. As the 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 section headed "Continuing Connected Transactions" on pages 136 to 152 explains how, in accordance with the Listing Rules, these transactions are treated.

(Please also refer to the "Board Proceedings" section on page 97 regarding Directors' declarations of interest and voting.)

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

A person may be appointed as a Member of the Board at any time either by the shareholders in general meeting or by the Board upon the recommendation of the Nominations Committee of the Company. For appointment to be made by shareholders, please refer to the procedures available on the Company and the Stock Exchange websites. Directors who are appointed by the Board must retire at the first annual general meeting after their appointment. A Director who retires in this way is eligible for election at that annual general meeting, but is not taken into account when deciding which and how many Directors should retire by rotation. In either case, the Directors so elected and appointed are eligible for re-election and re-appointment.

At each annual general meeting of the Company, one third of the Directors (or, if the number of Directors is not divisible by three, such number as is nearest to and less than one third) must retire as Directors by rotation.

Additional Directors may not be removed from office except by the Chief Executive of the HKSAR. These Directors are not subject to any requirement to retire by rotation nor will they be counted in the calculation of the number of Directors who must retire by rotation. In all other respects, the Additional Directors are treated for all purposes in the same way as other Directors and are, therefore, subject to the normal common law duties of directors, including to act in the best interests of the Company. Please refer to the "Material Interest and Voting" section on this page.

Ahead of the new CG Code requiring an issuer to have formal letters of appointment for directors, the Company had a service contract with each of the non-executive Directors (including Dr. Raymond Ch'ien Kuo-fung (non-executive Chairman) and Professor Chan Ka-keung, Ceajer (S for FS&T) but excluding the two Additional Directors) specifying the terms of his/her continuous appointment as a non-executive Director and a Member of the relevant Board Committees, for a period not exceeding three years.

At the 2012 Annual General Meeting held on 3 May 2012 (the "2012 AGM"), Mr. Jay Herbert Walder retired from office pursuant to Article 85 of the Articles of Association and was elected as a Member of the Board. In addition, Dr. Raymond Ch'ien Kuo-fung, Professor Chan Ka-keung, Ceajer, and Mr. T. Brian Stevenson retired from office by rotation pursuant to Articles 87 and 88, and were re-elected as Members of the Board at the 2012 AGM.

For details of the Members of the Board who will retire from office at the 2013 Annual General Meeting pursuant to the relevant Articles of Association, please refer to the Circular dated 9 April 2013 to shareholders – Proposed General Mandates to Issue and Repurchase Shares, Re-election of Directors and Notice of Annual General Meeting.

Induction Programme and Other Training

Induction Programme

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

A tailor-made training programme covering the roles of a director from the strategic, planning and management perspective, as well as the essence of corporate governance and the trends in these areas, was therefore arranged for new Members of the Board (Professor Anthony Cheung Bing-leung, Miss Susie Ho Shuk-yee, Mrs. Ingrid Yeung Ho Poi-yan and Mr. Jay Herbert Walder (CEO)), new Alternate Directors (Mr. Andy Chan Shui-fu, Ms. Mable Chan and Ms. Elizabeth Tse Man-yee) and Mr. Morris Cheung Siu-wa (Human Resources Director), all of whom were appointed in 2012.

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

All Members of the Board (including their alternate directors) are also given a Directors' Manual on their appointment which sets out, amongst other things, directors' duties, and the Terms of Reference of the Board on its Corporate Governance Functions and of its Board Committees. The Directors' Manual is updated from time to time to reflect developments in those areas, following a report on the same at relevant Board Meeting(s). The latest update to the Directors' Manual was in January 2013 following the implementation of the new legislation on disclosure of inside information under the Securities and Futures Ordinance ("SFO") and the associated changes to the Listing Rules, both effective from 1 January 2013.

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

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

In June 2012, a site visit was held for Members of the Board to the Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link to allow them to obtain a better understanding of the construction progress of the project, including the West Kowloon Terminus. The tour was followed by a visit to a tunnel boring machine launching shaft and bored tunnel.

Briefings on the new CG Code, the new statutory disclosure obligations on inside information, and associated Listing Rules were given in January and December 2012 respectively to Members of the Board and the Executive Directorate by the Company's external legal advisor jointly with LD&S.

Detailed guidelines on how to ensure compliance with the new statutory disclosure obligations on inside information were also established and copied to Members of the Board and the Executive Directorate.

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

During 2012, the current Members of the Board and the Executive Directorate received training in the following areas:

Directors	Induction Training*	Board Briefings on Company's Businesses/Site Visits	Reading Regulatory Updates and/or attending relevant training sessions
Non-executive Directors			
Dr. Raymond Ch'ien Kuo-fung (Chairman)	N/A	√	√
Professor Chan Ka-keung, Ceajer (Secretary for Financial Services and the Treasury)	N/A	√	√
Secretary for Transport and Housing (Professor Anthony Cheung Bing-leung)	√	√	√
Commissioner for Transport (Ingrid Yeung Ho Poi-yan)	√	√	√
Independent Non-executive Directors			
Vincent Cheng Hoi-chuen	N/A	√	√
Christine Fang Meng-sang	N/A	√	√
Edward Ho Sing-tin	N/A	√	√
Alasdair George Morrison	N/A	√	√
Ng Leung-sing	N/A	√	√
Abraham Shek Lai-him	N/A	√	√
T. Brian Stevenson	N/A	√	√
Executive Director			
Jay Herbert Walder (Chief Executive Officer)	√	√	√
Other Members of the Executive Directorate			
Lincoln Leong Kwok-kuen (Deputy Chief Executive Officer)	N/A	√	√
Morris Cheung Siu-wa (Human Resources Director)	√	√	√
Chew Tai Chong (Projects Director)	N/A	√	√
Jacob Kam Chak-pui (Operations Director)	N/A	√	√
Gillian Elizabeth Meller (Legal Director and Secretary)	N/A	√	√
David Tang Chi-fai (Property Director)	N/A	√	√
Jeny Yeung Mei-chun (Commercial Director)	N/A	√	√

* *Applicable to new Directors who were appointed in 2012.*

Training and Continuous Professional Development – Senior Executives

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

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

To benchmark and learn from other leading businesses in Hong Kong, an Executive Excellence Consortium was established with other five founding organisations, which provides Senior Executives a platform for cross-organisational learning and benchmarking of best business practices.

In light of the new disclosure obligations on inside information, a "Corporation Notice – Disclosure of Inside Information under the Securities and Futures Ordinance" was issued to all Managers and above in January 2013. In addition, briefings by the Company's external legal advisor were organised for the Company's Officers for them to understand and discuss the new legislation. They can also refresh their memory by accessing the Company's intranet for a video of the briefing.

Accountability

The Members of the Board are responsible for preparing the accounts of the Company and of the Group. The accounts are prepared on a going concern basis and give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2012, and of the Group's profit and cash flow for the year then ended. In preparing the accounts for the year ended 31 December 2012, the Members of the Board have selected appropriate accounting policies and, apart from those new and amended accounting policies as disclosed in the notes to the accounts for the year ended 31 December 2012, have applied them consistently with previous financial periods. Judgments and estimates have been made that are prudent and reasonable. The reporting responsibilities of the External Auditor are set out on page 110.

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

Board Committees

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

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

Audit Committee

The Audit Committee consists of four non-executive Directors, three of whom are INEDs. The Members of the Committee are Mr. T. Brian Stevenson (chairman), Mr. Ng Leung-sing, the C for T (being Mr. Joseph Lai Yee-tak up to 27 May 2012, Ms. Carolina Yip Lai-ching (Acting C for T) from 28 May 2012 to 15 July 2012, Miss Susie Ho Shuk-yee from 16 July 2012 to 7 October 2012 and Mrs. Ingrid Yeung Ho Poi-yan from 8 October 2012), and Mr. Alasdair George Morrison. Mr. Stevenson, Mr. Ng and Mr. Morrison are INEDs. None of the Committee Members is a partner or former partner of KPMG, the Company's External Auditor. The Deputy CEO, the Head of Internal Audit and representatives of the External Auditor of the Company are expected to attend Meetings of the Committee. At the discretion of the Committee, others may also be invited to attend Meetings. The Committee meets regularly, and the External Auditor or the Deputy CEO may request a Meeting if they consider it necessary. During 2012, the Committee met four times.

Duties of Audit Committee

Under its Terms of Reference, the duties of the Audit Committee include financial and efficiency aspects as described below. Amongst other things, the Committee is required to oversee the relationship with the External Auditor, to review the financial information of the Company, and to oversee the Company's financial reporting system and internal control procedures. The Committee discusses with the External Auditor the nature and scope of audit and reporting obligations before the audit commences. Apart from giving pre-approval of all audit services, the Committee also pre-approves any non-audit services for complying with relevant legal requirements. The Committee is primarily responsible for making recommendations to the Board on the appointment, re-appointment and removal of the External Auditor, and approving the remuneration and terms of such engagement.

With respect to financial information of the Company, the Committee monitors the integrity of financial statements, annual and interim reports and accounts, together with the preliminary announcement of results and other announcements regarding the Company's financial information to be made public. In dealing with the financial information, the Committee liaises with the Board and the Executive Directorate (including the Deputy CEO), and the chairman of the Committee further meets on an ad hoc basis with the Head of Internal Audit, representatives of the External Auditor, and Management. Apart from considering issues arising from the audit, the Committee discusses any matters that auditor(s) may wish to raise either privately or together with executive Director(s) and any other person.

The Committee is required to review, at least annually, the effectiveness of the Company's financial controls, internal control and risk management systems and to report to the Board that such a review has been carried out. These controls and systems allow the Board to monitor the Company's overall financial position and to protect its assets. The Committee's review for 2012 also covered its role in overseeing the Management's review of the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget. Please refer to the section headed "Internal Controls" below. The Committee reviews and approves the annual Internal Audit Plan which includes audits on the efficiency of chosen activities or operations of the Company. In addition, the Committee reviews periodic reports from the Head of Internal Audit and the follow-up of major action plans recommended, and puts forward recommendations to the Board where appropriate.

In line with the new CG Code, the Terms of Reference of the Committee have been revised and were approved at the January 2012 Board Meeting.

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

The minutes of the Audit Committee Meetings are prepared by the secretary of the meeting with details of the matters considered by the Committee Members and decisions reached, including any concerns raised by the Committee Members and dissenting views expressed. The draft minutes are circulated to the Committee Members for comments and the final version of the minutes is sent to the Committee Members for their records within a reasonable time after the Meeting and the minutes are open for inspection by the Committee Members at the Company's registered office. With reference to the Agenda Framework, the chairman of the Committee makes final determination on the agenda for the regular Committee Meetings.

Work Performed by Audit Committee

In 2012, the Audit Committee held four Meetings and, based on the Agenda Framework pre-agreed with the chairman of the Committee, a total of four Meetings have been scheduled for 2013. Among the four Meetings held in 2012, the Audit Committee had two separate Meetings for reviewing the annual results for the year ended 31 December 2011. The first Meeting concentrated on the business operations, internal control and internal audit related items, as well as outstanding litigation, compliance and enterprise risk management issues, while the second Meeting focused on the accounting and financial reporting matters.

The major work performed by the Committee in 2012 included:

- Review of and recommendation for the Board's approval the draft 2011 Annual Report and Accounts and 2012 Interim Report and Accounts;
- Review of Management Letter, tax issues, compliance and salient features of 2011 Annual Accounts and 2012 Interim Accounts presented by KPMG, the External Auditor;
- Review of two Half-yearly Reports prepared by the Internal Audit Department;
- Approval of the 2013 Internal Audit Plan;
- Pre-approval of the audit and non-audit services provided by KPMG, the External Auditor;
- Review of KPMG's fees proposal for the 2012 audit;
- Preview of 2012 annual accounting and financial reporting issues;
- Review of an Update on Quality Assessment Review on Internal Audit;
- Review of an Update on the Management Governance Framework;
- Review of a Whistle-blowing Framework;
- Review of the Report on Internal Control system for the year ended 31 December 2011;
- Review of the Report on Evaluation of Effectiveness of Internal Audit Department for 2011;
- Review of the Report on Staff Complaints for 2011;
- Review of the Enterprise Risk Management Report for 2011;
- Review of the outstanding litigation and compliance issues regarding Operating Agreement and Rail Merger Transaction Agreements, statutes and regulations relevant to the business of the Company;

- Confirmation of the financial figures for the 2011 payout under "2008 Variable Incentive Scheme";
- Review key issues from the Audit/Governance Committees Minutes of wholly owned subsidiaries;
- Review of the Report on a Review of the Internal Audit Charter; and
- Holding of private sessions with Head of Internal Audit and the External Auditor without the presence of Management.

Representatives of the External Auditor, the Deputy CEO and the Head of Internal Audit attended all those Meetings for reporting and answering questions about their work. Further to that and by invitation, the Operations Director, the Commercial Director, the Projects Director, the Property Director and LD&S (or their representatives) had respectively provided an overview of the Company's railway operations, non-fare businesses, new railway projects, property business as well as outstanding litigation, compliance and enterprise risk management matters to the Members at the Meetings. The Deputy CEO also provided an overview of the business development and expansion outside of Hong Kong.

The attendance record of each Committee Member is shown on page 99 under the section "Board Proceedings".

Remuneration Committee

The Remuneration Committee consists of five non-executive Directors, four of whom are INEDs. The Members of the Remuneration Committee are Mr. Edward Ho Sing-tin (chairman), Mr. T. Brian Stevenson, Mr. Vincent Cheng Hoi-chuen, Professor Chan Ka-keung, Ceajer and Mr. Alasdair George Morrison. Mr. Ho, Mr. Stevenson, Mr. Cheng and Mr. Morrison are INEDs.

Duties of Remuneration Committee

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

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

As mentioned earlier, the Terms of Reference were approved at the January 2012 Board Meeting.

Work Performed by Remuneration Committee

In 2012, the Remuneration Committee held two Meetings. In accordance with its Terms of Reference, the Committee performed the following work during the year:

- Approved the 2011 Remuneration Report as incorporated in the 2011 Annual Report;
- Reviewed and approved payouts under the Company's performance-based variable incentive scheme for the 2011 performance period;
- Reviewed and approved share option awards for Members of the Executive Directorate and other eligible employees;
- Conducted an annual review of the remuneration packages for Members of the Executive Directorate, which took effect in July 2012; and
- Determined and approved the remuneration packages for the following Members of the Executive Directorate:
  - Mr. Lincoln Leong Kwok-kuen as Deputy CEO (from 16 July 2012), and
  - Mr. Morris Cheung Siu-wa as Human Resources Director (from 17 July 2012).

The Remuneration Committee also met on 5 March 2013 to approve the 2012 Remuneration Report, which is set out on pages 112 to 115 and includes a description of the remuneration policy of the Company.

Attendance record of each Committee Member is shown on page 99 under the section "Board Proceedings".

Nominations Committee

The Nominations Committee consists of seven non-executive Directors, four of whom are INEDs. The Members of the Nominations Committee are Mr. Edward Ho Sing-tin (chairman), Dr. Raymond Ch'ien Kuo-fung, Ms. Christine Fang Meng-sang, Mr. Abraham Shek Lai-him, Mr. Ng Leung-sing, Professor Chan Ka-keung, Ceajer and the S for T&H (being Ms. Eva Cheng up to 30 June 2012, and Professor Anthony Cheung Bing-leung from 1 July 2012). Mr. Ho, Ms. Fang, Mr. Shek and Mr. Ng are INEDs.

Duties of Nominations Committee

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

In line with the new CG Code, the Terms of Reference of the Nominations Committee have been revised and were approved at the January 2012 Board Meeting to include additional duties to review the structure, size and composition of the Board and to identify individuals suitably qualified to become Members of the Board.

In addition, the Nominations Committee will give consideration to the Board Diversity Policy which was recently approved at the March 2013 Board Meeting.

Work Performed by Nominations Committee

In 2012, the Nominations Committee held two Meetings. In accordance with its Terms of Reference, the Committee performed the following work during the year:

- Recommendation to the Board for the purpose of 2012 AGM:
  - The appointment/re-appointment of Directors who stood for election/re-election at the AGM, and
  - The independence of the independent non-executive Directors who stood for re-election at the AGM; and
- Annual review of the size, structure and composition of the Board.

The attendance record of each Committee Member is shown on page 99 under the section "Board Proceedings".

Corporate Responsibility Committee

The Corporate Responsibility Committee includes two non-executive Directors (i.e. Dr. Raymond Ch'ien Kuo-fung (Chairman) and the S for T&H (being Ms. Eva Cheng up to 30 June 2012, and Professor Anthony Cheung Bing-leung from 1 July 2012)), three INEDs (i.e. Ms. Christine Fang Meng-sang, Mr. Abraham Shek Lai-him and Mr. Vincent Cheng Hoi-chuen) and three Executive Directors (i.e. Mr. Jay Herbert Walder * (CEO), Ms. Gillian Elizabeth Meller (LD&S) and Mr. Morris Cheung Siu-wa (Human Resources Director)).

* *At the October 2012 Board Meeting, the Board appointed Mr. Jay Herbert Walder (CEO) as a Member of the Committee.*

Duties of Corporate Responsibility Committee

The duties of the Committee are to recommend a corporate responsibility policy to the Board for approval, monitor and oversee the implementation of the Company's corporate responsibility policy and initiatives, identify emerging corporate responsibility issues arising from external trends, review the Company's annual Sustainability Report and recommend endorsement by the Board, and provide updates to the Board as required. Please also refer to the "Corporate Responsibility" section on pages 92 to 93 of this Annual Report.

Work Performed by Corporate Responsibility Committee

In 2012, the Corporate Responsibility Committee held two Meetings. The major work performed by the Committee in 2012 included:

- Review of the implementation of the Company's community and staff engagement and communication programmes;
- Review of the sustainability development and environmental management of the Company;
- Review of corporate responsibility development of the Company; and
- Review of and recommendation for the Board's approval of the scope for the draft 2011 Sustainability Report.

Company Secretary

Ms. Gillian Elizabeth Meller has been LD&S and a Member of the Executive Directorate since 1 September 2011. As LD&S, Ms. Meller reports to the CEO. All Members of the Board have access to the advice and services of LD&S, who is responsible for ensuring that the correct Board procedures are followed and advises the Board on all corporate governance matters. On appointment to the Board, LD&S has arranged for each of the Directors (including alternate directors) to receive a comprehensive, formal and tailored induction programme on key areas of business operations and practices of the Company, as well as the general and specific duties of directors under general law (common law and legislation) and the Listing Rules. To assist Directors' continuing professional development, LD&S recommends Directors to attend relevant seminars and courses and arranges for training on relevant new or amended legislation or other regulations to be provided at Board Meetings. The costs for such training are borne by the Company. During 2012, the Company Secretary undertook over 15 hours of professional training to update her skills and knowledge.

Internal Controls

The Board is responsible for the internal control systems of the Company and its subsidiaries, setting appropriate policies and reviewing the effectiveness of the internal control systems. Internal control is defined as a process effected by the Board, Management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following areas:

- effectiveness and efficiency of operations
- reliability of financial reporting
- compliance with applicable laws and regulations
- effectiveness of risk management functions

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

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

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

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

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

Various risk management strategies have been established by the Board as advised by the Executive Committee to identify, assess and reduce risks, including construction, business operations, finance, treasury, safety and enterprise risks as well as to ensure appropriate insurance coverage.

Risk Assessment and Management

The Company's Enterprise Risk Management framework is an essential and integral part of corporate governance to help in sustaining business success and creating value for stakeholders. It is a corporate-wide systematic risk management process which aims to assist the Executive Committee and individual business areas to manage the key risks and support the Board in discharging its corporate governance responsibilities.

More details of the framework and process are given in the section headed Risk Management on page 88.

Control Activities and Processes

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

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

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

A whistle-blowing policy has been put in place to deal with concerns related to fraudulent, unethical acts or non-compliances with laws and Company's policies that have or could have significant adverse financial, legal or reputational impact on the Company. The policy applies to all staff, parties who deal with the Company as well as the general public.

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

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

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

The processes for assessing internal controls by the Audit Committee included: regular interviews with members of the Executive Committee in relation to key business operations, internal control and compliance issues, both financial and non-financial; review of significant issues arising from internal audit reports and external audit report, private sessions with internal and external auditors, and review of annual assessment and certification of internal controls from members of the Executive Committee, management of overseas subsidiaries and department heads in their areas of responsibility. The Audit Committee has also reviewed the papers prepared by the Executive Committee and Internal Audit Department covering: 2011 Annual Report and Accounts, Preview of 2012 Annual Accounting issues, 2012 Interim Accounts, 2013 Internal Audit Plan, Internal Audit Department's Half-yearly Reports, Report on Whistle-blowing, Report on the Company's Internal Control System, Reporting of Outstanding Litigation and Compliance Issues, Enterprise Risk Management Report and Evaluation of Effectiveness of Internal Audit Department. The chairman of the Committee meets on an ad hoc basis with the Head of Internal Audit, representatives of the External Auditor and Management of the Company as appropriate. He summarizes activities of the Committee and highlights issues arising therefrom by a report to the Board after each Audit Committee Meeting.

The Company is committed to recruit, train and develop a team of qualified and competent accountants in order to oversee its financial reporting and other accounting-related matters. A process to capture and update relevant laws, rules and regulations applicable to the reporting and accounting function is in place. Designated officers will ensure relevant standards and ordinances including Hong Kong Financial Reporting Standards, the Listing Rules and the Companies Ordinance under their responsibility are complied with. Resources and provisions required to deliver accounting and financial reporting function are critically reviewed during the annual budgeting exercise. Company-wide recruitment process 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 Deputy CEO who will conduct a formalized annual review and report to the Audit Committee for the review results. Confirmation of the process is also monitored by the Internal Audit Department. 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.

The Board has, through the Audit Committee, conducted the review of the effectiveness of the Company's internal control systems for the year ended 31 December 2012, covering all material financial, operational and compliance controls, and the risk management function, and concluded that adequate and effective internal controls are maintained to safeguard the shareholders' investment and the Company's assets. There were no significant control failings, weaknesses or significant areas of concern identified during the year which might affect shareholders.

Crisis Management Team

To uphold the reputation of being one of the best companies in Hong Kong 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 shareholders, the Company has an established mechanism since 1995 to activate the formation of the Crisis Management Team in the event of a crisis. The Crisis Management Team comprises relevant Members of the Executive Directorate and Executive Managers, and its operation is governed by a Crisis Management Plan which, among other things, sets out the duties of respective members. The Crisis Management Plan is kept in line with world-class standards and up-to-date through regular reviews. The Crisis Management Team conducts regular exercises to validate the crisis management organisation and arrangements and to provide practices for members. An exercise was conducted in the first quarter of 2012.

Continuous Disclosure Obligations Regarding Inside Information

The Company has developed a system with established policies, processes and procedures across all relevant Division(s) and Department(s) for complying with the disclosure obligations regarding price sensitive information. The system was reviewed by a cross-departmental task force in late 2008 and was considered effective in dealing with the relevant disclosure obligations.

As the disclosure obligations relating to price sensitive information (formerly governed by the Listing Rules) are now governed by the SFO, with effect from 1 January 2013, (the "Legislation") in which the term "price sensitive information" was replaced by "Inside Information", the Board has approved, at the December 2012 Board Meeting, the following additional measures to enhance the existing system:

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

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

Governance of Subsidiaries and Affiliated Companies

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

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

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

Model Code for Securities Transactions by Directors of Listed Issuers

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules ("Model Code"). After having made specific enquiry, the Company confirms that Members of the Board and the Executive Directorate complied throughout the year with the Model Code. Senior managers, other nominated managers and staff who, because of their office in the Company, are likely to be in possession of unpublished price sensitive/Inside Information, have been requested to comply with the provisions of the Model Code. In addition, every employee is bound by the Code of Conduct issued by the Company, amongst other things, to keep unpublished price sensitive/Inside Information in strict confidence.

Business Ethics

The Company's continued success depends on unswerving adherence to a high standard of business ethics and integrity. To help employees understand and comply with our requirements on ethical practices, the Company has developed the Code of Conduct, Corporate Guidebook for All Staff and Corporate Guidebook for Managers (the "Guidebooks"). Every two years, we review and update the Code of Conduct and the Guidebooks to ensure appropriateness and compliance with the law. All employees are required to acknowledge their understanding and acceptance of the relevant documents. Staff members are encouraged to report existing or perceived violations and malpractices. If they have genuine suspicions about wrongdoings, there are proper procedures pursuant to the Whistle-blowing policy of the Company, through which they can raise their concerns in a safe environment and in complete confidence.

To ensure new recruits understand our ethical commitments, the Code of Conduct and the Guidebooks are briefed to them in staff induction programmes. In addition, the Code of Conduct is uploaded onto the Company's website.

The Company has extended the scope of the Code of Conduct to cover subsidiaries in the Mainland of China and a simplified Chinese-language version of the Code of Conduct has been made available to staff there. Under the Code of Conduct, all subsidiaries are required to observe the relevant local laws and regulations. At the same time, the Company has been promoting a comparable ethical culture in joint venture companies. Guidelines on business ethics for staff have also been published.

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 the audit firm or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as part of the audit firm nationally or internationally) are set out in note 9D to the accounts on page 175.

For maintaining integrity and objectivity as the External Auditor of the Company, KPMG implements policies and procedures to comply with professional ethics and independence policies and requirements applicable to the work it performs. In addition, KPMG requires its audit partner serving the Group to rotate off the audit engagement with the Company at least once every seven years.

Communication with Shareholders

Annual General Meeting ("AGM")

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

The 2012 AGM was held on 3 May 2012 at Rotunda 3 (6/F), Kowloonbay International Trade & Exhibition Centre, Kowloon Bay, Hong Kong. To facilitate Shareholders who did not attend the Meeting, the whole proceeding was webcast and posted on the Company's website in the same evening.

The 2013 AGM has been scheduled for 9 May and it is planned to continue providing simultaneous interpretation to facilitate smooth and direct communication between Shareholders and the Company's Directors and Management.

Resolutions passed at the 2012 AGM

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

A total of ten resolutions were passed at the 2012 AGM (with resolution no. 3 comprising four separate resolutions), each by over 94% of the votes cast at the Meeting. The full text of the resolutions is set out in the AGM Circular (which comprised Notice of the AGM) to shareholders dated 29 March 2012. For the benefit of those shareholders who did not attend the AGM, below is a succinct summary of the resolutions passed:

(1) Adoption of the audited Statement of Accounts and the Reports of the Directors and the Auditors of the Company for the year ended 31 December 2011;

(2) Declaration of a final dividend of HK$0.51 per share for the year ended 31 December 2011;

(3) (a) Re-election of Dr. Raymond Ch'ien Kuo-fung as a Member of the Board of Directors of the Company;

(b) Re-election of Professor Chan Ka-keung, Ceajer as a Member of the Board of Directors of the Company;

(c) Re-election of Mr. T. Brian Stevenson as a Member of the Board of Directors of the Company; and

(d) Election of Mr. Jay Herbert Walder as a Member of the Board of Directors of the Company.

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

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

(6) Grant of a general mandate to the Board of Directors to purchase shares in the Company, not exceeding ten per cent. of the Company's issued share capital as at the date of this resolution*; and

(7) Conditional on the passing of resolutions 5 and 6, authorisation of the Board of Directors to exercise the powers to allot, issue, grant, distribute and otherwise deal with additional shares in the Company under resolution 5 in respect of the aggregate nominal amount of share capital in the Company purchased by the Company*.

* *(The full text of the resolution is set out in the Notice of the 2012 AGM.)*

The poll results were posted on the websites of both the Company and the Stock Exchange on the same day after the AGM.

Extraordinary General Meeting ("EGM")

The Company may also communicate with its shareholders through EGMs if and when appropriate.

If shareholders want to convene an EGM of the Company, those shareholders may requisition the Directors of the Company to do so, provided that at the date of requisition they hold, in aggregate, not less than one-twentieth of the paid-up capital of the Company. The shareholders' requisition must state the objects of the meeting requested and must be deposited at the registered office of the Company. The requisition may consist of several documents in like form, each signed by one or more of the shareholders concerned.

If, within 21 days from the date of the deposit of the requisition, the Directors of the Company do not proceed duly to convene an EGM for a day not more than 28 days after the date on which the notice convening the EGM is given, the relevant shareholders, or any of them representing more than one-half of the total voting rights of all of them, may themselves convene an EGM, provided that any EGM so convened is held within three months from the date of the original requisition.

Procedures for Shareholders Putting Forward Proposals

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

As regards proposing a person for election as a director, please refer to the procedures available on the websites of the Company and the Stock Exchange.

Enquiries from Shareholders

The Company has a Shareholders' Communication Policy to provide shareholders with information about the Company to enable them to engage actively with the Company and exercise their rights as shareholders in an informed manner.

The Company's Shareholders Communication Policy available on both the websites of the Company and the Stock Exchange, has set out, amongst other things, a channel for shareholders' access to the Board and Management by writing to the Company Secretary of the Company.

Please also refer to the Investor Relations section on pages 86 to 87 on other means of communication with shareholders.

Constitutional Documents

The Company's Memorandum and Articles of Association (in both English and Chinese) is available on both the websites of the Company and the Stock Exchange. During 2012, there is no change to the Company's Memorandum and Articles of Association.

Remuneration Report

Introduction

The Remuneration Committee has been delegated the authority to consider and recommend to the Board the Company's remuneration policy and the remuneration packages of the non-executive Directors, as well as to review and determine the remuneration packages for the Chief Executive Officer and other Members of the Executive Directorate.

This model, which the Committee has adopted and is set out in its Terms of Reference, is consistent with the new Corporate Governance Code which is effective as from 1 April 2012.

Throughout the year, the Committee meets regularly to discuss and approve remuneration issues pertaining to the Company's variable incentive scheme, share option 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 five non-executive Directors, four of whom are independent non-executive Directors. The Chairman of the Remuneration Committee is an independent non-executive Director. As necessary and with the agreement of the Chairman, the Remuneration Committee is authorised to obtain outside independent professional advice to support the Committee on relevant issues. No individual Director or any of his associates is involved in deciding his own remuneration.

A summary of the work performed by the Remuneration Committee during 2012 is set out in the "Corporate Governance Report" on page 105.

This Remuneration Report has been reviewed and authorised by the Remuneration Committee of the Company.

Remuneration Policy

It is the Company's policy to ensure that remuneration is appropriate and aligns with the Company's goals, objectives and performance. To achieve this, the Company has taken into consideration a number of relevant factors such as salaries paid by comparable companies, job responsibilities, duties and scope, employment conditions elsewhere in the Company and its subsidiaries, market practices, financial and non-financial performance, and desirability of performance-based remuneration.

The Company is committed to effective corporate governance and employing and motivating top quality personnel. The Company also recognises the importance of a formal and transparent remuneration policy covering its Board and Executive Directorate.

Remuneration for Non-Executive Directors

The Remuneration Committee makes recommendations to the Board from time to time on the remuneration of the Members of the Board who are non-executive Directors. The remuneration of non-executive Directors is in the form of annual director's fees.

To ensure that non-executive Directors are appropriately remunerated for their time and responsibilities devoted to the Company, the Committee undertakes periodic reviews and considers the following factors as they put forward recommendations to the Board:

- Fees paid by comparable companies;
- Time commitment;
- Responsibilities of the non-executive Directors; and
- Employment conditions elsewhere in the Company.

Details of remuneration for non-executive Directors are set out in note 10 to the accounts.

Remuneration for Employees

The Company's remuneration structure for its employees, including the Chief Executive Officer and other Members of the Executive Directorate, comprises:

- Fixed compensation – base salary, allowances and benefits-in-kind (e.g. medical);
- Variable incentives – discretionary award; performance-based payment and other business-specific cash incentive plans;
- Long-term incentives – e.g. share options; and
- Retirement schemes.

The specifics of these components are described below.

Fixed Compensation

Base salary and allowances are set and reviewed annually. The annual review process takes into consideration the Company's remuneration policy, competitive market positioning, market practice, as well as the Company's and individuals' performance. Benefits-in-kind are reviewed as and when appropriate taking into consideration market practices.

Variable Incentives

The Chief Executive Officer, other Members of the Executive Directorate and selected management of the Company are eligible to receive an annual cash incentive under the Company's Variable Incentive Scheme, the rules of which are regularly reviewed by the Remuneration Committee.

Under the current scheme rules, the payouts are based on the performance of the Company and individual performance. The Company's performance is measured by both financial and non-financial factors including:

- Return on fixed assets;
- Rolling three-year operating profit;
- Fulfillment of the Customer Service Pledges; and
- Fulfillment of Performance Requirements in relation to "Train Service Delivery", "Passenger Journeys on Time" and "Train Punctuality" as defined in Schedule 2, Part 1 of the Operating Agreement.

Payouts will be automatically reduced if the Company does not achieve any one or more of the Performance Requirements. They will also be adjusted subject to the Company's achievement of all the Customer Service Pledges.

Following the end of each year, the Company engages an independent expert to conduct a review and audit of its performance versus the Performance Requirements and Customer Services Pledges. The results of this audit are shared with the Remuneration Committee to determine if adjustments to the payouts under the scheme are appropriate.

Individual performance ratings are part of the thorough annual performance assessment process that is applied throughout the Company. The performance ratings and assessments reflect the full range of factors over which the individual has accountability, including operational, other non-financial and financial factors. Individual performance ratings for the Members of the Executive Directorate are determined by the Chief Executive Officer, and the performance for the Chief Executive Officer is assessed by the Chairman.

A portion of the target incentive levels under the scheme was originally funded by participants by foregoing their 13th month pay and portions of their fixed allowances. If performance exceeds pre-defined threshold standards, then payouts under the scheme are made annually. Target incentive levels for the Chief Executive Officer and other Members of the Executive Directorate represent approximately 15-30% of total remuneration.

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 2012, special discretionary awards were provided to staff with competent or above performance, including the Chief Executive Officer and Members of the Executive Directorate, as a recognition of their contribution to the Company's good performance and achievements in the past year and to motivate staff to strive for continuous business growth.

Long-Term Incentives

During 2012, the Company maintained two share option schemes, namely the New Joiners Share Option Scheme (the "New Option Scheme") and the 2007 Share Option Scheme (the "2007 Scheme").

While options remain outstanding under the New Option Scheme, no new grants were made under this Scheme since the adoption of the 2007 Scheme.

The 2007 Scheme was approved and adopted by shareholders at the Company's Annual General Meeting on 7 June 2007. The 2007 Scheme is intended to provide employees of the Company and its subsidiaries the opportunity to participate in the growth and success of the Company. Awards under this Scheme were granted to selected employees of the Company in 2012. The Scheme continues to include a provision which specifies that options cannot be exercised under the Scheme unless the Company has satisfied each of the three Key Performance Requirements included in the Operating Agreement in order for any options to be exercised.

Options exercised and outstanding in respect of each Member of the Executive Directorate as at 31 December 2012 under the two Schemes are set out under the paragraph "Board Members' and Executive Directorate's Interests in Shares" of the Report of the Members of the Board.

Details of the two Schemes and options granted to Members of the Executive Directorate and selected employees of the Company under the Schemes are set out in notes 10 & 50 to the accounts.

Mr. Jay H Walder, the Company's Chief Executive Officer, did not participate in the New Option Scheme. He is entitled to an equivalent value in cash of 300,000 shares in the Company following 30 June 2014, being the date on which his initial term of office is expected to expire (35% of which shall be deemed to be earned at 31 October 2013 subject to certain conditions specified in his employment contract).

Retirement Schemes

In Hong Kong, the Company operates five retirement schemes under trust, the MTR Corporation Limited Retirement Scheme (the "MTR Retirement Scheme"), the MTR Corporation Limited Retention Bonus Scheme (the "MTR RBS"), the MTR Corporation Limited Provident Fund Scheme (the "MTR Provident Fund Scheme") and two Mandatory Provident Fund Schemes (the "MTR MPF Scheme" and the "KCRC MPF Scheme") with details as follows:

(a) MTR Retirement Scheme

The MTR Retirement Scheme is a registered scheme under the Occupational Retirement Schemes Ordinance (Cap. 426) and has been granted an MPF Exemption by the Mandatory Provident Fund Schemes Authority (the "MPFA").

The MTR Retirement Scheme has been closed to new employees since 31 March 1999. It provides benefits based on the greater of a multiple of final salary times service and a factor times the accumulated member contributions with investment returns. Members' contributions to the MTR Retirement Scheme are based on fixed percentages of base salary. The Company's contributions are determined by reference to an annual actuarial valuation carried out by an independent actuarial consulting firm.

(b) MTR RBS

The MTR RBS is a registered scheme under the Occupational Retirement Schemes Ordinance. It is a top-up scheme to supplement the MTR Retirement Scheme for employees who are classified by the Company as staff working on designated projects and who are not on gratuity terms. It provides eligible members with benefits only in the event of redundancy for service accrued up to 31 December 2002, offset by any benefits payable from the MTR Retirement Scheme and other applicable schemes. Members are not required to contribute while the Company's contributions are determined by reference to an annual actuarial valuation carried out by an independent actuarial consulting firm.

(c) MTR Provident Fund Scheme

The MTR Provident Fund Scheme is a registered scheme under the Occupational Retirement Schemes Ordinance and has been granted an MPF Exemption by the MPFA. All benefits payable under the MTR Provident Fund Scheme are calculated by reference to members' own contributions and the Company's contributions, together with investment returns on these contributions. Both members' and the Company's contributions are based on fixed percentages of members' base salary.

(d) MTR MPF Scheme

The MTR MPF Scheme, which has been registered with the MPFA, covers those employees who did not opt for or who are not eligible to join the MTR Retirement Scheme or the MTR Provident Fund Scheme. Both members and the Company each contribute to the MTR MPF Scheme at the mandatory levels as required by the Mandatory Provident Fund Schemes Ordinance ("the MPF Ordinance"). The Company makes additional contributions above the mandatory level for eligible members who joined the MTR MPF Scheme before 1 April 2008, subject to individual terms of employment.

(e) KCRC MPF Scheme

The KCRC MPF Scheme, which has been registered with the MPFA, covers those former KCRC employees who were previously members of the KCRC MPF scheme and are eligible to join the MTR Provident Fund Scheme but opt to re-join the KCRC MPF Scheme. Both members and the Company each contribute to the KCRC MPF Scheme at the mandatory levels as required by the MPF Ordinance.

The executive Directors who were hired by the Company before 1 April 1999 are eligible to join the MTR Retirement Scheme. Other executive Directors are eligible to join either the MTR Provident Fund Scheme or the MTR MPF Scheme.

Mr. Walder, the Company's Chief Executive Officer, participated in the MTR MPF Scheme. Both the Company and Mr. Walder each contributed to the MTR MPF Scheme at the mandatory levels as required by the MPF Ordinance.

For subsidiary companies in Hong Kong, Mainland of China, United Kingdom, Sweden and Australia, the Group operates retirement schemes established in accordance with, in the case of subsidiaries in Hong Kong, the MPF Ordinance and, in the case of subsidiaries in Mainland of China and overseas, their respective local regulations.

Remuneration of Non-Executive and Executive Directors

(i) The total remuneration of the Members of the Board and the Executive Directorate (excluding share-based payments) is shown below and the remuneration details are set out in note 10 to the accounts.

in HK$ million	**2012**	2011
Fees	**4.4**	4.4
Base salaries, allowances and other benefits-in-kind	**37.6**	36.9
Variable remuneration related to performance	**17.2**	18.2
Retirement scheme contributions	**3.5**	2.5
	62.7	62.0

(ii) The gross remuneration of non-executive and executive Directors (excluding share-based payments) were within the following bands:

Remuneration	**2012 Number**	2011 Number
HK$0 – HK$500,000	**14**	10
HK$1,000,001 – HK$1,500,000	**1**	2
HK$1,500,001 – HK$2,000,000	**–**	2
HK$2,500,001 – HK$3,000,000	**1**	–
HK$5,000,001 – HK$5,500,000	**4**	–
HK$5,500,001 – HK$6,000,000	**–**	2
HK$6,000,001 – HK$6,500,000	**1**	2
HK$6,500,001 – HK$7,000,000	**1**	1
HK$7,500,001 – HK$8,000,000	**–**	1
HK$9,000,001 – HK$9,500,000	**1**	–
HK$12,000,001 – HK$12,500,000	**1**	–
HK$14,500,001 – HK$15,000,000	**–**	1
	24	21

The information shown in the above table includes the five highest paid employees. The independent non-executive Directors' emoluments are included in the first remuneration band except the non-executive Chairman, whose emolument is included in the second remuneration band.

Edward Ho Sing-tin, *Chairman, Remuneration Committee*
MTR Corporation Limited
Hong Kong, 5 March 2013

Board and Executive Directorate

Dr. Raymond Ch'ien Kuo-fung
(Chairman)

Jay Herbert Walder
(Chief Executive Officer)

Vincent Cheng Hoi-chuen

Christine Fang Meng-sang

Edward Ho Sing-tin

Alasdair George Morrison

Members of the Board

Dr. Raymond Ch'ien Kuo-fung 61, was appointed Non-Executive Chairman in July 2003. He has been a Member of the Board since 1998. Dr. Ch'ien is chairman of China.com Inc., chairman and an independent non-executive director of Hang Seng Bank Limited and a non-executive director of UGL Limited (from 4 September 2012). He is an independent non-executive director of each of Convenience Retail Asia Limited, The Wharf (Holdings) Limited, Swiss Re Ltd and China Resources Power Holdings Company Limited. Dr. Ch'ien also serves on the boards of The Hongkong and Shanghai Banking Corporation Limited and Hong Kong Mercantile Exchange Limited. He is a member of the Economic Development Commission of the Hong Kong SAR Government (from 17 January 2013). In addition, Dr. Ch'ien is a member of the Standing Committee of the Tianjin Municipal Committee of the Chinese People's Political Consultative Conference and the honorary president and past chairman of the Federation of Hong Kong Industries. He was a member of the Executive Council of Hong Kong, then under British Administration, from 1992 to 1997, and a member of the Executive Council of the Hong Kong SAR from 1 July 1997 to June 2002. Dr. Ch'ien was appointed a Justice of the Peace in 1993. He was made a Commander in the Most Excellent Order of the British Empire in 1994 and awarded the Gold Bauhinia Star medal in 1999. In 2008, Dr. Ch'ien was conferred the honour of Chevalier de l'Ordre du Merite Agricole of France. He received a doctoral degree in economics from the University of Pennsylvania in 1978 and became a Trustee of the University in 2006. Dr. Ch'ien was a non-executive director of Inchcape plc., a Hong Kong member of APEC Business Advisory Council, non-executive chairman of HSBC Private Equity (Asia) Limited, chairman of CDC Corporation, a director of CDC Software Corporation, and chairman of the Hong Kong/European Union Business Cooperation Committee.

Jay Herbert Walder 54, was appointed Chief Executive Officer, a Member of the Executive Directorate and a Member of the Board of Directors on 1 January 2012. Mr. Walder worked in the rail industry, both in England and in the United States, for over 20 years. Before joining the Company, he was the Chairman and Chief Executive Officer of the New York Metropolitan Transportation Authority in the United States. Between 2001 and 2007, Mr. Walder was the Managing Director, Finance and Planning, of Transport for London. From 2007 to 2009, he was Partner at McKinsey & Company, London where he was the Global Leader of the Infrastructure Practice for the firm. Mr. Walder holds a Bachelor of Science in Economics with Honors from the State University of New York at Binghamton, Harpur College, and a Master in Public Policy from the John F. Kennedy School of Government at Harvard University. He also completed the Executive Programme in Strategic Leadership from Templeton College at the University of Oxford. Mr. Walder is on the Board of Advisors of the Taubman Center at the Harvard Kennedy School. He is also a member of the Visiting Committee for the Department of Civil and Environmental Engineering at the Massachusetts Institute of Technology (MIT). Mr. Walder was on the Executive Committee of the American Public Transit Association (APTA) and the Executive Board of the International Association of Public Transport (UITP).

Vincent Cheng Hoi-chuen 64, joined the Board as an independent non-executive Director on 10 July 2009. Mr. Cheng is an independent non-executive director of CLP Holdings Limited, Great Eagle Holdings Limited, Hui Xian Asset Management Limited, China Minsheng Banking Corp., Ltd. (from 15 June 2012), and Shanghai Industrial Holdings Limited (from 13 November 2012). He was an executive director of HSBC Holdings plc and the Advisor to its Group Chief Executive, and a non-executive director of Swire Properties Limited. In public service, Mr. Cheng is vice chairman of the China Banking Association, chairman of the Independent Commission on Remuneration for Members of the Executive Council and the Legislature, and Officials under the Political Appointment System of the HKSAR Government, and a member of the Advisory Committee on Post-service Employment of Civil Servants. He was a member of the Exchange Fund Advisory Committee of the Hong Kong Monetary Authority. In 2008, Mr. Cheng was appointed a member of the National Committee of the 11th Chinese People's Political Consultative Conference (the

Ng Leung-sing

Abraham Shek Lai-him

T. Brian Stevenson

Professor Chan Ka-keung, Ceajer
(Secretary for Financial Services and the Treasury)

Professor Anthony Cheung Bing-leung
(Secretary for Transport and Housing)

Ingrid Yeung Ho Poi-yan
(Commissioner for Transport)

'CPPCC') and a senior adviser to the 11th Beijing Municipal Committee of the CPPCC. In 2005, Mr. Cheng was conferred the degree of Doctor of Social Science, *honoris causa*, by The Chinese University of Hong Kong and the degree of Doctor of Business Administration, *honoris causa*, by The Open University. He was also awarded the Gold Bauhinia Star medal in 2005. Mr. Cheng holds a Bachelor of Social Science degree in Economics from The Chinese University of Hong Kong and a Master of Philosophy degree in Economics from The University of Auckland.

Christine Fang Meng-sang 54, is an independent non-executive Director and has been a Member of the Board since 2004. Ms. Fang has been the chief executive of the Hong Kong Council of Social Service since 2001. By training, Ms. Fang is a social worker and has a strong background in community service. She sits on various government advisory committees, including the Steering Committee on Population Policy (from 1 December 2012), the Hong Kong Housing Authority, the Charities Sub-committee of The Law Reform Commission of Hong Kong, and the Independent Police Complaints Council. Ms. Fang was a member of the Digital 21 Strategy Advisory Committee (until 30 September 2012), and the Steering Committee on the Community Care Fund (until 31 December 2012).

Edward Ho Sing-tin 74, is an independent non-executive Director and has been a Member of the Board since 1991. He is an architect and the Group Chairman of Wong Tung Group of companies. Mr. Ho was an elected member of the Legislative Council of Hong Kong, representing the architectural, surveying and planning functional constituency. He was also president of the Hong Kong Institute of Architects, and chairman of the Hong Kong Industrial Estates Corporation, the Antiquities Advisory Board, and the Hong Kong Philharmonic Society. He was also a member of the Hong Kong Housing Authority, the Town Planning Board, and the Hospital Authority respectively.

Alasdair George Morrison 64, joined the Board as an independent non-executive Director on 9 July 2010. Mr. Morrison is currently Senior Advisor of Citigroup Asia Pacific. He is also an independent non-executive director of Pacific Basin Shipping Limited, a member of the Board of Grosvenor Group Limited in the United Kingdom, and a member of the Financial Services Development Council of the HKSAR Government (from 17 January 2013). Mr. Morrison was an independent non-executive director of the Hong Kong Mercantile Exchange Limited (until 8 January 2013), and a member of the Operations Review Committee of the Independent Commission Against Corruption, and the Hong Kong/European Union Business Cooperation Committee. From 1971 to 2000, he worked for the Jardine Matheson Group, where he was Group Managing Director from 1994 to 2000. Subsequently, and until April 2007, Mr. Morrison was a Managing Director of Morgan Stanley Dean Witter Asia Limited and then also a member of Morgan Stanley's Management Committee. From 2000 to 2007, he was Chairman of Morgan Stanley Asia, based in Hong Kong. From 2002 to February 2006, Mr. Morrison was concurrently Chairman and Chief Executive Officer of Morgan Stanley Asia. He is a graduate of Eton College and obtained a Bachelor of Arts (subsequently Master of Arts) from Cambridge University in 1971. Mr. Morrison also attended the Program for Management Development at Harvard Business School in 1983.

Ng Leung-sing 63, joined the Board as an independent non-executive Director on 18 December 2007. Mr. Ng is vice chairman of Chiyu Banking Corporation, chairman of Bank of China (Hong Kong) Trustees Limited, a director of the BOCHK Charitable Foundation and an independent non-executive director of SmarTone Telecommunications Holdings Limited. He was a member of the Court of Lingnan University and general manager, Bank-wide Operation Department of Bank of China (Hong Kong) Limited. Mr. Ng is also a Hong Kong Deputy to the 10th and 11th National People's Congress, People's Republic of China, and a member of the Legislative Council of the Hong Kong Special Administrative Region (from 1 October 2012). Mr. Ng is a graduate of University of East Asia, Graduate College, Macau and holds a diploma in Chinese Law.

Abraham Shek Lai-him 67, joined the Board as an independent non-executive Director on 18 December 2007. Mr. Shek is an independent non-executive director and an audit committee member of each of Midas International Holdings Limited, Paliburg Holdings Limited, Lifestyle International Holdings Limited, Chuang's Consortium International Limited, NWS Holdings Limited, Regal Portfolio Management Limited, Titan Petrochemicals Group Limited, Eagle Asset Management (CP) Limited, ITC Corporation Limited, Country Garden Holdings Company Limited, SJM Holdings Limited, Dorsett Hospitality International Limited (formerly known as Kosmopolito Hotels International Limited) and China Resources Cement Holdings Limited. He is also an independent non-executive director of Hsin Chong Construction Group Ltd., Hop Hing Group Holdings Limited and Lai Fung Holdings Limited (from 19 December 2012). Mr. Shek is chairman and an independent non-executive director of Chuang's China Investments Limited. He is also vice chairman, an independent non-executive director and a member of the audit committee of ITC Properties Group Limited. Mr. Shek was appointed as Justice of the Peace in 1995 and was awarded the Silver Bauhinia Star in 2007. He is vice chairman of the Independent Police Complaints Council. Mr. Shek is a graduate of the University of Sydney and holds a Bachelor of Arts degree and a Diploma in Education.

T. Brian Stevenson 68, is an independent non-executive Director and has been a Member of the Board since October 2002. He is a non-executive director of The Hongkong and Shanghai Banking Corporation Limited, an Advisor to BT Asia Pacific, Chairman of the Hong Kong Jockey Club and Vice-President of the Sports Federation & Olympic Committee of Hong Kong, China (from 22 November 2012). He is a chartered accountant and holds law degrees from Glasgow and Hong Kong Universities. Mr. Stevenson was awarded the Silver Bauhinia Star medal in 1998. He is also a Justice of the Peace.

Professor Chan Ka-keung, Ceajer 56, joined the Board as a non-executive Director on 10 July 2007 after his appointment as the Secretary for Financial Services and the Treasury of the Government of the Hong Kong SAR with effect from 1 July 2007. He received his Bachelor's degree in economics from Wesleyan University in the US and both his M.B.A. and Ph.D. in finance from the University of Chicago. Professor Chan sits on the boards of several public bodies including the Mandatory Provident Fund Schemes Authority and The Hong Kong Mortgage Corporation Limited, and is the Chairman of the Kowloon-Canton Railway Corporation, and an ex-official member of the Financial Services Development Council (from 17 January 2013) in his official capacity. Before joining the Government, Professor Chan was Dean of Business and Management of the Hong Kong University of Science and Technology from 1 July 2002.

Secretary for Transport and Housing (Professor Anthony Cheung Bing-leung 60, joined the Board as a non-executive Director appointed by the Chief Executive of the Hong Kong SAR pursuant to the Mass Transit Railway Ordinance (Chapter 556 of the Laws of Hong Kong) on 1 July 2012. Before joining the Government of the Hong Kong SAR, Professor Cheung held a number of public service positions including non-official member of the Executive Council, Chairman of the Consumer Council, member of the Hong Kong Housing Authority and Chairman of its Subsidised Housing Committee, member of the Greater Pearl River Delta Business Council, director of the Hong Kong Mortgage Corporation and member of the Disaster Relief Fund Advisory Committee. He was also the President of the Hong Kong Institute of Education and Chair Professor of Public Administration until June 2012. Prior to 2008, he was a Professor at the Department of Public and Social Administration of the City University of Hong Kong, and was a member of the Legislative Council from 1995 to 1997. Professor Cheung is a graduate of the University of Hong Kong and holds a Bachelor degree in Social Sciences. He was further awarded a Master of Science degree in Public Sector Management by the University of Aston, the United Kingdom and a Doctor of Philosophy degree in Government by the London School of Economics and Political Science of the University of London, the United Kingdom.)

Commissioner for Transport (Ingrid Yeung Ho Poi-yan 48, joined the Board as a non-executive Director appointed by the Chief Executive of the Hong Kong SAR pursuant to the Mass Transit Railway Ordinance (Chapter 556 of the Laws of Hong Kong) on 8 October 2012. She joined the Government of the Hong Kong SAR in June 1986 and has served in various bureaux and departments. Before joining the Transport Department, she was the Deputy Secretary for the Civil Service. As Commissioner for Transport, Mrs. Yeung is also a director of several transport-related companies including The Kowloon Motor Bus Company (1933) Limited, Long Win Bus Company Limited, New World First Bus Services Limited, New Lantao Bus Company (1973) Limited, Citybus Limited, The "Star" Ferry Company, Limited, New Hong Kong Tunnel Company Limited, Western Harbour Tunnel Company Limited, Tate's Cairn Tunnel Company Limited and Route 3 (CPS) Company Limited. She is a graduate of the University of Hong Kong and holds a Bachelor of Arts degree. She was further awarded a Doctor of Philosophy degree by the University of Hong Kong.)

Board and Executive Directorate

FROM LEFT TO RIGHT:
Jacob Kam Chak-pui, Jeny Yeung Mei-chun,
Miranda Leung Chan Che-ming,
Morris Cheung Siu-wa, Jay Herbert Walder,
Lincoln Leong Kwok-kuen, David Tang Chi-fai,
Gillian Elizabeth Meller, Chew Tai Chong

Members of the Executive Directorate

Jay Herbert Walder Biographical details are set out on pages 116 to 117.

Lincoln Leong Kwok-kuen 52, has been the Deputy Chief Executive Officer since July 2012 and a Member of the Executive Directorate since 2002. Mr. Leong joined the Company in February 2002 as the Finance Director, and was re-titled the Finance & Business Development Director in May 2008. As the Deputy Chief Executive Officer, Mr. Leong leads and takes primary responsibility in realising the Company's growth strategy in China and overseas and its continued development to achieve substantial growth beyond Hong Kong. His responsibilities include, amongst other things, the promotion and pursuit of the 'rail plus property' business model in these markets. Mr. Leong also chairs a newly established executive committee to review and approve new investment projects and leads the negotiations with the Hong Kong SAR Government for future railway projects in Hong Kong. In addition, he contributes to the Company's strategic decision making process, heads various strategic initiatives and deputises the Company's Chief Executive Officer in his absence on business or personal leave. Mr. Leong graduated from Cambridge University in 1982 and later qualified as a chartered accountant in England in 1985 and Canada in 1986. Prior to joining the Company as Finance Director, he worked in both the accountancy and investment banking industries in London, Vancouver, Canada and Hong Kong. Mr. Leong is vice-chairman of the Hong Kong Housing Society (from 26 September 2012), serves on the Board of Governor of the Chinese International School and is President of the Hong Kong Society for the Protection of Children. Mr. Leong is a non-executive director of Hong Kong Aircraft Engineering Company Limited, and Mandarin Oriental International Limited. He was a non-executive director of Tai Ping Carpets International Limited and a non-official member of the Family Council. Mr. Leong is also a director in some of the members of the Company's group.

William Chan Fu-keung 64, was the Human Resources Director from 1998 to 2012 and a Member of the Executive Directorate of the Company from 1996 to 2012. He retired from the Company on 17 July 2012 after cumulatively 23 years of service.

Morris Cheung Siu-wa 51, has been the Human Resources Director and a Member of the Executive Directorate since 17 July 2012. He joined the Company in November 1983 as a Graduate Engineer, and has progressed over the years to senior and responsible positions in Operations and Projects Divisions. Mr. Cheung was seconded to Ngong Ping 360 Limited as its Managing Director from 2007 to 2009. In July 2009, he was appointed Chief of Operating and in January 2011, he took up the position of Chief of Operations Engineering. On 17 October 2011, Mr. Cheung was appointed as Human Resources Director – Designate. He has a wide range of management experience and deep knowledge of the Company. Mr. Cheung graduated from the University of Hong Kong with a Bachelor of Science degree in Engineering and a Master of Science degree in Engineering. He was further awarded a Master of Business Administration Degree by the City Polytechnic of Hong Kong (now called City University of Hong Kong) and a Master of Science degree in Financial Analysis by the Hong Kong University of Science and Technology. Mr. Cheung also completed the Advanced Management Programme at the Harvard Business School. He is a Fellow of The Hong Kong Institution of Engineers, The Institution of Engineering and Technology and The Chartered Institute of Logistics & Transport in Hong Kong, and the Chairman of the Asia Pacific Division of the International Association of Public Transport (UITP). Mr. Cheung is also a director in a member of the Company's group.

Chew Tai Chong 61, has been the Projects Director and a Member of the Executive Directorate since 1 February 2010. Mr. Chew has worked in the rail transit industry, in the United Kingdom, Singapore and overseas, for over 30 years. Between 2003 and 2008, he was the President of Bombardier London Underground Projects Division. Up to 2003, he held the position of Senior Director, Projects and Engineering, for Land Transport Authority of Singapore. Mr. Chew is a council member of the Hong Kong Construction Industry Council, and a fellow and council member of the Hong Kong Academy of Engineering Sciences. He holds a Bachelor of Science degree and a Master of Science degree in Electrical Engineering from University of Manchester. Mr. Chew is a chartered engineer, and a fellow of the Royal Academy of Engineering, the Hong Kong Institution of Engineers and a number of professional institutions in the United Kingdom. Mr. Chew is also a director in some of the members of the Company's group.

Dr. Jacob Kam Chak-pui 51, has been the Operations Director and a Member of the Executive Directorate since 1 January 2011. Dr. Kam joined the Company in 1995. During his service, he gained both technical and business experience through taking up different managerial positions in Operations, Projects and China & International Business Divisions. Dr. Kam holds a Bachelor of Science degree in Civil Engineering from the University of Southampton, and a doctoral degree in Mechanical Engineering from the University of London (University College London), both in United Kingdom. He also attended the Wharton Advanced Management Programme at the University of Pennsylvania, U.S.A. in 2005. Dr. Kam qualified as a chartered engineer in the United Kingdom in 1989. He is a member of both the Institution of Mechanical Engineers, United Kingdom, and The Hong Kong Institution of Engineers. He is also a chartered fellow of the Institution of Occupational Safety and Health, United Kingdom, and of The Chartered Institute of Logistics and Transport in Hong Kong. Dr. Kam is also a director in some of the members of the Company's group.

Gillian Elizabeth Meller 40, has been the Legal Director & Secretary and a Member of the Executive Directorate since 1 September 2011. She joined the Company in August 2004 as Legal Adviser and was appointed Deputy Legal Director in December 2010. Ms. Meller is responsible for the provision of commercial legal support and advice to all aspects of the Company's rail and property operations in Hong Kong and the Mainland of China, the Company's new rail and property projects in Hong Kong and its international growth business. She is also responsible for the strategic management of the Company's insurance programmes and its enterprise risk management, corporate responsibility and company secretarial functions and for overseeing the Company's procurement and contracts department. Before joining the Company, Ms. Meller was Director of Legal Services for Metronet Rail SSL Limited in London, the United Kingdom, and a solicitor at CMS Cameron McKenna in London, the United Kingdom. She graduated from Hertford College, University of Oxford in the United Kingdom and holds a Master of Arts degree in Geography. Ms. Meller then obtained her postgraduate qualifications in law from the College of Law in Guildford, the United Kingdom. She also completed the Senior Executive Programme in Asia offered by the University of Michigan in 2009 and the Stanford Executive Programme at Stanford University, United States of America in 2010. Ms. Meller is qualified to practise as a solicitor in Hong Kong and England and Wales. She is also a director in some of the members of the Company's group.

David Tang Chi-fai 48, has been the Property Director and a Member of the Executive Directorate since 1 October 2011. Mr. Tang joined the Company in August 2004 as Contracts & Commercial Manager – China Business and was appointed Deputy Property Director on 1 July 2011. He is responsible for all of the property development projects of the Company from layout planning, scheme design through to project construction completion. During his service with the Company, he held senior management positions in the Legal and Procurement Division, and the China and International Business Division before he was transferred to Property Division in 2009. Before joining the Company, Mr. Tang was Commercial Manager – Hong Kong & China Region, and Deputy General Manager – Hong Kong & China Region for Acciona, S.A. He had almost 20 years' working experience in contract administration, project management and quantity surveying in the United Kingdom and Hong Kong. Mr. Tang graduated from the University of the West of England (formerly Bristol Polytechnic) in the United Kingdom and holds a Bachelor of Science (Honours) degree in Quantity Surveying. He also completed the International Executive Programme at INSEAD (an executive business school), France in 2006. Mr. Tang is a Chartered Surveyor and a member of the Royal Institution of Chartered Surveyors and the Hong Kong Institute of Surveyors. He is also a director in some of the members of the Company's group and an alternate director of two members of the Company's group.

Jeny Yeung Mei-chun 48, has been the Commercial Director and a Member of the Executive Directorate since 1 September 2011. She joined the Company in November 1999 as the Marketing Manager and was then appointed as General Manager – Marketing & Station Commercial until August 2011. Ms. Yeung has been a member of the Company's Executive Committee since 2004. She is responsible for the marketing of the Company's railway services as well as managing and enhancing the MTR Brand. Ms. Yeung is also responsible for the management of the various non fare businesses within the stations. Before joining the Company, she held various marketing and business development positions in Standard Chartered Bank (Hong Kong) Limited and Citibank in Hong Kong. Ms. Yeung graduated from the University of Hong Kong and holds a Bachelor of Social Sciences degree majoring in Management Studies. In 2005, she completed the Oxford / HKU Senior Executive Programme in Corporate Leadership offered by the University of Oxford, United Kingdom and the University of Hong Kong, the Proteus Executive Education programme offered by London Business School, United Kingdom and the Senior Executive Programme in Asia offered by the University of Michigan, United States of America. Ms. Yeung is a fellow of the Chartered Institute of Marketing. She is also a Member of the Marketing Management Committee of The Hong Kong Management Association, the Advisory Committee on Publicity and Public Education in Innovation and Technology of the Innovation and Technology Commission of the Hong Kong Special Administrative Region, and the Hong Kong Trade Development Council Infrastructure Development Advisory Committee. Ms. Yeung is a director of Hong Kong Cyberport Management Company Limited. She is also a director in some of the members of the Company's group.

Members of the Executive Committee

The Executive Committee comprises all Members of the Executive Directorate (whose biographies are on pages 121 to 123), and General Manager – Corporate Relations.

Miranda Leung Chan Che-ming 60, was the General Manager – Corporate Relations from 2003 to 2013 and also a Member of the Executive Committee of the Company from 2009 to 2013. She retired from the Company on 9 January 2013 after over 36 years of service.

Wong May-kay 50, has been the General Manager – Corporate Relations and a Member of the Executive Committee since 10 January 2013. Before joining the Company for the first time in 1998, Ms. Wong had more than a decade of experience as a journalist in Hong Kong and in Canada. She was appointed Deputy General Manager – Corporate Relations in 2008. As General Manager – Corporate Relations, Ms. Wong is responsible for formulating and directing the implementation of corporate relations strategies and policies to enhance stakeholder and public understanding of the Company's commitment and efforts to provide world-class, sustainable services for the shared success of the communities it serves in and outside of Hong Kong. Her responsibilities include stakeholder communications, community and customer engagement and corporate events. Ms. Wong graduated from Carleton University in Ottawa, Canada with a Bachelor of Journalism degree.

Key Corporate Management

Jay Walder
Chief Executive Officer

Lincoln Leong Kwok-kuen
Deputy Chief Executive Officer

Operations

Jacob Kam Chak-pui
Operations Director

Adi Lau Tin-shing
Chief of Operating

David Leung Chuen-choi
Chief of Operations Engineering

Francis Li Shing-kee
Head of Operating – East Region

Alan Cheng Kwan-hing
Head of Operating – West Region

William Leung Hon-wai
Head of Operations Strategic Business Management

Ronald Cheng Kin-wai
General Manager – Technical & Engineering Services

Philip Wong Wai-ming
Deputy General Manager – Train Services & Asset Engineering

Tony Lee Kar-yun
General Manager – Infrastructure

Terry Wong Wing-kin
Deputy General Manager – Infrastructure Implementation

Richard Keefe
General Manager – Rolling Stock Fleet

Chan Chi-kit
Rolling Stock Workshop Manager

Nelson Ng Wai-hung
General Manager – Safety & Quality

Ho Chun-wing
Planning & Development Manager (up to 31 December 2012)

Choi Tak-tsan
General Manager – Planning & Development (w.e.f. 1 January 2013)

Wong Lap-wai
Head of Operations Interface

Carmen Li Wai-ching
General Manager – Intercity

China & International Business

Yi Min
Chief Executive Officer – China Business

Richard Wong Shiu-ki
General Manager – Beijing & Tianjin

Gordon Lam Bik-shun
Deputy General Manager – Projects (Beijing)

John Kwok Chor-kwong
Deputy General Manager – Operations (Beijing)

Chan Keng-sam
Head of Engineering (Beijing)

Wilfred Lau Cheuk-man
General Manager – Shenzhen

Victor Chan Hin-fu
General Manager – China Property

Leung Kwok-yiu
General Manager – Hangzhou

Ivan Lai Ching-kai
Head of Operations – China & International Business

Jeremy Long
Chief Executive Officer – European Business

Projects

Chew Tai-chong
Projects Director

Antonio Choi Fung-chung
General Manager – XRL

Alvin Luk Wing-kwok
General Manager – XRL E&M

Simon Tang Wai-yung
General Manager – XRL Tunnels

Calum Smith
Project Manager – XRL Terminus

Bill Clowes
Project Manager – XRL Tunnels South

Mark Lomas
Deputy Project Manager – XRL Terminus

Roderic Hockin
General Manager – WIL/SIL

Dono Tong Kwok-wai
Project Manager – WIL/SIL E&M

Brendan Reilly
Project Manager – WIL Civil

Mark Cuzner
Project Manager – SIL Civil

Henry Lam Hing-cheung
General Manager – SCL/KTE (up to 31 December 2012)

Philco Wong Nai-keung
General Manager – SCL

James Chow So-hung
General Manager – KTE

Lee Tze-man
General Manager – SCL E&M (w.e.f. 1 January 2013)

David Salisbury
Project Manager – SCL Civil North (w.e.f. 1 February 2013)

Julian Saunders
Project Manager – SCL Civil South

Clement Ngai Yum-keung
Chief Design Manager – SCL (w.e.f. 1 March 2013)

Patrick Lun Tak-wo
General Manager – Projects Management Office

Barry Hill
Chief Testing and Commissioning Planning Engineer

Peter Leung Man-fat
Chief Civil & Planning Engineer

Alan Myers
Chief Civil Construction Engineer

Stephen Chik Wai-keung
Head of Project Engineering

Andrew Mead
Chief Architect (w.e.f. 4 February 2013)

Leung Chi-lap
Chief E&M Engineer

Henry Young Francis-Patrick
Chief Programming Engineer

Chan Chun-sing
Project Manager – Rolling Stock (w.e.f. 1 January 2013)

Terence Law Che-chung
Project Manager – Signalling

Jason Wong Chi-chung
Project Manager – Operations Projects

Property

David Tang Chi-fai
Property Director

James Hor Wai-hong
Head of Property Development

Andy Tong Sze-hang
Head of Property Project

Wilfred Yeung Sze-wai
Deputy Head of Property Project (w.e.f. 18 February 2013)

Steve Yiu Chin
Head of Town Planning

Mingo Kwan Sze-ming
Head of Property Management

Betty Leong Sin-ling
Head of Investment Property

Finance

Ricky Tsang Tin-for
General Manager – Financial Control

Terry Wong Ping-sau
General Manager – Corporate Finance

Jeff Kwan Wai-hung
Treasurer

Ted Suen Yiu-tat
Head of Information Technology

Candy Ng Chui-lok
Head of Investor Relations and Retirement Benefits

Legal & Procurement

Gillian Meller
Legal Director & Secretary

Martin Dunn
General Manager – Procurement & Contracts

Teresa Tang Sui-ching
Procurement & Contracts Manager – Operations

Stephen Griffin
Procurement & Contracts Manager – HK Projects (E&M)

Scott Mackenzie
Procurement & Contracts Manager – HK Projects (Civil)

Jeremy Bennett
Legal Manager – General

Linda Li Sau-lin
Legal Manager – Property

Human Resources & Administration

William Chan Fu-keung
Human Resources Director (up to 16 July 2012)

Morris Cheung Siu-wa
Human Resources Director (w.e.f. 17 July 2012)

Vincent Luk Kin-ping
General Manager – Human Resources

Daniel Shim Ming-yi
General Manager – Human Resources (China/International & Development)

Commercial & Marketing

Jeny Yeung Mei-chun
Commercial Director

Eddie So Chung-tat
General Manager – Marketing & Planning

Corporate Relations

Miranda Leung Chan Che-ming
General Manager – Corporate Relations (up to 9 January 2013)

May Wong May-kay
General Manager – Corporate Relations (w.e.f. 10 January 2013)

Maggie So Man-kit
Deputy General Manager – Projects & Property Communications

Internal Audit

Denise Ng Kee Wing-man
Head of Internal Audit

Report of the Members of the Board

The Members of the Board have pleasure in submitting their Report and the audited statement of Accounts for the financial year ended 31 December 2012.

Principal Activities of the Group

The principal activities of the Company and its subsidiaries are:

A the operation of a modern railway system with lines from Central to Tsuen Wan (Tsuen Wan Line), from Yau Ma Tei to Tiu Keng Leng (Kwun Tong Line), from Po Lam and LOHAS Park to North Point (Tseung Kwan O Line), from Chai Wan to Sheung Wan (Island Line), from Hong Kong to Tung Chung (Tung Chung Line), from Hong Kong to the Hong Kong International Airport and then AsiaWorld-Expo both at Chek Lap Kok (Airport Express), from Sunny Bay to Disneyland Resort (Disneyland Resort Line), from Hung Hom to the boundary at Lo Wu and Lok Ma Chau (East Rail Line), from Tai Wai to Wu Kai Sha (Ma On Shan Line), from Hung Hom to Tuen Mun (West Rail Line), the North-west Railway (commonly known as Light Rail) in the North-West New Territories of Tuen Mun, Tin Shui Wai and Yuen Long, an intercity railway system between Hong Kong and some major cities in the Mainland of China, and feeder bus services in support of West Rail Line, East Rail Line and Light Rail;

B property development, either as owner or as an agent for KCRC, at locations along the related railway lines including the Tseung Kwan O Line, the Ma On Shan Line, the East Rail Line, the Light Rail, the West Rail Line, the Kwun Tong Line Extension and the South Island Line (East);

C related commercial activities, including the letting of advertising and retail space, enabling telecommunication services on the railway system, asset management and leasing management of investment properties (including shopping malls and offices) and property management of office buildings and residential units;

D the investment in a 50% equity share in the UK franchise operating company, LOROL, operator of the 7-year London Overground Concession, consisting of 5 railway lines with a combined route length of 124 kilometres. A two-year extension of the franchise covering the period from November 2014 to November 2016 was awarded by Transport for London (TFL) in February 2013;

E 100% investment in the operating company, MTR Stockholm, operator of the 8-year Stockholm Metro Concession (including rolling stock maintenance which is undertaken by a 50:50 joint venture), consisting of three lines with a combined route length of 110 kilometres, linking the Swedish capital's central business district with surrounding suburbs;

F the investment in a 60% equity share in MTM, operator of an 8-year concession for the operation and maintenance of the Melbourne train network, consisting of 15 lines running on 390 kilometres, linking Melbourne's central business district with surrounding suburbs;

G the design and construction of the West Island Line as an extension of the Island Line;

H the design, construction, procurement of services and equipment, and all other matters associated with the construction and commissioning of the Hong Kong section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link;

I the design and construction of the Kwun Tong Line Extension and the South Island Line (East) as system extensions of the railway network;

J the design and construction of the Shatin to Central Link as the extensions of the Ma On Shan Line from Tai Wai to Hung Hom to connect the West Rail Line, and separately the East Rail Line across the Victoria Harbour to Admiralty;

K the operation of the Tung Chung to Ngong Ping Cable Car System and the Theme Village in Ngong Ping, Lantau Island, Hong Kong;

L worldwide consultancy services and contracting opportunities covering all areas of expertise required in project management, planning, construction, operation, maintenance and up-grading of railways plus fare collection, property integration/development advice including other property related services and advice on generation of non-fare revenues;

M investment in Octopus Holdings Limited, a subsidiary of the Company, which has business activities both in Hong Kong and overseas including the operation of a contactless smart card system by its subsidiary Octopus Cards Limited for the collection of payments for both transport and non-transport applications in Hong Kong;

N equity investments and long term operations and maintenance contracts outside of Hong Kong;

O property management, shopping mall investment and railway related property development business in the Mainland of China;

P the investment in a 49% owned joint venture for the construction and operation of Beijing Metro Line 4, consisting of 28 kilometres with 24 stations forming the main north-south traffic artery for Beijing under a 30-year concession agreement with the Beijing Municipal Government, and the operation and maintenance of the Daxing Line, an extension to the Beijing Metro Line 4, consisting of 22 kilometres with 11 stations, under a 10-year operation and maintenance concession agreement with Beijing Metro Daxing Line Investment Company Limited, a wholly owned subsidiary of Beijing Municipal Government;

Q the investment in the design, construction and operation of Phase 2 of Shenzhen Metro Line 4; together with the operation of Phase 1. The line is a 20.5 kilometres double-track urban railway running from Futian Checkpoint at the boundary between Hong Kong and Shenzhen, with a total of 15 stations and a train maintenance depot, under a 30-year Build-Operate-Transfer concession agreement with the Shenzhen Municipal Government;

R the acquisition of the land use right for Phase 1 of the land lot above the depot of Shenzhen Metro Longhua Line by two wholly-owned subsidiaries of the Company in August 2011. Comprising a total gross floor area of approximately 206,167 square metres, the site will be developed for residential and commercial use; and

S Pursuant to a Concession Agreement (signed in September 2012), a Public-Private Partnership project for the investment, construction and operation of Hangzhou Metro Line 1, for a term of 25 years, between MTR Hangzhou Line 1 Investment Company Limited (a wholly-owned subsidiary of the Company) and a subsidiary of Hangzhou Metro Group Company Limited together with Hangzhou Municipal Government. The line, which has 31 stations and a total route length of 38 kilometres, commenced operational service in November 2012.

In November 2012, a 30-year Concession Agreement for a Public-Private Partnership project for the investment, construction and operation of the new Beijing Metro Line 14, was initialled between Beijing Municipal Government and Beijing MTR Corporation Limited.

Dividend

The Directors have recommended a final dividend of HK$0.54 per Ordinary Share to be payable to shareholders whose names appear on the Register of Members of the Company on 21 May 2013. Subject to the passing of the necessary resolutions at the forthcoming Annual General Meeting, such dividend will be payable on or about 5 June 2013, in cash in Hong Kong dollars.

Members of the Board

Members of the Board who served during the year were Dr. Raymond Ch'ien Kuo-fung (non-executive Chairman), Mr. Jay Herbert Walder (Chief Executive Officer), Mr. Vincent Cheng Hoi-chuen, Ms. Christine Fang Meng-sang, Mr. Edward Ho Sing-tin, Mr. Alasdair George Morrison, Mr. Ng Leung-sing, Mr. Abraham Shek Lai-him, Mr. T. Brian Stevenson, Professor Chan Ka-keung, Ceajer, the Secretary for Transport and Housing (being Ms. Eva Cheng up to 30 June 2012 and Professor Anthony Cheung Bing-leung from 1 July 2012) and the Commissioner for Transport (being Mr. Joseph Lai Yee-tak up to 27 May 2012, Ms. Carolina Yip Lai-ching (Acting Commissioner for Transport) from 28 May 2012 to 15 July 2012, Miss Susie Ho Shuk-yee from 16 July 2012 to 7 October 2012, and Mrs. Ingrid Yeung Ho Poi-yan from 8 October 2012).

Mr. Jay Herbert Walder was appointed as Chief Executive Officer for an initial term of thirty months with effect from 1 January 2012. He became both a Member of the Executive Directorate and a Member of the Board of Directors on the same date.

In October 2012, Dr. Raymond Ch'ien Kuo-fung whose three year term of office as the non-executive Chairman of the Company took effect from 2 December 2009, was reappointed as the Chairman with effect from January 2013 until December 2015.

At the Annual General Meeting on 3 May 2012 and pursuant to the Articles of Association, Dr. Raymond Ch'ien Kuo-fung, Mr. T. Brian Stevenson, Professor Chan Ka-keung, Ceajer and Mr. Jay Herbert Walder retired under the Articles of Association and were re-elected/elected as Members of the Board.

At the 2013 Annual General Meeting and in accordance with the Articles of Association, Mr. Vincent Cheng Hoi-chuen, Ms. Christine Fang Meng-sang and Mr. Edward Ho Sing-tin will retire by rotation and will offer themselves for re-election.

Biographical details for Board Members are set out on pages 116 to 119.

Alternate Directors

The Alternate Directors in office during the year were:

- for Professor Chan Ka-keung, Ceajer: (i) Miss Chu Man-ling (until 18 June 2012), Ms. Tsang Oi-lin (from 19 June 2012 to 22 July 2012) and Ms. Mable Chan (from 23 July 2012); and (ii) Mr. Ying Yiu-hong (until 24 July 2012) and Ms. Elizabeth Tse Man-yee (from 25 July 2012);
- for the office of the Secretary for Transport and Housing: (i) the Under Secretary for Transport and Housing (Mr. Yau Shing-mu (until 30 June 2012 and from 15 September 2012)); (ii) the Permanent Secretary for Transport and Housing (Transport) (Mr. Ho Suen-wai (until 27 May 2012) and Mr. Joseph Lai Yee-tak (from 28 May 2012)); and (iii) the Deputy Secretaries for Transport and Housing (Transport) (Ms. Maisie Cheng Mei-sze (until 3 July 2012), Ms. Rebecca Pun Ting-ting, and Mr. Andy Chan Shui-fu (from 24 July 2012)); and
- for the Commissioner for Transport: the Deputy Commissioner for Transport/Transport Services and Management (Ms. Carolina Yip Lai-ching).

Executive Directorate

The Members of the Executive Directorate who served during the year were Mr. Jay Herbert Walder (Chief Executive Officer and a Member of the Board) (from 1 January 2012), Mr. Lincoln Leong Kwok-kuen (previously Finance & Business Development Director; appointed Deputy Chief Executive Officer with effect from 16 July 2012), Mr. William Chan Fu-keung (until 16 July 2012), Mr. Morris Cheung Siu-wa (from 17 July 2012), Mr. Chew Tai Chong, Dr. Jacob Kam Chak-pui, Ms. Gillian Elizabeth Meller, Ms. Jeny Yeung Mei-chun and Mr. David Tang Chi-fai.

Biographical details for Members of the Executive Directorate during the year are set out on pages 121 to 123.

Internal Audit

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

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

The Head of Internal Audit reports directly to the Chief Executive Officer and the Audit Committee.

Business Ethics

Please refer to page 110.

Policies

The Board has adopted the following risk management strategies and policies:

A Construction and Insurance Risk Management Strategy;

B Finance Risk Management Strategy;

C Treasury Risk Management Strategy;

D Safety Risk Management Strategy;

E Enterprise Risk Management Strategy;

F Security Risk Management Policy; and

G Environmental Risk Management Policy.

As mentioned in the Corporate Governance Report (page 94), the Board has adopted a Board Diversity Policy at the March 2013 Board Meeting, well before the required deadline of 1 September 2013.

Public Float

The Stock Exchange granted to the Company, at the time of its listing on the Main Board of the Stock Exchange in 2000, a waiver from strict compliance with Rule 8.08(1) of the Listing Rules ("Public Float Waiver"). Pursuant to the Public Float Waiver, the Company's prescribed minimum percentage of shares which must be in the hands of the public must not be less than 10% of the total issued share capital of the Company. Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained the prescribed amount of public float during the year and up to the date of this report as required by the Public Float Waiver.

Bank Overdrafts, Bank Loans and Other Borrowings

The total borrowings of the Group as at 31 December 2012 amounted to HK$23,577 million (2011: HK$23,168 million). Particulars of borrowings are set out in note 39 to the accounts.

Accounts

The state of affairs of the Company and the Group as at 31 December 2012 and of the Group's results, changes in equity and cash flows for the year are set out in the accounts on pages 155 to 239.

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 84 to 85.

Fixed Assets and Railway Construction in Progress

Movements in fixed assets and railway construction in progress during the year are set out in notes 21 to 23 and 25 to the accounts respectively.

Movements in Reserves

Movements in reserves during the year are set out in the Consolidated Statement of Changes in Equity and notes 47 and 48 to the accounts.

Share Capital

As at 31 December 2011, the authorised share capital of the Company was HK$6.5 billion, divided into 6.5 billion Ordinary Shares, 5,784,871,250 of which were issued and credited as fully paid.

During the year, the Company issued a total of 8,325,400 Ordinary Shares. Of this number:

A 31,500 Ordinary Shares were issued by the Company pursuant to the exercise of share options which had been granted under the Company's New Joiners Share Option Scheme (as referred in note 50A to the accounts). In respect of each Ordinary Share issued, the relevant exercise price per share of options is HK$19.732 to the Company; and

B 8,293,900 Ordinary Shares were issued by the Company pursuant to the exercise of share options which had been granted under the Company's 2007 Share Option Scheme (as referred in note 50A to the accounts). In respect of each Ordinary Share issued, the relevant exercise price per share of options are HK$18.30, HK$24.50, HK$26.52, HK$26.85, HK$27.60, HK$27.73 and HK$28.84 to the Company.

As at 31 December 2012, the authorised share capital of the Company was HK$6.5 billion, divided into 6.5 billion Ordinary Shares, 5,793,196,650 of which were issued and credited as fully paid.

Purchase, Sale or Redemption of Listed Securities

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Group's listed securities during the year ended 31 December 2012.

Properties

Particulars of the principal investment properties and properties held for sale of the Company are shown on pages 56 to 57.

Donations

During the year, the Company donated approximately HK$3.8 million to charitable and other organisations.

In addition, the MTR HONG KONG Race Walking 2012 raised over HK$1.27 million (including over HK$57,000 from MTR staff) for the Hospital Authority Health InfoWorld to promote good health.

The Company helped raise funds for the Community Chest and the Hong Kong Cancer Fund with a total cash donation of over HK$342,000 through different activities such as CARE Scheme, Green Day, Love Teeth Day and Dress Casual Day for the former organisation and Dress Pink Day for the latter.

Reporting and Monitoring

There is a comprehensive budgeting system for all operational and business activities, with an annual budget approved by the Board. Monthly results of the Company's operations, businesses and projects are reported against the budget to the Board and updated forecasts for the year are prepared regularly.

Treasury Management

The Company's Treasury Department operates within approved guidelines from the Board. It manages the Company's debt profile with reference to the Preferred Financing Model which defines the preferred mix of financing instruments, fixed and floating rate debts, 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 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 credit risk management framework are approved at the Board level.

Capital and Revenue Expenditure

There are defined procedures for the appraisal, review and approval of major capital and revenue expenditures. All project expenditures over 0.2% of the net assets of the Company and the employment of consultancy services over 0.1% of the net assets of the Company require the approval of the Board.

Bonds and Notes Issued

The Group issued notes amounting to HK$5,985 million equivalent during the year ended 31 December 2012, details of which are set out in note 39C to the accounts. Such notes were issued in order to meet the Group's general corporate funding requirements, including the financing of new capital expenditure and the refinancing of maturing debts.

Computer Processing

There are defined procedures, controls and regular quality reviews on the operation of computer systems to ensure the accuracy and completeness of financial records and efficiency of data processing. The Company's computer centre operation and support, help desk operation and support services, and also software development and maintenance, have been certified under ISO 9001:2008. Disaster recovery rehearsal on critical applications is conducted annually.

Interests in Contracts of Members of the Board and the Executive Directorate

There was no contract of significance, to which the Company or any of its subsidiaries was a party and in which a Member of the Board or a Member of the Executive Directorate had a material interest (whether direct or indirect), which subsisted at the end of the year or at any time during the year.

Board Members' and Executive Directorate's Interests in Shares

As at 31 December 2012, 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 Stock Exchange pursuant to the Model Code were as follows:

Long Positions in Shares and Underlying Shares of the Company

	Number of Ordinary Shares held			Derivatives			
				Share Options	Other		
Member of the Board and/or the Executive Directorate	Personal* interests	Family† interests	Corporate interests	Personal* interests	Personal* interests	Total interests	Percentage of aggregate interests to total issued share capital
Raymond Ch'ien Kuo-fung	52,330	–	–	–	–	52,330	0.00090
Jay Herbert Walder	–	–	–	391,500 (Note 1)	300,000 (Note 2)	691,500	0.01194
Vincent Cheng Hoi-chuen	1,675	1,675	–	–	–	3,350	0.00006
Christine Fang Meng-sang	1,712	–	–	–	–	1,712	0.00003
T. Brian Stevenson	5,153	–	–	–	–	5,153	0.00009
Ingrid Yeung Ho Poi-yan (Note 5)	1,116	–	–	–	–	1,116	0.00002
Lincoln Leong Kwok-kuen	23,000	–	23,000 (Note 3)	881,000 (Note 1)	–	927,000	0.01600
Morris Cheung Siu-wa (Note 6)	13,290	–	–	287,000 (Note 1)	–	300,290	0.00518
Chew Tai Chong	–	–	–	609,500 (Note 1)	–	609,500	0.01052
Jacob Kam Chak-pui	2,283	–	–	532,000 (Note 1)	–	534,283	0.00922
Jeny Yeung Mei-chun	13,400	–	–	431,000 (Note 1)	–	444,400	0.00767
Gillian Elizabeth Meller	–	–	–	331,500 (Note 1)	–	331,500	0.00572
David Tang Chi-fai	600	–	–	(i) 401,500 (Note 1) (ii) 22,000 (Note 4)	–	424,100	0.00732

Notes

1 Further details of the above share options are set out in the table below showing details of the options to subscribe for ordinary shares granted under the 2007 Share Option Scheme.

2 Mr. Jay Herbert Walder became Chief Executive Officer, a Member of the Board and a Member of the Executive Directorate on 1 January 2012. Mr. Walder was granted a derivative interest in respect of 300,000 shares in the Company within the meaning of Part XV of the SFO. That derivative interest represents Mr. Walder's entitlement to be paid an equivalent value in cash of 300,000 shares in the Company following 30 June 2014, being the date on which his initial term of office is expected to expire (35% of which shall be deemed to be earned at 31 October 2013 subject to certain conditions specified in his employment contract).

3 The 23,000 shares are held by Linsan Investment Ltd., a private limited company beneficially wholly owned by Mr. Lincoln Leong Kwok-kuen.

4 Further details of the above share options are set out in the table below showing details of the options to subscribe for ordinary shares granted under the New Joiners Share Option Scheme.

5 The office of the Commissioner for Transport is a non-executive Director of the Company. The post of the Commissioner for Transport was held by Mr. Joseph Lai Yee-tak up to 27 May 2012, Ms. Carolina Yip Lai-ching (Acting Commissioner for Transport) from 28 May 2012 to 15 July 2012, Miss Susie Ho Shuk-yee from 16 July 2012 to 7 October 2012, and Mrs. Ingrid Yeung Ho Poi-yan since 8 October 2012.

6 Mr. Morris Cheung Siu-wa became the Human Resources Director and a Member of the Executive Directorate on 17 July 2012.

* Interests as beneficial owner

† Interests of spouse or child under 18 as beneficial owner

Options to subscribe for Ordinary Shares granted under the New Joiners Share Option Scheme, as referred to in Notes 10B(i) and 50A(i) to the Accounts

Executive Directorate and eligible employees	Date granted	Options granted	Period during which rights exercisable (day/month/year)	Options outstanding as at 1 January 2012	Options granted during the year	Options vested during the year	Options lapsed during the year	Options exercised during the year	Exercise price per share of options (HK$)	Options outstanding as at 31 December 2012	Weighted average closing price of shares immediately before the date(s) on which options were exercised (HK$)
David Tang Chi-fai	15/5/2006	213,000	25/4/2007 – 25/4/2016	22,000	–	–	–	–	20.66	22,000	–
Other eligible employees	23/9/2005	213,000	9/9/2006 – 9/9/2015	213,000	–	–	–	–	15.97	213,000	–
	5/10/2006	94,000	29/9/2007 – 29/9/2016	94,000	–	–	–	31,500	19.732	62,500	30.05

Notes

1 No option may be exercised later than ten years after its date of offer and no option may be offered to be granted more than five years after the adoption of the New Joiners Share Option Scheme ("New Option Scheme") on 16 May 2002.

2 Unless approved by shareholders in the manner as required by the Listing Rules, the total number of shares issued and issuable upon exercise of the options granted to any eligible employee under the New Option Scheme together with the total number of shares issued and issuable upon the exercise of any option granted to such eligible employee under any other share option scheme of the Company (including, in each case, both exercised and outstanding options) in any 12-month period must not exceed 1% of the shares of the Company in issue at the date of offer in respect of such option under the New Option Scheme.

3 The proportion of underlying shares in respect of which the above share options will vest is as follows:

Date	Proportion of underlying shares in respect of which an option is vested
Before the first anniversary of the date of offer of the option (the "Offer Anniversary")	none
From the first Offer Anniversary to the date immediately before the second Offer Anniversary	one-third
From the second Offer Anniversary to the date immediately before the third Offer Anniversary	two-thirds
From the third Offer Anniversary and thereafter	all

Options to subscribe for Ordinary Shares granted under the 2007 Share Option Scheme, as referred to in Notes 10B(ii) and 50A(ii) to the Accounts

Executive Directorate and eligible employees	Date granted	Options granted	Period during which rights exercisable (day/month/year)	Options outstanding as at 1 January 2012	Options granted during the year	Options vested during the year	Options lapsed during the year	Options exercised during the year	Exercise price per share of options (HK$)	Options outstanding as at 31 December 2012	Weighted average closing price of shares immediately before the date(s) on which options were exercised (HK$)
Jay Herbert Walder	30/3/2012	391,500	23/3/2013 – 23/3/2019	–	391,500	–	–	–	27.48	391,500	–
Lincoln Leong Kwok-kuen	12/12/2007	170,000	10/12/2008 – 10/12/2014	170,000	–	–	–	–	27.60	170,000	–
	9/12/2008	170,000	8/12/2009 – 8/12/2015	170,000	–	–	–	–	18.30	170,000	–
	10/12/2009	170,000	8/12/2010 – 8/12/2016	170,000	–	56,000	–	–	26.85	170,000	–
	17/12/2010	170,000	16/12/2011 – 16/12/2017	170,000	–	57,000	–	–	28.84	170,000	–
	30/3/2012	201,000	23/3/2013 – 23/3/2019	–	201,000	–	–	–	27.48	201,000	–
Morris Cheung Siu-wa	12/12/2007	65,000	10/12/2008 – 10/12/2014	65,000	–	–	–	65,000	27.60	–	30.90
(Note 4)	10/12/2008	65,000	8/12/2009 – 8/12/2015	65,000	–	–	–	65,000	18.30	–	27.85
	11/12/2009	65,000	8/12/2010 – 8/12/2016	65,000	–	21,000	–	–	26.85	65,000	–
	21/7/2010	35,000	28/6/2011 – 28/6/2017	35,000	–	12,000	–	–	27.73	35,000	–
	20/12/2010	65,000	16/12/2011 – 16/12/2017	65,000	–	22,000	–	–	28.84	65,000	–
	30/3/2012	122,000	23/3/2013 – 23/3/2019	–	122,000	–	–	–	27.48	122,000	–
Chew Tai Chong	18/6/2009	85,000	12/6/2010 – 12/6/2016	85,000	–	28,000	–	–	24.50	85,000	–
	10/12/2009	170,000	8/12/2010 – 8/12/2016	170,000	–	56,000	–	–	26.85	170,000	–
	17/12/2010	170,000	16/12/2011 – 16/12/2017	170,000	–	57,000	–	–	28.84	170,000	–
	30/3/2012	184,500	23/3/2013 – 23/3/2019	–	184,500	–	–	–	27.48	184,500	–
Jacob Kam Chak-pui	13/12/2007	75,000	10/12/2008 – 10/12/2014	75,000	–	–	–	–	27.60	75,000	–
	8/12/2008	65,000	8/12/2009 – 8/12/2015	65,000	–	–	–	65,000	18.30	–	29.90
	14/12/2009	65,000	8/12/2010 – 8/12/2016	65,000	–	21,000	–	–	26.85	65,000	–
	21/7/2010	50,000	28/6/2011 – 28/6/2017	50,000	–	17,000	–	–	27.73	50,000	–
	17/12/2010	170,000	16/12/2011 – 16/12/2017	170,000	–	57,000	–	–	28.84	170,000	–
	30/3/2012	172,000	23/3/2013 – 23/3/2019	–	172,000	–	–	–	27.48	172,000	–
Jeny Yeung Mei-chun	12/12/2007	75,000	10/12/2008 – 10/12/2014	75,000	–	–	–	–	27.60	75,000	–
	10/12/2008	65,000	8/12/2009 – 8/12/2015	65,000	–	–	–	–	18.30	65,000	–
	10/12/2009	65,000	8/12/2010 – 8/12/2016	65,000	–	21,000	–	–	26.85	65,000	–
	17/12/2010	65,000	16/12/2011 – 16/12/2017	65,000	–	22,000	–	–	28.84	65,000	–
	30/3/2012	161,000	23/3/2013 – 23/3/2019	–	161,000	–	–	–	27.48	161,000	–
Gillian Elizabeth Meller	12/12/2007	55,000	10/12/2008 – 10/12/2014	18,000	–	–	–	–	27.60	18,000	–
	11/12/2008	70,000	8/12/2009 – 8/12/2015	46,500	–	–	–	46,500	18.30	–	29.95
	10/12/2009	65,000	8/12/2010 – 8/12/2016	65,000	–	21,000	–	–	26.85	65,000	–
	17/12/2010	90,000	16/12/2011 – 16/12/2017	90,000	–	30,000	–	–	28.84	90,000	–
	30/3/2012	158,500	23/3/2013 – 23/3/2019	–	158,500	–	–	–	27.48	158,500	–
David Tang Chi-fai	13/12/2007	65,000	10/12/2008 – 10/12/2014	65,000	–	–	–	–	27.60	65,000	–
	12/12/2008	65,000	8/12/2009 – 8/12/2015	43,000	–	–	–	–	18.30	43,000	–
	15/12/2009	65,000	8/12/2010 – 8/12/2016	65,000	–	21,000	–	–	26.85	65,000	–
	17/12/2010	65,000	16/12/2011 – 16/12/2017	65,000	–	22,000	–	–	28.84	65,000	–
	30/3/2012	163,500	23/3/2013 – 23/3/2019	–	163,500	–	–	–	27.48	163,500	–
Other eligible employees	11/12/2007	45,000	10/12/2008 – 10/12/2014	45,000	–	–	–	–	27.60	45,000	–
	12/12/2007	2,365,000	10/12/2008 – 10/12/2014	1,575,000	–	–	–	505,000	27.60	1,070,000	30.51
	13/12/2007	1,665,000	10/12/2008 – 10/12/2014	1,600,000	–	–	–	135,000	27.60	1,465,000	28.96
	14/12/2007	1,005,000	10/12/2008 – 10/12/2014	820,000	–	–	35,000	235,000	27.60	550,000	29.70
	15/12/2007	435,000	10/12/2008 – 10/12/2014	228,000	–	–	–	140,000	27.60	88,000	29.11
	17/12/2007	835,000	10/12/2008 – 10/12/2014	730,000	–	–	–	95,000	27.60	635,000	30.01
	18/12/2007	445,000	10/12/2008 – 10/12/2014	275,000	–	–	45,000	–	27.60	230,000	–
	19/12/2007	115,000	10/12/2008 – 10/12/2014	80,000	–	–	–	–	27.60	80,000	–
	20/12/2007	190,000	10/12/2008 – 10/12/2014	190,000	–	–	–	–	27.60	190,000	–

Options to subscribe for Ordinary Shares granted under the 2007 Share Option Scheme, as referred to in Notes 10B(ii) and 50A(ii) to the Accounts *(continued)*

Executive Directorate and eligible employees	Date granted	Options granted	Period during which rights exercisable (day/month/year)	Options outstanding as at 1 January 2012	Options granted during the year	Options vested during the year	Options lapsed during the year	Options exercised during the year	Exercise price per share of options (HK$)	Options outstanding as at 31 December 2012	Weighted average closing price of shares immediately before the date(s) on which options were exercised (HK$)
Other eligible employees	22/12/2007	35,000	10/12/2008 – 10/12/2014	35,000	–	–	–	–	27.60	35,000	–
	24/12/2007	118,000	10/12/2008 – 10/12/2014	118,000	–	–	–	–	27.60	118,000	–
	28/12/2007	35,000	10/12/2008 – 10/12/2014	35,000	–	–	–	–	27.60	35,000	–
	31/12/2007	130,000	10/12/2008 – 10/12/2014	130,000	–	–	–	–	27.60	130,000	–
	2/1/2008	75,000	10/12/2008 – 10/12/2014	35,000	–	–	–	–	27.60	35,000	–
	3/1/2008	40,000	10/12/2008 – 10/12/2014	40,000	–	–	–	–	27.60	40,000	–
	7/1/2008	125,000	10/12/2008 – 10/12/2014	80,000	–	–	–	–	27.60	80,000	–
	28/3/2008	255,000	26/3/2009 – 26/3/2015	199,000	–	–	–	19,000	26.52	180,000	29.25
	31/3/2008	379,000	26/3/2009 – 26/3/2015	323,000	–	–	–	93,000	26.52	230,000	28.79
	1/4/2008	261,000	26/3/2009 – 26/3/2015	249,000	–	–	–	45,000	26.52	204,000	30.34
	2/4/2008	296,000	26/3/2009 – 26/3/2015	276,000	–	–	–	40,000	26.52	236,000	30.14
	3/4/2008	171,000	26/3/2009 – 26/3/2015	140,000	–	–	–	40,000	26.52	100,000	29.68
	4/4/2008	23,000	26/3/2009 – 26/3/2015	23,000	–	–	–	–	26.52	23,000	–
	5/4/2008	17,000	26/3/2009 – 26/3/2015	17,000	–	–	–	–	26.52	17,000	–
	7/4/2008	390,000	26/3/2009 – 26/3/2015	330,000	–	–	5,000	57,000	26.52	268,000	28.91
	8/4/2008	174,000	26/3/2009 – 26/3/2015	110,000	–	–	–	14,000	26.52	96,000	29.67
	9/4/2008	85,000	26/3/2009 – 26/3/2015	85,000	–	–	–	25,000	26.52	60,000	29.30
	10/4/2008	58,000	26/3/2009 – 26/3/2015	58,000	–	–	–	–	26.52	58,000	–
	11/4/2008	134,000	26/3/2009 – 26/3/2015	117,000	–	–	–	23,000	26.52	94,000	30.15
	12/4/2008	48,000	26/3/2009 – 26/3/2015	48,000	–	–	–	–	26.52	48,000	–
	14/4/2008	40,000	26/3/2009 – 26/3/2015	40,000	–	–	–	–	26.52	40,000	–
	15/4/2008	34,000	26/3/2009 – 26/3/2015	34,000	–	–	–	–	26.52	34,000	–
	16/4/2008	57,000	26/3/2009 – 26/3/2015	40,000	–	–	–	–	26.52	40,000	–
	17/4/2008	147,000	26/3/2009 – 26/3/2015	124,000	–	–	–	17,000	26.52	107,000	31.15
	18/4/2008	32,000	26/3/2009 – 26/3/2015	15,000	–	–	–	–	26.52	15,000	–
	19/4/2008	25,000	26/3/2009 – 26/3/2015	25,000	–	–	–	–	26.52	25,000	–
	21/4/2008	66,000	26/3/2009 – 26/3/2015	66,000	–	–	–	–	26.52	66,000	–
	23/4/2008	34,000	26/3/2009 – 26/3/2015	19,000	–	–	–	–	26.52	19,000	–
	8/12/2008	90,000	8/12/2009 – 8/12/2015	45,000	–	–	–	–	18.30	45,000	–
	9/12/2008	1,293,000	8/12/2009 – 8/12/2015	1,189,000	–	–	–	907,000	18.30	282,000	29.10
	10/12/2008	2,046,400	8/12/2009 – 8/12/2015	1,767,900	–	–	–	846,500	18.30	921,400	28.34
	11/12/2008	2,394,200	8/12/2009 – 8/12/2015	1,946,700	–	–	15,000	802,700	18.30	1,129,000	28.16
	12/12/2008	1,416,500	8/12/2009 – 8/12/2015	1,098,000	–	–	–	426,500	18.30	671,500	28.47
	13/12/2008	84,500	8/12/2009 – 8/12/2015	78,000	–	–	–	37,500	18.30	40,500	27.38
	14/12/2008	88,200	8/12/2009 – 8/12/2015	52,200	–	–	–	7,200	18.30	45,000	26.95
	15/12/2008	1,084,700	8/12/2009 – 8/12/2015	873,200	–	–	–	318,000	18.30	555,200	28.60
	16/12/2008	581,500	8/12/2009 – 8/12/2015	450,000	–	–	–	88,500	18.30	361,500	27.08
	17/12/2008	513,500	8/12/2009 – 8/12/2015	470,500	–	–	–	122,500	18.30	348,000	28.65
	18/12/2008	611,500	8/12/2009 – 8/12/2015	470,500	–	–	–	237,500	18.30	233,000	28.11
	19/12/2008	198,000	8/12/2009 – 8/12/2015	198,000	–	–	–	110,000	18.30	88,000	29.88
	20/12/2008	19,000	8/12/2009 – 8/12/2015	19,000	–	–	–	–	18.30	19,000	–
	22/12/2008	772,500	8/12/2009 – 8/12/2015	487,000	–	–	33,000	165,500	18.30	288,500	28.44
	23/12/2008	306,000	8/12/2009 – 8/12/2015	218,000	–	–	–	56,000	18.30	162,000	29.19
	24/12/2008	500,500	8/12/2009 – 8/12/2015	367,500	–	–	–	170,500	18.30	197,000	27.99
	25/12/2008	45,000	8/12/2009 – 8/12/2015	45,000	–	–	–	–	18.30	45,000	–
	29/12/2008	148,000	8/12/2009 – 8/12/2015	118,000	–	–	15,000	44,000	18.30	59,000	28.30

Options to subscribe for Ordinary Shares granted under the 2007 Share Option Scheme, as referred to in Notes 10B(ii) and 50A(ii) to the Accounts *(continued)*

Executive Directorate and eligible employees	Date granted	Options granted	Period during which rights exercisable (day/month/year)	Options outstanding as at 1 January 2012	Options granted during the year	Options vested during the year	Options lapsed during the year	Options exercised during the year	Exercise price per share of options (HK$)	Options outstanding as at 31 December 2012	Weighted average closing price of shares immediately before the date(s) on which options were exercised (HK$)
Other eligible employees	30/12/2008	19,000	8/12/2009 – 8/12/2015	19,000	–	–	–	–	18.30	19,000	–
	18/6/2009	170,000	12/6/2010 – 12/6/2016	90,000	–	30,000	–	45,000	24.50	45,000	30.50
	6/7/2009	45,000	12/6/2010 – 12/6/2016	45,000	–	15,000	–	–	24.50	45,000	–
	9/7/2009	45,000	12/6/2010 – 12/6/2016	30,000	–	15,000	–	30,000	24.50	–	29.40
	9/12/2009	670,000	8/12/2010 – 8/12/2016	585,000	–	193,000	–	65,000	26.85	520,000	30.21
	10/12/2009	2,381,000	8/12/2010 – 8/12/2016	2,176,000	–	708,000	64,000	415,500	26.85	1,696,500	29.68
	11/12/2009	2,297,000	8/12/2010 – 8/12/2016	2,170,000	–	713,000	19,000	265,000	26.85	1,886,000	29.96
	12/12/2009	610,000	8/12/2010 – 8/12/2016	565,500	–	170,000	69,000	67,500	26.85	429,000	30.36
	13/12/2009	19,000	8/12/2010 – 8/12/2016	12,500	–	6,000	–	–	26.85	12,500	–
	14/12/2009	2,443,000	8/12/2010 – 8/12/2016	2,372,500	–	745,000	98,500	202,500	26.85	2,071,500	29.24
	15/12/2009	2,773,000	8/12/2010 – 8/12/2016	2,441,000	–	799,000	42,500	215,000	26.85	2,183,500	30.23
	16/12/2009	1,550,000	8/12/2010 – 8/12/2016	1,414,000	–	452,000	25,000	219,000	26.85	1,170,000	30.12
	17/12/2009	1,000,000	8/12/2010 – 8/12/2016	975,000	–	316,000	–	82,000	26.85	893,000	30.36
	18/12/2009	389,000	8/12/2010 – 8/12/2016	380,500	–	126,000	20,000	46,500	26.85	314,000	30.21
	19/12/2009	70,000	8/12/2010 – 8/12/2016	70,000	–	23,000	–	–	26.85	70,000	–
	20/12/2009	75,000	8/12/2010 – 8/12/2016	75,000	–	24,000	–	–	26.85	75,000	–
	21/12/2009	520,000	8/12/2010 – 8/12/2016	501,000	–	147,000	40,000	94,000	26.85	367,000	29.71
	22/12/2009	256,000	8/12/2010 – 8/12/2016	215,000	–	76,000	–	43,000	26.85	172,000	30.16
	21/7/2010	270,000	28/6/2011 – 28/6/2017	245,000	–	82,000	110,000	30,000	27.73	105,000	29.05
	16/12/2010	194,000	16/12/2011 – 16/12/2017	194,000	–	65,500	–	–	28.84	194,000	–
	17/12/2010	4,737,000	16/12/2011 – 16/12/2017	4,596,500	–	1,520,500	83,500	124,500	28.84	4,388,500	30.81
	18/12/2010	673,000	16/12/2011 – 16/12/2017	673,000	–	227,500	–	–	28.84	673,000	–
	19/12/2010	174,000	16/12/2011 – 16/12/2017	174,000	–	52,500	12,500	6,500	28.84	155,000	30.95
	20/12/2010	4,789,500	16/12/2011 – 16/12/2017	4,663,000	–	1,547,500	200,500	170,500	28.84	4,292,000	30.43
	21/12/2010	3,020,000	16/12/2011 – 16/12/2017	3,001,000	–	1,000,500	157,500	86,500	28.84	2,757,000	30.22
	22/12/2010	975,000	16/12/2011 – 16/12/2017	956,000	–	322,000	–	21,500	28.84	934,500	30.36
	23/12/2010	189,000	16/12/2011 – 16/12/2017	189,000	–	49,000	45,000	–	28.84	144,000	–
	7/7/2011	215,000	27/6/2012 – 27/6/2018	215,000	–	72,500	–	–	26.96	215,000	–
	30/3/2012	15,363,000	23/3/2013 – 23/3/2019	–	15,363,000	6,000	244,500	–	27.48	15,118,500	–

Notes

1 No option may be exercised later than seven years after its date of offer and no option may be offered to be granted more than seven years after the adoption of the 2007 Share Option Scheme ("2007 Option Scheme") on 7 June 2007.

2 Unless approved by shareholders in the manner as required by the Listing Rules, the total number of shares issued and issuable upon exercise of the options granted to any eligible employee under the 2007 Option Scheme together with the total number of shares issued and issuable upon the exercise of any option granted to such eligible employee under any other share option scheme of the Company (including, in each case, both exercised and outstanding options) in any 12-month period must not exceed 0.2% of the shares of the Company in issue at the date of offer in respect of such option under the 2007 Option Scheme.

3 The proportion of underlying shares in respect of which the above share options will vest is as follows:

Date	Proportion of underlying shares in respect of which an option is vested
Before the first anniversary of the date of offer of the option (the "Offer Anniversary")	none
From the first Offer Anniversary to the date immediately before the second Offer Anniversary	one-third
From the second Offer Anniversary to the date immediately before the third Offer Anniversary	two-thirds
From the third Offer Anniversary and thereafter	all

4 Mr. Morris Cheung Siu-wa became the Human Resources Director and a Member of the Executive Directorate on 17 July 2012.

During the year ended 31 December 2012, 16,917,000 options to subscribe for shares of the Company were granted to 444 employees under the 2007 Share Option Scheme. Details of the grant are set out in the tables above. The closing price per share immediately before the date of grant of the options is set out below. Pursuant to the terms of the Scheme, each grantee undertakes to pay HK$1.00, on demand, to the Company, in consideration for the grant of the options. The share options granted are recognised on an accrued vesting basis in the accounts. The weighted average value per option granted, estimated at the date of grant using the Black-Scholes pricing model is as follows:

Date granted	Closing price per share immediately before the date of grant (HK$)	Estimated risk-free interest rate (%)	Expected life (Years)	Estimated Volatility	Expected dividend per share (HK$)	Weighted average value per option granted (HK$)
30/3/2012	27.50	0.37	3.5	0.22	0.76	3.08

The Black-Scholes option pricing model was developed for use in estimating the fair value of traded options and requires input of highly subjective assumptions, including the expected life and stock price volatility. Since the Company's share options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimates, the Black-Scholes option pricing model does not necessarily provide a reliable measure of the fair value of the share options.

Save as disclosed above:

A none of the Members of the Board or the Executive Directorate of the Company had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO); and

B during the year ended 31 December 2012, no Member of the Board or the Executive Directorate nor any of their spouses or children under 18 years of age held any rights to subscribe for equity or debt securities of the Company nor had there been any exercises of any such rights by any of them,

as recorded in the register kept by the Company under section 352 of the SFO or otherwise notified to the Company and the HKSE pursuant to the Model Code.

Directors' Service Contracts

No Director proposed for re-election at the forthcoming Annual General Meeting has a service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than statutory compensation.

No Director has a service contract with the Company or any of its subsidiaries which is for a duration which may exceed three years or which requires the Company to, in order to terminate such contract, give a notice period in excess of one year or pay or make other payments equivalent to more than one year's emoluments.

Substantial Shareholders' Interests

Set out below is the name of the party which was interested in 5% or more of the nominal value of the share capital of the Company and the number of shares in which it was interested as at 31 December 2012 as recorded in the register kept by the Company under section 336 of the SFO:

Name	No. of Ordinary Shares	Percentage of Ordinary Shares to total issued share capital
The Financial Secretary Incorporated (in trust on behalf of the Government)	4,434,552,207	76.55

The Company has been informed by the Government that, as at 31 December 2012, approximately 0.39% of the shares of the Company 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.

Loan Agreements with Covenant Relating to Specific Performance of the Controlling Shareholder

As at 31 December 2012, the Group had borrowings of HK$19,548 million with maturities ranging from 2013 to 2022 and undrawn committed and uncommitted banking and other facilities of HK$9,452 million, which were subject to the condition that the Government, being the Company's controlling shareholder, owns more than half in nominal value of the voting share capital of the Company during the lives of the borrowings and the undrawn facilities. Otherwise, immediate repayment of borrowings may be demanded and cancellation of the undrawn facilities may result.

Major Suppliers and Customers

Less than 30% in value of supplies (which were not of a capital nature) purchased during the year ended 31 December 2012 was attributable to the Group's five largest suppliers.

Approximately 38% in value of the Group's total turnover during the year ended 31 December 2012 was attributable to the Group's five largest customers combined by value. Approximately 22% of the Group's total turnover was attributable to the largest customer.

As at 31 December 2012, none of the Members of the Board or the Executive Directorate or any of their respective associates or any Shareholder (which to the best knowledge of the Members of the Board or the Executive Directorate, own more than 5% of the Company's issued share capital) had any beneficial interests in the Group's five largest customers.

Going Concern

The accounts on pages 155 to 239 have been prepared on a going concern basis. The Board has reviewed the Company's budget for 2013, together with the longer-term forecast for the following five years and is satisfied that the Company has sufficient resources to continue as a going concern for the foreseeable future.

Continuing Connected Transactions

During the year under review, the following transactions and arrangements described below involved the provision of goods or services on an ongoing basis with the Government and/or KCRC, the Airport Authority (the "AA"), UGL Rail Services Pty Limited (previously known as United Group Rail Services Limited) ("UGL"), Leighton Contractors (Asia) Limited ("LCAL") and John Holland Pty Limited ("JHL"). The Government is a substantial shareholder of the Company for the purposes of the Listing Rules. KCRC and the AA are both associates of the Company as defined in the Listing Rules. As explained under Section III below, UGL and John Holland Melbourne Rail Franchise Pty Ltd. ("John Holland") are substantial shareholders of a subsidiary of the Company and John Holland, JHL and LCAL are indirect wholly-owned subsidiaries of Leighton Holdings Limited. On this basis, JHL and LCAL are both associates of John Holland for the purposes of the Listing Rules. The Government, KCRC, the AA, UGL, LCAL and JHL are therefore each "connected persons" for the purposes of the Listing Rules and each transaction set out at paragraphs I, II and III below constitutes a continuing connected transaction for the Company under the Listing Rules.

I Merger-related Continuing Connected Transactions

Each of the transactions listed in paragraphs A to D below and which formed part of the Rail Merger, was approved by the independent shareholders of the Company at an Extraordinary General Meeting held on 9 October 2007. These paragraphs should be read in conjunction with the paragraphs contained in the section below headed "Additional Information in respect of the Rail Merger".

As disclosed in the circular issued by the Company on 3 September 2007 in connection with the Rail Merger, the Stock Exchange granted a waiver to the Company from strict compliance with the requirements under Chapter 14A of the Listing Rules which would otherwise apply to continuing connected transactions between the Company, the Government and/or KCRC arising as a result of the Rail Merger, subject to certain conditions (the "Merger-related Waiver").

A Merger Framework Agreement

The Merger Framework Agreement was entered into on 9 August 2007 between the Company, KCRC and the Secretary for Transport and Housing and the Secretary for Financial Services and the Treasury for and on behalf of the Government.

The Merger Framework Agreement contains provisions for the overall structure and certain specific aspects of the Rail Merger, including in relation to:

- a seamless interchange programme;
- corporate governance of the Company Post-Rail Merger;
- payments relating to property enabling works;
- arrangements relating to the establishment of a rolling programme on the level of flat production arising from tenders for railway property development;
- arrangements in relation to the assessment of land premium amounts;
- arrangements in relation to the employees of the Company and KCRC, including provisions preventing the Company from terminating the employment of relevant frontline staff for any reason that relates to the process of integrating the operations of the Company and KCRC;
- the implementation of certain fare reductions;
- arrangements in relation to the proposed Shatin to Central Link;
- KCRC's continuing responsibility for its existing financial arrangements;
- treatment of KCRC's cross border leases;

- the payment of HK$7.79 billion in respect of the Property Package (as described on pages 138 to 139 and in paragraph D below);
- the allocation of liability for any Pre-Rail Merger and Post-Rail Merger claims by third parties; and
- the Company's retention of its English name and (pursuant to the Rail Merger Ordinance) the change of its Chinese name to "香港鐵路有限公司".

B West Rail Agency Agreement

The West Rail Agency Agreement and related agreements were entered into on 9 August 2007 between the Company, KCRC and certain KCRC subsidiary companies ("West Rail Subsidiaries"). Pursuant to the terms of the West Rail Agency Agreement, the Company was appointed:

- to act as KCRC's agent, and donee under powers of attorney, to exercise certain rights and perform certain obligations relating to specified development sites along West Rail; and
- to act as agent for, and donee under powers of attorney from, each of the West Rail Subsidiaries to exercise certain rights and perform certain obligations relating to specified development sites along West Rail.

The Company will receive an agency fee of 0.75% of the gross sale proceeds in respect of the unawarded West Rail development sites and 10% of the net profits accrued to the West Rail Subsidiaries under the development agreements in respect of the awarded West Rail development sites. The Company will also recover from the West Rail Subsidiaries its costs (including internal costs) incurred in respect of the West Rail development sites plus 16.5% on-cost, together with interest accrued thereon.

C KCRC Cross Border Lease Agreements

US CBL Assumption Agreements

Separate US CBL Assumption Agreements were entered into on 30 November 2007 between the Company, KCRC and, variously, Wilmington Trust Company, Buoyant Asset Limited, BA Leasing & Capital Corporation, Utrecht-America Finance Co., Cooperatieve Cenrale Raiffeisen-Boerenleenbank B.A., Advanced Asset Limited, Washoe Asset Management Company, Quality Asset Limited, Kasey Asset Limited, Key Equipment Finance Inc., Mercantile Leasing Company (No. 132) Limited, Landesbank Sachsen Aktiengesellschaft, Barclays Bank PLC, Bayerische Landesbank Girozentrale, U.S. Bank National Association, Circuit Asset Limited, Citicorp USA Inc., Shining Asset Limited, Banc of America FSC Holdings Inc., Fluent Asset Limited, Anzef Limited, Societe Generale, Australia and New Zealand Banking Group Limited, Statesman Asset Limited, State Street Bank and Trust Company and Bowman Asset Limited and became effective on 3 December 2007, with respect to each of the US cross border leases originally entered into between KCRC and certain counterparties (each, a "CBL"). Pursuant to each US CBL Assumption Agreement, the Company undertakes to perform, on a joint and several basis with KCRC, the obligations of KCRC under the respective CBLs. As a result thereof, the Company is generally liable to the CBL counterparties in respect of KCRC's obligations under the CBLs and has the right to exercise certain of KCRC's rights under the CBLs.

US CBL Allocation Agreement

The US CBL Allocation Agreement was entered into between the Company, KCRC and the subsidiaries of KCRC (the "KCRC Subsidiaries") on 2 December 2007. Pursuant to the US CBL Allocation Agreement, rights, obligations and responsibility for risks relating to the CBLs are delineated and allocated between KCRC and the Company (each of which is jointly and severally liable to specified CBL counterparties, as referred to in the paragraph above headed "US CBL Assumption Agreements"). Under the terms of the US CBL Allocation Agreement, as between the Company and KCRC, the Company is responsible for specified obligations. The Company and KCRC each made representations under the US CBL Allocation Agreement, which include, in the case of those made by KCRC, representations with respect to the status of the CBLs. The Company and KCRC agreed to indemnify each other for certain losses in relation to the CBLs.

D Property Package Agreements

Category 2A Properties

On 9 August 2007, the Government entered into an undertaking that it would, within twelve months of the Merger Date or such further period of time as the Government and the Company may agree, issue to KCRC an offer for the grant at nil premium of Government leases in respect of the land upon which certain properties (the "Category 2A Properties") are situated (the "said Government Leases"). The Category 2A Properties were held by KCRC as vested land under the Kowloon-Canton Railway Corporation Ordinance (Cap. 372 of the Laws of Hong Kong) ("KCRC Ordinance"). On 9 August 2007, KCRC entered into an undertaking that it would, immediately after the grant of the said Government Leases referred to in the preceding sentence, enter into agreements for sale and purchase to sell the Category 2A Properties to the Company (the "said Agreements for Sale and Purchase"). Assignments of the Category 2A Properties to the Company shall then take place pursuant to the said Agreements for Sale and Purchase (the said "Assignments"). Pursuant to the KCRC undertaking and as interim arrangements until the grant of the Government leases, on 9 August 2007 the following agreements were entered into between KCRC and the Company:

- an agreement that KCRC (as lessor) shall enter into tenancy agreements with the Company (as lessee) at market rent in respect of the Category 2A Properties' vacant units (with the intention that the Company will then sub-let the vacant units to sub-tenants);
- two licence agreements in respect of the common areas within the Category 2A Properties, pursuant to which KCRC granted the Company the right to use certain common areas until the execution of the Category 2A Properties assignment referred to above;
- a lease enforcement agency agreement appointing the Company as its enforcement agent to enforce KCRC's current Category 2A Properties tenancy agreements against tenants; and
- an assignment of rental proceeds whereby the proceeds received under KCRC's current Category 2A Properties tenancy agreements with tenants are assigned to the Company.

The said Government Leases were issued to KCRC respectively on 27 March 2009 and 31 March 2009. The said Agreements for Sale and Purchase were entered into between KCRC and the Company on 27 March 2009 and 31 March 2009 respectively and the said Assignments to the Company were executed on 27 March 2009 and 31 March 2009 respectively. Deeds of Mutual Grant were also entered into between the Company and KCRC on 27 March 2009 and 31 March 2009 respectively setting out the easements, rights, entitlements, privileges and liberties of the Company and KCRC in the land on which the Category 2A Properties are situated.

Category 2B Property

On 9 August 2007, the Government entered into an undertaking that it would, within twenty four months of the Merger Date or such further period of time as the Government and the Company may agree, issue to the Company an offer for the grant of a Government Lease of a certain property (the "Category 2B Property") on terms to be agreed. The Category 2B Property is currently held by KCRC as vested land under the KCRC Ordinance for use as staff quarters and a recreational club.

On 9 August 2007, KCRC entered into an undertaking relating to interim arrangements to ensure that, as from the Merger Date, the Company shall be responsible for KCRC's obligations under licence agreements relating to the Category 2B Property, and for enforcing such agreements. The Company is entitled to proceeds received by KCRC in respect of those licence agreements. The interim arrangements include, inter alia, as from the Merger Date:

- an agreement that KCRC (as licensor) shall grant to the Company (as licensee) possession of the Category 2B Property (without payment of any licence fee or premium), subject to existing licences and the Second Schedule of the KCRC Ordinance, with the right of the Company to sub-license all or any part of the Category 2B Property (subject to it being used as staff quarters and a recreation club);
- until the grant of the Government lease of the Category 2B Property, KCRC has appointed the Company as its enforcement agent to enforce KCRC's current Category 2B Property licence agreements against licensees; and
- KCRC has assigned to the Company the proceeds received under KCRC's current Category 2B Property licence agreements with licensees.

The basic terms offer for the Category 2B Property (i.e. Trackside Villas) was issued and accepted by the Company on 31 December 2009 and the Government Lease in respect of Tai Po Town Lot No. 199 dated 29 March 2010 was issued for a term of 50 years from 2 December 2007.

Category 3 Properties

On 9 August 2007, the Company entered into three agreements (the "Category 3 Agreements") and related powers of attorney with KCRC. Each Category 3 Agreement relates to a certain property (each a "Category 3 Property"). KCRC has previously entered into a development agreement in respect of each Category 3 Property. None of the rights and obligations granted to or undertaken by the Company under the Category 3 Agreements may be exercised or performed by the Company if they relate exclusively to concession property situate on any Category 3 Property. Matters affecting the concession property situate on any Category 3 Property are dealt with under the terms of the Service Concession Agreement (as defined and summarised on page 151).

Pursuant to the terms of each Category 3 Agreement, the Company has been appointed to act as KCRC's agent, and donee under powers of attorney, to exercise rights and to perform obligations of KCRC which relate to the Category 3 Property (but excluding the right or obligation to dispose of the relevant Category 3 Property).

The Company is required at all times to comply with statutory restrictions and obligations binding on KCRC which relate to the Category 3 Properties, and shall pay all amounts due and payable from KCRC which have been incurred by KCRC as a result of the Company's actions.

In acting as KCRC's agent, the Company is required to act according to prudent commercial principles, and aim to maximise gross profits under the Category 3 Properties and to run a safe and efficient railway. In order to assist the Company in performing its agency functions, KCRC has granted powers of attorney to the Company. The Company may only use the powers of attorney to exercise rights and perform obligations conferred or undertaken by it under the relevant Category 3 Agreement. As well as acting as KCRC's agent, the Company has the right to give KCRC instructions in respect of any action or matter relating to each Category 3 Property (including its related development agreement) which the Company is unable to take by reason of the limitation of the scope of its agency powers. KCRC is required to comply promptly with those instructions provided that it is permitted under law, and under the relevant Government grant, to carry out those instructions.

KCRC is required to account for revenue received in respect of a Category 3 Property by way of balance sheet movement (rather under its profit and loss account), provided that such treatment is permitted under law and accounting principles and practices.

KCRC shall not take any action in respect of a Category 3 Property which is not carried out by the Company (acting as KCRC's agent), or according to the Company's instructions, or otherwise in accordance with the terms of the Category 3 Agreement.

As consideration for acting as KCRC's agent, the Company shall be paid a fee which is expected to be similar in quantum to the profits made by KCRC in respect of the relevant Category 3 Property (after deducting certain initial and upfront payments and consultant contribution costs, in each case paid or to be paid by the relevant developer to KCRC). Generally, the Company's fee shall be payable in instalments promptly following receipt of relevant funds by KCRC (but subject to specified deductions of amounts due from KCRC to the relevant Category 3 Property developer).

The Company has agreed to give certain indemnities to KCRC in respect of each Category 3 Property.

The Company shall be the first manager, or shall ensure that a manager is appointed in respect of, each Category 3 Property (once developed).

The Company's appointment as agent shall terminate when KCRC ceases to have any undivided share in the relevant Category 3 Property, other than concession property, and neither KCRC nor the developer nor the guarantors have any further rights to exercise, or obligations to perform, under the development agreement relating to the relevant Category 3 Property.

In relation to the Merger Framework Agreement, the West Rail Agency Agreement (and related powers of attorney), the US CBL Assumption Agreements, the US CBL Allocation Agreement and the agreements in relation to Category 2A, Category 2B and Category 3 Properties (together the "Merger-related Continuing Connected Transactions") and in accordance with paragraph B(I)(i) of the Merger-related Waiver, the Company confirms that the Independent Non-executive Directors of the Company have reviewed each of the Merger-related Continuing Connected Transactions and confirmed that the Merger-related Continuing Connected Transactions were entered into:

(1) in the ordinary and usual course of business of the Company;

(2) on normal commercial terms or on terms which are no less favourable to the Company than terms available to or from independent third parties; and

(3) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Company has engaged the auditors of the Company to carry out a review of each of the Merger-related Continuing Connected Transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. In accordance with paragraph B(I)(ii) of the Merger-related Waiver, the auditors have provided a letter to the Board confirming that:

(a) nothing has come to their attention that causes them to believe that the Merger-related Continuing Connected Transactions have not been approved by the Board; and

(b) nothing has come to their attention that causes them to believe that the Merger-related Continuing Connected Transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions.

II Non Merger-related Continuing Connected Transactions with Government and/or its Associates

As disclosed in the announcement of the Company dated 13 January 2005, the Stock Exchange has granted a waiver to the Company from strict compliance with the requirements under Chapter 14A of the Listing Rules which would otherwise apply to connected transactions and continuing connected transactions between the Company and the Government, subject to certain conditions (the "Waiver").

The following disclosures are made in accordance with paragraph (B)(I) of the Waiver and Rule 14A.46 of the Listing Rules.

A1 Entrustment Agreement for Design and Site Investigation in Relation to the Shatin to Central Link

The Entrustment Agreement for Design and Site Investigation in Relation to the Shatin to Central Link (the "First SCL Agreement") was entered into on 24 November 2008 between the Company and the Secretary for Transport and Housing for and on behalf of the Government.

The First SCL Agreement contains provisions for the design of and site investigation and procurement activities in relation to the proposed Shatin to Central Link, including in relation to:

- the Government's obligation to pay the Company up to a maximum aggregate amount of HK$1,500 million in respect of certain costs incurred by the Company pursuant to the First SCL Agreement, including the Company's in-house design costs and certain on-costs and preliminary costs;
- the Government's obligation to bear and finance the total cost of the design and site investigation activities under the First SCL Agreement (subject to the limit noted above in respect of payments to the Company) and arrangements for the payment of these costs directly by the Government;
- the Company's obligation to carry out or procure the carrying out of the design and site investigation activities in relation to the proposed Shatin to Central Link;
- the limitation of the Company's liability to the Government under the First SCL Agreement, except in respect of death or personal injury caused by the negligence of the Company, to HK$600 million; and
- should the railway scheme for the Shatin to Central Link be authorised under the Railways Ordinance (Cap. 519 of the Laws of Hong Kong), the execution of a further agreement by the Government and the Company setting out each of their rights, obligations, duties and powers with respect to the financing, construction, completion, testing, commissioning and putting into service the works necessary for the construction and operation of the Shatin to Central Link.

A2 Entrustment Agreement for Advance Works Relating to the Shatin to Central Link

The Entrustment Agreement for Advance Works Relating to the Shatin to Central Link (the "Second SCL Agreement") was entered into on 17 May 2011 between the Company and the Secretary for Transport and Housing for and on behalf of the Government.

The Second SCL Agreement contains the following provisions:

- in consideration of the Company executing or procuring the execution of certain entrustment activities as set out in the Second SCL Agreement and carrying out its other obligations under the Second SCL Agreement, the Government shall pay to the Company the Company's project management cost. The amount of such project management cost is to be agreed between the Company and the Government and prior to such agreement, the project management cost shall be paid by the Government to the Company on a provisional basis calculated in accordance with the Second SCL Agreement;

- the Company and the Government may agree that the Company will carry out (or procure the carrying out of) certain additional works for the Government (such agreed additional works being "miscellaneous works"). Miscellaneous works (if any) are to be carried out by the Company in the same manner as if they had formed part of the activities specified to be carried out under the Second SCL Agreement and in consideration of the Company executing or procuring the execution of such miscellaneous works (if any) and carrying out its other obligations under the Second SCL Agreement in relation to such miscellaneous works (if any), the Government shall pay to the Company an amount to be agreed between the Company and the Government as being the project management fee payable to the Company for designing and constructing such miscellaneous works;
- the Government shall bear all of the "Works Cost" (as defined in the Second SCL Agreement). In this connection, the Government will make payments to the Company in respect of the Works Cost on a provisional basis, subject to adjustments when the final outturn cost of the Works Cost is determined;
- the Government shall bear land acquisition, clearance and related costs and those costs which are incurred by the Lands Department in connection with the Shatin to Central Link project;
- the maximum aggregate amount payable by the Government to the Company under the Second SCL Agreement is limited to approximately HK$3,000 million per annum and a total in aggregate of approximately HK$15,000 million;
- the Company shall carry out or procure the carrying out of certain enabling works on the expanded Admiralty Station and the to be constructed Ho Man Tin Station, the reprovisioning of the International Mail Centre from Hung Hom to Kowloon Bay and other works as described under the Second SCL Agreement;
- the Company's total liability to the Government under the First SCL Agreement and the Second SCL Agreement, except in respect of death or personal injury caused by the negligence of the Company, is limited to the aggregate fees that have been and will be received by the Company from the Government under the First SCL Agreement and the Second SCL Agreement;
- the Company will provide to Government by the end of each calendar month, a progress report on the activities under the Second SCL Agreement that were carried out in the immediately preceding calendar month and, within three months following the completion of the relevant works, a final report on the activities required to be carried out under the Second SCL Agreement;
- the Company shall be responsible for the care of all works constructed under the Shatin to Central Link project from the commencement of construction until the date of handover of those works to the Government and for completing or procuring the completion of any outstanding works and/or defective works identified prior to the handover of the works;
- during the period of twelve years following the issue of a certificate of completion by the Company in respect of work carried out under any contract with any third party, the Company shall be responsible for the repair of any defects in such work that are identified following the expiry of any defects liability period under the relevant contract;
- the Company warrants that:
  - in the case of those activities under the Second SCL Agreement that relate to the provision of project management services, such activities shall be carried out with the skill and care reasonably to be expected of a professional and competent project manager;
  - in the case of those activities under the Second SCL Agreement that relate to the provision of design services, such activities shall be carried out with the skill and care reasonably to be expected of a professional and competent design engineer; and
  - in the case of those activities under the Second SCL Agreement that relate to the carrying out of construction activities, such activities shall be carried out with the skill and care reasonably to be expected of, and by utilising such plant, goods and materials reasonably to be expected from, a competent and workmanlike construction contractor; and
- the Government further undertakes to use reasonable endeavours to provide the Company with assistance of a non-financial nature, including taking all reasonable steps to procure that all necessary licences and consents, required in connection with the design, construction and operation of the Shatin to Central Link are given or granted.

A3 Entrustment Agreement for Construction and Commissioning of the Shatin to Central Link

The Entrustment Agreement for Construction and Commissioning of the Shatin to Central Link (the "Third SCL Agreement") was entered into on 29 May 2012 between the Company and the Secretary for Transport and Housing for and on behalf of the Government.

The Third SCL Agreement contains the following provisions:

- in consideration of the Company executing or procuring the execution of certain entrustment activities as set out in the Third SCL Agreement and carrying out its other obligations under the First SCL Agreement and the Second SCL Agreement, the Government shall pay to the Company the Company's project management cost. The amount of the project management cost is HK$7,893 million and will be paid by the Government to the Company on a quarterly basis;
- the Company and the Government may agree that the Company will carry out (or procure the carrying out of) certain additional works for the Government (such agreed additional works being "miscellaneous works"). Miscellaneous works (if any) are to be carried out by the Company in the same manner as if they had formed part of the activities specified to be carried out under the Third SCL Agreement and in consideration of the Company executing or procuring the execution of such miscellaneous works (if any) and carrying out its other obligations under the Third SCL Agreement in relation to such miscellaneous works (if any), the Government shall pay to the Company an amount to be agreed between the Company and the Government as being the project management fee payable to the Company for designing and constructing such miscellaneous works;
- the Government shall bear certain "Third Party Costs", any "Interface Works Costs" and any "Direct Costs" (each as defined in the Third SCL Agreement);
- the Government shall bear land acquisition, clearance and related costs and those costs which are incurred by the Lands Department in connection with the Shatin to Central Link project;
- the maximum aggregate amount payable by the Government to the Company under the Third SCL Agreement is limited to HK$3,000 million per annum and a total in aggregate of HK$15,000 million;
- the maximum aggregate amount payable by the Company to the Government under the Third SCL Agreement in relation to its contribution to certain railway works under the Third SCL Agreement is limited to HK$4,000 million per annum and a total in aggregate of HK$15,000 million;
- the Company's total liability to the Government under the First SCL Agreement, the Second SCL Agreement and the Third SCL Agreement, except in respect of death or personal injury caused by the negligence of the Company, is limited to the aggregate fees that have been and will be received by the Company from the Government under the First SCL Agreement, the Second SCL Agreement and the Third SCL Agreement;
- the Company will provide to Government by the end of each calendar month, a progress report on the activities under the Third SCL Agreement that were carried out in the immediately preceding calendar month and, within three months following the handover of the Shatin to Central Link project to the Government, a final report on the activities required to be carried out under the Third SCL Agreement;
- the Company shall be responsible for the care of all works constructed under the Shatin to Central Link project from the commencement of construction until the date of handover of those works to the Government and for completing or procuring the completion of any outstanding works and/or defective works identified prior to the handover of the works;
- during the period of twelve years following the issue of a certificate of completion by the Company in respect of work carried out under any contract with any third party, the Company shall be responsible for the repair of any defects in such work that are identified following the expiry of any defects liability period under the relevant contract;
- the Company warrants that:
  - in the case of those activities under the Third SCL Agreement that relate to the provision of project management services, such activities shall be carried out with the skill and care reasonably to be expected of a professional and competent project manager;
  - in the case of those activities under the Third SCL Agreement that relate to the provision of design services, such activities shall be carried out with the skill and care reasonably to be expected of a professional and competent design engineer; and
  - in the case of those activities under the Third SCL Agreement that relate to the carrying out of construction activities, such activities shall be carried out with the skill and care reasonably to be expected of, and by utilising such plant, goods and materials reasonably to be expected from, a competent and workmanlike construction contractor; and

- the Government further undertakes to use reasonable endeavours to provide the Company with assistance of a non-financial nature, including taking all reasonable steps to procure that all necessary licences and consents, required in connection with the design, construction and operation of the Shatin to Central Link are given or granted.

B1 Entrustment Agreement for Design and Site Investigation in Relation to the Express Rail Link (Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link)

The Entrustment Agreement for Design and Site Investigation in Relation to the Express Rail Link (the "First XRL Agreement") was entered into on 24 November 2008 between the Company and the Secretary for Transport and Housing for and on behalf of the Government.

The First XRL Agreement contains provisions for the design of and site investigation and procurement activities in relation to the proposed Express Rail Link, including in relation to:

- the Government's obligation to pay the Company, up to a maximum aggregate amount of HK$1,500 million, in respect of certain costs incurred by the Company pursuant to the First XRL Agreement, including the Company's in-house design costs and certain on-costs, preliminary costs and recruited staff costs;
- the Government's obligation to bear and finance the total cost of the design and site investigation activities under the First XRL Agreement (subject to the limit noted above in respect of payments to the Company) and arrangements for the payment of these costs directly by the Government;
- the Company's obligation to carry out or procure the carrying out of the design and site investigation activities in relation to the proposed Express Rail Link;
- the limitation of the Company's liability to the Government under the First XRL Agreement, except in respect of death or personal injury caused by the negligence of the Company, to HK$700 million; and
- should the railway scheme for the Express Rail Link be authorised under the Railways Ordinance (Cap. 519 of the Laws of Hong Kong), the execution of a further agreement by the Government and the Company setting out each of their rights, obligations, duties and powers with respect to the financing, construction, completion, testing, commissioning and putting into service the works necessary for the construction and operation of the Express Rail Link.

B2 Entrustment Agreement for Construction, Testing and Commissioning of the Express Rail Link

The Entrustment Agreement for the construction and commissioning of the Express Rail Link was entered into on 26 January 2010 between the Company and the Secretary for Transport and Housing for and on behalf of the Government (the "Second XRL Agreement").

The scheme in respect of the Express Rail Link was first gazetted under the Railways Ordinance (Cap. 519 of the Laws of Hong Kong) on 28 November 2008, with amendments and corrections gazetted on 30 April 2009. The scheme, as amended with such minor modifications as deemed necessary, was authorised by the Chief Executive in Council on 20 October 2009 and funding support approved by the Finance Committee on 16 January 2010.

The Second XRL Agreement contains the following provisions:

- in consideration of the Company executing or procuring the execution of certain entrustment activities as set out in the Second XRL Agreement and carrying out its other obligations under the Second XRL Agreement and the First XRL Agreement, the Government shall pay to the Company HK$4,590 million, to be paid in cash quarterly in advance on a scheduled basis as such sum may be varied in accordance with the Second XRL Agreement, subject to the maximum payment limits stated in the Second XRL Agreement (being HK$2,000 million annually and HK$10,000 million in total) (the "Maximum Payment Limits");
- the Company and the Government may agree that the Company will carry out (or procure the carrying out of) certain additional works for the Government (such agreed additional works being "miscellaneous works"). Miscellaneous works (if any) are to be carried out by the Company in the same manner as if they had formed part of the activities specified to be carried out under the Second XRL Agreement and in consideration of the Company executing or procuring the execution of the miscellaneous works (if any) and carrying out its other obligations under the Second XRL Agreement in relation to the miscellaneous works (if any), the Government shall pay to the Company an amount equal to an agreed fixed percentage of third party costs attributable to the miscellaneous works from time to time subject to the Maximum Payment Limits;
- the Company will provide to the Government by the end of each calendar month, a progress report on the activities under the Second XRL Agreement that were carried out in the immediately preceding calendar month and, within three months following

the earlier of handover of the Express Rail Link project to the Government or termination of the Second XRL Agreement, a final report on the activities required to be carried out under the Second XRL Agreement;

- the Company shall be responsible for the care of all works constructed under the Express Rail Link project from the commencement of construction until the date of handover of those works to the Government (or to a third party directed by the Government) and for completing or procuring the completion of any outstanding works and/or defective works identified prior to the handover of the works;
- during the period of twelve years following the issue of a certificate of completion by the Company in respect of work carried out under any contract with any third party, the Company shall be responsible for the repair of any defects in such work that are identified following the expiry of any defects liability period under the relevant contract;
- the Company warrants that:
  - in the case of those activities under the Second XRL Agreement that relate to the provision of project management services, such activities shall be carried out with the skill and care reasonably to be expected of a professional and competent project manager;
  - in the case of those activities under the Second XRL Agreement that relate to the provision of design services, such activities shall be carried out with the skill and care reasonably to be expected of a professional and competent design engineer; and
  - in the case of those activities under the Second XRL Agreement that relate to the carrying out of construction activities, such activities shall be carried out with the skill and care reasonably to be expected of, and by utilising such plant, goods and materials reasonably to be expected from, a competent and workmanlike construction contractor;
- the Government is required to bear (i) any costs payable to third parties, (ii) any charges, costs or amounts payable to any Government department, bureau, agency or body in relation to the activities to be carried out under the Second XRL Agreement, (iii) any and all amounts payable to the KCRC as compensation for damage arising as a result of the Company and/or a third party contractor carrying out activities under the Second XRL Agreement; and (iv) all land acquisition, clearance and related costs (including all amounts arising as a result of any claim for compensation by any third party) and those costs which are incurred by the Lands Department in connection with the Express Rail Link project; and
- the Government further undertakes to use reasonable endeavours to provide the Company with assistance of a non-financial nature, including taking all reasonable steps to procure that all necessary licences and consents, required in connection with the design, construction and operation of the Express Rail Link are given or granted.

The Government has agreed that the Company has been asked to proceed with the construction, testing and commissioning of the Express Rail Link (pursuant to and on the terms of the Second XRL Agreement) on the understanding that the Company will be invited to undertake the operation of the Express Rail Link under the concession approach.

The Second XRL Agreement remains in full force and effect until the completion of the activities set out in the Second XRL Agreement or until terminated earlier in accordance with the terms of the Second XRL Agreement. The Company expects that the substantial majority of the activities to be carried out under the Second XRL Agreement will be complete by the time of the projected handover of the completed Express Rail Link in mid-2015. However certain activities involve the provision of specified administrative services to the Government, the Company expects to provide these services for a number of years following the completion of the Express Rail Link project. Notwithstanding this, certain provisions will remain in force following completion of the activities set out in the Second XRL Agreement, for example, provisions regarding confidentiality and dispute resolution.

C Renewal of the existing Maintenance Agreement for the Automated People Mover System at the Hong Kong International Airport

The Company has had entered into a Maintenance Agreement with the AA for the maintenance of the Automated People Mover system at the Hong Kong International Airport since 2002. It was signed on 18 March 2002 for a period of three years, which expired on 6 July 2005. A Supplemental Agreement was agreed with the AA, and approved by the Board in June 2005, to extend the Maintenance Agreement for another three years until 6 July 2008, which also included options for the Automated People Mover serving the Sky Plaza and Sky Pier terminal buildings.

On 21 August 2008, the Company entered into a new Maintenance Agreement with the AA, for the renewal of the then expired Maintenance Agreement for the Automated People Mover system for a five year period (the "New Maintenance Agreement"), effective from 6 July 2008. It is expected that the highest amount per year receivable from the AA under the New Maintenance Agreement will be HK$37 million.

The New Maintenance Agreement contains provisions relating to the operation and maintenance by the Company of the Automated People Mover system installed at Hong Kong International Airport (the "System") and the carrying out by the Company of certain specified services in respect of the System, they including the following:

- provisions stating that the duration of the New Maintenance Agreement shall be five years from 6 July 2008 up to and including 5 July 2013;
- 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; and
- provisions relating to the carrying out by the Company (as additional services), in certain circumstances, of upgrade work on the System.

D Project Agreement for the Financing, Design, Construction and Operation of the West Island Line

The Project Agreement for the Financing, Design, Construction and Operation of the West Island Line (the "WIL Project Agreement") was entered into on 13 July 2009 between the Company and the Secretary for Transport and Housing for and on behalf of the Government.

The WIL Project Agreement contains provisions for the financing of and the carrying out, or procuring the carrying out, of the design, construction, completion, testing and commissioning by the Company of the railway works required in order to bring the West Island Line into operation in accordance with the MTR Ordinance, the Operating Agreement between the Company and the Secretary for Transport and Housing for and on behalf of the Government dated 9 August 2007 and the WIL Project Agreement. The West Island Line will be owned, operated and maintained by the Company for its own account for the period of the Company's railway franchise. The WIL Project Agreement includes provisions in relation to:

- payment by the Government of HK$12,252 million to the Company in consideration of the Company's obligations under the WIL Project Agreement, such sum constituting funding support from the Government for the Company to implement the West Island Line project;
- within 24 months of commercial operations commencing on the West Island Line on a revenue earning basis and providing scheduled transport for the public, payment by the Company to the Government of any "Repayment Amounts" for any over-estimation of certain capital expenditure, price escalation costs, land costs and the amount of contingency in relation to the railway works and reprovisioning, remedial and improvement works (together with interest);
- the design, construction and completion of the associated reprovisioning, remedial and improvement works (the cost of which shall be the responsibility of the Company) and the associated essential public infrastructure works (the cost of which shall be the responsibility of the Government);
- the Company's responsibility for costs relating to land acquisition, clearance and related costs arising from the implementation of the West Island Line project (save for costs arising from certain claims for compensation by third parties) and all costs, expenses and other amounts incurred or paid by the Lands Department pursuant to the involvement of the Lands Department in connection with the implementation of the West Island Line project; and
- the Company carrying out measures specified in the environmental impact assessment and the environmental permit issued by the Government to the Company in relation to the West Island Line on 12 January 2009.

The construction of the West Island Line is scheduled to take place between the date of the WIL Project Agreement and 2014.

In relation to the First SCL Agreement, the Second SCL Agreement, the Third SCL Agreement, the First XRL Agreement, the Second XRL Agreement, the New Maintenance Agreement and the WIL Project Agreement (together the "Non Merger-related Continuing Connected Transactions") and in accordance with paragraph B(I)(iii)(a) of the Waiver, the Company confirms that the Independent Non-executive Directors of the Company have reviewed each of the Non Merger-related Continuing Connected Transactions and confirmed that the Non Merger-related Continuing Connected Transactions were entered into:

(1) in the ordinary and usual course of business of the Company;

(2) on normal commercial terms or on terms which are no less favourable to the Company than terms available to or from independent third parties; and

(3) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Company has engaged the auditors of the Company to carry out a review of each of the Non Merger-related Continuing Connected Transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance

Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. In accordance with paragraph B(I)(iii)(b) of the Waiver, the auditors have provided a letter to the Board confirming that:

(a) nothing has come to their attention that causes them to believe that the Non Merger-related Continuing Connected Transactions have not been approved by the Board; and

(b) nothing has come to their attention that causes them to believe that the Non Merger-related Continuing Connected Transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions.

III Non Merger-related Continuing Connected Transactions with parties other than Government and/ or its Associates

The following disclosures are made in accordance with Rule 14A.46 of the Listing Rules.

A Pre-Existing UGL Contract and Pre-Existing Supplemental UGL Contract for the provision of maintenance and other services for certain trains

Metro Trains Melbourne Pty Ltd ("MTM") is a joint venture company incorporated in Australia. The Company controls 60% of the voting power at any general meeting of MTM and each of UGL and John Holland controls 20% of the voting power at any general meeting of MTM. Accordingly, subsequent to the Company entering into the Pre-Existing UGL Contract as amended by the Pre-Existing Supplemental UGL Contract (each, as defined below), UGL is treated as a substantial shareholder of MTM (a subsidiary of the Company) and therefore a "connected person" of the Company within the meaning of Chapter 14A of the Listing Rules. The Pre-Existing UGL Contract (as amended by the Pre-Existing Supplemental UGL Contract) is therefore a "continuing connected transaction" within the meaning of Rule 14A.14 of the Listing Rules.

On 11 January 2002, the Company entered into a contract with UGL for the provision of maintenance and other services in respect of trains at certain depots for a period of seven years commencing on or around 1 October 2002 to 30 September 2009 (the "Pre-Existing UGL Contract"). The commencement date was subsequently advanced by three months. On 14 April 2009, the Company entered into a supplemental agreement with UGL for the extension of the Pre-Existing UGL Contract for a further period of seven years from 1 August 2009 and for the transfer of the provision of certain services to the Kowloon depot (the "Pre-Existing Supplemental UGL Contract").

The Pre-Existing UGL Contract (as amended by the Pre-Existing Supplemental UGL Contract) provides for the provision of maintenance and other services by UGL in respect of 15 G/H stock trains used by the Company on the Kwun Tong Line, the Island Line, the Tsuen Wan Line and the Tseung Kwan O Line, in each case at the Tseung Kwan O depot and the Kowloon depot, including provisions in relation to:

- payment by the Company of a total sum of approximately HK$171,966,450 to UGL (including for variations and additional works) in consideration of UGL providing certain services between 1 August 2002 and 31 July 2009 and payment by the Company of HK$152,940,000 to UGL for the extended term of seven years pursuant to the Pre-Existing Supplemental UGL Contract (which amount is to be paid on a scheduled basis), subject to certain adjustments, including for the level of performance by the relevant trains;
- indemnification by UGL of the Company against certain losses and expenses sustained by the Company arising out of or in connection with UGL carrying out its obligations under the Pre-Existing UGL Contract (as amended by the Pre-Existing Supplemental UGL Contract);
- maintenance by UGL of insurance in relation to certain liabilities to the Company;
- the Company effecting and maintaining third party insurance covering the legal liability of both UGL and the Company for accidental death or injury to persons or accidental loss of or damage to property, in each case, arising out of the UGL's obligations under the Pre-Existing UGL Contract (as amended by the Pre-Existing Supplemental UGL Contract); and
- the Company maintaining "Contractors All Risks" insurance covering loss or damage to certain goods, equipment and temporary buildings at the Tseung Kwan O depot and the Kowloon depot.

The terms of the Pre-existing UGL Contract were agreed upon subsequent to a tender process that invited submissions from a number of contractors, including UGL. UGL was selected by the Company in accordance with the Company's established procedures for the assessment of tenders.

The Company regularly outsources certain services to third parties that specialise in the type of work outsourced, thereby improving the efficiency of the Company's operations and allowing the Company to concentrate its resources on its core business areas. UGL is a specialist in the provision of construction, refurbishment and maintenance services to the railway industry.

B Supplemental Agreement for the extension of the Original Contract for the Mid-Life Refurbishment of Phase 1 Light Rail Vehicles

The Supplemental Agreement for the extension of the Original Contract (defined below) for the Mid-Life Refurbishment of Phase 1 Light Rail Vehicles ("Phase 1 LRVs"), was entered into on 26 February 2010 between the Company and UGL (the "Supplemental Agreement").

On 30 November 2007, KCRC entered into the Original Contract with UGL (the "Original Contract"), for the refurbishment of the Phase 1 LRVs for a period of 45 months from 30 November 2007 to 31 August 2011. On 2 December 2007, the rights and obligations of KCRC under the Original Contract were vested in the Company pursuant to section 52(B) of the MTR Ordinance. The Supplemental Agreement extends the Original Contract for a further period of 16 months from 31 August 2011 until 31 December 2012. A second supplemental agreement was entered into by the Company and UGL on 21 December 2011 (the "Second Supplemental Agreement") which extended the Original Contract to 31 December 2013. The Original Contract (as amended) is in substantially the same form as KCRC's standard conditions of contract for engineering works and contains the following provisions:

- in consideration of UGL providing the Refurbishment Works (defined below) under the Original Contract, the Company is obliged to pay UGL a total sum of approximately HK$48,260,000 (excluding amounts for variations and additional works). The Supplemental Agreement, inter alia, extended the scope of the Refurbishment Works of the Original Contract and the consideration payable by the Company to UGL for such extension is HK$83,736,143, as adjusted by an additional HK$14,435,327 and further increased by the Second Supplemental Agreement by an additional HK$34,957,178 (the "Contract Sum"). The total sum under the Original Contract plus the Contract Sum is to be paid progressively based on materials delivered and on works completed as set out in the Supplemental Agreement, subject to adjustments to take account of variations made by the Company's Chief Electrical and Mechanical Engineer (the "Engineer") to the scope of the Refurbishment Works. The maximum aggregate amount payable annually by the Company under the Original Contract plus the Contract Sum is approximately HK$78,632,000;
- the Company is obliged to effect "Contractor's All Risks" and "Third Party Liability" insurance with a third party liability limit of not less than HK$30 million;
- UGL shall carry out a carbody structure review to assess the mechanical condition of the Phase 1 LRVs; refurbish the drivers' consoles, the operators' seats and the passenger saloons of the Phase 1 LRVs; conduct a brake software upgrade of the Phase 1 LRVs; and carry out further miscellaneous repairs to the Phase 1 LRVs (together the "Refurbishment Works");
- UGL shall indemnify the Company against any certain losses or expenses which may arise out of or in connection with the Refurbishment Works, subject to any proportionate reduction in liability on account of any related negligence by the Company, its employees or agents, the Engineer or those appointed by the Engineer;
- UGL shall indemnify the Company against certain damages, compensation, costs and expenses in respect of any damages or compensation payable at law in respect of or in consequence of any accident, injury or illness to any person in the employment of UGL arising out of and in the course of such employment;
- UGL shall effect and maintain insurance with a limit of not less than HK$100 million in relation to certain of its liabilities for the period commencing on 30 November 2007 until the date of the completion of the Refurbishment Works;
- UGL's liability to indemnify the Company is reduced proportionally to the extent that any act or omission of the Company, its employees or agents, the Engineer or those appointed by the Engineer, caused or contributed to the relevant death, illness, injury, loss or damage and the total liability of UGL shall not exceed 100% of the total sum payable under the Original Contract, save and except for UGL's liability for death, personal injury, wilful misconduct, fraud and infringement of third party intellectual property rights; and
- the total liability of UGL to the Company for liquidated damages arising as a result of delay is limited to 10% of the total sum payable under the Original Contract and, subject to the provisions regarding liquidated damages, UGL is not liable for any kind of economic, financial, indirect or consequential loss or damage, including but not limited to loss of profit, loss of use, loss of production, loss of any contract and the like, suffered by the Company.

Pursuant to the Original Contract, a bank guarantee issued by HSBC Bank Australia Limited has been provided to the Company in respect of the obligations of UGL under the Original Contract.

If UGL fails to complete the Refurbishment Works within the contract period, the Engineer may terminate the contract by notice in writing to UGL.

C Contract 903 between the Company and LCAL relating to certain works on the South Island Line (East)

As mentioned above, MTM is a joint venture company incorporated in Australia. MTM is a non-wholly owned subsidiary of the Company and each of UGL and John Holland controls 20% of the voting power at any general meeting of MTM.

Accordingly, John Holland is treated as a substantial shareholder of MTM. John Holland, JHL and LCAL are indirect wholly-owned subsidiaries of Leighton Holdings Limited. On this basis, JHL and LCAL are both associates of John Holland under the Listing Rules. Therefore, each of John Holland, JHL and LCAL is a "connected person" of the Company within the meaning of Chapter 14A of the Listing Rules. Contract 903 (as defined below) is therefore a "continuing connected transaction" within the meaning of Rule 14A.14 of the Listing Rules.

On 17 May 2011, the Company and LCAL entered into Contract 903 ("Contract 903") for the construction of certain works relating to the Aberdeen Channel Bridge, Wong Chuk Hang Station and Ocean Park Station in respect of the South Island Line (East) (the "Contract 903 Works").

Contract 903 is in substantially the same form as the Company's standard conditions of contract for engineering works and contains the following provisions:

- the principal obligation of LCAL under Contract 903 is the construction of the Contract 903 Works;
- LCAL shall indemnify the Company against any loss or expense sustained by the Company and against all losses and claims in respect of death or injuries or damage to any person or property whatsoever which may arise out of or in consequence of the execution of the Contract 903 Works and against all claims, proceedings, damages, costs, charges and expenses whatsoever in respect of or in relation thereto, except for compensation or damages related to the permanent use or occupation of land by the Contract 903 Works, or the right of the Company to execute the Contract 903 Works on any part of the land, or on account of any negligence by the Company, its agents, servants or other contractors, not being employed by LCAL;
- LCAL shall indemnify the Company against all damages and compensation and against all claims, demands, proceedings, costs, charges and expenses whatsoever in respect of any damages or compensation payable at law in respect of or in consequence of any accident, injury or illness to any workman or other person in the employment of LCAL or its sub-contractors or suppliers arising out of and in the course of such employment;
- LCAL shall effect and maintain insurance with a limit of not less than HK$200 million in relation to certain of its liabilities for the period commencing on 29 April 2011 until 30 June 2016;
- a bond issued by Chartis Insurance Hong Kong Limited will be provided to the Company in respect of the obligations of LCAL under Contract 903;
- LCAL's liability to indemnify the Company is reduced proportionally to the extent that any act or neglect of the Company, the Engineer or any other person employed by the Company in connection with the Contract 903 Works, their respective agents, employees or representatives, may have contributed to the relevant death, illness, or damage. The total liability of LCAL to the Company for all damages (liquidated damages and general) for delay shall not exceed 10% of the target cost plus fees as calculated under Contract 903;
- the total amount payable by the Company to LCAL under Contract 903 is HK$2,513,394,379, which includes the target cost for the Contract 903 Works and fees to LCAL. From time to time the scope of the Contract 903 Works may vary and the Company will be obliged to revise the fees payable to LCAL in accordance with the terms of the Contract;
- the Company is obliged to pay the target cost for the Contract 903 Works to LCAL on a scheduled basis set out in Contract 903. If the final total cost of the Contract 903 Works exceeds or is less than the target cost for the Works, the deficit or, as the case may be, the excess will be borne by or, as the case may be, distributed to the Company and LCAL on a basis calculated in accordance with Contract 903;
- the maximum aggregate amount payable annually by the Company under Contract 903 is approximately HK$1,400 million. As payments by the Company to LCAL are paid on a scheduled basis as set out in Contract 903, the maximum aggregate annual amount is set by reference to the highest amount payable by the Company in any given year under such schedule;
- the Company is obliged to effect "Contractor's All Risks" and "Third Party Liability" insurance with a third party liability limit of not less than HK$700 million; and
- the Company may at any time, by giving 30 days' notice in writing to LCAL, terminate Contract 903 but without prejudice to any claims by the Company for breach of contract.

D Contract 904 between the Company, LCAL and JHL relating to certain works on the South Island Line (East)

On 17 May 2011, the Company, LCAL and JHL (LCAL and JHL being "the Contractors") entered into Contract 904 ("Contract 904") for the construction of certain works relating to Lei Tung Station and South Horizons Station in respect of the South Island Line (East) (the "Contract 904 Works").

As explained above, as the Contractors are "connected persons" under the Listing Rules, Contract 904 is a "continuing connected transaction" within the meaning of Rule 14A.14 of the Listing Rules.

Contract 904 is in substantially the same form as the Company's standard conditions of contract for engineering works and contains the following provisions:

- the principal obligation of the Contractors is the construction of the Contract 904 Works. The obligations of the Contractors under Contract 904 are joint and several;
- the Contractors shall indemnify the Company against any loss or expense sustained by the Company and against all losses and claims in respect of death or injuries or damage to any person or property whatsoever which may arise out of or in consequence of the execution of the Contract 904 Works and against all claims, proceedings, damages, costs, charges and expenses whatsoever in respect of or in relation thereto, except for compensation or damages related to the permanent use or occupation of land by the Contract 904 Works, or the right of the Company to execute the Contract 904 Works on any part of the land, or on account of any negligence by the Company, its agents, servants or other contractors, not being employed by the Contractors;
- the Contractors shall indemnify the Company against all damages and compensation and against all claims, demands, proceedings, costs, charges and expenses whatsoever in respect of any damages or compensation payable at law in respect of or in consequence of any accident, injury or illness to any workman or other person in the employment of the Contractors or their sub-contractors or suppliers arising out of and in the course of such employment;
- the Contractors shall effect and maintain insurance with a limit of not less than HK$200 million in relation to certain of its liabilities for the period commencing on 29 April 2011 until 30 June 2016;
- a bond issued by Chartis Insurance Hong Kong Limited will be provided to the Company in respect of the obligations of the Contractors under Contract 904;
- the Contractors' liability to indemnify the Company is reduced proportionally to the extent that any act or neglect of the Company, the Engineer or any other person employed by the Company in connection with the Contract 904 Works, their respective agents, employees or representatives, may have contributed to the relevant death, illness, or damage;
- the total liability of the Contractors to the Company for all damages (liquidated damages and general) for delay shall not exceed 10% of the contract sum under the Contract (the contract sum being HK$1,755,018,490);
- the total amount payable by the Company to the Contractors under Contract 904 is the Contract Sum. From time to time the scope of Works may vary and the Company will be obliged to revise the Contract Sum in accordance with the terms of Contract 904;
- the maximum aggregate amount payable annually by the Company under Contract 904 is approximately HK$1,400 million. As payments by the Company to the Contractors are paid on a scheduled basis as set out in Contract 904, the maximum aggregate annual amount is set by reference to the highest amount payable by the Company in any given year under such schedule;
- the Company is obliged to effect "Contractor's All Risks" and "Third Party Liability" insurance with a third party liability limit of not less than HK$700 million. In addition, the Contractors have agreed to separately purchase additional cover for "Third Party Liability" insurance in the amount of AU$485 million; and
- the Company may at any time, by giving 30 days' notice in writing to the Contractors, terminate Contract 904 but without prejudice to any claims by the Company for breach of contract.

In relation to the Pre-Existing UGL Contract as amended by the Pre-Existing Supplemental UGL Contract, the Original Contract (as amended), Contract 903 and Contract 904 (together the "Continuing Connected Transactions with Parties other than Government and/or its Associates") and in accordance with Rule 14A.37 of the Listing Rules, the Company confirms that the Independent Non-executive Directors of the Company have reviewed the Continuing Connected Transactions with Parties other than Government and/or its Associates and confirmed that each of the Continuing Connected Transactions with Parties other than Government and/or its Associates was entered into:

(1) in the ordinary and usual course of business of the Company;

(2) on normal commercial terms or on terms which are no less favourable to the Company than terms available to or from independent third parties; and

(3) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Company has engaged the auditors of the Company to carry out a review of the Continuing Connected Transactions with Parties other than Government and/or its Associates in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. In accordance with Rule 14A.38 of the Listing Rules, the auditors have provided a letter to the Board confirming that:

(a) nothing has come to their attention that causes them to believe that the Continuing Connected Transactions with Parties other than Government and/or its Associates have not been approved by the Board;

(b) for transactions involving the provision of goods or services by the Group, nothing has come to their attention that causes them to believe that the Continuing Connected Transactions with Parties other than Government and/or its Associates were not, in all material respects, in accordance with the pricing policies of the Group;

(c) nothing has come to their attention that causes them to believe that the Continuing Connected Transactions with Parties other than Government and/or its Associates were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and

(d) with respect to the aggregate amount of each of the Continuing Connected Transactions with Parties other than Government and/or its Associates, nothing has come to their attention that causes them to believe that the Continuing Connected Transactions with Parties other than Government and/or its Associates have exceeded the maximum aggregate annual value disclosed in the previous announcements dated 1 September 2009, 26 February 2010, 18 May 2011 and 18 May 2011 made by the Company in respect of each of the Continuing Connected Transactions with Parties other than Government and/or its Associates.

Additional Information in respect of the Rail Merger

The Rail Merger consisted of a number of separate agreements, each of which was detailed in the circular issued by the Company on 3 September 2007 in connection with the Rail Merger, and which together formed a complete package deal which was approved by the independent shareholders of the Company at an Extraordinary General Meeting held on 9 October 2007. The information set out at paragraph A below describes the payment framework adopted in respect of the Rail Merger and paragraphs B to E below set out, summaries of the various agreements entered into by the Company in respect of the Rail Merger in addition to those agreements disclosed above under the heading "Merger-related Continuing Connected Transactions".

A Payments in connection with Merger-related Agreements

In connection with the Rail Merger, the following initial payments were made by the Company to KCRC on 2 December 2007 (being the Merger Date):

- an upfront payment of HK$4.25 billion, payable under the Service Concession Agreement (as described in paragraph B below), being the upfront fee for the right to operate the Service Concession (as defined in paragraph B below) and the consideration for the purchased rail assets; and
- an upfront payment of HK$7.79 billion payable under the Merger Framework Agreement (as described on pages 136 to 137) in consideration for the execution of the Property Package Agreements (as described on pages 138 to 139 and in paragraph E below) and the sale of the shares in the KCRC Subsidiaries (as defined on page 137) 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 ("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 ("Additional Concession Property");
- the regime for compensation payable by KCRC to the Company if Additional Concession Property is returned to KCRC at the end of the concession period;
- the rights and restrictions of the Company and KCRC in relation to the concession property; and
- subject to certain conditions, the Company bearing all risks, liabilities and/or costs whatsoever associated with or arising from the concession property and the land on which any of the concession property is located during the concession period.

C Sale and Purchase Agreement

The Sale and Purchase Agreement was entered into on 9 August 2007 between the Company and KCRC.

The Sale and Purchase Agreement provides the terms pursuant to which the Company acquired certain assets and contracts (the "Purchased Rail Assets") from KCRC.

The consideration for the sale of the Purchased Rail Assets (excluding the shares in the KCRC Subsidiaries) formed part of the upfront payment of HK$4.25 billion. The consideration for the sale of the shares in the KCRC Subsidiaries (which own the Category 1A Properties referred to at paragraph E below and act as property managers) formed part of the payment of HK$7.79 billion for the property package (as described in paragraph A above and in paragraph E below).

D Operating Agreement

The Operating Agreement was entered into on 9 August 2007 between the Company and the Secretary for Transport and Housing for and on behalf of the Government as contemplated in the MTR Ordinance.

The Operating Agreement is based on the previous Operating Agreement which was signed on 30 June 2000. The Operating Agreement differs from the previous Operating Agreement to provide for, amongst other things, the nature of the combined MTRC railway and KCRC railway. The Operating Agreement includes terms relating to:

- the extension of the Company's franchise under the MTR Ordinance;
- the design, construction and maintenance of the railway;
- passenger services;
- a framework for the award of new projects and the operation and ownership structure of new railways;
- the adjustment mechanism to be applied to certain of the Company's fares; and
- compensation which may be payable under the MTR Ordinance to the Company in relation to a suspension, expiry or termination of the franchise.

Under the Operating Agreement, the fare adjustment mechanism is subject to review periodically. In the second half of 2012, the Company received a notice from the Government to begin the review exercise and is working closely and constructively with the Government on this exercise. In addition, the wider terms of the Operating Agreement are subject to review every five years and such a review is currently ongoing. The Company is working with the Government on the review exercise in accordance with the parameters set out in the Operating Agreement.

E Additional Property Package Agreements

Category 1A Properties

The Category 1A Properties are held by the KCRC Subsidiaries. Under the terms of the Sale and Purchase Agreement, the Company acquired from KCRC the shares in the KCRC Subsidiaries (and thereby indirectly acquired the "Category 1A Properties").

Category 1B Properties

On 9 August 2007, KCRC and the Company entered into an agreement for sale and purchase under which KCRC agreed to assign certain properties (the "Category 1B Properties") to the Company on the Merger Date. The relevant assignment was executed between KCRC and the Company on 2 December 2007.

Category 4 Properties

On 9 August 2007, the Government entered into an undertaking that it would, within periods to be agreed between the Company and the Government, offer to the Company a private treaty grant in respect of certain development sites ("Category 4 Properties"). The terms of each private treaty grant shall generally be determined by the Government, and the premium for each private treaty grant shall be assessed on a full market value basis ignoring the presence of the railway other than the Tin Shui Wai Terminus, Light Rail, Yuen Long, New Territories.

On 9 August 2007, the Company issued a letter to KCRC confirming that, if there should be any railway premises on the Category 4 Properties, the Company would assign the railway premises to KCRC.

Metropolis Equity Sub-participation Agreement

The Metropolis Equity Sub-participation Agreement was entered into on 9 August 2007 between KCRC and the Company. KCRC is obliged to act on the Company's instructions, and pay to the Company any distributions, or proceeds of sale, relating to its shareholding in the property management company The Metropolis Management Company Limited ("Metropolis"). The issued share capital of Metropolis is 25,500 A shares (which are held by KCRC) and 24,500 B shares (which are held by Cheung Kong Property Management Limited). Metropolis' business is property management.

F Application of Merger-related Waiver

In relation to the Operating Agreement and the Service Concession Agreement, pursuant to paragraph A of the Merger-related Waiver, the Stock Exchange granted a waiver to the Company from strict compliance with all the continuing connected transaction requirements of Chapter 14A of the Listing Rules.

Auditors

The retiring auditors, KPMG, have signified their willingness to continue in office. A resolution will be proposed at the Annual General Meeting to reappoint them and to authorise the Directors to fix their remuneration.

By order of the Board

Gillian Elizabeth Meller
Secretary to the Board
Hong Kong, 11 March 2013

Contents of Accounts and Notes

Independent Auditor's Report

Independent Auditor's Report to the Shareholders of MTR Corporation Limited

(Incorporated in Hong Kong with limited liability)

We have audited the consolidated accounts of MTR Corporation Limited (the "Company") and its subsidiaries (together "the Group") set out on pages 155 to 239, which comprise the consolidated and company balance sheets as at 31 December 2012, the consolidated profit and loss account, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Accounts

The directors of the Company are responsible for the preparation of consolidated accounts that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of consolidated accounts that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated accounts based on our audit. This report is made solely to you, as a body, in accordance with section 141 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.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated accounts. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated accounts that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated accounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated accounts give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2012 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

KPMG

Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
11 March 2013

Consolidated Profit and Loss Account

for the year ended 31 December in HK$ million	Note	2012	2011 (Restated)
Revenue from Hong Kong transport operations	4	**14,523**	13,509
Revenue from Hong Kong station commercial business	5	**3,680**	3,422
Revenue from Hong Kong property rental and management businesses	6	**3,401**	3,083
Revenue from Mainland of China and international subsidiaries	7	**12,786**	12,411
Revenue from other businesses	8	**1,349**	998
		35,739	33,423
Expenses relating to Hong Kong transport operations			
– Staff costs and related expenses	9A	**(3,879)**	(3,673)
– Energy and utilities		**(1,200)**	(1,110)
– Operational rent and rates		**(234)**	(199)
– Stores and spares consumed		**(477)**	(466)
– Maintenance and related works	9B	**(1,112)**	(1,048)
– Railway support services		**(210)**	(206)
– General and administration expenses		**(479)**	(429)
– Other expenses		**(238)**	(223)
		(7,829)	(7,354)
Expenses relating to Hong Kong station commercial business		**(397)**	(358)
Expenses relating to Hong Kong property rental and management businesses		**(627)**	(587)
Expenses relating to Mainland of China and international subsidiaries	7	**(12,184)**	(11,964)
Expenses relating to other businesses		**(1,296)**	(913)
Project study and business development expenses	9C	**(323)**	(123)
Operating expenses before depreciation, amortisation and variable annual payment	9D, E&F	**(22,656)**	(21,299)
Operating profit before property developments, depreciation, amortisation and variable annual payment		**13,083**	12,124
Profit on property developments	11	**3,238**	4,934
Operating profit before depreciation, amortisation and variable annual payment		**16,321**	17,058
Depreciation and amortisation	12	**(3,208)**	(3,206)
Variable annual payment		**(883)**	(647)
Operating profit before interest and finance charges		**12,230**	13,205
Interest and finance charges	13	**(879)**	(921)
Investment property revaluation	21	**3,757**	5,088
Share of profits of non-controlled subsidiaries and associates	14	**456**	297
Profit before taxation		**15,564**	17,669
Income tax	15A	**(1,893)**	(1,981)
Profit for the year		**13,671**	15,688
Attributable to:			
– Equity shareholders of the Company	16A	**13,532**	15,556
– Non-controlling interests		**139**	132
Profit for the year		**13,671**	15,688
Profit for the year attributable to equity shareholders of the Company:			
– Arising from underlying businesses before property developments		**7,071**	6,243
– Arising from property developments		**2,704**	4,225
– Arising from underlying businesses	16B	**9,775**	10,468
– Arising from investment property revaluation		**3,757**	5,088
		13,532	15,556
Earnings per share:	18		
– Basic		**HK$2.34**	HK$2.69
– Diluted		**HK$2.34**	HK$2.69

The notes on pages 161 to 239 form part of the accounts.

Consolidated Statement of Comprehensive Income

for the year ended 31 December in HK$ million	Note	2012	2011 (Restated)
Profit for the year		**13,671**	15,688
Other comprehensive income for the year (after taxation and reclassification adjustments):			
Exchange differences on translation of:			
– financial statements of overseas subsidiaries and non-controlled subsidiaries		**72**	146
– non-controlling interests		**3**	(1)
	20A	**75**	145
Cash flow hedges: net movement in hedging reserve	20A&B	**23**	(12)
Self-occupied land and buildings: net movement in fixed assets revaluation reserve	20A&B	**339**	471
		437	604
Total comprehensive income for the year		**14,108**	16,292
Attributable to:			
– Equity shareholders of the Company		**13,966**	16,161
– Non-controlling interests		**142**	131
Total comprehensive income for the year		**14,108**	16,292

The notes on pages 161 to 239 form part of the accounts.

Consolidated Balance Sheet

in HK$ million	Note	At 31 December 2012	At 31 December 2011 (Restated)	At 1 January 2011 (Restated)
Assets				
Fixed assets				
– Investment properties	21	**55,314**	51,453	45,314
– Other property, plant and equipment	22	**76,088**	76,687	77,276
– Service concession assets	23	**24,492**	23,928	21,467
		155,894	152,068	144,057
Property management rights	24	**31**	31	31
Railway construction in progress	25	**7,458**	3,566	–
Property development in progress	27A	**10,430**	11,964	9,128
Deferred expenditure	28	**15**	14	1,079
Interests in non-controlled subsidiaries	29	**433**	579	541
Interests in associates	31	**3,825**	948	836
Deferred tax assets	46B	**21**	24	4
Investments in securities	32	**393**	2,974	3,912
Properties held for sale	33	**3,016**	3,757	1,936
Derivative financial assets	34	**256**	344	375
Stores and spares	35	**1,220**	1,135	1,061
Debtors, deposits and payments in advance	36	**4,474**	3,964	3,061
Loan to a property developer		**–**	–	1,975
Amounts due from related parties	37	**785**	402	330
Cash, bank balances and deposits	38	**18,664**	16,100	13,334
		206,915	197,870	181,660
Liabilities				
Bank overdrafts	39A	**55**	–	16
Short-term loans	39A	**300**	–	300
Creditors and accrued charges	40	**15,119**	16,402	15,491
Current taxation	46A	**406**	597	1,018
Contract retentions	41	**948**	643	404
Amounts due to related parties	42	**1,061**	1,481	892
Loans and other obligations	39A	**23,222**	23,168	20,741
Obligations under service concession	43	**10,690**	10,724	10,749
Derivative financial liabilities	34	**132**	151	148
Loan from holders of non-controlling interests	44	**157**	154	154
Deferred income	45	**488**	403	605
Deferred tax liabilities	46B	**9,857**	9,498	9,085
		62,435	63,221	59,603
Net assets		**144,480**	134,649	122,057
Capital and reserves				
Share capital, share premium and capital reserve	47A	**44,281**	44,062	43,734
Other reserves	48	**99,992**	90,401	78,180
Total equity attributable to equity shareholders of the Company		**144,273**	134,463	121,914
Non-controlling interests		**207**	186	143
Total equity		**144,480**	134,649	122,057

Approved and authorised for issue by the Members of the Board on 11 March 2013

Raymond K F Ch'ien
Jay H Walder
Lincoln K K Leong

The notes on pages 161 to 239 form part of the accounts.

Balance Sheet

in HK$ million	Note	At 31 December 2012	At 31 December 2011 (Restated)	At 1 January 2011 (Restated)
Assets				
Fixed assets				
– Investment properties	21	**54,087**	50,287	44,166
– Other property, plant and equipment	22	**75,484**	76,086	76,845
– Service concession assets	23	**16,547**	16,169	15,963
		146,118	142,542	136,974
Property management rights	24	**31**	31	31
Railway construction in progress	25	**7,458**	3,566	–
Property development in progress	27A	**7,928**	9,521	9,128
Deferred expenditure	28	**15**	14	1,079
Investments in subsidiaries	30	**1,260**	1,260	1,256
Investments in securities	32	**–**	2,626	3,627
Properties held for sale	33	**3,016**	3,757	1,936
Derivative financial assets	34	**256**	344	375
Stores and spares	35	**948**	932	874
Debtors, deposits and payments in advance	36	**3,258**	2,629	1,779
Loan to a property developer		**–**	–	1,975
Amounts due from related parties	37	**8,155**	5,035	4,365
Cash, bank balances and deposits	38	**16,616**	13,971	12,273
		195,059	186,228	175,672
Liabilities				
Bank overdrafts	39A	**55**	–	16
Short-term loans	39A	**300**	–	300
Creditors and accrued charges	40	**10,460**	11,418	13,308
Current taxation	46A	**352**	582	910
Contract retentions	41	**739**	423	221
Amounts due to related parties	42	**18,761**	13,244	12,079
Loans and other obligations	39A	**1,625**	7,502	7,700
Obligations under service concession	43	**10,520**	10,557	10,592
Derivative financial liabilities	34	**132**	151	148
Deferred income	45	**60**	68	568
Deferred tax liabilities	46B	**9,779**	9,422	9,069
		52,783	53,367	54,911
Net assets		**142,276**	132,861	120,761
Capital and reserves				
Share capital, share premium and capital reserve	47A	**44,281**	44,062	43,734
Other reserves	48	**97,995**	88,799	77,027
Total equity		**142,276**	132,861	120,761

Approved and authorised for issue by the Members of the Board on 11 March 2013

Raymond K F Ch'ien
Jay H Walder
Lincoln K K Leong

The notes on pages 161 to 239 form part of the accounts.

Consolidated Statement of Changes in Equity

for the year ended 31 December in HK$ million	Note	Share capital, share premium and capital reserve	Other reserves: Fixed assets revaluation reserve	Other reserves: Hedging reserve	Other reserves: Employee share-based capital reserve	Other reserves: Exchange reserve	Retained profits	Total equity attributable to equity shareholders of the Company	Non-controlling interests	Total equity
2012										
Balance as at 1 January 2012, as previously reported		**44,062**	**1,888**	**(90)**	**201**	**340**	**82,458**	**128,859**	**186**	**129,045**
Effect of adoption of the Amendments to HKAS 12	2A(iii)	**–**	**–**	**–**	**–**	**–**	**5,604**	**5,604**	**–**	**5,604**
Balance as at 1 January 2012, as restated		**44,062**	**1,888**	**(90)**	**201**	**340**	**88,062**	**134,463**	**186**	**134,649**
Changes in equity for the year ended 31 December 2012:										
– Profit for the year		**–**	**–**	**–**	**–**	**–**	**13,532**	**13,532**	**139**	**13,671**
– Other comprehensive income for the year	20	**–**	**339**	**23**	**–**	**72**	**–**	**434**	**3**	**437**
– Total comprehensive income for the year		**–**	**339**	**23**	**–**	**72**	**13,532**	**13,966**	**142**	**14,108**
– 2011 final dividend	17, 48	**–**	**–**	**–**	**–**	**–**	**(2,951)**	**(2,951)**	**–**	**(2,951)**
– 2012 interim dividend	17, 48	**–**	**–**	**–**	**–**	**–**	**(1,447)**	**(1,447)**	**–**	**(1,447)**
– Dividend paid to holders of non-controlling interests		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(121)**	**(121)**
– Employee share-based payments		**–**	**–**	**–**	**56**	**–**	**–**	**56**	**–**	**56**
– Employee share options exercised	47A, 48	**219**	**–**	**–**	**(33)**	**–**	**–**	**186**	**–**	**186**
– Employee share options forfeited		**–**	**–**	**–**	**(5)**	**–**	**5**	**–**	**–**	**–**
Balance as at 31 December 2012		**44,281**	**2,227**	**(67)**	**219**	**412**	**97,201**	**144,273**	**207**	**144,480**
2011 (Restated)										
Balance as at 1 January 2011, as previously reported		43,734	1,417	(78)	102	194	71,781	117,150	143	117,293
Effect of adoption of the Amendments to HKAS 12	2A(iii)	–	–	–	–	–	4,764	4,764	–	4,764
Balance as at 1 January 2011, as restated		43,734	1,417	(78)	102	194	76,545	121,914	143	122,057
Changes in equity for the year ended 31 December 2011:										
– Profit for the year, as restated		–	–	–	–	–	15,556	15,556	132	15,688
– Other comprehensive income for the year	20	–	471	(12)	–	146	–	605	(1)	604
– Total comprehensive income for the year, as restated		–	471	(12)	–	146	15,556	16,161	131	16,292
– 2010 final dividend	17, 48	288	–	–	–	–	(2,598)	(2,310)	–	(2,310)
– 2011 interim dividend	17, 48	–	–	–	–	–	(1,446)	(1,446)	–	(1,446)
– Dividend paid to holders of non-controlling interests		–	–	–	–	–	–	–	(88)	(88)
– Employee share-based payments		–	–	–	110	–	–	110	–	110
– Employee share options exercised	48	40	–	–	(6)	–	–	34	–	34
– Employee share options forfeited		–	–	–	(5)	–	5	–	–	–
Balance as at 31 December 2011, as restated		44,062	1,888	(90)	201	340	88,062	134,463	186	134,649

The notes on pages 161 to 239 form part of the accounts.

Consolidated Cash Flow Statement

for the year ended 31 December in HK$ million	Note	2012		2011	
Cash flows from operating activities					
Cash generated from operations	49	**14,701**		12,489	
Receipt of government subsidy for Shenzhen Metro Longhua Line operation		**637**		638	
Current tax paid					
– Hong Kong Profits Tax paid		**(1,699)**		(1,949)	
– Mainland of China and overseas tax paid		**(100)**		(154)	
Net cash generated from operating activities			**13,539**		11,024
Cash flows from investing activities					
Capital expenditure					
– Purchase of assets for Hong Kong transport and related operations		**(2,327)**		(2,102)	
– West Island Line Project		**(2,897)**		(3,111)	
– South Island Line (East) Project		**(2,480)**		(1,467)	
– Kwun Tong Line Extension Project		**(976)**		(450)	
– Shenzhen Metro Longhua Line Project		**(852)**		(1,385)	
– Property development projects		**(1,440)**		(1,075)	
– Property renovation and fitting out works		**(104)**		(255)	
– Other capital projects		**(49)**		(198)	
Net cash (payment)/receipt in respect of entrustment works of Shatin to Central Link		**(148)**		170	
Fixed annual payment		**(750)**		(750)	
Variable annual payment		**(647)**		(45)	
Receipts in respect of property development		**5,677**		1,593	
Receipt of loan repayment from a property developer		**–**		2,000	
Increase in bank deposits with more than three months to maturity when placed or pledged		**(831)**		(3,063)	
Purchase of investments in securities		**(260)**		(160)	
Proceeds from sale or redemption of investments in securities		**2,846**		1,094	
Proceeds from disposal of fixed assets		**8**		5	
Investment in an associate		**(2,734)**		–	
Receipt of loan repayment from an associate		**24**		29	
Settlement of loan repayment to an associate		**–**		(29)	
Dividends received from non-controlled subsidiaries and an associate		**465**		144	
Net cash used in investing activities			**(7,475)**		(9,055)
Cash flows from financing activities					
Proceeds from shares issued under share option schemes		**186**		34	
Drawdown of loans		**808**		1,392	
Proceeds from issuance of capital market instruments		**5,998**		2,198	
Repayment of loans		**(6,319)**		(1,111)	
Repayment of capital market instruments		**(102)**		(500)	
Interest paid		**(727)**		(603)	
Interest received		**342**		194	
Finance charges paid		**(53)**		(12)	
Dividends paid to equity shareholders of the Company		**(4,398)**		(3,754)	
Dividends paid to holders of non-controlling interests		**(121)**		(88)	
Net cash used in financing activities			**(4,386)**		(2,250)
Net increase/(decrease) in cash and cash equivalents			**1,678**		(281)
Cash and cash equivalents at 1 January			**3,427**		3,708
Cash and cash equivalents at 31 December	38		**5,105**		3,427

The notes on pages 161 to 239 form part of the accounts.

Notes to the Accounts

1 Statement of Compliance

These accounts have been prepared in compliance with the Hong Kong Companies Ordinance 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 effective for accounting periods beginning on or after 1 January 2012. 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 2F(i));
- self-occupied land and buildings (note 2F(ii));
- financial instruments classified as investments in securities other than those intended to be held to maturity (note 2M); and
- derivative financial instruments (note 2T).

(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 56.

(iii) The HKICPA has issued a number of amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, only Amendments to HKAS 12, *Income taxes – Deferred tax: Recovery of underlying assets*, has impact on the Group's accounts. On adoption of the Amendments, the Group has changed its accounting policy on measuring deferred tax arising from investment property that is measured using the fair value model in accordance with HKAS 40, *Investment Property*.

As a result of the change, the Group now measures any deferred tax assets and liabilities arising from investment properties in Hong Kong with a presumption that their carrying amounts will be recovered through sale. Previously, where these properties were held under leasehold interests, deferred tax was generally measured using the tax rate that would apply as a result of recovery of the asset's value through use.

2 Principal Accounting Policies *(continued)*

A Basis of Preparation of the Accounts *(continued)*

This change in policy has been adopted retrospectively by restating the opening balances as at 1 January 2011 and 2012 with consequential adjustments to comparatives for the year ended 31 December 2011. This has resulted in a reduction in the amount of deferred tax provided on valuation gain and loss as follows:

in HK$ million	As previously reported	Effect of adoption of Amendments to HKAS 12	As restated
Consolidated profit and loss account for the year ended 31 December 2011			
Income tax	**(2,821)**	**840**	**(1,981)**
Profit for the year	**14,848**	**840**	**15,688**
Profit for the year attributable to equity shareholders of the Company:			
– Arising from investment property revaluation	**4,248**	**840**	**5,088**
– Total	**14,716**	**840**	**15,556**
Basic earnings per share	**HK$2.55**	**HK$0.14**	**HK$2.69**
Diluted earnings per share	**HK$2.54**	**HK$0.15**	**HK$2.69**
Consolidated balance sheet as at 31 December 2011			
Deferred tax assets	**27**	**(3)**	**24**
Deferred tax liabilities	**15,105**	**(5,607)**	**9,498**
Other reserves – Retained profits	**82,458**	**5,604**	**88,062**
Consolidated balance sheet as at 1 January 2011			
Deferred tax assets	**9**	**(5)**	**4**
Deferred tax liabilities	**13,854**	**(4,769)**	**9,085**
Other reserves – Retained profits	**71,781**	**4,764**	**76,545**

The Group has not applied any new or revised standard or interpretation that is not yet effective for the current accounting period (note 57).

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 non-controlled subsidiaries (note 2D) and associates (note 2E) 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

A subsidiary in accordance with the Hong Kong Companies Ordinance is a company in which the Group, directly or indirectly, holds more than half of the issued share capital, or controls more than half of the voting power, or controls the composition of the board of directors. Subsidiaries are considered to be controlled if the Company has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities.

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 and transactions, and any unrealised profits arising from intra-group transactions, are eliminated in full in preparing the consolidated accounts. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Non-controlling interests are presented in the consolidated balance sheet within equity, separately from equity attributable to equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated profit and loss account and the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated balance sheet depending on the nature of the liability.

Investments in subsidiaries are carried in the Company's balance sheet at cost less any impairment losses (note 2H(ii)).

2 Principal Accounting Policies *(continued)*

D Non-controlled Subsidiaries

Non-controlled subsidiaries are not consolidated in the accounts as the Group does not have effective control over their Boards. The investments in non-controlled subsidiaries are accounted for in the consolidated accounts of the Company using the equity method and are initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of their net assets. The consolidated profit and loss account reflects the Group's share of the results of those non-controlled subsidiaries for the year.

Unrealised profits and losses resulting from transactions between the Group and the non-controlled subsidiaries are eliminated to the extent of the Group's interest in those subsidiaries, 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.

In the Company's balance sheet, its investments in non-controlled subsidiaries are stated at cost less impairment losses (note 2H(ii)).

E Associates and Jointly Controlled Entities

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 jointly controlled entity is an entity which operates under a contractual arrangement between the Group or the Company and other parties, where the contractual arrangement establishes that the Group or the Company and one or more of the other parties share joint control over the economic activity of the entity.

An investment in an associate or a jointly controlled entity is accounted for in the consolidated accounts of the Company 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 jointly controlled entity, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest in the investee is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate or the jointly controlled entity.

Unrealised profits and losses resulting from transactions between the Group and its associates and jointly controlled entities 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.

In the Company's balance sheet, investments in associates and jointly controlled entities are stated at cost less impairment losses (note 2H(ii)).

F Fixed Assets

(i) Investment properties are land and/or buildings which are owned or held under a leasehold interest to earn rental income and/or for capital appreciation. These include property that is being constructed or developed for future use as investment property.

Investment properties are stated on the balance sheet at fair value as determined 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) Leasehold land registered and located in the Hong Kong Special Administrative Region is accounted for as being held under a finance lease and is stated at cost less accumulated depreciation and impairment losses (note 2H(ii)). Land held for own use under operating leases and buildings thereon, where the fair value of the leasehold interest in the land and buildings cannot be measured separately at inception of the lease, are accounted for as being held under a finance lease, unless the buildings are also clearly held under an operating lease. For these purposes, inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee, or at the date of construction of those buildings, if later. The self-occupied land and buildings are stated on the balance sheet at their fair value on the basis of their existing use at the date of revaluation less any subsequent accumulated depreciation. Revaluations are performed by independent qualified valuers semi-annually, with changes in the fair value arising on revaluations recorded as movements in the fixed assets revaluation reserve, except:

(a) where the balance of the fixed assets revaluation reserve relating to a self-occupied land and building is insufficient to cover a revaluation deficit of that property, the excess of the deficit is charged to the profit and loss account; and

(b) where a revaluation deficit had previously been charged to the profit and loss account and a revaluation surplus subsequently arises, this surplus is firstly credited to the profit and loss account to the extent of the deficit previously charged to the profit and loss account, and thereafter taken to the fixed assets revaluation reserve.

(iii) Civil works and plant and equipment are stated at cost less accumulated depreciation and impairment losses (note 2H(ii)).

(iv) Assets under construction are stated at cost less impairment losses (note 2H(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.

2 Principal Accounting Policies *(continued)*

F Fixed Assets *(continued)*

(v) Leased Assets

(a) Leases of assets under which the lessee assumes substantially all the risks and rewards of ownership are classified as finance leases. Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments (computed using the rate of interest implicit in the lease), of such assets are included in fixed assets and the corresponding liabilities, net of finance charges are recorded as obligations under finance leases. Depreciation and impairment losses are accounted for in accordance with the accounting policy as set out in notes 2I(iv) and 2H(ii) respectively. Finance charges implicit in the lease payments are charged to the profit and loss account over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

(b) Leases of assets, other than that mentioned in note 2F(ii), under which the lessor has not transferred substantially all the risks and rewards of ownership are classified as operating leases. Where the Group leases out assets under operating leases, the assets are included in the balance sheet according to their nature and, where applicable, are depreciated in accordance with the Group's depreciation policies. Impairment losses are accounted for in accordance with the accounting policies on impairment of assets (note 2H(ii)). Revenue arising from operating leases is recognised in accordance with the Group's revenue recognition policies as set out in note 2Z(ii).

(vi) Subsequent expenditure relating to the replacement of certain parts of an existing fixed asset is recognised in the carrying amount of the asset if it is probable that future economic benefit will flow to the Group and the cost of the item can be measured reliably. The carrying amount of those parts that are replaced is derecognised, with gain or loss arising therefrom dealt with in the profit and loss account.

Expenditure on repairs or maintenance of an existing fixed asset to restore or maintain the originally assessed standard of performance of that asset is charged as an expense in the profit and loss account when incurred.

Gains or losses arising from the retirement or disposal of a fixed asset or an investment property are determined as the difference between the net disposal proceeds and the carrying amount of the asset. Such gains or losses are recognised as income or expense in the profit and loss account on the date of retirement or disposal. Any related revaluation surplus is transferred from the fixed assets revaluation reserve to retained profits and is not re-classified to profit and loss account.

(vii) Service Concession Assets

Where the Group enters into service concession arrangements under which the Group acquires the right to access, use and operate certain assets for the provision of public services, upfront payments and expenditure directly attributable to the acquisition of the service concession up to inception of the service concession are capitalised as service concession assets and amortised on a straight-line basis over the period of the service concession. Annual payments over the period of the service concession with the amounts fixed at inception are capitalised at their present value, calculated using the incremental long term borrowing rate determined at inception as the discount rate, as service concession assets and amortised on a straight-line basis over the period of the service concession, with a corresponding liability recognised as obligations under service concession. Annual payments for the service concession which are not fixed or determinable at inception and are contingent on future revenues 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 revenues and costs are recognised in the profit and loss account by reference to the stage of completion at the balance sheet date while the fair value of construction service is capitalised initially as service concession assets in the balance sheet and amortised on a straight-line basis over the shorter of the assets' useful lives and the period in which the service concession assets are expected to be available for use by the Group.

Expenditure for the replacement and/or upgrade of the assets subject to service concession is capitalised and amortised on a straight-line basis over the shorter of the assets' useful lives and the remaining period of the service concession.

Service concession assets are carried on the balance sheet as an intangible asset at cost less accumulated amortisation and impairment losses, if any (note 2H(ii)).

Income and expenditure and assets and liabilities in relation to the operation of the service concessions are accounted for in the Group's and the Company's profit and loss accounts and balance sheets.

G Property Management Rights

Where the Group makes payments for the acquisition of property management rights, the amounts paid are capitalised as intangible assets and stated on the balance sheet at cost less accumulated amortisation and impairment losses (note 2H(ii)). Property management rights are amortised to the profit and loss account on a straight-line basis over the terms of the management rights.

2 Principal Accounting Policies *(continued)*

H Impairment of Assets

(i) Impairment of Debtors and Other Receivables

Debtors and other current and non-current receivables are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets) where the effect of discounting is material.

If in a subsequent period the amount of an impairment loss decreases, the impairment loss is reversed through the profit and loss account.

(ii) Impairment of Other Assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

- fixed assets (including service concession assets but other than assets carried at revalued amounts);
- property management rights;
- railway construction in progress;
- property development in progress;
- deferred expenditure;
- investments in held-to-maturity securities; and
- investments in subsidiaries, non-controlled subsidiaries, associates and jointly controlled entities.

If any such indication exists, the asset's recoverable amount is estimated.

The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

An impairment loss is recognised in the profit and loss account whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount.

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount of the asset.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the profit and loss account in the year in which the reversals are recognised.

I 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 2F(vii)) are depreciated or amortised on a straight-line basis at rates sufficient to write off their cost or valuation, less their estimated residual value, if any, over their estimated useful lives as follows:

Land and Buildings

Self-occupied land and buildings	the shorter of 50 years and the unexpired term of the lease
Leasehold land	the unexpired term of the lease

Civil Works

Excavation and boring	Indefinite
Tunnel linings, underground civil structures, overhead structures and immersed tubes	100 years
Station building structures	100 years
Depot structures	80 years
Kiosk structures	20 – 30 years
Cableway station tower and theme village structures	27 – 30 years

2 Principal Accounting Policies *(continued)*

I Depreciation and Amortisation *(continued)*

Plant and Equipment

Rolling stock and components	4 – 50 years
Platform screen doors	25 – 35 years
Rail track	7 – 30 years
Environmental control systems, lifts and escalators, fire protection and drainage system	7 – 30 years
Power supply systems	7 – 40 years
Aerial ropeway and cabin	5 – 27 years
Automatic fare collection systems, metal station kiosks, and other mechanical equipment	20 – 25 years
Train control and signalling equipment, station announcement systems, telecommunication systems and advertising panels	5 – 25 years
Station architectural finishes	15 – 30 years
Fixtures and fittings	4 – 25 years
Maintenance equipment	4 – 40 years
Office furniture and equipment	2 – 15 years
Computer software licences and applications	2 – 10 years
Computer equipment	3 – 5 years
Cleaning equipment and tools	5 years
Motor vehicles	4 – 8 years

Where parts of an item of property, plant and equipment have different useful lives, each part is depreciated or amortised separately. The useful lives of the various categories of fixed assets are reviewed annually in the light of actual asset condition, usage experience and the current asset replacement programme.

(iii) No depreciation or amortisation is provided on assets under construction until the construction is completed and the assets are ready for their intended use.

(iv) Depreciation on assets held under finance leases is provided at rates designed to write off the cost of the asset in equal annual amounts over the shorter of the lease term or the anticipated useful life of the asset as set out above, except in cases where title to the asset will be acquired by the Group at the end of the lease where depreciation is provided at rates designed to write off the cost of the asset in equal amounts over the anticipated useful life of the asset.

J Construction Costs

(i) Costs incurred by the Group in respect of feasibility studies on proposed railway related construction projects (including consultancy fees, in-house staff costs and overheads) are dealt with as follows:

- where the proposed projects are at a preliminary review stage with no certainty of materialising, the costs concerned are charged to the profit and loss account; and
- where the proposed projects are at a detailed study stage, having been agreed in principle by the Members of the Board based on a feasible financial plan, the costs concerned are recorded as deferred expenditure until such time as a project agreement is reached, whereupon the costs are transferred to railway construction in progress.

(ii) After entering into a project agreement, all costs incurred in the construction of the railway are dealt with as railway construction in progress until commissioning of the railway line, whereupon the relevant construction costs are transferred to fixed assets.

K Property Development

(i) Costs incurred by the Group in respect of site preparation, land costs and acquisition of development rights are dealt with as property development in progress.

(ii) Payments received from developers in respect of property developments are offset against the amounts in property development in progress attributable to that development. Any surplus amounts of payments received from developers in excess of the balance in property development in progress are transferred to deferred income. In these cases, further costs subsequently incurred by the Group in respect of that development are charged against deferred income.

2 Principal Accounting Policies *(continued)*

K Property Development *(continued)*

(iii) Profits arising from the development of properties undertaken in conjunction with property developers are recognised in the profit and loss account as follows:

- where the Group receives payments from developers, profits arising from such payments are recognised when the foundation and site enabling works are complete and acceptable for development, and after taking into account the outstanding risks and obligations, if any, retained by the Group in connection with the development;
- where the Group receives a right to a share of the net surplus from sale of the development and interests in any unsold units, income is initially recognised by the Group upon the issue of occupation permits provided the amounts of revenue and costs can be estimated reliably. The interest in any unsold properties is subsequently remeasured on a basis consistent with the policy set out in note 2K(iv); and
- where the Group receives a distribution of the assets of the development, profit is recognised based on the fair value of such assets at the time of receipt and after taking into account any outstanding risks and obligations retained by the Group in connection with the development.

Upon recognition of profit, the balance of deferred income or property development in progress relating to that development is credited or charged to the profit and loss account, as the case may be.

(iv) Where properties are received as a profit distribution upon completion of development and are held for sale, those properties are stated at fair value upon receipt and subsequently carried at their estimated net realisable value. Net realisable value represents the estimated selling price less costs to be incurred in selling the properties. When properties are sold, the carrying amount of those properties is recognised as cost of properties sold in the period in which the related revenue is recognised. The amount of any write-down of properties to net realisable value is recognised as an expense in the period the write-down occurs. The amount of any reversal of any write-down of properties arising from an increase in net realisable value is recognised as a reduction in the cost of properties sold in the period in which the reversal occurs.

(v) Where properties under construction are received from a development for investment purpose, these properties are recognised as investment properties at fair value. Further costs incurred in the construction of those assets and the related fitting out costs are capitalised in investment properties.

L Jointly Controlled Operations

The arrangements entered into by the Group with developers for property developments without establishing separate entities are considered to be jointly controlled operations pursuant to HKAS 31, *Interests in joint ventures*. Under the development arrangements, the Group is normally responsible for its own costs, including in-house staff costs and the costs of enabling works, and the developers normally undertake to pay for all other project costs such as land premium (or such remaining portion as not already paid by the Group), construction costs, professional fees, etc. Such costs are deductible from the proceeds of sale before surplus proceeds are shared. In respect of its interests in such operations, the Group accounts for the purchase consideration of development rights, costs of enabling works (including any interest accrued) and land costs (including any land premiums) paid net of payments received as property development in progress. In cases where payments received from developers exceed the related expenditures incurred by the Group, such excess is recorded as deferred income. Expenses incurred by the Group on staff, overhead and consultancy fees in respect of these developments are also capitalised as property development in progress. The Group's share of income earned from such operations is recognised in the profit and loss account on the basis of note 2K(iii) after netting off any related balance in property development in progress at that time.

M Investments in Securities

The Group's policies for investments in securities (other than investments in its subsidiaries, non-controlled subsidiaries, associates and jointly controlled entities) are as follows:

(i) Investments in securities held for trading purpose are initially stated at fair value. At each balance sheet date, the fair value is remeasured with any resultant unrealised gain or loss being recognised in the profit and loss account.

(ii) Investments in debt securities and bank medium term notes on which the Group has the ability and intention to hold to maturity are classified as held-to-maturity securities, which are stated at amortised cost less impairment losses (note 2H(ii)).

(iii) Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments.

(iv) Interest income in relation to investment in securities is recognised as it accrues using the effective interest method.

(v) Profit or loss on disposal of investments in securities are determined as the difference between the estimated net disposal proceeds and the carrying amount of the investments and are accounted for in the profit and loss account as they arise.

N Stores and Spares

Stores and spares used for business operation are categorised as either revenue or capital. Revenue spares are stated in the balance sheet at cost, using the weighted average cost method and are recognised as expenses in the period in which the consumption occurs. Provision is made for obsolescence where appropriate. Capital spares are included in fixed assets and stated at cost less accumulated depreciation and impairment losses (note 2H(ii)). Depreciation is charged at the rates applicable to the relevant fixed assets against which the capital spares are held in reserve.

2 Principal Accounting Policies *(continued)*

O Long-term Contracts

The accounting policy for contract revenue is set out in note 2Z(iii). When the outcome of a fixed-price long-term contract can be estimated reliably, contract costs are recognised as expenses by reference to the stage of completion of the contract activity at the balance sheet date. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately. When the outcome of a long-term contract cannot be estimated reliably, contract costs are recognised as expenses in the period in which they are incurred.

Long-term contracts in progress at the balance sheet date are recorded in the balance sheet at the net amount of costs incurred plus recognised profits less recognised losses and progress billings, and are presented in the balance sheet as "Gross amount due from customers for contract work" (as an asset) or "Gross amount due to customers for contract work" (as a liability), as applicable. Progress billings not yet paid by the customer are included in the balance sheet under "Debtors, deposits and payments in advance". Amounts received before the related work is performed are included in the balance sheet as a liability under "Creditors and accrued charges".

P 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.

Q Debtors, Deposits and Payments in Advance

Debtors, deposits and payments in advance are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method less impairment losses for bad and doubtful debts (note 2H(i)), except where the effect of discounting would be immaterial or the discount is not measurable as the receivables are interest-free loans made to related parties without any fixed repayment terms. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts.

R Interest-bearing Borrowings

Interest-bearing borrowings are recognised initially at fair value net of transaction costs incurred. The unhedged portion of interest-bearing borrowings is subsequently stated at amortised costs. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the profit and loss account over the period of the borrowings using the effective interest method.

Subsequent to initial recognition, the carrying amount of the hedged portion of interest-bearing borrowings 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.

S Creditors and Accrued Charges

Creditors and accrued charges are stated at amortised cost if the effect of discounting would be material, otherwise they are stated at cost.

T Derivative Financial Instruments and Hedging Activities

The Group uses derivative financial instruments such as interest rate swaps and currency swaps to manage its interest rate and foreign exchange exposure. Based on the Group's policies, these instruments are used solely for reducing or eliminating financial risks associated with the Group's investments and liabilities and not for trading or speculation purposes.

Derivatives are initially recognised at fair value and are subsequently remeasured at their fair value at each balance sheet date. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and the nature of the item being hedged.

Where hedge accounting applies, the Group designates derivatives employed as either: (1) a fair value hedge: to hedge the fair value of recognised liabilities; or (2) a cash flow hedge: to hedge the variability in cash flows of a recognised liability or the foreign currency risk of a firm commitment.

(i) Fair Value Hedge

Changes in the fair value of derivatives that are designated and qualified as fair value hedges are recorded in the profit and loss account, together with any changes in the fair value of the hedged assets or liabilities that are attributable to the hedged risk.

(ii) Cash Flow Hedge

The effective portion of changes in the fair value of derivatives that are designated and qualified as cash flow hedges is recognised in other comprehensive income which is accumulated separately in equity in the hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in the profit and loss account.

Amounts previously recognised in other comprehensive income and accumulated in equity are transferred to the profit and loss account in the periods when the hedged item is recognised in the profit and loss account. However, when the transaction in respect of the hedged item results in the recognition of a non-financial asset or liability, the associated gains and losses that were previously recognised in other comprehensive income and accumulated in equity are transferred from equity and included in the initial cost or carrying amount of the non-financial asset or liability.

When a hedging instrument expires or is sold, terminated or exercised, or the Group revokes designation of the hedge relationship but the transaction in respect of the hedged item is still expected to occur, the cumulative gain or loss existing in equity at that time remains in equity until the transaction occurs and it is recognised in accordance with the above policy. However, if the transaction in respect of the hedged item is no longer expected to occur, the gain or loss accumulated in equity is immediately transferred to the profit and loss account.

2 Principal Accounting Policies *(continued)*

T Derivative Financial Instruments and Hedging Activities *(continued)*

(iii) Derivatives That Do Not Qualify for Hedge Accounting

Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the profit and loss account.

U Employee Benefits

(i) Salaries, annual leave, leave passage allowance, contributions to defined contribution retirement plans, including contributions to Mandatory Provident Funds ("MPF") as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance, and other costs of non-monetary benefits are accrued in the period in which the associated services are rendered by employees of the Group. Where these benefits are incurred for staff relating to construction projects, capital works and property developments, they are capitalised as part of the cost of the qualifying assets. In other cases, they are recognised as expenses in the profit and loss account as incurred.

(ii) The Group's net obligation in respect of defined benefit retirement plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior years; that benefit is discounted to determine the present value, and the fair value of any plan assets is deducted. The discount rate is the yield at balance sheet date on high quality corporate bonds that have maturity dates approximating the terms of the Group's obligations. If there is no deep market in such bonds, the market yield on government bonds would be used. The calculation is performed annually by a qualified actuary using the Projected Unit Credit Method.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is 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, on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in a similar manner.

In calculating the Group's obligation in respect of a plan, to the extent that any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the defined benefit obligation and the fair value of plan assets, that portion is recognised in the profit and loss account over the expected average remaining working lives of the employees participating in the plan. Otherwise, the actuarial gain or loss is not recognised.

Where the calculation of the Group's net obligation results in a negative amount, the asset recognised is limited to the net total of any cumulative unrecognised net actuarial losses and past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

(iii) Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date is recognised as staff costs, unless the relevant employee expenses qualify for recognition as an asset, on a straight-line basis over the vesting period and taking into account the probability that the options will vest, with a corresponding increase in the employee share-based capital reserve within equity. Fair value is measured by use of the Black-Scholes model, taking into account the terms and conditions upon which the options are granted. The expected life used in the model is adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

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 (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

For cash-settled share-based payments, a liability equal to the portion of the services received is recognised at the fair value of the shares determined at each balance sheet date.

(iv) Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

V Retirement Schemes

The Group operates both defined contribution and defined benefit retirement schemes.

Employer's contributions to defined contribution retirement schemes including MPF Schemes are recognised in the accounts in accordance with the policy set out in note 2U(i).

Employer's contributions paid and payable in respect of employees of defined benefit retirement schemes as calculated annually by independent actuaries in accordance with the Retirement Scheme Rules and provisions of the Occupational Retirement Schemes Ordinance are used to satisfy the pension expenses recognised in the profit and loss account according to note 2U(ii). Any deficit or surplus thereof will be dealt with in the balance sheet as accrued or prepaid benefit expenses, as the case may be.

2 Principal Accounting Policies *(continued)*

W Income Tax

(i) Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Income tax is recognised in the profit and loss account except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case it is recognised in other comprehensive income or directly in equity respectively.

(ii) Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

(iii) Deferred tax assets and liabilities arise from deductible and taxable temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities and deferred tax assets, to the extent that it is probable that future taxable profits will be available against which the deferred tax assets can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried backward or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to the recognition of deferred tax assets and liabilities are those temporary differences arising from the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination) and investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

Where investment properties are carried at their fair value in accordance with the accounting policy set out in note 2F(i), the amount of deferred tax recognised is measured using the tax rates that would apply on sale of those assets at their carrying value at the balance sheet date unless the property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the property over time, rather than through sale. In all other cases, the amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

(iv) Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if, and only if, the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

X 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 (being the transaction price, unless the fair value can otherwise be reliably estimated), after netting off any consideration received or receivable at inception, is initially debited to the profit and loss account and recognised as deferred income within creditors and accrued charges.

The amount of the guarantee initially recognised as deferred income is amortised in the profit and loss account over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 2Y if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in creditors and accrued charges in respect of that guarantee, i.e. the amount initially recognised less accumulated amortisation.

2 Principal Accounting Policies *(continued)*

Y Provisions and Contingent Liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Company or Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Z Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits associated with the transactions will flow to the Group and the amount of revenue can be measured reliably, revenue is recognised in the profit and loss account as follows:

(i) Fare revenue is recognised when the journey is provided.

(ii) Rental income from investment properties, station kiosks and other railway premises under operating leases is accounted for in accordance with the terms of the leases. Lease incentives granted are recognised in the profit and loss account as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

(iii) Contract revenue is recognised when the outcome of a consultancy, construction or service contract can be estimated reliably. Contract revenue is recognised using the percentage of completion method, measured by reference to the percentage of contract costs incurred to date to the estimated total contract costs for the contract. When the outcome of a consultancy, construction or service contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that it is probable to be recovered.

(iv) Incomes from other railway and station commercial businesses, property management, railway franchises and service concessions are recognised when the services are provided.

AA Operating Lease Charges

Rentals payable under operating leases are charged on a straight-line basis over the period of the lease to the profit and loss account, except for rentals payable in respect of railway construction, property development in progress and proposed capital projects which are capitalised as part of railway construction in progress, property development in progress and deferred expenditure respectively.

BB Interest and Finance Charges

Interest income and expense directly attributable to the financing of capital projects prior to their completion or commissioning are capitalised. Exchange differences arising from foreign currency borrowings relating to the acquisition of assets are capitalised to the extent that they are regarded as an adjustment to capitalised interest costs. Interest expense attributable to other purposes is charged to the profit and loss account.

Finance charges implicit in the lease payments on assets held under finance leases are charged to the profit and loss account over the period of the lease so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

CC Foreign Currency Translation

Foreign currency transactions during the year are translated into Hong Kong dollars and recorded at exchange rates ruling at the transaction dates. Foreign currency monetary assets and liabilities are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in the profit and loss account.

The results of foreign enterprises are translated into Hong Kong dollars at the average exchange rates for the year. Balance sheet items are translated into Hong Kong dollars at the closing exchange rates at the balance sheet date. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

DD 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.

2 Principal Accounting Policies *(continued)*

EE Related Parties

For the purposes of these accounts, a person, or a close member of that person's family, is related to the Group if that person is a member of the key management personnel of the Group. An entity is related to the Group if the entity and the Group are members of the same group, or the entity is an associate or joint venture of the Group, or post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group, or an individual who is a related party of the Group has control, jointly control, significant influence over that entity or is a member of the key management personnel of that entity.

FF Government Grants

Government grants are assistance by governments in the form of transfer of resources in return for the Group's compliance to the conditions attached thereto. Government grants which represent compensation for the cost of an asset are deducted from the cost of the asset in arriving at its carrying value to the extent of the amounts received and receivable as at the date of the balance sheet. Government grants which represent compensation for expenses or losses are deducted from the related expenses. Any excess of the amount of grant received or receivable over the cost of the asset or the expenses or losses at the balance sheet date are carried forward as advance receipts or deferred income to set off against the future cost of the asset or future expenses or losses.

3 Rail Merger with Kowloon-Canton Railway Corporation

On 2 December 2007 (the "Appointed Day"), the Company's operations merged with those of Kowloon-Canton Railway Corporation ("KCRC") ("Rail Merger"). The structure and key terms of the Rail Merger were set out in a series of transaction agreements entered into between, inter alia, the Government of the Hong Kong Special Administrative Region (the "HKSAR Government"), KCRC and the Company including the Service Concession Agreement, Property Package Agreements and Merger Framework Agreement. Key elements of the Rail Merger included the following:

- The expansion of the Company's existing franchise under the Mass Transit Railway Ordinance ("MTR Ordinance") to cover the construction, operation and regulation of railways in addition to the MTRC railway for an initial period of 50 years from the Appointed Day ("Franchise Period"), extendable pursuant to the provisions of the MTR Ordinance (note 54C);
- The Service Concession Agreement ("SCA") pursuant to which KCRC granted the Company the right to access, use and operate the KCRC system for an initial term of 50 years (the "Concession Period"), which will be extended if the Franchise Period (as it relates to the KCRC railway) is extended. The SCA also sets out the basis on which the KCRC system will be returned at the end of the Concession Period. In accordance with the terms of the SCA, the Company paid an upfront lump sum to KCRC on the Appointed Day and is obliged to pay an annual fixed payment to KCRC for the duration of the Concession Period. Additionally, commencing after three years from the Appointed Day, the Company is obliged to pay a variable annual payment to KCRC, calculated on a tiered basis by reference to the revenue generated from the KCRC system above certain thresholds;
- Under the SCA, the Company is responsible for the expenditure incurred in relation to the maintenance, repair, replacement and upgrade of the KCRC system (with any new assets acquired being classified as "additional concession property"). To the extent that such expenditure exceeds an agreed threshold ("Capex Threshold"), the Company will be reimbursed for any above-threshold expenditure at the end of the Concession Period with such reimbursement to be on the basis of depreciated book value;
- In the event that the Concession Period is extended, the fixed annual payment and the variable annual payment will continue to be payable by the Company. On such extension, the Capex Threshold may also be adjusted; and
- Property Package Agreements and Merger Framework Agreement setting out the acquisition of certain properties, property management rights and property development rights by the Company as well as the framework for the Rail Merger including the implementation of the Fare Adjustment Mechanism.

4 Revenue from Hong Kong Transport Operations

Revenue from Hong Kong transport operations comprises:

in HK$ million	**2012**	2011
Fare Revenue:		
– Domestic Service	**10,035**	9,300
– Cross-boundary Service	**2,847**	2,633
– Airport Express	**795**	751
– Light Rail and Bus	**578**	547
– Intercity Service	**134**	126
	14,389	13,357
Other rail-related income	**134**	152
	14,523	13,509

Domestic Service comprises the Kwun Tong, Tsuen Wan, Island, Tung Chung, Tseung Kwan O, Disneyland Resort, East Rail (excluding Cross-boundary Service), West Rail and Ma On Shan Lines. Other rail-related income includes mainly ancillary service income from Intercity Service, by-law infringement surcharge and Octopus load agent fees.

5 Revenue from Hong Kong Station Commercial Business

Revenue from Hong Kong station commercial business comprises:

in HK$ million	2012	2011
Duty free shops and kiosks rental	**2,142**	1,905
Advertising	**1,000**	893
Telecommunication income	**396**	500
Other station commercial income	**142**	124
	3,680	3,422

6 Revenue from Hong Kong Property Rental and Management Businesses

Revenue from Hong Kong property rental and management businesses comprises:

in HK$ million	2012	2011
Property rental income from:		
– Elements	**726**	634
– Telford Plaza	**724**	672
– Maritime Square	**427**	389
– Luk Yeung Galleria	**171**	161
– Citylink Plaza	**139**	120
– Paradise Mall	**129**	124
– International Finance Centre	**418**	410
– Other properties	**464**	383
	3,198	2,893
Property management income	**203**	190
	3,401	3,083

7 Revenue and Expenses relating to Mainland of China and International Subsidiaries

Revenue and expenses relating to Mainland of China and international subsidiaries comprise:

	Railway subsidiaries outside of Hong Kong					
in HK$ million	Stockholm Metro	Melbourne Train	Shenzhen Metro Longhua Line	Total	Mainland of China property rental and management businesses	Total Mainland of China and international subsidiaries
2012						
Revenue						
– Railway operations	**3,106**	**6,707**	**410**	**10,223**	**–**	**10,223**
– Projects	**–**	**2,422**	**5**	**2,427**	**–**	**2,427**
– Property rental and management	**–**	**–**	**–**	**–**	**136**	**136**
	3,106	**9,129**	**415**	**12,650**	**136**	**12,786**
Expenses						
– Railway operations	**3,050**	**6,383**	**350**	**9,783**	**–**	**9,783**
– Projects	**–**	**2,279**	**4**	**2,283**	**–**	**2,283**
– Property rental and management	**–**	**–**	**–**	**–**	**118**	**118**
	3,050	**8,662**	**354**	**12,066**	**118**	**12,184**

7 Revenue and Expenses relating to Mainland of China and International Subsidiaries *(continued)*

in HK$ million	Railway subsidiaries outside of Hong Kong: Stockholm Metro	Melbourne Train	Shenzhen Metro Longhua Line	Total	Mainland of China property rental and management businesses	Total Mainland of China and international subsidiaries
2011						
Revenue						
– Railway operations	3,166	6,177	185	9,528	–	9,528
– Projects	–	2,748	3	2,751	–	2,751
– Property rental and management	–	–	–	–	132	132
	3,166	8,925	188	12,279	132	12,411
Expenses						
– Railway operations	3,111	5,967	254	9,332	–	9,332
– Projects	–	2,558	2	2,560	–	2,560
– Utilisation of government subsidy	–	–	(62)	(62)	–	(62)
– Property rental and management	–	–	–	–	134	134
	3,111	8,525	194	11,830	134	11,964

8 Revenue from Other Businesses

Revenue from other businesses comprises incomes from:

in HK$ million	2012	2011
Ngong Ping 360	**249**	270
Consultancy business	**102**	105
Project management for the HKSAR Government and KCRC	**969**	588
Miscellaneous businesses	**29**	35
	1,349	998

9 Operating Expenses

A Total staff costs include:

in HK$ million	2012	2011
Amount charged to profit and loss account under:		
– staff costs and related expenses for Hong Kong transport operations	**3,879**	3,673
– maintenance and related works for Hong Kong transport operations	**76**	70
– other expense line items for Hong Kong transport operations	**63**	50
– expenses relating to Hong Kong station commercial business	**59**	53
– expenses relating to Hong Kong property rental and management businesses	**80**	73
– expenses relating to Mainland of China and international subsidiaries	**5,200**	4,852
– expenses relating to other businesses	**1,048**	690
– project study and business development expenses	**155**	96
Amount capitalised under:		
– railway construction in progress before offset by government grant	**534**	452
– property development in progress	**91**	93
– assets under construction and other projects	**263**	242
– service concession assets	**183**	284
Amounts recoverable	**483**	591
Total staff costs	**12,114**	11,219

Amounts recoverable relate to property management, entrustment works and other agreements.

9 Operating Expenses *(continued)*

A Total staff costs include: *(continued)*

The following expenditures are included in total staff costs:

in HK$ million	2012	2011
Share-based payments	**59**	113
Contributions to defined contribution retirement plans and Mandatory Provident Fund	**486**	409
Expenses recognised in respect of defined benefit retirement plans	**196**	144
	741	666

B The costs of maintenance and related works for Hong Kong transport operations relate mainly to contracted maintenance and revenue works. Other routine repairs and maintenance works are performed by in-house operations and the costs of which are included under staff costs and related expenses as well as stores and spares consumed.

C Project study and business development expenses comprise:

in HK$ million	2012	2011
Business development expenses	**309**	114
Miscellaneous project study expenses	**14**	9
	323	123

Business development expenses relate mainly to new business opportunities in the Mainland of China, Europe and Australia.

D Auditors' remuneration charged to the consolidated profit and loss account include:

in HK$ million	2012	2011
Audit services	**12**	10
Tax services	**1**	1
Other audit related services	**4**	3
	17	14

E The following charges/(credits) are included in operating expenses:

in HK$ million	2012	2011
Loss on disposal of fixed assets	**29**	32
Derivative financial instruments – transferred from hedging reserve (note 20B)	**3**	(5)
Unrealised (gain)/loss on revaluation of investments in securities	**(6)**	4

F Operating lease expenses charged to the consolidated profit and loss account comprise:

in HK$ million	2012	2011
Shopping centre, office building, staff quarters and bus depot	**84**	78
Rolling stock, stations, office buildings, depots, depot equipment and other minor assets for railway subsidiaries	**1,002**	1,066
Amount capitalised	**(2)**	(4)
	1,084	1,140

10 Remuneration of Members of the Board and the Executive Directorate

A Remuneration of Members of the Board and the Executive Directorate

(i) The emoluments of Members of the Board and the Executive Directorate of the Company were as follows:

in HK$ million	Fees	Base pay, allowances and benefits in kind	Retirement scheme contribution	Variable remuneration related to performance	Total
2012					
Members of the Board					
– Raymond Ch'ien Kuo-fung	**1.2**	**–**	**–**	**–**	**1.2**
– Vincent Cheng Hoi-chuen	**0.3**	**–**	**–**	**–**	**0.3**
– Christine Fang Meng-sang	**0.3**	**–**	**–**	**–**	**0.3**
– Edward Ho Sing-tin	**0.4**	**–**	**–**	**–**	**0.4**
– Alasdair George Morrison	**0.3**	**–**	**–**	**–**	**0.3**
– Ng Leung-sing	**0.3**	**–**	**–**	**–**	**0.3**
– Abraham Shek Lai-him	**0.3**	**–**	**–**	**–**	**0.3**
– T. Brian Stevenson	**0.4**	**–**	**–**	**–**	**0.4**
– Ceajer Chan Ka-keung	**0.3**	**–**	**–**	**–**	**0.3**
– Anthony Cheung Bing-leung (since 1 July 2012)	**0.1**	**–**	**–**	**–**	**0.1**
– Ingrid Yeung Ho Poi-yan (since 8 October 2012)	**0.1**	**–**	**–**	**–**	**0.1**
– Eva Cheng (up to 30 June 2012)	**0.1**	**–**	**–**	**–**	**0.1**
– Susie Ho Shuk-yee (since 16 July 2012 and up to 7 October 2012)	**0.1**	**–**	**–**	**–**	**0.1**
– Carolina Yip Lai-ching (since 28 May 2012 and up to 15 July 2012) ***	**–**	**–**	**–**	**–**	**–**
– Joseph Lai Yee-tak (up to 27 May 2012)	**0.2**	**–**	**–**	**–**	**0.2**
Members of the Executive Directorate					
– Jay H Walder (appointed on 1 January 2012)	**–**	**7.6**	**–***	**4.5**	**12.1**
– Lincoln Leong Kwok-kuen	**–**	**5.7**	**0.9**	**2.5**	**9.1**
– William Chan Fu-keung (retired on 16 July 2012)	**–**	**3.7**	**0.2**	**1.4**	**5.3**
– Morris Cheung Siu-wa (appointed on 17 July 2012) **	**–**	**1.7**	**0.2**	**0.8**	**2.7**
– Chew Tai-chong	**–**	**4.7**	**–***	**2.1**	**6.8**
– Jacob Kam Chak-pui	**–**	**4.0**	**0.6**	**1.7**	**6.3**
– Gillian Elizabeth Meller	**–**	**3.3**	**0.5**	**1.3**	**5.1**
– David Tang Chi-fai	**–**	**3.5**	**0.6**	**1.4**	**5.5**
– Jeny Yeung Mei-chun	**–**	**3.4**	**0.5**	**1.5**	**5.4**
	4.4	**37.6**	**3.5**	**17.2**	**62.7**

* During the year ended 31 December 2012, the total contributions paid by the Company for Jay H Walder and T C Chew, both of whom participated in the MTR MPF Scheme, were HK$13,750 each.

** Morris S W Cheung was appointed as Member of the Executive Directorate on 17 July 2012. The amount of his emoluments shown in the above table covers the period from the date of his appointment to 31 December 2012.

*** Carolina L C Yip was in the post of Acting Commissioner for Transport during the period from 28 May 2012 to 15 July 2012 and had by virtue of her appointment become the Non-executive Director of the Company during that period. The fees paid to her during her appointment were HK$40,323.

10 Remuneration of Members of the Board and the Executive Directorate *(continued)*

A Remuneration of Members of the Board and the Executive Directorate *(continued)*

in HK$ million	Fees	Base pay, allowances and benefits in kind	Retirement scheme contribution	Variable remuneration related to performance	Total
2011					
Members of the Board					
– Raymond Ch'ien Kuo-fung	1.2	–	–	–	1.2
– Vincent Cheng Hoi-chuen	0.3	–	–	–	0.3
– Christine Fang Meng-sang	0.3	–	–	–	0.3
– Edward Ho Sing-tin	0.4	–	–	–	0.4
– Alasdair George Morrison	0.3	–	–	–	0.3
– Ng Leung-sing	0.3	–	–	–	0.3
– Abraham Shek Lai-him	0.3	–	–	–	0.3
– T. Brian Stevenson	0.4	–	–	–	0.4
– Ceajer Chan Ka-keung	0.3	–	–	–	0.3
– Eva Cheng	0.3	–	–	–	0.3
– Joseph Lai Yee-tak	0.3	–	–	–	0.3
Members of the Executive Directorate					
– Chow Chung-kong (retired on 31 December 2011)	–	7.8	–*	7.0	14.8
– Lincoln Leong Kwok-kuen	–	5.1	0.8	2.1	8.0
– William Chan Fu-keung	–	4.6	0.2	1.9	6.7
– Chew Tai-chong	–	4.3	–*	1.8	6.1
– Thomas Ho Hang-kwong (retired on 30 September 2011)	–	4.5	0.2	1.5	6.2
– Jacob Kam Chak-pui (appointed on 1 January 2011)	–	3.7	0.6	1.5	5.8
– Gillian Elizabeth Meller (appointed on 1 September 2011)**	–	1.1	0.2	0.3	1.6
– David Tang Chi-fai (appointed on 1 October 2011)**	–	0.8	0.2	0.3	1.3
– Leonard Bryan Turk (retired on 31 August 2011)	–	3.9	0.1	1.5	5.5
– Jeny Yeung Mei-chun (appointed on 1 September 2011)**	–	1.1	0.2	0.3	1.6
	4.4	36.9	2.5	18.2	62.0

* During the year ended 31 December 2011, the total contributions paid by the Company for C K Chow and T C Chew, both of whom participated in the MTR MPF Scheme, were HK$12,000 each.

** Gillian E Meller and Jeny M C Yeung were appointed as Members of the Executive Directorate on 1 September 2011 while David C F Tang was appointed as Member of the Executive Directorate on 1 October 2011. The amounts of their emoluments shown in the above table cover the period from the date of their appointments to 31 December 2011.

Jay H Walder replaced C K Chow, who retired from the Company on 31 December 2011, as a Member of the Executive Directorate with effect from 1 January 2012. As a transitional arrangement, Jay H Walder was appointed Chief Executive Officer (Designate) during 1 November 2011 to 31 December 2011. The emolument of Jay H Walder during the year ended 31 December 2011 was HK$2.1 million.

William F K Chan, Thomas H K Ho and Leonard B Turk received a lump sum benefit payment of HK$28.8 million, HK$24.3 million and HK$24.3 million respectively from the MTR Retirement Scheme upon their retirements in July 2012 for William F K Chan, August 2011 for Leonard B Turk and September 2011 for Thomas H K Ho.

On 4 January 2012, C K Chow was paid HK$5.6 million, representing his entitlement to receive an equivalent value in cash of 222,161 shares on completion of his two-year contract ended on 31 December 2011 (note 50B(ii)).

C K Chow, who retired on 31 December 2011, received a pro-rated discretionary award of HK$451,140 in July 2012 in respect of his service and performance from 1 July 2011 to 31 December 2011. Thomas Ho, who retired on 30 September 2011, received a pro-rated discretionary award of HK$109,850 in July 2012 in respect of his service and performance from 1 July 2011 to 30 September 2011. L B Turk, who retired on 31 August 2011, received a pro-rated discretionary award of HK$74,240 in July 2012 in respect of his service and performance from 1 July 2011 to 31 August 2011.

The above emoluments do not include the fair value of share options as estimated at the date of grant, which is defined as the date of acceptance of the offer to grant the option.

10 Remuneration of Members of the Board and the Executive Directorate *(continued)*

A Remuneration of Members of the Board and the Executive Directorate *(continued)*

Share options were granted to Members of the Executive Directorate under the Company's 2007 Option Scheme, which were offered to them on 10 December 2007, 8 December 2008, 12 June 2009, 8 December 2009, 28 June 2010, 16 December 2010 and 23 March 2012. The entitlements of each of the Members are as follows:

- Jay H Walder was granted options in respect of 391,500 shares on 30 March 2012 and the fair value of the share-based payments recognised for the year ended 31 December 2012 was HK$0.6 million;
- Lincoln K K Leong was granted options in respect of 170,000 shares each on 12 December 2007, 9 December 2008, 10 December 2009 and 17 December 2010 and 201,000 shares on 30 March 2012, of which 113,000 options were vested in 2012 (2011: 170,000), and the respective fair value of the share-based payments recognised for the year ended 31 December 2012 was HK$0.7 million (2011: HK$1.2 million);
- William F K Chan was granted options in respect of 170,000 shares each on 13 December 2007, 9 December 2008, 10 December 2009 and 17 December 2010 and 143,500 shares on 30 March 2012, of which 113,000 options were vested in 2012 (2011: 170,000), and the respective fair value of the share-based payments recognised for the year ended 31 December 2012 was HK$0.6 million (2011: HK$1.2 million);
- Morris S W Cheung was granted options in respect of 65,000 shares each on 12 December 2007, 10 December 2008 and 11 December 2009, 35,000 shares on 21 July 2010, 65,000 shares on 20 December 2010 and 122,000 shares on 30 March 2012, of which 55,000 options were vested in 2012 (2011: 77,000), and the respective fair value of the share-based payments recognised for the year ended 31 December 2012 was HK$0.3 million (2011: HK$0.6 million);
- T C Chew was granted options in respect of 85,000 shares on 18 June 2009, 170,000 shares each on 10 December 2009 and 17 December 2010 and 184,500 shares on 30 March 2012, of which 141,000 options were vested in 2012 (2011: 142,500), and the respective fair value of the share-based payments recognised for the year ended 31 December 2012 was HK$0.6 million (2011: HK$1.3 million);
- Jacob C P Kam was granted options in respect of 75,000 shares on 13 December 2007, 65,000 shares each on 8 December 2008 and 14 December 2009, 50,000 shares on 21 July 2010, 170,000 shares on 17 December 2010 and 172,000 shares on 30 March 2012, of which 95,000 options were vested in 2012 (2011: 117,000), and the respective fair value of the share-based payments recognised for the year ended 31 December 2012 was HK$0.6 million (2011: HK$1.0 million);
- Gillian E Meller was granted options in respect of 55,000 shares on 12 December 2007, 70,000 shares on 11 December 2008, 65,000 shares on 10 December 2009, 90,000 shares on 17 December 2010 and 158,500 shares on 30 March 2012, of which 51,000 options were vested in 2012 (2011: 75,000), and the respective fair value of the share-based payments recognised for the year ended 31 December 2012 was HK$0.4 million (2011: HK$0.6 million);
- David C F Tang was granted options in respect of 65,000 shares each on 13 December 2007, 12 December 2008, 15 December 2009 and 17 December 2010 and 163,500 shares on 30 March 2012, of which 43,000 options were vested in 2012 (2011: 65,000), and the respective fair value of the share-based payments recognised for the year ended 31 December 2012 was HK$0.4 million (2011: HK$0.5 million);
- Jeny M C Yeung was granted options in respect of 75,000 shares on 12 December 2007 and 65,000 shares each on 10 December 2008, 10 December 2009 and 17 December 2010 and 161,000 shares on 30 March 2012, of which 43,000 options were vested in 2012 (2011: 65,000), and the respective fair value of the share-based payments recognised for the year ended 31 December 2012 was HK$0.4 million (2011: HK$0.5 million);
- C K Chow was granted options in respect of 720,000 shares on 13 December 2007 and 470,000 shares each on 9 December 2008, 9 December 2009 and 17 December 2010, of which 470,000 options were vested in 2011, and the respective fair value of the share-based payments recognised for the year ended 31 December 2011 was HK$3.4 million;
- Thomas H K Ho was granted options in respect of 170,000 shares each on 12 December 2007, 11 December 2008 and 14 December 2009 and 127,500 shares on 17 December 2010, of which 155,500 options were vested in 2011, and the respective fair value of the share-based payments recognised for the year ended 31 December 2011 was HK$1.1 million; and
- Leonard B Turk was granted options in respect of 170,000 shares each on 12 December 2007, 9 December 2008 and 10 December 2009 and 127,500 shares on 17 December 2010, of which 155,500 options were vested in 2011, and the respective fair value of the share-based payments recognised for the year ended 31 December 2011 was HK$1.1 million.

The details of Board Members' and Executive Directorate's interest in the Company's shares are disclosed in the Report of the Members of the Board and note 50.

(ii) On appointment, Jay H Walder was granted a derivative interest in respect of 300,000 shares in the Company within the meaning of Part XV of the Securities and Futures Ordinance. The derivative interest represents Jay H Walder's entitlement to be paid an equivalent value in cash of 300,000 shares in the Company following 30 June 2014, being the date on which his initial term of office is expected to expire (35% of which shall be deemed to be earned at 31 October 2013 subject to certain conditions specified in his employment contract).

(iii) The aggregate emoluments of Members of the Board and the Executive Directorate for the year pursuant to section 161 of the Hong Kong Companies Ordinance was HK$67.3 million (2011: HK$79.5 million).

10 Remuneration of Members of the Board and the Executive Directorate *(continued)*

A Remuneration of Members of the Board and the Executive Directorate *(continued)*

(iv) Non-executive directors of the Company are not appointed for a specific term but are (save for those appointed pursuant to Section 8 of the Mass Transit Railway Ordinance (Chapter 556 of the Laws of Hong Kong)) subject to retirement by rotation and re-election at the Company's annual general meetings in accordance with Articles 87 and 88 of the Company's Articles of Association. Dr. Raymond Ch'ien Kuo-fung, a Member of the Board and the non-executive Chairman of the Company since 1998 and 2003 respectively, was re-appointed by the HKSAR Government on 29 October 2012 as the non-executive Chairman of the Company until 31 December 2015.

All of the five individuals with the highest emoluments are Members of the Executive Directorate whose emoluments are disclosed above.

B Share Options

Options exercised and outstanding in respect of each Member of the Executive Directorate as at 31 December 2012 are set out in the Report of the Members of the Board. Details of the options granted to Members of the Executive Directorate are as follows:

(i) New Joiners Share Option Scheme

Under the New Joiners Share Option Scheme (the "New Option Scheme") as described in note 50A(i), Lincoln K K Leong and David C F Tang, Members of the Executive Directorate, were granted options to acquire 1,066,000 shares in August 2003 and 213,000 shares in May 2006 respectively.

Under the vesting terms of the New Option Scheme, Lincoln K K Leong must continue to beneficially own (i) at all times on and after 4 August 2004, at least 23,000 shares; and (ii) at all times on and after 4 August 2005, at least 46,000 shares, up to and including the date on which he has exercised his option in full or the date on which his option lapses (whichever is earlier). All the outstanding options in respect of 417,500 shares held by Lincoln K K Leong were exercised during the year ended 31 December 2011.

(ii) 2007 Share Option Scheme

Under the 2007 Share Option Scheme (the "2007 Option Scheme") as described in note 50A(ii), all Members of the Executive Directorate were granted options to acquire shares in each year from 2007 to 2010 and in 2012. Jay H Walder was granted options to acquire 391,500 shares in March 2012. Lincoln K K Leong was granted options to acquire 170,000 shares in December each year from 2007 to 2010 and 201,000 shares in March 2012. William F K Chan was granted options to acquire 170,000 shares in December each year from 2007 to 2010 and 143,500 shares in March 2012. Morris S W Cheung was granted options to acquire 65,000 shares in December each year from 2007 to 2009, 35,000 shares in July 2010, 65,000 shares in December 2010 and 122,000 shares in March 2012. T C Chew was granted options to acquire 85,000 shares in June 2009, 170,000 shares each in December 2009 and 2010 and 184,500 shares in March 2012. Jacob C P Kam was granted options to acquire 75,000 shares in December 2007, 65,000 shares each in December 2008 and 2009, 50,000 shares in July 2010, 170,000 shares in December 2010 and 172,000 shares in March 2012. Gillian E Meller was granted options to acquire 55,000 shares, 70,000 shares, 65,000 shares and 90,000 shares respectively in December 2007, 2008, 2009 and 2010 and 158,500 shares in March 2012. David C F Tang was granted options to acquire 65,000 shares in December each year from 2007 to 2010 and 163,500 shares in March 2012. Jeny M C Yeung was granted options to acquire 75,000 shares in December 2007, 65,000 shares in December each year from 2008 to 2010 and 161,000 shares in March 2012. C K Chow was granted options to acquire 720,000 shares in December 2007 and 470,000 shares in December each year from 2008 to 2010. Thomas H K Ho and Leonard B Turk were each granted options to acquire 170,000 shares in December each year from 2007 to 2009 and 127,500 shares in December 2010.

Under the vesting terms of the options granted each year from 2007 to 2010 and in 2012, options granted will be evenly vested in respect of their underlying shares over a period of three years from the date of offer to grant such options (note 10A(i)).

11 Profit on Property Developments

Profit on property developments comprises:

in HK$ million	**2012**	2011
Share of surplus from developments	**3,186**	3,889
Transfer from deferred income on payments received from developers (note 45)	**–**	468
Income from receipt of properties for investment purpose	**–**	572
Agency fee on West Rail property developments (note 27D)	**49**	–
Miscellaneous income net of other overhead costs	**3**	5
	3,238	4,934

12 Depreciation and Amortisation

Depreciation and amortisation comprise:

in HK$ million	2012	2011
Depreciation charge on assets relating to:		
– Hong Kong transport operations	**2,458**	2,517
– Hong Kong station commercial business	**118**	121
– Hong Kong property rental and management businesses	**8**	6
– Mainland of China and international subsidiaries	**67**	51
– Other businesses	**60**	62
	2,711	2,757
Amortisation charge on service concession assets relating to:		
– Rail Merger with KCRC	**482**	434
– Mainland of China and international subsidiaries	**316**	169
	798	603
– Utilisation of government subsidy for Shenzhen Metro Longhua Line operation	**(301)**	(154)
	497	449
	3,208	3,206

13 Interest and Finance Charges

in HK$ million	2012		2011	
Interest expenses in respect of:				
– Bank loans, overdrafts and capital market instruments wholly repayable within 5 years	**367**		315	
– Bank loans and capital market instruments not wholly repayable within 5 years	**330**		268	
– Obligations under service concession	**721**		723	
– Other obligations (note 22E)	**16**		16	
Finance charges	**61**		18	
Exchange loss	**26**		32	
		1,521		1,372
Utilisation of government subsidy for Shenzhen Metro Longhua Line operation		**(254)**		(133)
Derivative financial instruments:				
– Fair value hedges	**(7)**		(15)	
– Cash flow hedges transferred from hedging reserve	**64**		63	
		57		48
Interest expenses capitalised		**(164)**		(176)
		1,160		1,111
Interest income in respect of:				
– Deposits with banks and other financial institutions	**(322)**		(199)	
– Investment in bank medium term notes	**(20)**		(45)	
– Loan to an associate	**–**		(1)	
		(342)		(245)
Interest income capitalised		**61**		80
		879		946
Accreted interest on loan to a property developer		**–**		(25)
		879		921

13 Interest and Finance Charges *(continued)*

During the year ended 31 December 2012, interest expenses capitalised were calculated on a monthly basis at the pre-determined cost of borrowings and/or the relevant group company's net borrowing cost which varied from 0.9% to 2.5% per annum (2011: 0.8% to 5.8% per annum), while interest income capitalised was calculated on a monthly basis at the average return from deposits and investments in bank medium term notes which varied from 1.4% to 1.8% per annum (2011: 1.1% to 1.6% per annum).

During the year ended 31 December 2012, interest and finance charges net of interest expenses capitalised in relation to the Shenzhen Metro Longhua Line were HK$254 million (2011: HK$133 million), which was fully offset by the subsidy received from the Shenzhen Municipal Government.

During the same year, the gain resulting from fair value changes of the underlying financial assets and liabilities being hedged was HK$114 million (2011: HK$24 million) while the loss resulting from fair value changes of hedging instruments comprising interest rate and cross currency swaps was HK$107 million (2011: HK$9 million), thus resulting in a net gain of HK$7 million (2011: HK$15 million).

14 Share of Profits of Non-controlled Subsidiaries and Associates

Share of profits of non-controlled subsidiaries and associates comprises:

in HK$ million	2012	2011
Share of profit before taxation of non-controlled subsidiaries (note 29)	**241**	208
Share of profit or loss before taxation of associates (note 31)	**233**	152
	474	360
Share of income tax expense of non-controlled subsidiaries (note 29)	**(30)**	(26)
Share of income tax credit/(expense) of associates (note 31)	**12**	(37)
	456	297

15 Income Tax

A Income tax in the consolidated profit and loss account represents:

in HK$ million	2012	2011 (Restated)
Current tax		
– Provision for Hong Kong Profits Tax at 16.5% (2011: 16.5%) for the year	**1,469**	1,619
– Mainland of China and overseas tax for the year	**135**	56
	1,604	1,675
Deferred tax		
– Origination and reversal of temporary differences on:		
– tax losses	**4**	(9)
– depreciation allowances in excess of related depreciation	**350**	316
– provision and others	**(65)**	(1)
	289	306
	1,893	1,981

The provision for Hong Kong Profits Tax for the year ended 31 December 2012 is calculated at 16.5% (2011: 16.5%) on the estimated assessable profits for the year after deducting accumulated tax losses brought forward, if any. Current tax for the Mainland of China and overseas subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries.

Provision for deferred tax on temporary differences arising in Hong Kong is calculated at the Hong Kong Profits Tax rate at 16.5% (2011: 16.5%) while that arising in the Mainland of China and overseas is calculated at the appropriate current rates of taxation ruling in the relevant countries.

15 Income Tax *(continued)*

B Reconciliation between tax expense and accounting profit at applicable tax rates:

	2012		2011 (Restated)	
	HK$ million	%	HK$ million	%
Profit before taxation	**15,564**		17,669	
Notional tax on profit before taxation, calculated at the rates applicable to profits in the tax jurisdictions concerned	**2,644**	**17.0**	2,957	16.7
Tax effect of non-deductible expenses	**131**	**0.8**	106	0.6
Tax effect of non-taxable revenue	**(874)**	**(5.6)**	(1,055)	(6.0)
Tax effect of unused tax losses not recognised	**(8)**	**(0.1)**	(27)	(0.2)
Actual tax expenses	**1,893**	**12.1**	1,981	11.1

16 Profit Attributable to Equity Shareholders

A The consolidated profit attributable to equity shareholders includes a profit of HK$13,209 million (2011: HK$15,253 million as restated), which has been dealt with in the accounts of the Company. Details of dividend paid and payable to equity shareholders of the Company are set out in note 17.

B Within the profit arising from underlying businesses, the amount attributable to property development had taken into account the effect of related income tax expense of HK$534 million (2011: HK$720 million of income tax and HK$11 million of net interest income).

17 Dividends

During the year, dividends paid and proposed to equity shareholders of the Company comprised:

in HK$ million	2012	2011
Dividends payable attributable to the year		
– Interim dividend declared after the balance sheet date of 25 cents (2011: 25 cents) per share	**1,447**	1,446
– Final dividend proposed after the balance sheet date of 54 cents (2011: 51 cents) per share	**3,128**	2,950
	4,575	4,396
Dividends paid attributable to the previous year		
– Final dividend of 51 cents (2010: 45 cents) per share approved and paid during the year	**2,951**	2,598

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date. Details of dividends paid to the Company's majority shareholder, the Financial Secretary Incorporated, are disclosed in note 54N.

18 Earnings Per Share

A Basic Earnings Per Share

The calculation of basic earnings per share is based on the profit for the year attributable to equity shareholders of HK$13,532 million (2011: HK$15,556 million as restated) and the weighted average number of ordinary shares of 5,787,351,555 in issue during the year (2011: 5,780,030,171), calculated as follows:

	2012	2011
Issued ordinary shares at 1 January	**5,784,871,250**	5,772,563,031
Effect of scrip dividends issued	**–**	6,461,157
Effect of share options exercised	**2,480,305**	1,005,983
Weighted average number of ordinary shares at 31 December	**5,787,351,555**	5,780,030,171

18 Earnings Per Share *(continued)*

B Diluted Earnings Per Share

The calculation of diluted earnings per share is based on the profit for the year attributable to equity shareholders of HK$13,532 million (2011: HK$15,556 million as restated) and the weighted average number of ordinary shares of 5,790,914,436 in issue during the year (2011: 5,783,905,064) after adjusting for the number of dilutive potential ordinary shares under the employee share option schemes, calculated as follows:

	2012	2011
Weighted average number of ordinary shares at 31 December	**5,787,351,555**	5,780,030,171
Effect of dilutive potential shares under the Company's share option schemes	**3,562,881**	3,874,893
Weighted average number of ordinary shares (diluted) at 31 December	**5,790,914,436**	5,783,905,064

C Both basic and diluted earnings per share would have been HK$1.69 (2011: HK$1.81) if the calculation is based on profit attributable to equity shareholders arising from underlying businesses of HK$9,775 million (2011: HK$10,468 million).

19 Segmental Information

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

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

(ii) Hong Kong station commercial business: 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 developments: Property development activities at locations near the railway systems in Hong Kong.

(v) 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 and KCRC.

(vi) Mainland of China and international subsidiaries: The operation and maintenance of mass transit railway systems including station commercial activities outside of Hong Kong and the letting of retail spaces, provision of estate management services and development of properties in the Mainland of China.

During the year ended 31 December 2012, the Group made a realignment of the business segments to re-categorise its property development, rental and management activities in the Mainland of China with its railway operations outside of Hong Kong. Accordingly, the relevant comparatives of the consolidated profit and loss account and segmental information are reclassified. The realigned revenue and expenses in respect of property development, rental and management activities in the Mainland of China amounted to HK$132 million and HK$134 million respectively for the year ended 31 December 2011.

19 Segmental Information *(continued)*

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

in HK$ million	Hong Kong transport operations	Hong Kong station commercial business	Hong Kong property rental and management businesses	Hong Kong property developments	Other businesses	Mainland of China and international subsidiaries	Total
2012							
Revenue	**14,523**	**3,680**	**3,401**	**–**	**1,349**	**12,786**	**35,739**
Operating expenses before depreciation, amortisation and variable annual payment	**(7,829)**	**(397)**	**(627)**	**–**	**(1,296)**	**(12,184)**	**(22,333)**
	6,694	**3,283**	**2,774**	**–**	**53**	**602**	**13,406**
Profit on property developments	**–**	**–**	**–**	**3,238**	**–**	**–**	**3,238**
Operating profit before depreciation, amortisation and variable annual payment	**6,694**	**3,283**	**2,774**	**3,238**	**53**	**602**	**16,644**
Depreciation and amortisation	**(2,919)**	**(139)**	**(8)**	**–**	**(60)**	**(82)**	**(3,208)**
Variable annual payment	**(706)**	**(175)**	**(2)**	**–**	**–**	**–**	**(883)**
	3,069	**2,969**	**2,764**	**3,238**	**(7)**	**520**	**12,553**
Project study and business development expenses							**(323)**
Operating profit before interest and finance charges							**12,230**
Interest and finance charges							**(879)**
Investment property revaluation			**3,757**				**3,757**
Share of profits of non-controlled subsidiaries and associates					**211**	**245**	**456**
Income tax							**(1,893)**
Profit for the year ended 31 December 2012							**13,671**
Assets							
Fixed Assets	**89,908**	**1,423**	**55,363**	**1**	**863**	**8,336**	**155,894**
Other operational assets *	**1,720**	**272**	**574**	**1,900**	**695**	**3,338**	**8,499**
Property management rights	**–**	**–**	**31**	**–**	**–**	**–**	**31**
Railway construction in progress	**7,458**	**–**	**–**	**–**	**–**	**–**	**7,458**
Property development in progress	**–**	**–**	**–**	**7,923**	**–**	**2,507**	**10,430**
Deferred expenditure	**–**	**–**	**15**	**–**	**–**	**–**	**15**
Deferred tax assets	**–**	**10**	**–**	**–**	**2**	**9**	**21**
Investments in securities	**–**	**–**	**–**	**–**	**393**	**–**	**393**
Properties held for sale	**–**	**–**	**–**	**3,016**	**–**	**–**	**3,016**
Interests in non-controlled subsidiaries	**–**	**–**	**–**	**–**	**433**	**–**	**433**
Interests in associates	**–**	**–**	**–**	**–**	**–**	**3,825**	**3,825**
	99,086	**1,705**	**55,983**	**12,840**	**2,386**	**18,015**	**190,015**
Unallocated assets							**16,900**
Total assets							**206,915**
Liabilities							
Segment liabilities	**7,525**	**1,903**	**1,545**	**700**	**1,119**	**8,938**	**21,730**
Obligations under service concession	**10,520**	**–**	**–**	**–**	**–**	**170**	**10,690**
Deferred income	**–**	**49**	**–**	**60**	**–**	**379**	**488**
	18,045	**1,952**	**1,545**	**760**	**1,119**	**9,487**	**32,908**
Unallocated liabilities							**29,527**
Total liabilities							**62,435**
Other Information							
Capital expenditure on:							
Fixed Assets	**2,429**	**104**	**124**	**–**	**20**	**473**	**3,150**
Railway construction in progress	**7,104**	**–**	**–**	**–**	**–**	**–**	**7,104**
Property development in progress	**–**	**–**	**–**	**737**	**–**	**38**	**775**
Non-cash expenses other than depreciation and amortisation	**23**	**2**	**2**	**–**	**2**	**–**	**29**

* Other operational assets include debtors, stores and spares, cash and cash equivalents and other assets employed in the operations of individual business segments.

19 Segmental Information *(continued)*

in HK$ million	Hong Kong transport operations	Hong Kong station commercial business	Hong Kong property rental and manage-ment businesses	Hong Kong property develop-ments	Other businesses	Mainland of China and international subsidiaries	Total
2011 (Restated)							
Revenue	13,509	3,422	3,083	–	998	12,411	33,423
Operating expenses before depreciation, amortisation and variable annual payment	(7,354)	(358)	(587)	–	(913)	(11,964)	(21,176)
	6,155	3,064	2,496	–	85	447	12,247
Profit on property developments	–	–	–	4,934	–	–	4,934
Operating profit before depreciation, amortisation and variable annual payment	6,155	3,064	2,496	4,934	85	447	17,181
Depreciation and amortisation	(2,934)	(138)	(6)	–	(62)	(66)	(3,206)
Variable annual payment	(520)	(127)	–	–	–	–	(647)
	2,701	2,799	2,490	4,934	23	381	13,328
Project study and business development expenses							(123)
Operating profit before interest and finance charges							13,205
Interest and finance charges							(921)
Investment property revaluation			5,088				5,088
Share of profits of non-controlled subsidiaries and associates					182	115	297
Income tax							(1,981)
Profit for the year ended 31 December 2011							15,688
Assets							
Fixed Assets	90,122	1,395	51,481	2	906	8,162	152,068
Operational assets *	1,665	349	587	1,209	218	3,575	7,603
Property management rights	–	–	31	–	–	–	31
Railway construction in progress	3,566	–	–	–	–	–	3,566
Property development in progress	–	–	–	9,519	–	2,445	11,964
Deferred expenditure	–	–	14	–	–	–	14
Deferred tax assets	–	19	–	–	–	5	24
Investments in securities	–	–	–	–	348	–	348
Properties held for sale	–	–	–	3,757	–	–	3,757
Interests in non-controlled subsidiaries	–	–	–	–	579	–	579
Interests in associates	–	–	–	–	–	948	948
	95,353	1,763	52,113	14,487	2,051	15,135	180,902
Unallocated assets							16,968
Total assets							197,870
Liabilities							
Segment liabilities	9,080	988	1,374	1,401	928	9,192	22,963
Obligations under service concession	10,557	–	–	–	–	167	10,724
Deferred income	–	47	–	68	–	288	403
	19,637	1,035	1,374	1,469	928	9,647	34,090
Unallocated liabilities							29,131
Total liabilities							63,221
Other Information							
Capital expenditure on:							
Fixed Assets	1,983	99	1,047	1	14	2,326	5,470
Railway construction in progress	5,585	–	–	–	–	–	5,585
Property development in progress	–	–	–	600	–	2,445	3,045
Non-cash expenses other than depreciation and amortisation	28	2	–	–	2	–	32

* Other operational assets include debtors, stores and spares, cash and cash equivalents and other assets employed in the operations of individual business segments.

19 Segmental Information *(continued)*

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

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

	Revenue from external customers		Specified non-current assets	
in HK$ million	**2012**	2011	**2012**	2011
Hong Kong (place of domicile)	**22,906**	20,951	**163,421**	157,615
Australia	**9,129**	8,927	**250**	265
Mainland of China	**555**	328	**14,244**	11,065
Sweden	**3,106**	3,166	**163**	145
Other countries	**43**	51	**8**	80
	12,833	12,472	**14,665**	11,555
	35,739	33,423	**178,086**	169,170

20 Other Comprehensive Income

A Tax effects relating to each component of other comprehensive income of the Group are shown below:

	2012			2011		
in HK$ million	Before-tax amount	Tax expense	Net-of-tax amount	Before-tax amount	Tax benefit/ (expense)	Net-of-tax amount
Exchange differences on translation of:						
– Financial statements of overseas subsidiaries and non-controlled subsidiaries	**72**	**–**	**72**	146	–	146
– Non-controlling interests	**3**	**–**	**3**	(1)	–	(1)
	75	**–**	**75**	145	–	145
Cash flow hedges: net movement in hedging reserve	**28**	**(5)**	**23**	(14)	2	(12)
Self-occupied land and building: net movement in fixed assets revaluation reserve	**406**	**(67)**	**339**	564	(93)	471
Other comprehensive income	**509**	**(72)**	**437**	695	(91)	604

20 Other Comprehensive Income *(continued)*

B The changes in each component of equity arising from transactions recognised in other comprehensive income of the Group are as follows:

in HK$ million	2012	2011
Exchange reserve		
Exchange differences on translation of financial statements of overseas subsidiaries and non-controlled subsidiaries	**72**	146
Hedging reserve		
Effective portion of changes in fair value of hedging instruments recognised during the year	**(36)**	(64)
Amounts transferred to initial carrying amount of hedged items	**(3)**	(8)
Transferred to profit or loss :		
– Interest and finance charges (note 13)	**64**	63
– Other expenses (note 9E)	**3**	(5)
Net deferred tax credited/(debited) to other comprehensive income resulting from:		
– Changes in fair value of hedging instruments recognised during the year	**6**	11
– Amounts transferred to initial carrying amount of hedged items	**–**	1
– Transferred to profit or loss	**(11)**	(10)
Net movement during the year recognised in other comprehensive income	**23**	(12)
Fixed assets revaluation reserve		
Changes in fair value recognised during the year	**406**	564
Net deferred tax debited to other comprehensive income resulting from changes in fair value recognised during the year	**(67)**	(93)
Net movement during the year recognised in other comprehensive income	**339**	471

21 Investment Properties

Movements and analysis of the Group's and the Company's investment properties, all of which being held in Hong Kong and carried at fair value, are as follows:

	The Group		The Company	
in HK$ million	2012	2011	2012	2011
Cost or valuation				
At 1 January	**51,453**	45,314	**50,287**	44,166
Additions	**104**	1,040	**100**	1,033
Change in fair value	**3,757**	5,088	**3,700**	5,077
Transfer from deferred expenditure (note 28)	**–**	11	**–**	11
At 31 December	**55,314**	51,453	**54,087**	50,287
Long leases	**90**	74	**90**	74
Medium-term leases	**55,224**	51,379	**53,997**	50,213
	55,314	51,453	**54,087**	50,287

All investment properties of the Group were revalued at open market value at 31 December 2012 by an independent firm of surveyors, Jones Lang LaSalle Limited, who have among their staff Members of the Hong Kong Institute of Surveyors. The valuations are based on a "term and reversion basis", which capitalises the existing and reversionary net rental income having regard to market valuation checks on comparable sales and yields. The net increase in fair value of HK$3,757 million (2011: HK$5,088 million) arising from the revaluation has been credited to the consolidated profit and loss account.

The Group's future minimum lease receipts in respect of investment properties under non-cancellable operating leases are disclosed together with those in respect of other properties under note 22D.

22 Other Property, Plant and Equipment

The Group

in HK$ million	Leasehold land	Self-occupied land and buildings	Civil works	Plant and equipment	Assets under construction	Total
2012						
Cost or Valuation						
At 1 January 2012	**732**	**2,894**	**46,651**	**63,116**	**2,048**	**115,441**
Additions	**–**	**–**	**–**	**153**	**1,606**	**1,759**
Disposals/write-offs	**–**	**–**	**(2)**	**(321)**	**(15)**	**(338)**
Surplus on revaluation	**–**	**322**	**–**	**–**	**–**	**322**
Reclassification within other property, plant and equipment	**–**	**–**	**1**	**(1)**	**–**	**–**
Transfer to additional concession property (note 23)	**–**	**–**	**–**	**–**	**(4)**	**(4)**
Other assets commissioned	**–**	**–**	**31**	**2,237**	**(2,268)**	**–**
Exchange differences	**–**	**–**	**–**	**13**	**–**	**13**
At 31 December 2012	**732**	**3,216**	**46,681**	**65,197**	**1,367**	**117,193**
At Cost	**732**	**–**	**46,681**	**65,197**	**1,367**	**113,977**
At 31 December 2012 Valuation	**–**	**3,216**	**–**	**–**	**–**	**3,216**
Aggregate depreciation						
At 1 January 2012	**205**	**–**	**5,812**	**32,737**	**–**	**38,754**
Charge for the year	**13**	**84**	**400**	**2,214**	**–**	**2,711**
Written back on disposal	**–**	**–**	**(1)**	**(279)**	**–**	**(280)**
Written back on revaluation	**–**	**(84)**	**–**	**–**	**–**	**(84)**
Exchange differences	**–**	**–**	**–**	**4**	**–**	**4**
At 31 December 2012	**218**	**–**	**6,211**	**34,676**	**–**	**41,105**
Net book value at 31 December 2012	**514**	**3,216**	**40,470**	**30,521**	**1,367**	**76,088**
2011						
Cost or Valuation						
At 1 January 2011	732	2,403	46,642	61,534	2,197	113,508
Additions	–	–	3	186	1,489	1,678
Capitalisation adjustments *	–	–	(2)	(4)	–	(6)
Disposals/write-offs	–	–	(1)	(207)	(3)	(211)
Surplus on revaluation	–	491	–	–	–	491
Reclassification within other property, plant and equipment	–	–	5	(6)	1	–
Transfer to additional concession property (note 23)	–	–	–	(5)	(10)	(15)
Other assets commissioned	–	–	4	1,623	(1,627)	–
Exchange differences	–	–	–	(5)	1	(4)
At 31 December 2011	732	2,894	46,651	63,116	2,048	115,441
At Cost	732	–	46,651	63,116	2,048	112,547
At 31 December 2011 Valuation	–	2,894	–	–	–	2,894
Aggregate depreciation						
At 1 January 2011	191	–	5,410	30,631	–	36,232
Charge for the year	14	73	403	2,267	–	2,757
Written back on disposal	–	–	(1)	(161)	–	(162)
Written back on revaluation	–	(73)	–	–	–	(73)
At 31 December 2011	205	–	5,812	32,737	–	38,754
Net book value at 31 December 2011	527	2,894	40,839	30,379	2,048	76,687

* Capitalisation adjustments relate to adjustments on the cost of assets to their final contract values after finalisation of contract claims with contractors.

22 Other Property, Plant and Equipment *(continued)*

The Company

in HK$ million	Leasehold land	Self-occupied land and buildings	Civil works	Plant and equipment	Assets under construction	Total
2012						
Cost or Valuation						
At 1 January 2012	**732**	**2,894**	**46,651**	**61,845**	**2,030**	**114,152**
Additions	**–**	**–**	**–**	**105**	**1,561**	**1,666**
Disposals/write-offs	**–**	**–**	**(2)**	**(315)**	**(15)**	**(332)**
Surplus on revaluation	**–**	**322**	**–**	**–**	**–**	**322**
Reclassification within other property, plant and equipment	**–**	**–**	**1**	**(1)**	**–**	**–**
Transfer to additional concession property (note 23)	**–**	**–**	**–**	**–**	**(4)**	**(4)**
Other assets commissioned	**–**	**–**	**31**	**2,212**	**(2,243)**	**–**
At 31 December 2012	**732**	**3,216**	**46,681**	**63,846**	**1,329**	**115,804**
At Cost	**732**	**–**	**46,681**	**63,846**	**1,329**	**112,588**
At 31 December 2012 Valuation	**–**	**3,216**	**–**	**–**	**–**	**3,216**
Aggregate depreciation						
At 1 January 2012	**205**	**–**	**5,812**	**32,049**	**–**	**38,066**
Charge for the year	**13**	**84**	**400**	**2,116**	**–**	**2,613**
Written back on disposal	**–**	**–**	**(1)**	**(274)**	**–**	**(275)**
Written back on revaluation	**–**	**(84)**	**–**	**–**	**–**	**(84)**
At 31 December 2012	**218**	**–**	**6,211**	**33,891**	**–**	**40,320**
Net book value at 31 December 2012	**514**	**3,216**	**40,470**	**29,955**	**1,329**	**75,484**
2011						
Cost or Valuation						
At 1 January 2011	732	2,403	46,642	60,529	2,161	112,467
Additions	–	–	3	76	1,345	1,424
Capitalisation adjustments *	–	–	(2)	(4)	–	(6)
Disposals/write-offs	–	–	(1)	(205)	(3)	(209)
Surplus on revaluation	–	491	–	–	–	491
Reclassification within other property, plant and equipment	–	–	5	(6)	1	–
Transfer to additional concession property (note 23)	–	–	–	(5)	(10)	(15)
Other assets commissioned	–	–	4	1,460	(1,464)	–
At 31 December 2011	732	2,894	46,651	61,845	2,030	114,152
At Cost	732	–	46,651	61,845	2,030	111,258
At 31 December 2011 Valuation	–	2,894	–	–	–	2,894
Aggregate depreciation						
At 1 January 2011	191	–	5,410	30,021	–	35,622
Charge for the year	14	73	403	2,189	–	2,679
Written back on disposal	–	–	(1)	(161)	–	(162)
Written back on revaluation	–	(73)	–	–	–	(73)
At 31 December 2011	205	–	5,812	32,049	–	38,066
Net book value at 31 December 2011	527	2,894	40,839	29,796	2,030	76,086

* Capitalisation adjustments relate to adjustments of the cost of assets to their final contract values after finalisation of contract claims with contractors.

22 Other Property, Plant and Equipment *(continued)*

A The lease term of the Group's and the Company's leasehold land is analysed as follows:

The Group and the Company

in HK$ million	2012	2011
At net book value		
– long leases	**140**	142
– medium-term leases	**374**	385
	514	527

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 54A, 54B and 54C).

Under the terms of the lease, the Company undertakes to keep and maintain all the leased areas, including underground and overhead structures, at its own cost. With respect to parts of the railway situated in structures where access is shared with other users, such as the Lantau Fixed Crossing, the Company's obligation for maintenance is limited to the railway only. All maintenance costs incurred under the terms of the lease have been dealt with as expenses relating to Hong Kong transport operations in the consolidated profit and loss account.

B All self-occupied land and buildings of the Group are held in Hong Kong under medium-term leases and carried at fair value. All self-occupied land and buildings were revalued at open market value on an existing use basis at 31 December 2012 by an independent firm of surveyors, Jones Lang LaSalle Limited, who have among their staff Members of the Hong Kong Institute of Surveyors. The valuation resulted in a revaluation surplus of HK$406 million (2011: HK$564 million), which, net of deferred tax provision of HK$67 million (2011: HK$93 million) (note 20B), has been recognised in other comprehensive income and accumulated in fixed assets revaluation reserve (note 48).

The carrying amount of the self-occupied land and buildings at 31 December 2012 would have been HK$849 million (2011: HK$874 million) had the land and buildings been stated at cost less accumulated depreciation.

C Assets under construction include capital works on operating railway.

D The Group leases out investment properties and station kiosks, including duty free shops, under operating leases. The leases typically run for an initial period of one to ten years, with an option to renew the lease after that date, at which time all terms will be renegotiated. Lease payments are usually adjusted annually to reflect market rentals. Certain leases carry additional rental based on turnover, some of which are with reference to thresholds. Lease incentives granted are amortised in the consolidated profit and loss account as an integral part of the net lease payment receivable.

The gross carrying amounts of investment properties of the Group and the Company held for use in operating leases were HK$55,314 million (2011: HK$51,453 million) and HK$54,087 million (2011: HK$50,287 million) respectively. The gross carrying amounts of station kiosks of the Group and the Company held for use in operating leases were HK$609 million (2011: HK$585 million) and the related accumulated depreciation charges were HK$252 million (2011: HK$221 million).

Total future minimum lease receipts under non-cancellable operating leases are receivable as follows:

	The Group		The Company	
in HK$ million	2012	2011	2012	2011
Within 1 year	**5,502**	4,101	**5,127**	3,811
After 1 year but within 5 years	**12,145**	5,777	**11,188**	4,963
Later than 5 years	**75**	336	**68**	239
	17,722	10,214	**16,383**	9,013

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.

22 Other Property, Plant and Equipment *(continued)*

As a result of the Lease Transaction, an amount of approximately HK$3,688 million was received in an investment account and was used to purchase debt securities ("Defeasance Securities") to be used to settle the long-term lease payments with an estimated net present value of approximately HK$3,533 million in March 2003. This resulted in the Group having received in 2003 an amount of HK$141 million net of costs. As the Group is not able to control the investment account in pursuit of its own objectives and its obligations to pay the lease payments are funded by the proceeds of the above investments, those obligations and investments in the Defeasance Securities were not recognised in March 2003 as liabilities and assets of the Group. The net amount of cash received was accounted for as deferred income by the Group and amortised to the consolidated profit and loss account over the lease period until 2008, when credit ratings of some of these Defeasance Securities were downgraded and subsequently replaced by standby letters of credit, the charge on which had fully offset the remaining balance of the deferred income.

23 Service Concession Assets

Movements and analysis of the Group and the Company's service concession assets are as follows:

The Group

	KCRC Rail Merger				
in HK$ million	Initial concession property	Additional concession property	Shenzhen Metro Longhua Line	Stockholm Metro	Total
2012					
Cost					
At 1 January 2012	**15,226**	**2,458**	**7,855**	**88**	**25,627**
Net additions during the year	**–**	**861**	**426**	**–**	**1,287**
Disposal	**–**	**(7)**	**(3)**	**–**	**(10)**
Transfer from other property, plant and equipment (note 22)	**–**	**4**	**–**	**–**	**4**
Exchange differences	**–**	**–**	**80**	**5**	**85**
At 31 December 2012	**15,226**	**3,316**	**8,358**	**93**	**26,993**
Accumulated amortisation					
At 1 January 2012	**1,243**	**272**	**159**	**25**	**1,699**
Charge for the year	**305**	**177**	**304**	**12**	**798**
Written-off on disposal	**–**	**(2)**	**(2)**	**–**	**(4)**
Exchange differences	**–**	**–**	**6**	**2**	**8**
At 31 December 2012	**1,548**	**447**	**467**	**39**	**2,501**
Net book value at 31 December 2012	**13,678**	**2,869**	**7,891**	**54**	**24,492**
2011					
Cost					
At 1 January 2011	15,226	1,818	5,429	91	22,564
Net additions during the year	–	630	2,122	–	2,752
Disposal	–	(5)	–	–	(5)
Transfer from other property, plant and equipment (note 22)	–	15	–	–	15
Exchange differences	–	–	304	(3)	301
At 31 December 2011	15,226	2,458	7,855	88	25,627
Accumulated amortisation					
At 1 January 2011	939	142	2	14	1,097
Charge for the year	304	130	156	13	603
Exchange differences	–	–	1	(2)	(1)
At 31 December 2011	1,243	272	159	25	1,699
Net book value at 31 December 2011	13,983	2,186	7,696	63	23,928

23 Service Concession Assets *(continued)*

The Company

in HK$ million	Initial concession property	Additional concession property	Total
2012			
Cost			
At 1 January 2012	**15,226**	**2,458**	**17,684**
Net additions during the year	**–**	**861**	**861**
Disposal	**–**	**(7)**	**(7)**
Transfer from other property, plant and equipment (note 22)	**–**	**4**	**4**
At 31 December 2012	**15,226**	**3,316**	**18,542**
Accumulated amortisation			
At 1 January 2012	**1,243**	**272**	**1,515**
Charge for the year	**305**	**177**	**482**
Written-off on disposal	**–**	**(2)**	**(2)**
At 31 December 2012	**1,548**	**447**	**1,995**
Net book value at 31 December 2012	**13,678**	**2,869**	**16,547**
2011			
Cost			
At 1 January 2011	15,226	1,818	17,044
Net additions during the year	–	630	630
Disposal	–	(5)	(5)
Transfer from other property, plant and equipment (note 22)	–	15	15
At 31 December 2011	15,226	2,458	17,684
Accumulated amortisation			
At 1 January 2011	939	142	1,081
Charge for the year	304	130	434
At 31 December 2011	1,243	272	1,515
Net book value at 31 December 2011	13,983	2,186	16,169

Initial concession property relates to the payments recognised at inception of the Rail Merger with KCRC while additional concession property relates to the expenditures for the replacement and/or upgrade of the initial concession property after inception of the Rail Merger.

24 Property Management Rights

Property management rights relate to the rights acquired by the Company from KCRC in the Rail Merger in respect of existing and future managed properties on the Appointed Day.

The Group and The Company

in HK$ million	2012	2011
Cost at 1 January and 31 December	**40**	40
Accumulated amortisation at 1 January and 31 December	**9**	9
Net book value at 31 December	**31**	31

25 Railway Construction in Progress

The Group and The Company

in HK$ million	Balance at 1 January	Transfer from deferred expenditure (note 28)	Expenditure	Balance at 31 December
2012				
West Island Line Project				
Construction costs	**6,637**	**–**	**2,884**	**9,521**
Consultancy fees	**480**	**–**	**32**	**512**
Staff costs and other expenses	**1,058**	**–**	**296**	**1,354**
Interest income	**(136)**	**–**	**(60)**	**(196)**
Utilisation of government grant	**(8,039)**	**–**	**(3,152)**	**(11,191)**
	–	**–**	**–**	**–**
South Island Line (East) Project				
Construction costs	**1,694**	**–**	**2,472**	**4,166**
Consultancy fees	**431**	**–**	**41**	**472**
Staff costs and other expenses	**442**	**–**	**227**	**669**
Finance costs	**45**	**–**	**58**	**103**
	2,612	**–**	**2,798**	**5,410**
Kwun Tong Line Extension Project				
Construction costs	**518**	**–**	**946**	**1,464**
Consultancy fees	**176**	**–**	**12**	**188**
Staff costs and other expenses	**244**	**–**	**114**	**358**
Finance costs	**16**	**–**	**22**	**38**
	954	**–**	**1,094**	**2,048**
Total	**3,566**	**–**	**3,892**	**7,458**
2011				
West Island Line Project				
Construction costs	3,955	–	2,682	6,637
Consultancy fees	430	–	50	480
Staff costs and other expenses	750	–	308	1,058
Interest income	(58)	–	(78)	(136)
Utilisation of government grant	(5,077)	–	(2,962)	(8,039)
	–	–	–	–
South Island Line (East) Project				
Construction costs	–	41	1,653	1,694
Consultancy fees	–	394	37	431
Staff costs and other expenses	–	277	165	442
Finance costs	–	23	22	45
	–	735	1,877	2,612
Kwun Tong Line Extension Project				
Construction costs	–	18	500	518
Consultancy fees	–	137	39	176
Staff costs and other expenses	–	123	121	244
Finance costs	–	8	8	16
	–	286	668	954
Total	–	1,021	2,545	3,566

25 Railway Construction in Progress *(continued)*

A West Island Line ("WIL") Project

On 13 July 2009, the Company entered into a Project Agreement with the HKSAR Government for the financing, design, construction and operation of the WIL and related services and facilities.

Pursuant to the agreement, the HKSAR Government provided a grant of HK$12,252 million to the Company in March 2010 (having already made HK$400 million available in February 2008 under a preliminary project agreement). This grant is subject to a repayment mechanism whereby, within 24 months of commercial operations commencing on the WIL, the Company will pay to the HKSAR Government amounts to reflect the excess of the original estimation over actual costs incurred on certain capital expenditure, price escalation costs, land costs and the amount of contingency in relation to the railway and related works (together with interest).

The project is targeted to complete in 2014. Total capital cost for the project based on the defined scope of works and programme is estimated at HK$17,090 million. As at 31 December 2012, the Company has incurred cumulative expenditure of HK$11,191 million (2011: HK$8,039 million), which was wholly offset by the government grant, and has authorised outstanding commitments on contracts totalling HK$2,531 million (2011: HK$5,324 million) and estimated future project costs of HK$3,368 million in relation to the project (note 55).

B South Island Line (East) ("SIL(E)") Project

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

The project is targeted to complete in 2015. Total capital cost for the project based on the defined scope of works and programme is estimated at HK$14,535 million. As at 31 December 2012, the Company has incurred cumulative expenditure of HK$5,410 million (2011: HK$2,612 million) and has authorised outstanding commitments on contracts totalling HK$4,298 million (2011: HK$5,326 million) and estimated future project costs of HK$4,827 million in relation to the project (note 55).

C Kwun Tong Line Extension ("KTE") Project

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

The project is targeted to complete in 2015. Total capital cost for the project based on the defined scope of works and programme is estimated at HK$6,268 million. As at 31 December 2012, the Company has incurred cumulative expenditure of HK$2,048 million (2011: HK$954 million) and has authorised outstanding commitments on contracts totalling HK$1,877 million (2011: HK$2,449 million) and estimated future project costs of HK$2,343 million in relation to the project (note 55).

26 Other Railway Construction in Progress under Entrustment by Kowloon-Canton Railway Corporation or the HKSAR Government

A Kowloon Southern Link ("KSL") Project

Pursuant to the KSL Project Management Agreement, one of the principal agreements of the Rail Merger, the Company acted as a project management agent to KCRC in respect of the construction of the KSL, which was completed and commenced operation on 16 August 2009. During the year ended 31 December 2012, HK$2 million of project management fee (2011: HK$3 million) was recognised as income in the consolidated profit and loss account.

B Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link ("XRL") Project

On 24 November 2008, the HKSAR Government and the Company entered into an entrustment agreement for the design of and site investigation and procurement activities in relation to the XRL ("Preliminary Entrustment Agreement"). Pursuant to the Preliminary Entrustment Agreement, the Company is responsible to carry out or procure the carrying out of the design, site investigation and procurement activities while the HKSAR Government is responsible to fund directly the total cost of such activities and pay to the Company a maximum amount of HK$1.5 billion in respect of certain costs incurred by the Company, including the Company's in-house design costs and certain on-costs and preliminary costs.

On 26 January 2010, the HKSAR Government and the Company entered into another entrustment agreement for the construction, testing and commissioning of the XRL ("Entrustment Agreement"). Pursuant to the Entrustment Agreement, the Company is responsible for the construction, testing and commissioning of the XRL while the HKSAR Government, as owner of XRL, is responsible to fund directly the total cost of such activities and pay to the Company HK$4,590 million in respect of the Company's management of the project. Such sum may be varied in accordance with the terms of the Entrustment Agreement but is subject to a maximum annual limit of HK$2 billion and a total limit of HK$10 billion. In addition, the HKSAR Government has agreed that the Company will be invited to undertake the operation of the XRL under the service concession approach.

During the year ended 31 December 2012, project management fee of HK$684 million (2011: HK$585 million) was recognised in the consolidated profit and loss account.

C Shatin to Central Link ("SCL") Project

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

26 Other Railway Construction in Progress under Entrustment by Kowloon-Canton Railway Corporation or the HKSAR Government *(continued)*

C Shatin to Central Link ("SCL") Project *(continued)*

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

On 29 May 2012, the Company and the HKSAR Government entered into an entrustment agreement for the construction and commissioning of the SCL ("Entrustment Agreement"). Pursuant to the Entrustment Agreement, the Company is responsible to carry out or procure to the carrying out of the works specified in the Entrustment Agreement (and the Preliminary Entrustment Agreement and Advance Works Entrustment Agreement) for a project management fee of HK$7,893 million. The HKSAR Government is responsible to bear all the work costs specified in the Entrustment Agreement except for certain costs of modification, upgrade or expansions of certain assets for which the Company is responsible under the existing service concession agreement with KCRC.

During the year ended 31 December 2012, project management fee of HK$284 million (2011: nil) was recognised in the consolidated profit and loss account. Additionally, during the year ended 31 December 2012, the reimbursable costs from the HKSAR Government in relation to the project under the Entrustment Agreement were HK$1,277 million (2011: HK$1,273 million). As at 31 December 2012, the amount to be recovered from the HKSAR Government was HK$429 million (2011: HK$235 million).

27 Property Development in Progress

Pursuant to the project agreements in respect of the construction of railway extensions and the Property Package Agreements in respect of the Rail Merger, the HKSAR Government has granted the Company with development rights on the lands over the stations along railway lines.

As at 31 December 2012, the outstanding property developments of the Company include the Tseung Kwan O Extension Property Projects at the depot sites in Tsueng Kwan O Area 86, the East Rail Line/Kowloon Southern Link/Light Rail Property Projects at four development sites along the East Rail Line, Kowloon Southern Link and Light Rail, South Island Line (East) Property Project at a site in Wong Chuk Hang and Kwun Tong Line Extension Property Project at a site in Ho Man Tin.

In 2011, the Company's two wholly owned subsidiaries, MTR Corporation (Shenzhen) Limited and MTR Property (Shenzhen) Company Limited, won the bid for Lot 1 of the Shenzhen Metro Longhua Line Depot Site. On 3 May 2012, the two subsidiaries established a project company in the Mainland of China, MTR Property Development (Shenzhen) Company Limited, to undertake residential and commercial development of the site ("Shenzhen Property Project"). Part of the net profits generated from this property development will be shared with the Shenzhen Municipal Government.

A Property Development in Progress

The Group

in HK$ million	Balance at 1 January	Transfer from deferred expenditure (note 28)	Expenditure	Offset against payments received from developers	Transfer out on project completion	Exchange differences	Balance at 31 December
2012							
Airport Railway Property Projects	**–**	**–**	**3**	**(3)**	**–**	**–**	**–**
Tseung Kwan O Extension Property Projects	**1,088**	**–**	**67**	**(5)**	**–**	**–**	**1,150**
East Rail Line/Kowloon Southern Link/ Light Rail Property Projects	**8,081**	**–**	**150**	**–**	**(2,325)**	**–**	**5,906**
South Island Line (East) Property Project	**285**	**–**	**407**	**–**	**–**	**–**	**692**
Kwun Tong Line Extension Property Project	**65**	**–**	**110**	**–**	**–**	**–**	**175**
Shenzhen Property Project	**2,445**	**–**	**38**	**–**	**–**	**24**	**2,507**
	11,964	**–**	**775**	**(8)**	**(2,325)**	**24**	**10,430**
2011							
Airport Railway Property Projects	–	–	4	(4)	–	–	–
Tseung Kwan O Extension Property Projects	1,151	–	159	(9)	(213)	–	1,088
East Rail Line/Kowloon Southern Link/ Light Rail Property Projects	7,977	–	123	(19)	–	–	8,081
South Island Line (East) Property Project	–	32	253	–	–	–	285
Kwun Tong Line Extension Property Project	–	4	61	–	–	–	65
Shenzhen Property Project	–	–	2,445	–	–	–	2,445
	9,128	36	3,045	(32)	(213)	–	11,964

27 Property Development in Progress *(continued)*

A Property Development in Progress *(continued)*

The Company

in HK$ million	Balance at 1 January	Transfer from deferred expenditure (note 28)	Expenditure	Offset against payments received from developers	Transfer out on project completion	Balance at 31 December
2012						
Airport Railway Property Projects	**–**	**–**	**3**	**(3)**	**–**	**–**
Tseung Kwan O Extension Property Projects	**1,088**	**–**	**67**	**(5)**	**–**	**1,150**
East Rail Line/Kowloon Southern Link/ Light Rail Property Projects	**8,081**	**–**	**150**	**–**	**(2,325)**	**5,906**
South Island Line (East) Property Project	**285**	**–**	**407**	**–**	**–**	**692**
Kwun Tong Line Extension Property Project	**65**	**–**	**110**	**–**	**–**	**175**
Shenzhen Property Project	**2**	**–**	**3**	**–**	**–**	**5**
	9,521	**–**	**740**	**(8)**	**(2,325)**	**7,928**
2011						
Airport Railway Property Projects	–	–	4	(4)	–	–
Tseung Kwan O Extension Property Projects	1,151	–	159	(9)	(213)	1,088
East Rail Line/Kowloon Southern Link/ Light Rail Property Projects	7,977	–	123	(19)	–	8,081
South Island Line (East) Property Project	–	32	253	–	–	285
Kwun Tong Line Extension Property Project	–	4	61	–	–	65
Shenzhen Property Project	–	–	2	–	–	2
	9,128	36	602	(32)	(213)	9,521

East Rail Line/Kowloon Southern Link/Light Rail Property Projects include the acquisition cost for the property development rights on the development sites from KCRC and mandatory payments in respect of enabling works carried out by KCRC for such sites. As at 31 December 2012, outstanding mandatory payments including interest accrued amounted to HK$60 million (2011: HK$720 million). Leasehold land in Hong Kong included under property development in progress are held under medium-term leases.

Shenzhen Property Project includes the price for Lot 1 of the Shenzhen Metro Longhua Line Depot Site of RMB1,977 million (HK$2,480 million). As at 31 December 2012, an amount of RMB400 million (HK$498 million) was deposited into the foreign currency bank account of the Shenzhen Land Exchange Centre in connection with this project. On 24 January 2013, the price for the lot was fully paid and the deposit is expected to be recovered within 1 year.

B Deferred Income on Property Development

The Group and The Company

in HK$ million	Balance at 1 January	Offset against development in progress (note 27A)	Amount recognised as profit (note 11)	Balance at 31 December
2012				
Airport Railway Property Projects	**34**	**(3)**	**–**	**31**
Tseung Kwan O Extension Property Projects	**34**	**(5)**	**–**	**29**
	68	**(8)**	**–**	**60**
2011				
Airport Railway Property Projects	38	(4)	–	34
Tseung Kwan O Extension Property Projects	43	(9)	–	34
East Rail Line/Kowloon Southern Link/Light Rail Property Projects	487	(19)	(468)	–
	568	(32)	(468)	68

27 Property Development in Progress *(continued)*

C 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 Government Consent Schemes and development agreements. Any balance remaining is to be released for distribution only after all obligations relating to the developments have been met. Accordingly, the balances of the stakeholding funds and the corresponding bank balances have not been included in the Group's and the Company's balance sheets. Movements in the stakeholding funds during the year are as follows:

The Group and The Company

in HK$ million	2012	2011
Balance as at 1 January	**4,836**	3,708
Stakeholding funds received	**31,069**	25,039
Add: Interest earned thereon	**25**	15
	35,930	28,762
Disbursements during the year	**(28,319)**	(23,926)
Balance as at 31 December	**7,611**	4,836
Represented by :		
Balances in designated bank accounts as at 31 December	**7,609**	4,834
Retention receivable	**2**	2
	7,611	4,836

In addition to the above, as at 31 December 2011, certain deposit monies and sales proceeds in respect of an East Rail Line property development site amounting to HK$2,410 million were under the custody of the solicitors and managed by the Company on behalf of KCRC as KCRC's agent.

D West Rail Property Developments

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 2012, agency fee in respect of the Tuen Mun property development was HK$49 million (note 11) and the reimbursable costs incurred by the Company including on-cost and interest accrued were HK$94 million (2011: HK$96 million).

28 Deferred Expenditure

The Group and The Company

in HK$ million	2012	2011
Balance at 1 January	**14**	1,079
Expenditure during the year	**1**	3
Transfer to investment properties (note 21)	**–**	(11)
Transfer to railway construction in progress (note 25)	**–**	(1,021)
Transfer to property development in progress (note 27)	**–**	(36)
Balance at 31 December	**15**	14

Deferred expenditures as at 31 December 2012 and 2011 were in respect of studies of Hong Kong property development projects.

29 Interests in Non-controlled Subsidiaries

	The Group		The Company	
in HK$ million	**2012**	2011	**2012**	2011
Unlisted shares, at cost	**–**	–	**24**	24
Share of net assets	**433**	579	**–**	–
	433	579	**24**	24

The following list contains the particulars of all major non-controlled subsidiaries of the Group:

		Proportion of ownership interest				
Name of company	Issued and paid up ordinary share capital	Group's effective interest	Held by the Company	Held by subsidiary	Place of incorporation and operation	Principal activities
Octopus Holdings Limited	HK$42,000,000	57.4%	57.4%	–	Hong Kong	Investment holding
Octopus Cards Limited	HK$42,000,000	57.4%	–	100%	Hong Kong	Operate a contactless smartcard common payment system in Hong Kong
Octopus China Investments Limited	HK$1	57.4%	–	100%	Hong Kong	Investment holding
Octopus Connect Limited	HK$2	57.4%	–	100%	Hong Kong	Dormant
Octopus International Projects Limited	HK$1	57.4%	–	100%	Hong Kong	Investment holding
Octopus Investments Limited	HK$2	57.4%	–	100%	Hong Kong	Investment holding
Octopus Knowledge Limited	HK$2	57.4%	–	100%	Hong Kong	Consultancy services on introducing a smartcard system in Dubai
Octopus Netherlands Limited	HK$1	57.4%	–	100%	Hong Kong	Consultancy services on introducing a smartcard system in the Netherlands
Octopus Payments Limited	HK$2	57.4%	–	100%	Hong Kong	Project management
Octopus Rewards Limited	HK$1	57.4%	–	100%	Hong Kong	Develop and operate a common loyalty scheme
Octopus Solutions Limited	HK$2	57.4%	–	100%	Hong Kong	Consultancy services in Auckland
Octopus Systems Limited	HK$2	57.4%	–	100%	Hong Kong	Consultancy services in Hong Kong
Octopus Transactions Limited	HK$2	57.4%	–	100%	Hong Kong	Project management
Octopus Cards Macau Limited	MOP25,000	57.4%	–	100%	Macau	Promote the contactless smartcard common payment system in Macau

Octopus Cards Limited ("OCL") was formed in 1994 by the Company and four other local transport companies to undertake the development and operation of the "Octopus" contactless smart card ticketing system. In 2000, the Hong Kong Monetary Authority ("HKMA") approved OCL to become a deposit-taking company ("DTC") and extend the use of Octopus cards to non-transport related services. In 2001, the Company disposed 10.4% of the shareholding interest of OCL to certain other shareholders of OCL for a consideration of HK$16 million, together with a deferred consideration to be received in the event of OCL subsequently becoming a stock exchange listed company. In 2005, OCL undertook a company re-structuring to separate OCL's regulated payment businesses and non-payment businesses by setting up a new holding company, Octopus Holdings Limited ("OHL"), to hold the entire issued share capital of OCL as well as other companies established for the non-payment businesses. The Company's effective interest in OHL and OHL's subsidiaries remains unchanged at 57.4% and the Company's appointees to the OHL's Board of Directors are limited to 49% of the voting rights at board meetings.

During the year ended 31 December 2012, the Company incurred HK$125 million (2011: HK$116 million) of expenses for the central clearing services provided by OCL. OCL incurred HK$31 million (2011: HK$29 million) of expenses for the load agent and Octopus card issuance and refund services, computer equipment and relating services, project administration services as well as warehouse storage space provided by the Company. During the year, OHL distributed HK$358 million (2011: HK$144 million) of dividends to the Company.

29 Interests in Non-controlled Subsidiaries *(continued)*

The condensed consolidated profit and loss account and the balance sheet for OHL are shown below:

Consolidated Profit and Loss Account

Year ended 31 December in HK$ million	**2012 (Audited)**	2011 (Audited)
Turnover	**811**	704
Other operating income	**4**	8
	815	712
Staff costs	**(132)**	(126)
Other operating expenses	**(271)**	(236)
Operating profit before depreciation	**412**	350
Depreciation	**(48)**	(38)
Operating profit before interest and finance charges	**364**	312
Net interest income	**57**	54
Share of loss from a jointly controlled entity	**(1)**	(4)
Profit before taxation	**420**	362
Income tax	**(52)**	(45)
Profit for the year	**368**	317
Group's share of profit before taxation (note 14)	**241**	208
Group's share of income tax (note 14)	**(30)**	(26)

Consolidated Balance Sheet

at 31 December in HK$ million	**2012 (Audited)**	2011 (Audited)
Assets		
Fixed assets	**288**	216
Investments and other deposits with banks	**2,375**	2,641
Other assets	**316**	358
Cash and other short-term funds	**714**	517
	3,693	3,732
Liabilities		
Card floats and card deposits due to cardholders	**(2,498)**	(2,244)
Amounts due to related parties	**(29)**	(55)
Other liabilities	**(411)**	(423)
	(2,938)	(2,722)
Net assets	**755**	1,010
Equity		
Share capital	**42**	42
Exchange reserve	**2**	1
Retained profits	**711**	967
	755	1,010
Group's share of net assets	**433**	579

30 Investments in Subsidiaries

The Company

in HK$ million	**2012**	2011
Unlisted shares, at cost	**1,260**	1,260

Investments in subsidiaries include HK$24 million (2011: HK$24 million) in respect of investments in non-controlled subsidiaries, the relevant details of which are disclosed in note 29. The following list contains details of controlled subsidiaries as defined under note 2C as at 31 December 2012, which have been consolidated into the Group's accounts.

		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
Subsidiaries held throughout 2012						
Glory Goal Limited	HK$10,000	100%	100%	–	Hong Kong	Investment holding
Hanford Garden Property Management Company Limited	HK$10,000	100%	100%	–	Hong Kong	Property management
MTR (Estates Management) Limited	HK$1,000	100%	100%	–	Hong Kong	Investment holding and property management
MTR (Shanghai Project Management) Limited	HK$1,000	100%	100%	–	Hong Kong	Railway consultancy services, property investment and development
MTR Beijing Line 4 Investment Company Limited	HK$1	100%	100%	–	Hong Kong	Investment holding
MTR Building Works Company Limited	HK$2	100%	100%	–	Hong Kong	General building, maintenance and engineering works
MTR China Commercial Management No. 1 Holdings Limited	HK$1,000	100%	100%	–	Hong Kong	Investment holding
MTR China Consultancy Company Limited	HK$1,000	100%	100%	–	Hong Kong	Railway consultancy services
MTR China Property Holdings Limited	HK$1	100%	100%	–	Hong Kong	Investment holding
MTR China Property Limited	HK$1,000	100%	100%	–	Hong Kong	Property management
MTR Engineering Services Limited	HK$1,000	100%	100%	–	Hong Kong	Engineering and other consultancy services
MTR Hangzhou Line 1 Investment Company Limited	HK$1,000	100%	100%	–	Hong Kong	Investment holding
MTR Information Solutions Company Limited	HK$1,000	100%	100%	–	Hong Kong	License MTR software to MTR's subsidiaries and associates
MTR Property Agency Co. Limited	HK$2	100%	100%	–	Hong Kong	Property broking and administrative services
MTR Property (Beijing) No. 1 Company Limited	HK$1	100%	–	100%	Hong Kong	Property development, investment and management
MTR Property (Shenzhen) Company Limited	HK$1	100%	100%	–	Hong Kong	Property development, investment and management

30 Investments in Subsidiaries *(continued)*

Name of company	Issued and paid up ordinary share capital/ registered capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by subsidiary	Place of incorporation/ establishment and operation	Principal activities
MTR Property (Tianjin) No. 1 Company Limited	HK$1	100%	–	100%	Hong Kong	Property development, investment and management
MTR Property (Tianjin) No. 2 Company Limited	HK$1	100%	–	100%	Hong Kong	Property development, investment and management
MTR Rail Transport Training (International) Company Limited	HK$2,800,000	100%	100%	–	Hong Kong	Provide rail transport training in Mainland China
MTR Shenyang Holdings Limited	HK$1,000	100%	100%	–	Hong Kong	Investment holding
MTR Shenyang Investment Holdings Limited	HK$1	100%	100%	–	Hong Kong	Investment holding
MTR Shenyang Property No.1 Limited	HK$1	100%	–	100%	Hong Kong	Property development, investment and management
MTR Shenzhen Investment Holding Limited	HK$400,000	100%	100%	–	Hong Kong	Investment holding
MTR Telecommunication Company Limited	HK$100,000,000	100%	100%	–	Hong Kong	Mobile telecommunication services
MTR Travel Limited	HK$2,500,000	100%	100%	–	Hong Kong	Travel services
Ngong Ping 360 Limited	HK$2	100%	100%	–	Hong Kong	Operate the Tung Chung to Ngong Ping cable car system and Theme Village in Ngong Ping
Pierhead Garden Management Company Limited	HK$50,000	100%	100%	–	Hong Kong	Property management
Royal Ascot Management Company Limited	HK$50,000	100%	100%	–	Hong Kong	Property management
Sun Tuen Mun Centre Management Company Limited	HK$50,000	100%	100%	–	Hong Kong	Property management
TraxComm Limited	HK$15,000,000	100%	100%	–	Hong Kong	Fixed telecommunication network and related services
V-Connect Limited	HK$1,000	100%	100%	–	Hong Kong	Mobile telecommunication services
360 Holidays Limited	HK$500,000	100%	–	100%	Hong Kong	Guided tour services
Metro Trains Melbourne Pty. Ltd. *	AUD16,250,000	60% on ordinary shares; 30% on Class A shares	60% on ordinary shares; 30% on Class A shares	–	Australia	Railway operations and maintenance
Fasttrack Insurance Ltd.	HK$77,500,000	100%	100%	–	Bermuda	Insurance underwriting
Candiman Limited *	US$1	100%	100%	–	British Virgin Islands	Investment holding
MTR Corporation (C.I.) Limited	US$1,000	100%	100%	–	Cayman Islands/ Hong Kong	Finance

30 Investments in Subsidiaries *(continued)*

Name of company	Issued and paid up ordinary share capital/ registered capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by subsidiary	Place of incorporation/ establishment and operation	Principal activities
MTR Finance Lease (001) Limited	US$1	100%	100%	–	Cayman Islands/ Hong Kong	Finance
MTR Stockholm AB	SEK40,000,000	100%	–	100%	Sweden	Railway operations and maintenance
MTR (Beijing) Commercial Facilities Management Co., Ltd.	HK$93,000,000	100%	–	100%	The People's Republic of China	Property leasing and management
MTR (Beijing) Property Services Company Limited	RMB3,000,000	100%	100%	–	The People's Republic of China	Property management
MTR Commercial Management (Beijing) Company Limited *	HK$120,000	100%	–	100%	The People's Republic of China	Business management, business consultancy, commercial facilities strategy and consultancy services, and corporate training management
MTR Consultancy (Beijing) Co. Limited (Incorporated)	HK$4,200,000	100%	100%	–	The People's Republic of China	Railway consultancy services, marketing and promotion
MTR Consulting (Shenzhen) Co. Ltd. (Incorporated)	HK$1,000,000	100%	100%	–	The People's Republic of China	Railway consultancy services
MTR Corporation (Shenzhen) Limited (Incorporated)	HK$2,636,000,000	100%	–	100%	The People's Republic of China	Railway construction, operation and management
MTR Corporation (Shenzhen) Training Centre * (Incorporated)	RMB2,000,000	100%	–	100%	The People's Republic of China	Provide rail transport training
Shanghai Hong Kong Metro Construction Management Co. Ltd. (Incorporated) *	HK$15,000,000	60%	–	60%	The People's Republic of China	Railway construction management and development
MTR Corporation (Silverlink) Limited	GBP1	100%	–	100%	United Kingdom	Investment holding
MTR Corporation (UK) Limited	GBP29	100%	100%	–	United Kingdom	Investment holding
<u>Subsidiaries established during 2012</u>						
MTR Corporation (Australia) Pty. Limited	AUD2	100%	100%	–	Australia	Railway related consultancies and businesses in Australia
MTR Nordic AB	SEK50,000	100%	–	100%	Sweden	Railway operations and maintenance and other related services
MTR Property Development (Shenzhen) Company Limited	–**	100%	–	100%	The People's Republic of China	Property development, operation, leasing, management and consultancy services

* Subsidiaries not audited by KPMG

** The registered capital of HK$2,180,000,000 was fully paid on 4 January 2013.

As at 31 December 2012, Shanghai Hong Kong Metro Construction Management Co. Ltd. was under liquidation.

31 Interests in Associates

The Group

in HK$ million	2012	2011
Share of net assets	3,825	948

The Group and the Company had interests in the following associates as at 31 December 2012:

		Proportion of ownership interest			
Name of company	Issued and paid up ordinary share capital/ registered capital	Group's effective interest	Held by subsidiary	Place of incorporation/ establishment and operation	Principal activities
Beijing MTR Corporation Limited (Incorporated)	RMB1,380,000,000	49%	49%	The People's Republic of China	Metro investment, construction, operations and passenger services
Hangzhou MTR Corporation Limited*	RMB4,540,000,000	49%	49%	The People's Republic of China	Railway operation and management
Shenyang MTR Corporation Limited*	RMB100,000,000	49%	49%	The People's Republic of China	Railway operation and management
Tunnelbanan Teknik Stockholm AB	SEK30,000,000	50%	50%	Sweden	Railway maintenance
London Overground Rail Operations Ltd ("LOROL") *	GBP2	50%	50%	United Kingdom	Railway operation and management

* Companies not audited by KPMG

In July 2012, the Company's subsidiary, MTR Hangzhou Line 1 Investment Company Limited, signed a contract with a subsidiary of Hangzhou Metro Group Company Limited to set up a joint venture company to invest in and operate Hangzhou Metro Line 1 for a period of 25 years. Total capital cost of Hangzhou Metro Line 1 is approximately RMB22 billion. Hangzhou Metro Group Company Limited undertakes to invest in the project's civil construction work, representing 62% of the total project cost while the joint venture company is responsible for the electrical and mechanical systems as well as rolling stock with a total investment of approximately RMB8.3 billion, which is approximately 38% of the total project cost. The joint venture company, Hangzhou MTR Corporation Limited ("Hanghzhou MTR"), was set up on 5 September 2012 with a registered capital of RMB4,540 million, of which 49% is borne by the Group. Hangzhou Metro Line 1 commenced revenue operation on 24 November 2012.

In November 2012, Beijing MTR Corporation Limited ("Beijing MTR") initialled a concession agreement with the Beijing Municipal Government for the public-private-partnership project for the investment, construction and operations of Beijing Metro Line 14. Total capital cost of Beijing Metro Line 14 is approximately RMB50 billion. Beijing Infrastructure Investment Corporation Limited, the joint venture partner of Beijing MTR, undertakes the project's civil construction, which represents about 70% of the total capital cost. Beijing MTR is responsible for the electrical and mechanical systems as well as rolling stock with an investment of approximately RMB15 billion or 30% of the total capital cost. The Company will contribute additional equity of approximately RMB2.2 billion to Beijing MTR to support the investment. As part of the concession agreement, Beijing MTR would also undertake the operations and maintenance of Beijing Metro Line 14 for a term of 30 years with opening of the first phase expecting in mid 2013 and opening of the remaining phases in 2015. The concession agreement is subject to approval by relevant authorities in the Mainland of China as of 31 December 2012.

As at 31 December 2012, Shenyang MTR Corporation Limited was under liquidation.

In February 2013, LOROL was awarded by Transport for London a two-year extension of the franchise to operate and maintain the London Overground in Greater London until 10 November 2016 after completion of the original seven-year franchise period ending on 10 November 2014.

During the year ended 31 December 2012, Tunnelbanan Teknik Stockholm AB provided rolling stock maintenance and other supporting services to MTR Stockholm AB at an amount of SEK535 million (HK$615 million) (2011: SEK520 million or HK$629 million). MTR Stockholm AB leased depots, depot equipment and provided other supporting services to Tunnelbanan Teknik Stockholm AB at a total amount of SEK106 million (HK$122 million) (2011: SEK108 million or HK$131 million).

During the same year, the Company provided staff secondment, information technology and other support services to Beijing MTR at a total amount of HK$15 million (2011: HK$19 million).

31 Interests in Associates *(continued)*

The summary financial information of the Group's effective interests in associates is as follows:

in HK$ million	**2012**	2011
Non-current assets	**7,039**	2,319
Current assets	**939**	793
Non-current liabilities	**(597)**	(860)
Current liabilities	**(3,556)**	(1,304)
Net assets	**3,825**	948
Income	**1,956**	1,760
Expenses	**(1,723)**	(1,608)
Profit before taxation	**233**	152
Income tax	**12**	(37)
Net profit for the year	**245**	115

32 Investments in Securities

Investments in securities, representing bank medium term notes held by the Company and debt securities held by the overseas insurance underwriting subsidiary, comprise:

The Group

in HK$ million	**2012**	2011
Held-to-maturity securities, at amortised cost (maturing within 1 year)	**–**	2,626
Trading securities listed overseas, at fair value (Level 1, see note 34 for definition)		
– maturing within 1 year	**57**	126
– maturing after 1 year	**336**	222
	393	348
	393	2,974

The Company

in HK$ million	**2012**	2011
Held-to-maturity securities, at amortised cost (maturing within 1 year)	**–**	2,626

33 Properties Held for Sale

The Group and The Company

in HK$ million	**2012**	2011
Properties held for sale		
– at cost	**2,967**	3,718
– at net realisable value	**49**	39
	3,016	3,757

Properties held for sale at 31 December 2012 comprised mainly residential units and car parking spaces at The Riverpark at Che Kung Temple Station and Lake Silver at Wu Kai Sha Station, both along the Ma On Shan Line, and The Palazzo at Fo Tan Station along the East Rail Line. They represent either properties received by the Company as sharing in kind or as part of the profit distribution upon completion of the development. The properties are stated on the balance sheet at the lower of cost, which is deemed to be their fair value upon initial recognition as determined by reference to an independent open market valuation at the date of receipt (notes 2K(iii) and (iv)), and their net realisable value at the balance sheet date. Net realisable value represents the estimated selling price less costs to be incurred in selling the properties. The net realisable values as at 31 December 2012 and 2011 were determined by reference to an open market valuation of the properties as at those dates, undertaken by an independent firm of surveyors, Jones Lang LaSalle Limited, who have among their staff Members of the Hong Kong Institute of Surveyors.

Properties held for sale at net realisable value are stated net of provision of HK$8 million (2011: 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.

34 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 and The Company

in HK$ million	Notional amount	Fair value	Level*	Contractual undiscounted cash flow maturing in Less than 1 year	1-2 years	2-5 years	Over 5 years	Total
2012								
Derivative Financial Assets								
Gross settled:								
Foreign exchange forwards								
– cash flow hedges :	147	7	2					
– inflow				99	34	21	–	154
– outflow				(95)	(32)	(20)	–	(147)
– not qualified for hedge accounting :	157	3	2					
– inflow				135	10	15	–	160
– outflow				(132)	(11)	(14)	–	(157)
Cross currency swaps								
– fair value hedges :	2,021	33	2					
– inflow				829	18	816	461	2,124
– outflow				(795)	(10)	(807)	(464)	(2,076)
Net settled:								
Interest rate swaps								
– fair value hedges	4,063	213	2	112	64	81	6	263
	6,388	256		153	73	92	3	321
Derivative Financial Liabilities								
Gross settled:								
Foreign exchange forwards								
– fair value hedges :	3,491	17	2					
– inflow				–	–	3,473	–	3,473
– outflow				–	–	(3,490)	–	(3,490)
– cash flow hedges :	62	1	2					
– inflow				60	1	–	–	61
– outflow				(61)	(1)	–	–	(62)
– not qualified for hedge accounting :	40	1	2					
– inflow				40	–	–	–	40
– outflow				(41)	–	–	–	(41)
Cross currency swaps								
– fair value hedges :	5,080	23	2					
– inflow				27	6,225	406	–	6,658
– outflow				(21)	(6,222)	(432)	–	(6,675)
Net settled:								
Interest rate swaps								
– cash flow hedges	2,212	90	2	(53)	(18)	(25)	(7)	(103)
	10,885	132		(49)	(15)	(68)	(7)	(139)
Total	17,273							

34 Derivative Financial Assets and Liabilities *(continued)*

A Fair Value *(continued)*

The Group and The Company

in HK$ million	Notional amount	Fair value	Level*	Contractual undiscounted cash flow maturing in: Less than 1 year	1-2 years	2-5 years	Over 5 years	Total
2011								
Derivative Financial Assets								
Gross settled:								
Foreign exchange forwards								
– cash flow hedges :	86	3	2					
– inflow				29	26	34	–	89
– outflow				(27)	(26)	(33)	–	(86)
– not qualified for hedge accounting :	6	–	2					
– inflow				5	–	–	–	5
– outflow				(5)	–	–	–	(5)
Cross currency swaps								
– fair value hedges :	1,245	54	2					
– inflow				37	811	6	470	1,324
– outflow				(6)	(785)	–	(465)	(1,256)
Net settled:								
Interest rate swaps								
– fair value hedges	2,833	287	2	134	95	78	34	341
– cash flow hedges	300	–	2	(1)	(1)	2	–	–
– not qualified for hedge accounting	388	–	2	–	–	–	–	–
	4,858	344		166	120	87	39	412
Derivative Financial Liabilities								
Gross settled:								
Foreign exchange forwards								
– cash flow hedges :	83	4	2					
– inflow				59	16	4	–	79
– outflow				(62)	(17)	(4)	–	(83)
– not qualified for hedge accounting :	174	7	2					
– inflow				132	27	7	–	166
– outflow				(138)	(28)	(7)	–	(173)
Cross currency swaps								
– fair value hedges :	4,663	28	2					
– inflow				12	13	6,593	–	6,618
– outflow				(18)	(21)	(6,609)	–	(6,648)
Net settled:								
Interest rate swaps								
– cash flow hedges	1,912	112	2	(59)	(48)	(16)	(3)	(126)
	6,832	151		(74)	(58)	(32)	(3)	(167)
Total	11,690							

* The levels are defined in HKFRS 7 as follows:

Level 1 : Fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments

Level 2 : Fair values measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data

Level 3 : Fair values measured using valuation techniques in which any significant input is not based on observable market data

34 Derivative Financial Assets and Liabilities *(continued)*

A Fair Value *(continued)*

The discounted cash flow method, which discounts the future contractual cash flows at the current market interest and foreign exchange rates that are available to the Group for similar financial instruments, is the main valuation technique used to determine the fair value of the Group's borrowings and derivative financial instruments such as forward foreign exchange contracts, interest rate swaps and cross currency swaps.

The Group's derivative financial instruments consist predominantly of interest rate and cross currency swaps, and the relevant interest rate swap curves as of 31 December 2012 and 2011 were used to discount the cash flows of financial instruments. Interest rates used ranged from 0.175% to 1.412% (2011: 0.250% to 1.877%) for Hong Kong dollars, 0.304% to 1.292% (2011: 0.208% to 2.027%) for US dollars and 2.980% to 3.315% (2011:nil) for Australian dollars.

The table above details the remaining contractual maturities at the balance sheet date of the Group's and the Company's derivative financial liabilities and assets, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the balance sheet date) and the earliest date the Group and the Company can be required to pay.

B Financial Risks

The Group's operating activities and financing activities expose it to four main types of financial risks, namely liquidity risk, interest rate risk, foreign exchange risk and credit risk. The Group's overall risk management policy focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects of these financial risks on the Group's financial performance.

The Board of Directors provides principles for overall risk management and approves policies covering specific areas, such as liquidity risk, interest rate risk, foreign exchange risk, credit risk, concentration risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity. The Group's Preferred Financing Model (the "Model") is an integral part of its risk management policies. The Model specifies, amongst other things, the preferred mix of fixed and floating rate debts, the permitted level of foreign currency debts and an adequate length of financing horizon for coverage of forward funding requirements, against which the Group's financing related liquidity, interest rate and currency risk exposures are measured, monitored and controlled. The Board regularly reviews its risk management polices and authorises changes if necessary based on operating and market conditions and other relevant factors. The Board also reviews on an annual basis as part of the budgeting process and authorises changes if necessary to the Model in accordance with changes in market conditions and practical requirements.

The use of derivative financial instruments to control and hedge against interest rate and foreign exchange risk exposures is an integral part of the Group's risk management strategy. In accordance with Board policy, these instruments shall only be used for controlling or hedging risk exposures, and cannot be used for speculation purposes. All of the derivative instruments used by the Group are over-the-counter derivatives comprising principally interest rate swaps, cross currency swaps and foreign exchange forward contracts.

(i) Liquidity Risk

Liquidity risk refers to the risk that funds are not available to meet liabilities as they fall due, and it may result from timing and amount mismatches of cash inflow and outflow.

The Group employs projected cash flow analysis to manage liquidity risk by forecasting the amount of cash required, including working capital, debt repayments, dividend payments, capital expenditures and new investments, and by maintaining sufficient cash balance and/or undrawn committed banking facilities to ensure these requirements are met. It adopts a prudent approach and will maintain sufficient cash balance and committed banking facilities to provide forward coverage of at least 6 to 15 months of projected cash requirements as specified in the Model. The Group also conducts stress testing of its projected cash flow to analyse liquidity risk, and would arrange additional banking facilities or debt issuance or otherwise take appropriate actions if such stress tests reveal significant risk of material cash flow shortfall.

The following table details the remaining contractual maturities at the balance sheet date of the Group's and the Company's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the balance sheet date) and the earliest date the Group and the Company can be required to pay:

The Group

	2012				2011			
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	**3,817**	**3,854**	**583**	**8,254**	2,876	4,305	592	7,773
Amounts repayable within a period of between 2 and 5 years	**7,614**	**650**	**–**	**8,264**	7,498	840	1	8,339
Amounts repayable within a period of between 1 and 2 years	**5,588**	**418**	**3**	**6,009**	3,883	387	2	4,272
Amounts repayable within 1 year	**4,028**	**1,070**	**4**	**5,102**	632	6,426	2	7,060
	21,047	**5,992**	**590**	**27,629**	14,889	11,958	597	27,444

34 Derivative Financial Assets and Liabilities *(continued)*

B Financial Risks *(continued)*

The Company

in HK$ million	2012 Capital market instruments	2012 Bank loans and overdrafts	2012 Others	2012 Total	2011 Capital market instruments	2011 Bank loans and overdrafts	2011 Others	2011 Total
Loans and other obligations								
Amounts repayable beyond 5 years	**498**	**–**	**583**	**1,081**	543	–	592	1,135
Amounts repayable within a period of between 2 and 5 years	**116**	**133**	**–**	**249**	117	326	–	443
Amounts repayable within a period of between 1 and 2 years	**39**	**191**	**–**	**230**	39	194	–	233
Amounts repayable within 1 year	**39**	**848**	**–**	**887**	39	6,229	–	6,268
	692	**1,172**	**583**	**2,447**	738	6,749	592	8,079

Others represent obligations under lease out/lease back transaction (note 22E).

(ii) Interest Rate Risk

The Group's interest rate risk arises principally from its borrowing activities. Borrowings based on fixed and floating rates expose the Group to fair value and cash flow interest rate risk respectively due to fluctuations in market interest rates. The Group manages and controls its interest rate risk exposure by maintaining a level of fixed rate debt between 40% and 70% 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 2012, 65% of the Group's total debt outstanding was denominated either in or converted to fixed interest rate after taking into account outstanding cross currency and interest rate swaps.

The Group's exposure due to its floating rate borrowings is offset by the floating rate interest income it earns from its cash balances, bank deposits and other investment instruments. As at 31 December 2012, the Group had total cash balances and bank deposits of HK$17,918 million from which it derived floating rate interest income, compared with total floating rate borrowings of HK$7,982 million.

As at 31 December 2012, it is estimated that a 100 basis points increase/25 basis points decrease in interest rates, with all other variables held constant, would increase/decrease the Group's profit after tax and retained profits by approximately HK$84/HK$23 million. Other components of consolidated equity would increase/decrease by approximately HK$41/HK$11million.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for both derivative and non-derivative financial instruments in existence at that date. The interest rate assumptions represent management's assessment of a reasonable possible change in interest rates over the period until the next annual balance sheet date in the light of the current low absolute levels of interest rates and the greater scope for rate increase than decrease in the future.

In 2011, a similar analysis was performed based on the assumption of a 100 basis points increase/25 basis points decrease in interest rates, which would increase/decrease the Group's profit after tax and retained profits by approximately HK$31/HK$8 million. Other components of consolidated equity would increase/decrease by approximately HK$46/HK$16 million.

(iii) Foreign Exchange Risk

Foreign exchange risk arises when recognised assets and liabilities are denominated in a currency that is not the Group's functional currency. For the Group, it arises principally from its borrowing and overseas procurement activities.

The Group manages and controls its foreign exchange risk exposure by maintaining a modest level of unhedged non-Hong Kong dollar debt as specified by the Model, and minimal foreign exchange open positions created by its procurements overseas. Where the currency of a borrowing is not matched with that of the expected cash flows for servicing the debt, the Group would convert its foreign currency exposure resulting from the borrowing to Hong Kong dollar exposure through cross currency swaps. For procurement in foreign currencies, the Group would enter into foreign exchange forward contracts to secure the necessary foreign currencies at pre-determined exchange rates for settlement.

The Group's exposure to US dollars due to its foreign currency borrowings is also offset by the amount of US dollar cash balances, bank deposits and investments that it maintains.

As most of the Group's receivables and payables are denominated in the respective Group companies' functional currencies (Hong Kong dollars, Renminbi, Australian dollars or Swedish Krona) or United States dollars (with which Hong Kong dollars are pegged) and most of its payment commitments denominated in foreign currencies are covered by foreign exchange forward contracts, management does not expect that there will be any significant currency risk associated with them.

34 Derivative Financial Assets and Liabilities *(continued)*

B Financial Risks *(continued)*

(iv) Credit Risk

Credit risk refers to the risk that a counterparty will be unable to pay amounts in full when due. For the Group, this arises mainly from the deposits it maintains and the derivative financial instruments that it has entered into with various banks and counterparties as well as from the Defeasance Securities it procured under the lease out/lease back transaction (note 22E). The Group limits its exposure to credit risk by placing deposits and transacting derivative financial instruments only with financial institutions with acceptable investment grade credit ratings or guarantee, and diversifying its exposure to various counterparties.

All derivative financial instruments are subject to a maximum counterparty limit based on the respective counterparty's credit ratings in accordance with policy approved by the Board. Credit exposure in terms of estimated fair market value of and largest potential loss arising from these instruments based on the "value-at-risk" concept is measured, monitored and controlled against their respective counterparty limits. To further reduce counterparty risk exposure, the Group also applies set-off and netting arrangements across all derivative financial instruments and other financial transactions with the same counterparty.

All deposits and investments are similarly subject to a separate maximum counterparty/issuer limit based on the respective counterparty/issuer's credit ratings and/or status as Hong Kong's note-issuing banks. There is also a limit on the length of time that the Group can maintain a deposit with a counterparty or investment from an issuer based upon the counterparty/issuer's credit ratings. Deposit/investment outstanding and maturity profile are monitored regularly to ensure they are within the limits established for the counterparties/issuers. In addition, the Group actively monitors the credit default swap levels of counterparties/issuers and their daily changes, and may on the basis of the observed levels and other considerations adjust its exposure and/or maximum counterparty/issuer limit to the relevant counterparty.

As at balance sheet date, the maximum exposure to credit risk of the Group with respect to derivative financial assets and bank deposits is represented respectively by the carrying amount of the derivative financial assets and the aggregate amount of deposits on its balance sheet. As at balance sheet date, there was no significant concentration risk to a single counterparty.

In addition, the Company also manages and controls its exposure to credit risks in respect of receivables as stated in note 36.

35 Stores and Spares

	The Group		The Company	
in HK$ million	**2012**	2011	**2012**	2011
Stores and spares expected to be consumed:				
– within 1 year	**792**	695	**601**	570
– after 1 year	**434**	446	**353**	368
	1,226	1,141	**954**	938
Less: Provision for obsolete stock	**(6)**	(6)	**(6)**	(6)
	1,220	1,135	**948**	932

Stores and spares expected to be consumed after 1 year comprise mainly contingency spares and stocks kept to meet cyclical maintenance requirements.

36 Debtors, Deposits and Payments in Advance

	The Group		The Company	
in HK$ million	**2012**	2011	**2012**	2011
Debtors, deposits and payments in advance relate to:				
– Property development projects	**1,849**	1,203	**1,849**	1,203
– Railway subsidiaries outside of Hong Kong	**1,135**	1,204	**–**	–
– Hong Kong operations and others	**1,490**	1,557	**1,409**	1,426
	4,474	3,964	**3,258**	2,629

36 Debtors, Deposits and Payments in Advance *(continued)*

The Group's credit policies in respect of receivables arising from its principal activities are as follows:

(i) The majority of fare revenue from Hong Kong transport operation is collected either through Octopus Cards with daily settlement on the next working day or in cash for other ticket types. A small portion of it is collected through pre-sale agents which settle the amounts due within 21 days.

(ii) Fare revenue from Shenzhen Metro Longhua Line is collected either through Shenzhen Tong Cards with daily settlement on the next working day or in cash for other ticket types.

(iii) Franchise revenue in Melbourne is collected either weekly or monthly depending on the revenue nature. The majority of the franchise revenue in Stockholm is collected in the transaction month with the remainder being collected in the following month.

(iv) Rentals, advertising and telecommunications service fees are billed monthly with due dates ranging from immediately due to 50 days. Tenants of the Group's investment properties and station kiosks are required to pay three months' rental deposit upon the signing of lease agreements.

(v) Amounts receivable under interest rate and currency swap agreements with financial institutions are due in accordance with the terms of the respective agreements.

(vi) Consultancy service incomes are billed monthly for settlement within 30 days upon work completion or on other basis stipulated in the consultancy contracts.

(vii) Debtors in relation to contracts and capital works entrusted to the Group, subject to any agreed retentions, are due within 30 days upon the certification of work in progress.

(viii) Amounts receivable in respect of property development are due in accordance with the terms of relevant development agreements or sale and purchase agreements.

The ageing of debtors is analysed as follows:

	The Group		The Company	
in HK$ million	**2012**	2011	**2012**	2011
Amounts not yet due	**3,373**	2,612	**2,542**	1,831
Overdue by 30 days	**127**	428	**43**	242
Overdue by 60 days	**15**	21	**4**	5
Overdue by 90 days	**9**	8	**–**	6
Overdue by more than 90 days	**13**	20	**4**	2
Total debtors	**3,537**	3,089	**2,593**	2,086
Deposits and payments in advance	**708**	677	**436**	345
Prepaid pension costs	**229**	198	**229**	198
	4,474	3,964	**3,258**	2,629

Included in amounts not yet due as at 31 December 2012 was HK$1,849 million (2011: HK$1,203 million) in respect of property development, comprising receivable on profits distributable based on the terms of the development agreements and sales and purchase agreements, receivable from certain stakeholding funds (note 27C) awaiting finalisation of the respective development accounts as well as other receivables on miscellaneous recoverable expenses.

As at 31 December 2012, all debtors, deposits and payments in advance were expected to be recovered within one year except for amounts relating to deposits and receivables of HK$132 million (2011: HK$279 million) included in Hong Kong operations and others, which were expected to be recovered between one to three years. The nominal values less impairment losses for bad and doubtful debts are not discounted as it is considered that the effect of discounting would not be significant.

Included in debtors, deposits and payments in advance are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	The Group		The Company	
	2012	2011	**2012**	2011
Pound Sterling (in million)	**2**	1	**2**	1
United States dollars (in million)	**11**	9	**10**	9

37 Amounts Due from Related Parties

in HK$ million	The Group 2012	The Group 2011	The Company 2012	The Company 2011
Amounts due from:				
– the HKSAR Government	**698**	248	**698**	248
– KCRC	**14**	20	**14**	20
– non-controlled subsidiaries	**16**	23	**16**	23
– associates	**57**	111	**31**	63
– other subsidiaries of the Company (net of impairment losses)	**–**	–	**7,396**	4,681
	785	402	**8,155**	5,035

As at 31 December 2012, the amount due from HKSAR Government related to the recoverable cost for the advanced works in relation to the Shatin to Central Link, reimbursable costs for the essential public infrastructure works in respect of the West Island Line, South Island Line (East) and Kwun Tong Line Extension projects, reimbursement of the fare revenue difference in relation to the Public Transport Fare Concession Scheme for the Elderly and Eligible Persons with Disabilities, agency fee receivables and reimbursable costs in respect of West Rail property developments (note 27D), as well as receivables and retention for other entrustment and maintenance works.

The amount due from KCRC related to the recoverable cost for certain capital works and property enabling works in accordance with the agreements in relation to the Rail Merger.

The amounts due from non-controlled subsidiaries related to receivables from Octopus Cards Limited.

The amounts due from associates of the Group as at 31 December 2012 included the outstanding balances of loan to Tunnelbanan Teknik Stockholm AB ("TBT"), amounting to HK$36 million (SEK30 million) (2011: HK$56 million or SEK50 million), of which HK$18 million (SEK15 million) (2011: HK$39 million or SEK35 million) bears an interest rate of 3% per annum above the 3-month Stockholm Inter Bank Offer Rate published by the Riksbank with repayment due by 31 December 2013 and the balance amounting to HK$18 million (SEK15 million) (2011: HK$17 million or SEK15 million) bears an interest rate of 4% per annum above the 3-month Stockholm Inter Bank Offer Rate published by the Riksbank with repayment due by 1 November 2017.

All contract retentions on the entrusted works mentioned above were due for release within one year. Except an outstanding balance of loan to TBT of HK$18 million (SEK15 million) that was expected to be settled in 2017, all other amounts due from the HKSAR Government and other related parties were expected to be received within 24 months. The nominal values of amounts due from the HKSAR Government and other related parties are considered not significantly different from their fair values.

38 Cash, Bank Balances and Deposits

in HK$ million	The Group 2012	The Group 2011	The Company 2012	The Company 2011
Deposits with banks and other financial institutions	**16,979**	14,009	**16,284**	13,728
Cash at banks and on hand	**1,685**	2,091	**332**	243
Cash, bank balances and deposits	**18,664**	16,100	**16,616**	13,971
Less: Bank deposits with more than three months to maturity when placed or pledged (note 39D)	**(13,504)**	(12,673)	**(13,250)**	(12,396)
Less: Bank overdrafts (note 39A)	**(55)**	–	**(55)**	–
Cash and cash equivalents in the cash flow statement	**5,105**	3,427	**3,311**	1,575

Included in cash, bank balance and deposits in the balance sheet are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	The Group 2012	The Group 2011	The Company 2012	The Company 2011
Australian dollars (in million)	**7**	5	**7**	5
Euros (in million)	**4**	6	**4**	6
Japanese Yen (in million)	**16**	42	**16**	42
New Taiwan dollars (in million)	**10**	8	**10**	8
Pound Sterling (in million)	**5**	2	**5**	2
Renminbi (in million)	**72**	3	**71**	–
United States dollars (in million)	**1,052**	603	**1,047**	601

39 Loans and Other Obligations

A By Type

The Group

in HK$ million	2012 Carrying amount	2012 Fair value	2012 Repayable amount	2011 Carrying amount	2011 Fair value	2011 Repayable amount
Capital market instruments						
Listed or publicly traded:						
Debt issuance programme notes due during 2014 to 2017 (2011: due in 2014)	**8,986**	**9,365**	**8,930**	4,734	5,038	4,663
	8,986	**9,365**	**8,930**	4,734	5,038	4,663
Unlisted:						
Debt issuance programme notes due during 2013 to 2022 (2011: due during 2012 to 2020)	**9,982**	**11,008**	**9,808**	8,421	9,130	8,180
	9,982	**11,008**	**9,808**	8,421	9,130	8,180
Total capital market instruments	**18,968**	**20,373**	**18,738**	13,155	14,168	12,843
Bank loans	**3,887**	**3,887**	**3,887**	9,663	9,665	9,665
Others	**367**	**493**	**367**	350	469	350
Loans and others	**23,222**	**24,753**	**22,992**	23,168	24,302	22,858
Bank overdrafts	**55**	**55**	**55**	–	–	–
Short-term loans	**300**	**300**	**300**	–	–	–
Total	**23,577**	**25,108**	**23,347**	23,168	24,302	22,858

The Company

in HK$ million	2012 Carrying amount	2012 Fair value	2012 Repayable amount	2011 Carrying amount	2011 Fair value	2011 Repayable amount
Capital market instruments						
Unlisted:						
Debt issuance programme notes due 2018	**456**	**661**	**465**	461	673	465
Bank loans	**810**	**810**	**810**	6,698	6,700	6,700
Others	**359**	**486**	**359**	343	464	343
Loans and others	**1,625**	**1,957**	**1,634**	7,502	7,837	7,508
Bank overdrafts	**55**	**55**	**55**	–	–	–
Short-term loans	**300**	**300**	**300**	–	–	–
Total	**1,980**	**2,312**	**1,989**	7,502	7,837	7,508

Others include non-defeased obligations under lease out/lease back transaction (note 22E).

As at 31 December 2012, the Group had a number of uncommitted facilities with undrawn amounts totalling HK$7,662 million (2011: HK$14,135 million), comprising a debt issuance programme and short-term bank loan facilities.

The fair values are based on the discounted cash flows method which discounts the future contractual cash flows at the current market interest and foreign exchange rates that is available to the Group for similar financial instruments.

The carrying amounts of short-term loans and bank overdrafts approximated their fair values.

39 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	
	2012	2011	**2012**	2011
Australian dollars (in million)	**50**	–	**–**	–
Renminbi (in million)	**1,000**	1,000	**–**	–
United States dollars (in million)	**1,310**	760	**–**	–

The Company

	Before hedging activities		After hedging activities	
	2012	2011	**2012**	2011
United States dollars (in million)	**60**	60	**–**	–

B By Repayment Terms

The Group

	2012				2011			
in HK$ million	Capital market instruments	Bank loans and overdrafts	Others	Total	Capital market instruments	Bank loans and overdrafts	Others	Total
Long-term loans and others								
Amounts repayable beyond 5 years	**3,315**	**3,001**	**359**	**6,675**	2,515	2,862	343	5,720
Amounts repayable within a period of between 2 and 5 years	**6,885**	**432**	**–**	**7,317**	6,863	364	2	7,229
Amounts repayable within a period of between 1 and 2 years	**5,163**	**232**	**4**	**5,399**	3,363	221	3	3,587
Amounts repayable within 1 year	**3,375**	**222**	**4**	**3,601**	102	6,218	2	6,322
	18,738	**3,887**	**367**	**22,992**	12,843	9,665	350	22,858
Bank overdrafts	**–**	**55**	**–**	**55**	–	–	–	–
Short-term loans	**–**	**300**	**–**	**300**	–	–	–	–
	18,738	**4,242**	**367**	**23,347**	12,843	9,665	350	22,858
Less: Unamortised discount/premium/ finance charges outstanding	**(2)**	**–**	**–**	**(2)**	(35)	(2)	–	(37)
Adjustment due to fair value change of financial instruments	**232**	**–**	**–**	**232**	347	–	–	347
Total carrying amount of debt	**18,968**	**4,242**	**367**	**23,577**	13,155	9,663	350	23,168

39 Loans and Other Obligations *(continued)*

B By Repayment Terms *(continued)*

The Company

in HK$ million	**2012** Capital market instruments	Bank loans and overdrafts	Others	Total	2011 Capital market instruments	Bank loans and overdrafts	Others	Total
Long-term loans and others								
Amounts repayable beyond 5 years	**465**	**–**	**359**	**824**	465	–	343	808
Amounts repayable within a period of between 2 and 5 years	**–**	**432**	**–**	**432**	–	322	–	322
Amounts repayable within a period of between 1 and 2 years	**–**	**189**	**–**	**189**	–	189	–	189
Amounts repayable within 1 year	**–**	**189**	**–**	**189**	–	6,189	–	6,189
	465	**810**	**359**	**1,634**	465	6,700	343	7,508
Bank overdrafts	**–**	**55**	**–**	**55**	–	–	–	–
Short-term loans	**–**	**300**	**–**	**300**	–	–	–	–
	465	**1,165**	**359**	**1,989**	465	6,700	343	7,508
Less: Unamortised discount/premium/ finance charges outstanding	**(4)**	**–**	**–**	**(4)**	(5)	(2)	–	(7)
Adjustment due to fair value change of financial instruments	**(5)**	**–**	**–**	**(5)**	1	–	–	1
Total carrying amount of debt	**456**	**1,165**	**359**	**1,980**	461	6,698	343	7,502

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 year ended 31 December 2012 and 2011 comprise:

The Group

in HK$ million	**2012** Principal amount	**2012** Net consideration received	2011 Principal amount	2011 Net consideration received
Debt issuance programme notes	**5,985**	**5,998**	2,206	2,198

The above notes were issued in Hong Kong by a subsidiary, MTR Corporation (C.I.) Limited. The notes issued are unconditionally and irrevocably guaranteed by the Company, and are direct, unsecured, unconditional and unsubordinated to other unsecured and unsubordinated obligations of MTR Corporation (C.I.) Limited. The obligations of the Company under the guarantee are direct, unsecured, unconditional, and unsubordinated to other unsecured and unsubordinated obligations of the Company.

During the year ended 31 December 2012, the Group redeemed HK$102 million of its unlisted debt securities (2011: HK$500 million). During the years ended 31 December 2012 and 2011, the Group did not redeem any of its listed securities.

D Guarantees and Pledges

(i) There were no guarantees given by the HKSAR Government in respect of the loan facilities of the Group as at 31 December 2012 and 2011.

(ii) As at 31 December 2012, MTR Corporation (Shenzhen) Limited, an indirect wholly owned subsidiary of the Company in the Mainland of China, has pledged the fare and non-fare revenues and the benefits of insurance contracts in relation to Phase 2 of Shenzhen Metro Longhua Line as security for the RMB4,000 million (2011: RMB4,000 million) bank loan facility granted to it.

(iii) As at 31 December 2012, Metro Trains Melbourne Pty. Ltd., a 60% owned subsidiary of the Company in Australia, has pledged its bank deposits of the same amount as security for an AUD9 million (2011: AUD13 million) bank loan facility granted to it.

Apart from the 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 2012.

40 Creditors and Accrued Charges

	The Group		The Company	
in HK$ million	**2012**	2011	**2012**	2011
Creditors and accrued charges				
– West Island Line Project	**731**	417	**731**	417
– South Island Line (East) Project	**637**	479	**637**	479
– Kwun Tong Line Extension Project	**244**	188	**244**	188
– Shenzhen Metro Longhua Line Project	**754**	1,183	**–**	–
– Hong Kong property development projects	**643**	681	**643**	681
– Mainland of China property development project	**1,988**	1,950	**–**	–
– Railway subsidiaries outside of Hong Kong	**1,307**	1,337	**–**	–
– Hong Kong operations and others	**7,339**	5,539	**6,729**	5,025
Gross amount due to customers for contract works	**15**	15	**15**	15
Government grant on West Island Line Project un-utilised	**1,461**	4,613	**1,461**	4,613
	15,119	16,402	**10,460**	11,418

In respect of the contract works to which the gross amount due to customers relates, the aggregate amount of contract costs incurred plus recognised profits less recognised losses as at 31 December 2012 was HK$294 million (2011: HK$294 million). The gross amount due to customers for contract works as at 31 December 2012 and 2011 is expected to be settled after one year.

The analysis of creditors by due dates is as follows:

	The Group		The Company	
in HK$ million	**2012**	2011	**2012**	2011
Due within 30 days or on demand	**5,418**	2,765	**1,244**	1,267
Due after 30 days but within 60 days	**2,326**	2,379	**2,276**	1,612
Due after 60 days but within 90 days	**535**	537	**525**	335
Due after 90 days	**2,126**	3,950	**1,899**	1,627
	10,405	9,631	**5,944**	4,841
Rental and other refundable deposits	**2,738**	1,704	**2,672**	1,618
Accrued employee benefits	**515**	454	**383**	346
Government grant on West Island Line Project un-utilised	**1,461**	4,613	**1,461**	4,613
	15,119	16,402	**10,460**	11,418

Creditors and accrued charges were expected to be settled within one year except for HK$2,391 million (2011: HK$1,540 million) included in Hong Kong operations and others which were expected to be settled after one year. The amounts due after one year are mainly rental deposits received from investment property and station kiosk tenants and advance income received from telecommunication service operators, majority of which are due to be repaid within three years. The Group considers the effect of discounting these deposits would be immaterial.

The nominal values of creditors and accrued charges are not significantly different from their fair values.

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:

	The Group		The Company	
	2012	2011	**2012**	2011
Australian dollars (in million)	**2**	2	**1**	2
Euros (in million)	**4**	3	**4**	3
Japanese Yen (in million)	**75**	83	**75**	83
Pound Sterling (in million)	**2**	1	**2**	1
Renminbi (in million)	**1,578**	1,577	**–**	–
United States dollars (in million)	**19**	17	**1**	2

41 Contract Retentions

The Group

in HK$ million	Due for release within 12 months	Due for release after 12 months	Total
2012			
Hong Kong railway extension projects	**22**	**573**	**595**
Hong Kong businesses	**73**	**72**	**145**
Mainland of China and international subsidiaries	**205**	**3**	**208**
	300	**648**	**948**
2011			
Hong Kong railway extension projects	2	300	302
Hong Kong businesses	60	63	123
Mainland of China and international subsidiaries	60	158	218
	122	521	643

The Company

in HK$ million	Due for release within 12 months	Due for release after 12 months	Total
2012			
Hong Kong railway extension projects	**22**	**573**	**595**
Hong Kong businesses	**73**	**71**	**144**
	95	**644**	**739**
2011			
Hong Kong railway extension projects	2	300	302
Hong Kong businesses	60	61	121
	62	361	423

The effect of discounting these contract retentions is considered immaterial as these amounts are substantially due to be released within 24 months.

42 Amounts Due to Related Parties

	The Group		The Company	
in HK$ million	**2012**	2011	**2012**	2011
Amounts due to:				
– the HKSAR Government	**27**	31	**27**	31
– KCRC	**1,008**	1,432	**1,008**	1,432
– an associate	**26**	18	**–**	–
– subsidiaries	**–**	–	**17,726**	11,781
	1,061	1,481	**18,761**	13,244

The amount due to the HKSAR Government relates to land administrative fees in relation to railway extensions.

The amount due to KCRC as at 31 December 2012 relates to mandatory payments and related interest payable to KCRC in respect of the property development site along the Light Rail as well as the accrued portion of the fixed annual payment and variable annual payment that is expected to be settled within 12 months.

The amount due to an associate relates to rolling stock maintenance service fees payable to Tunnelbanan Teknik Stockholm AB and is expected to be settled within 12 months.

The amount due to the Company's subsidiaries included HK$17,468 million (2011: HK$11,641 million) due to MTR Corporation (C.I.) Limited in respect of the proceeds from and accrued interest on bonds and notes issued by the subsidiary and on-lent to the Company for its general corporate purposes with specified repayment dates and interest rates (note 39C). The amount is stated at fair value. The remaining balance of the amount due to subsidiaries is non-interest bearing and has not been discounted as it does not have any fixed repayment terms and is not material. Out of the total amount due to subsidiaries as at 31 December 2012, HK$15,080 million (2011: HK$11,328 million) is expected to be settled after one year.

43 Obligations under Service Concession

Movements of the Group's and the Company's obligations under service concessions are as follows:

in HK$ million	The Group 2012	The Group 2011	The Company 2012	The Company 2011
Balance as at 1 January	**10,724**	10,749	**10,557**	10,592
Add: Net increase in interest payable	**2**	3	**–**	–
Less: Amount repaid/payable during the year	**(37)**	(35)	**(37)**	(35)
Exchange difference	**1**	7	**–**	–
Balance as at 31 December	**10,690**	10,724	**10,520**	10,557

The outstanding balances as at 31 December 2012 and 2011 are repayable as follows:

The Group

in HK$ million	2012 Present value of payment obligations	2012 Interest expense relating to future periods	2012 Total payment obligations	2011 Present value of payment obligations	2011 Interest expense relating to future periods	2011 Total payment obligations
Amounts repayable beyond 5 years	**10,462**	**19,825**	**30,287**	10,510	20,531	31,041
Amounts repayable within a period of between 2 and 5 years	**146**	**2,123**	**2,269**	137	2,132	2,269
Amounts repayable within a period of between 1 and 2 years	**42**	**714**	**756**	40	716	756
Amounts repayable within 1 year	**40**	**716**	**756**	37	718	755
	10,690	**23,378**	**34,068**	10,724	24,097	34,821

The Company

in HK$ million	2012 Present value of payment obligations	2012 Interest expense relating to future periods	2012 Total payment obligations	2011 Present value of payment obligations	2011 Interest expense relating to future periods	2011 Total payment obligations
Amounts repayable beyond 5 years	**10,292**	**19,645**	**29,937**	10,343	20,344	30,687
Amounts repayable within a period of between 2 and 5 years	**146**	**2,104**	**2,250**	137	2,113	2,250
Amounts repayable within a period of between 1 and 2 years	**42**	**708**	**750**	40	710	750
Amounts repayable within 1 year	**40**	**710**	**750**	37	713	750
	10,520	**23,167**	**33,687**	10,557	23,880	34,437

44 Loan from Holders of Non-controlling Interests

Loan from holders of non-controlling interests represents that portion of total shareholder loan of AUD48.75 million (HK$392 million) granted to Metro Trains Melbourne Pty. Ltd. ("MTM") by the holders of its non-controlling interests. The loan carries an interest rate of 7.5% per annum and is repayable at the discretion of MTM or on the expiry of the operation and maintenance franchise on 29 November 2017, whichever is earlier.

45 Deferred Income

Movements of deferred income are as follows:

The Group

in HK$ million	Balance at 1 January	Amount received during the year	Offset against development in progress	Amount recognised in profit and loss account	Exchange difference	Balance at 31 December
2012						
Deferred income on property development (note 27B)	**68**	**–**	**(8)**	**–**	**–**	**60**
Deferred income on transfer of assets from customers	**47**	**12**	**–**	**(10)**	**–**	**49**
Deferred income on government subsidy for Shenzhen Metro Longhua Line operation	**288**	**637**	**–**	**(555)**	**9**	**379**
	403	**649**	**(8)**	**(565)**	**9**	**488**
2011						
Deferred income on property development (note 27B)	568	–	(32)	(468)	–	68
Deferred income on transfer of assets from customers	37	19	–	(9)	–	47
Deferred income on government subsidy for Shenzhen Metro Longhua Line operation	–	638	–	(349)	(1)	288
	605	657	(32)	(826)	(1)	403

The Company

in HK$ million	Balance at 1 January	Amount received during the year	Offset against development in progress	Amount recognised in profit and loss account	Exchange difference	Balance at 31 December
2012						
Deferred income on property development (note 27B)	**68**	**–**	**(8)**	**–**	**–**	**60**
2011						
Deferred income on property development (note 27B)	568	–	(32)	(468)	–	68

46 Income Tax in the Balance Sheet

A Current taxation in the consolidated balance sheet comprised provision for Hong Kong Profits Tax for the Company and certain subsidiaries for the year ended 31 December 2012, chargeable at Hong Kong Profits Tax Rate at 16.5% (2011: 16.5%) and after netting off provisional tax paid, and Mainland of China and overseas tax chargeable at the appropriate current rates of taxation ruling in the relevant countries.

	The Group		The Company	
in HK$ million	**2012**	2011	**2012**	2011
Provision for Hong Kong Profits Tax for the year (note 15)	**1,469**	1,619	**1,452**	1,604
Hong Kong Provisional Profits Tax paid	**(1,113)**	(1,035)	**(1,100)**	(1,022)
	356	584	**352**	582
Balance relating to Mainland of China and overseas tax	**50**	13	**–**	–
	406	597	**352**	582

46 Income Tax in the Balance Sheet *(continued)*

B Deferred Tax Assets and Liabilities Recognised

The components of deferred tax assets and liabilities recognised in the balance sheet and the movements during the year are as follows:

The Group

	Deferred tax arising from					
in HK$ million	Depreciation allowances in excess of related depreciation	Revaluation of properties	Provision and other temporary differences	Cash flow hedges	Tax losses	Total
2012						
Balance as at 1 January 2012, as previously reported	**8,981**	**5,977**	**153**	**(17)**	**(16)**	**15,078**
Effect of adoption of the Amendments to HKAS 12	**–**	**(5,604)**	**–**	**–**	**–**	**(5,604)**
Balance as at 1 January 2012, as restated	**8,981**	**373**	**153**	**(17)**	**(16)**	**9,474**
Charged/(credited) to consolidated profit and loss account	**350**	**–**	**(65)**	**–**	**4**	**289**
Charged to reserves	**–**	**67**	**–**	**5**	**–**	**72**
Exchange difference	**1**	**–**	**–**	**–**	**–**	**1**
Balance as at 31 December 2012	**9,332**	**440**	**88**	**(12)**	**(12)**	**9,836**
2011 (Restated)						
Balance as at 1 January 2011, as previously reported	8,669	5,044	154	(15)	(7)	13,845
Effect of adoption of the Amendments to HKAS 12	–	(4,764)	–	–	–	(4,764)
Balance as at 1 January 2011, as restated	8,669	280	154	(15)	(7)	9,081
Charged/(credited) to consolidated profit and loss account, as restated	316	–	(1)	–	(9)	306
Charged/(credited) to reserves	–	93	–	(2)	–	91
Exchange difference	(4)	–	–	–	–	(4)
Balance as at 31 December 2011, as restated	8,981	373	153	(17)	(16)	9,474

The Company

	Deferred tax arising from					
in HK$ million	Depreciation allowances in excess of related depreciation	Revaluation of properties	Provision and other temporary differences	Cash flow hedges	Tax losses	Total
2012						
Balance as at 1 January 2012, as previously reported	**8,925**	**5,982**	**141**	**(17)**	**–**	**15,031**
Effect of adoption of the Amendments to HKAS 12	**–**	**(5,609)**	**–**	**–**	**–**	**(5,609)**
Balance as at 1 January 2012, as restated	**8,925**	**373**	**141**	**(17)**	**–**	**9,422**
Charged/(credited) to profit and loss account	**345**	**–**	**(60)**	**–**	**–**	**285**
Charged to reserves	**–**	**67**	**–**	**5**	**–**	**72**
Balance as at 31 December 2012	**9,270**	**440**	**81**	**(12)**	**–**	**9,779**
2011 (Restated)						
Balance as at 1 January 2011, as previously reported	8,651	5,051	153	(15)	–	13,840
Effect of adoption of the Amendments to HKAS 12	–	(4,771)	–	–	–	(4,771)
Balance as at 1 January 2011, as restated	8,651	280	153	(15)	–	9,069
Charged/(credited) to profit and loss account, as restated	274	–	(12)	–	–	262
Charged/(credited) to reserves	–	93	–	(2)	–	91
Balance as at 31 December 2011, as restated	8,925	373	141	(17)	–	9,422

46 Income Tax in the Balance Sheet *(continued)*

B Deferred Tax Assets and Liabilities Recognised *(continued)*

	The Group		The Company	
in HK$ million	**2012**	2011 (Restated)	**2012**	2011 (Restated)
Net deferred tax assets recognised on the balance sheet	**(21)**	(24)	**–**	–
Net deferred tax liabilities recognised on the balance sheet	**9,857**	9,498	**9,779**	9,422
	9,836	9,474	**9,779**	9,422

C The Group has not recognised deferred tax assets in respect of some of its subsidiaries' cumulative tax losses of HK$254 million (2011: HK$281 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.

47 Share Capital and Capital Management

A Share Capital, Share Premium and Capital Reserve

in HK$ million	**2012**	2011
Authorised:		
6,500,000,000 shares of HK$1.00 each	**6,500**	6,500
Issued and fully paid:		
5,793,196,650 shares (2011: 5,784,871,250 shares) of HK$1.00 each	**5,793**	5,785
Share premium	**11,300**	11,089
Capital reserve	**27,188**	27,188
	44,281	44,062

Pursuant to the Articles of Association of the Company, the capital reserve can only be applied in paying up in full unissued shares to be allotted and distributed as fully paid bonus shares to the shareholders of the Company.

Share premium represents the amount by which the issue price of shares exceeds the par value of those shares. The application of the share premium account is governed by section 48B of the Hong Kong Companies Ordinance.

New shares issued and fully paid up during the year comprise:

			Proceeds received/Transfer from employee share-based capital reserve		
	Number of shares	Option price	Share capital account	Share premium account	Total
		HK$	HK$ million	HK$ million	HK$ million
Employee share options exercised					
– New Joiners Share Option Scheme	**31,500**	**19.732**	**–**	**1**	**1**
– 2007 Share Option Scheme	**4,516,400**	**18.30**	**5**	**92**	**97**
	75,000	**24.50**	**–**	**2**	**2**
	373,000	**26.52**	**–**	**11**	**11**
	1,715,000	**26.85**	**2**	**53**	**55**
	1,175,000	**27.60**	**1**	**37**	**38**
	30,000	**27.73**	**–**	**1**	**1**
	409,500	**28.84**	**–**	**14**	**14**
	8,325,400		**8**	**211**	**219**

An analysis of the Company's outstanding share options as at 31 December 2012 are disclosed in note 50.

47 Share Capital and Capital Management *(continued)*

B Capital Management

The Group's primary objectives in managing capital are to safeguard its ability to continue as a going concern, and to generate sufficient profit to maintain growth and provide an adequate return to its shareholders.

The Group manages the amount of capital in proportion to risk, and makes adjustments to its capital structure through the amount of dividend payment to shareholders, issuance of scrip and new shares, and managing its debt portfolio in conjunction with projected financing requirement. The Financial Secretary Incorporated of the HKSAR Government is the majority shareholder of the Company holding 4,434,552,207 shares as at 31 December 2012, representing 76.5% 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 attributable to shareholders of the Company, where net borrowings are represented by the aggregate of loans and other obligations, bank overdrafts, obligations under service concession and loan from holders of non-controlling interests net of cash and cash equivalents and bank medium term notes. The Group's net debt-to-equity ratios over the past years had been trending downward since the Rail Merger from 46.5% (restated) at 31 December 2007 to 11.4% (restated) at 31 December 2011 and 10.9% at 31 December 2012.

Octopus Cards Limited is subject to a prescribed ratio of total capital to total risk-weighted assets in respect of its exposure to operational risk as required by the Hong Kong Monetary Authority. 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. Metro Trains Melbourne Pty. Ltd. is required to maintain total shareholders' funds at a specified amount in accordance with the franchise agreement. MTR Stockholm AB is required to maintain total shareholders' fund at or above 50% of its 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 2012, 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.

48 Other Reserves

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

in HK$ million	Fixed assets revaluation reserve	Hedging reserve	Employee share-based capital reserve	Retained profits	Total other reserves
2012					
Balance as at 1 January 2012, as previously reported	**1,888**	**(90)**	**201**	**81,191**	**83,190**
Effect of adoption of the Amendments to HKAS 12	**–**	**–**	**–**	**5,609**	**5,609**
Balance as at 1 January 2012, as restated	**1,888**	**(90)**	**201**	**86,800**	**88,799**
2011 final dividend	**–**	**–**	**–**	**(2,951)**	**(2,951)**
2012 interim dividend	**–**	**–**	**–**	**(1,447)**	**(1,447)**
Employee share-based payments	**–**	**–**	**56**	**–**	**56**
Employee share options exercised	**–**	**–**	**(33)**	**–**	**(33)**
Employee share options forfeited	**–**	**–**	**(5)**	**5**	**–**
Total comprehensive income for the year	**339**	**23**	**–**	**13,209**	**13,571**
Balance as at 31 December 2012	**2,227**	**(67)**	**219**	**95,616**	**97,995**
2011 (Restated)					
Balance as at 1 January 2011, as previously reported	1,417	(78)	102	70,815	72,256
Effect of adoption of the Amendments to HKAS 12	–	–	–	4,771	4,771
Balance as at 1 January 2011, as restated	1,417	(78)	102	75,586	77,027
2010 final dividend	–	–	–	(2,598)	(2,598)
2011 interim dividend	–	–	–	(1,446)	(1,446)
Employee share-based payments	–	–	110	–	110
Employee share options exercised	–	–	(6)	–	(6)
Employee share options forfeited	–	–	(5)	5	–
Total comprehensive income for the year, as restated	471	(12)	–	15,253	15,712
Balance as at 31 December 2011, restated	1,888	(90)	201	86,800	88,799

48 Other Reserves *(continued)*

The fixed assets revaluation reserve is used to deal with the surpluses or deficits arising from the revaluation of self-occupied land and buildings (note 2F(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 2T(ii).

The employee share-based capital reserve comprises the fair value of share options granted which are yet to be exercised, as explained in the accounting policy under note 2U(iii). The amount will either be transferred to the share premium account when the option is exercised, or be released directly to retained profits if the option is expired or forfeited.

The exchange reserve comprises all foreign exchange differences arising from the translation of the accounts of foreign enterprises. The reserve is dealt with in accordance with the accounting policy set out in note 2CC.

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$37,691 million (2011: HK$33,991 million as restated) included in retained profits are non-distributable as they do not constitute realised profits. As at 31 December 2012, the Company considers that the total amount of reserves available for distribution to equity shareholders amounted to HK$57,858 million (2011: HK$52,719 million).

Included in the Group's retained profits as at 31 December 2012 is an amount of HK$656 million (2011: HK$665 million), being the retained profits attributable to the non-controlled subsidiaries and associates.

49 Cash Generated from Operations

Reconciliation of operating profit before property developments, depreciation, amortisation and variable annual payment to cash generated from operations is as follows:

in HK$ million	**2012**	2011
Operating profit before property developments, depreciation, amortisation and variable annual payment	**13,083**	12,124
Adjustments for:		
– Decrease in provision for obsolete stock	**–**	(2)
– Loss on disposal of fixed assets	**29**	32
– Amortisation of deferred income from government subsidy for Shenzhen Metro Longhua Line operation	**–**	(62)
– Amortisation of deferred income from transfers of assets from customers	**(10)**	(9)
– (Increase)/decrease in fair value of derivative instruments	**(11)**	8
– Unrealised (gain)/loss on revaluation of investment in securities	**(6)**	4
– Employee share-based payment expenses	**59**	113
– Exchange loss/(gain)	**7**	(8)
Operating profit from recurrent businesses before working capital changes	**13,151**	12,200
Decrease/(increase) in debtors, deposits and payments in advance	**107**	(395)
Increase in stores and spares	**(81)**	(72)
Increase in creditors and accrued charges	**1,524**	756
Cash generated from operations	**14,701**	12,489

50 Share-based Payments

A Equity-settled Share-based Payments

The Group granted equity-settled share options to its Members of the Executive Directorate and certain employees under share option schemes. As at 31 December 2012, the Company maintained two share option schemes, namely, the New Joiners Share Option Scheme and the 2007 Share Option Scheme. Details of the schemes are as follows:

(i) New Joiners Share Option Scheme

In May 2002, the New Joiners Share Option Scheme (the "New Option Scheme") was adopted at the 2002 Annual General Meeting to provide share options to new members of the top and senior management of the Company who did not participate in the Pre-IPO Option Scheme (which expired and the options were lapsed in 2010). Under the Rules of the New Option Scheme, a maximum of 5,056,431 shares, which represent 0.1% of the issued share capital of the Company as at 31 December 2012, may be issued pursuant to the exercise of options granted under the New Option Scheme. Options granted will be evenly vested in respect of their underlying shares over a period of three years from the date on which the relevant option is offered. The exercise price of any option granted under the New Option Scheme is to be determined by the Company upon the offer of grant of the option and the exercise price should not be less than the greatest of (i) the average closing price of an MTR share for the five business days immediately preceding the day of offer of such option; (ii) the closing price of an MTR share on the day of offer of such option, which must be a business day; and (iii) the nominal value of an MTR share. The New Option Scheme expired on 16 May 2007 and no options can be granted under this Scheme on or after that date.

The following table summarises the outstanding share options granted under the New Option Scheme since inception:

Date of grant	Number of share options	Exercise price HK$	Exercisable period
23 September 2005	213,000	15.97	on or prior to 9 September 2015
15 May 2006	22,000	20.66	on or prior to 25 April 2016
5 October 2006	62,500	19.732	on or prior to 29 September 2016

Movements in the number of share options outstanding and their related weighted average exercise prices were as follows:

	2012		2011	
	Number of share options	Weighted average exercise price HK$	Number of share options	Weighted average exercise price HK$
Outstanding at 1 January	**329,000**	**17.377**	1,121,200	14.581
Exercised during the year	**(31,500)**	**19.732**	(792,200)	13.420
Outstanding at 31 December	**297,500**	**17.128**	329,000	17.377
Exercisable at 31 December	**297,500**	**17.107**	329,000	17.358

The weighted average closing price in respect of the share options exercised during the year was HK$30.050 (2011: HK$27.470).

Share options outstanding at 31 December 2012 had the following exercise prices and remaining contractual lives:

	2012		2011	
Exercise price	Number of share options	Remaining contractual life years	Number of share options	Remaining contractual life years
HK$15.97	**213,000**	**2.69**	213,000	3.69
HK$20.66	**22,000**	**3.32**	22,000	4.32
HK$19.732	**62,500**	**3.75**	94,000	4.75
	297,500		329,000	

50 Share-based Payments *(continued)*

A Equity-settled Share-based Payments *(continued)*

(ii) 2007 Share Option Scheme

Following the expiry of the New Option Scheme in May 2007, the 2007 Share Option Scheme (the "2007 Option Scheme") was submitted and approved at the 2007 Annual General Meeting to enhance the Company's ability to attract the best available personnel, to retain and motivate critical and key employees, to align their interest to the long-term success of the Company and to provide them with fair and market competitive remuneration. Under the Rules of the 2007 Option Scheme, a maximum of 277,461,072 shares, which represent 4.8% of the issued share capital of the Company as at 31 December 2012, 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.

As at 31 December 2012, the following awards of share options were offered to Members of the Executive Directorate and selected employees of the Company under the 2007 Option Scheme:

Awards of share options	Date of offer	Number of share options offered and accepted	Date of acceptance
2008 Award	10 December 2007	8,273,000	11 December 2007 to 7 January 2008
	26 March 2008	2,749,000	28 March 2008 to 23 April 2008
2009 Award	8 December 2008	12,712,000	8 December 2008 to 30 December 2008
	12 June 2009	345,000	18 June 2009 to 9 July 2009
2010 Award	8 December 2009	15,718,000	9 December 2009 to 22 December 2009
	28 June 2010	355,000	21 July 2010
2011 Award	16 December 2010	15,546,500	16 December 2010 to 23 December 2010
	27 June 2011	215,000	7 July 2011
2012 Award	23 March 2012	16,917,000	30 March 2012

The following table summarises the outstanding share options as at 31 December 2012 granted under the 2007 Option Scheme since inception:

Date of grant	Number of share options	Exercise price HK$	Exercisable period
2008 Award			
11 December 2007	45,000	27.60	on or prior to 10 December 2014
12 December 2007	1,333,000	27.60	on or prior to 10 December 2014
13 December 2007	1,605,000	27.60	on or prior to 10 December 2014
14 December 2007	550,000	27.60	on or prior to 10 December 2014
15 December 2007	88,000	27.60	on or prior to 10 December 2014
17 December 2007	635,000	27.60	on or prior to 10 December 2014
18 December 2007	230,000	27.60	on or prior to 10 December 2014
19 December 2007	80,000	27.60	on or prior to 10 December 2014
20 December 2007	190,000	27.60	on or prior to 10 December 2014
22 December 2007	35,000	27.60	on or prior to 10 December 2014
24 December 2007	118,000	27.60	on or prior to 10 December 2014
28 December 2007	35,000	27.60	on or prior to 10 December 2014
31 December 2007	130,000	27.60	on or prior to 10 December 2014
2 January 2008	35,000	27.60	on or prior to 10 December 2014
3 January 2008	40,000	27.60	on or prior to 10 December 2014
7 January 2008	80,000	27.60	on or prior to 10 December 2014
28 March 2008	180,000	26.52	on or prior to 26 March 2015
31 March 2008	230,000	26.52	on or prior to 26 March 2015
1 April 2008	204,000	26.52	on or prior to 26 March 2015
2 April 2008	236,000	26.52	on or prior to 26 March 2015
3 April 2008	100,000	26.52	on or prior to 26 March 2015
4 April 2008	23,000	26.52	on or prior to 26 March 2015
5 April 2008	17,000	26.52	on or prior to 26 March 2015
7 April 2008	268,000	26.52	on or prior to 26 March 2015
8 April 2008	96,000	26.52	on or prior to 26 March 2015
9 April 2008	60,000	26.52	on or prior to 26 March 2015

50 Share-based Payments *(continued)*

A Equity-settled Share-based Payments *(continued)*

Date of grant	Number of share options	Exercise price HK$	Exercisable period
10 April 2008	58,000	26.52	on or prior to 26 March 2015
11 April 2008	94,000	26.52	on or prior to 26 March 2015
12 April 2008	48,000	26.52	on or prior to 26 March 2015
14 April 2008	40,000	26.52	on or prior to 26 March 2015
15 April 2008	34,000	26.52	on or prior to 26 March 2015
16 April 2008	40,000	26.52	on or prior to 26 March 2015
17 April 2008	107,000	26.52	on or prior to 26 March 2015
18 April 2008	15,000	26.52	on or prior to 26 March 2015
19 April 2008	25,000	26.52	on or prior to 26 March 2015
21 April 2008	66,000	26.52	on or prior to 26 March 2015
23 April 2008	19,000	26.52	on or prior to 26 March 2015
2009 Award			
8 December 2008	45,000	18.30	on or prior to 8 December 2015
9 December 2008	452,000	18.30	on or prior to 8 December 2015
10 December 2008	986,400	18.30	on or prior to 8 December 2015
11 December 2008	1,129,000	18.30	on or prior to 8 December 2015
12 December 2008	714,500	18.30	on or prior to 8 December 2015
13 December 2008	40,500	18.30	on or prior to 8 December 2015
14 December 2008	45,000	18.30	on or prior to 8 December 2015
15 December 2008	555,200	18.30	on or prior to 8 December 2015
16 December 2008	361,500	18.30	on or prior to 8 December 2015
17 December 2008	348,000	18.30	on or prior to 8 December 2015
18 December 2008	233,000	18.30	on or prior to 8 December 2015
19 December 2008	88,000	18.30	on or prior to 8 December 2015
20 December 2008	19,000	18.30	on or prior to 8 December 2015
22 December 2008	288,500	18.30	on or prior to 8 December 2015
23 December 2008	162,000	18.30	on or prior to 8 December 2015
24 December 2008	197,000	18.30	on or prior to 8 December 2015
25 December 2008	45,000	18.30	on or prior to 8 December 2015
29 December 2008	59,000	18.30	on or prior to 8 December 2015
30 December 2008	19,000	18.30	on or prior to 8 December 2015
18 June 2009	130,000	24.50	on or prior to 12 June 2016
6 July 2009	45,000	24.50	on or prior to 12 June 2016
2010 Award			
9 December 2009	520,000	26.85	on or prior to 8 December 2016
10 December 2009	2,166,500	26.85	on or prior to 8 December 2016
11 December 2009	1,951,000	26.85	on or prior to 8 December 2016
12 December 2009	429,000	26.85	on or prior to 8 December 2016
13 December 2009	12,500	26.85	on or prior to 8 December 2016
14 December 2009	2,136,500	26.85	on or prior to 8 December 2016
15 December 2009	2,248,500	26.85	on or prior to 8 December 2016
16 December 2009	1,170,000	26.85	on or prior to 8 December 2016
17 December 2009	893,000	26.85	on or prior to 8 December 2016
18 December 2009	314,000	26.85	on or prior to 8 December 2016
19 December 2009	70,000	26.85	on or prior to 8 December 2016
20 December 2009	75,000	26.85	on or prior to 8 December 2016
21 December 2009	367,000	26.85	on or prior to 8 December 2016
22 December 2009	172,000	26.85	on or prior to 8 December 2016
21 July 2010	190,000	27.73	on or prior to 28 June 2017
2011 Award			
16 December 2010	194,000	28.84	on or prior to 16 December 2017
17 December 2010	5,118,500	28.84	on or prior to 16 December 2017
18 December 2010	673,000	28.84	on or prior to 16 December 2017
19 December 2010	155,000	28.84	on or prior to 16 December 2017
20 December 2010	4,357,000	28.84	on or prior to 16 December 2017
21 December 2010	2,757,000	28.84	on or prior to 16 December 2017
22 December 2010	934,500	28.84	on or prior to 16 December 2017
23 December 2010	144,000	28.84	on or prior to 16 December 2017
7 July 2011	215,000	26.96	on or prior to 27 June 2018
2012 Award			
30 March 2012	16,672,500	27.48	on or prior to 23 March 2019

50 Share-based Payments *(continued)*

A Equity-settled Share-based Payments *(continued)*

Movements in the number of share options outstanding and their related weighted average exercise prices were as follows:

	2012		2011	
	Number of share options	Weighted average exercise price HK$	Number of share options	Weighted average exercise price HK$
Outstanding at 1 January	**49,843,500**	**25.756**	52,568,500	25.646
Granted during the year	**16,917,000**	**27.480**	215,000	26.960
Exercised during the year	**(8,293,900)**	**22.366**	(1,172,500)	20.128
Forfeited during the year	**(1,379,500)**	**27.403**	(1,767,500)	26.368
Outstanding at 31 December	**57,087,100**	**26.720**	49,843,500	25.756
Exercisable at 31 December	**35,425,100**	**26.074**	34,417,000	24.683

Share options outstanding at 31 December 2012 had the following exercise prices and remaining contractual lives:

	2012		2011	
Exercise price	Number of share options	Remaining contractual life years	Number of share options	Remaining contractual life years
HK$27.60	**5,229,000**	**2**	6,484,000	3
HK$26.52	**1,960,000**	**2**	2,338,000	3
HK$18.30	**5,787,600**	**3**	10,367,000	4
HK$24.50	**175,000**	**3**	250,000	4
HK$26.85	**12,525,000**	**4**	14,618,000	5
HK$27.73	**190,000**	**4**	330,000	5
HK$28.84	**14,333,000**	**5**	15,241,500	6
HK$26.96	**215,000**	**5**	215,000	6
HK$27.48	**16,672,500**	**6**	–	–
	57,087,100		49,843,500	

According to the Black-Scholes pricing model, the fair values of options granted during the year ended 31 December 2012 were as follows:

		Inputs into the Black-Scholes pricing model					
Date of grant	Fair value of options granted HK$	Share price immediately before grant date HK$	Exercise price HK$	Expected volatility	Expected life years	Risk-free interest rate %	Expected dividend per share HK$
30 March 2012	**3.08**	**27.50**	**27.48**	**0.22**	**3.5**	**0.37**	**0.76**

When computing fair values of the options granted, expected volatility was determined by calculating the historical volatility of the Group's share price over the previous 3.5 years and the expected life adopted was assumed to be 3.5 years after granting of the options, with expected dividends based on historical dividends. In addition, vesting terms under the grants have been taken into account whilst no market conditions associated with the share option grants have been considered. Changes in the subjective input assumptions could materially affect the fair value estimate.

(iii) During the year ended 31 December 2012, the equity-settled share-based payments recognised as an expense amounted to HK$55.9 million (2011: HK$109.9 million), all relating to the 2007 Option Scheme.

50 Share-based Payments *(continued)*

B Cash-settled Share-based Payments

(i) Jay H Walder is entitled to an equivalent value in cash of 300,000 shares in the Company following 30 June 2014, being the date on which his initial term of office is expected to expire (35% of which shall be deemed to be earned at 31 October 2013 subject to certain conditions specified in his employment contract). For the year ended 31 December 2012, HK$3.5 million (2011: HK$0.5 million) was recorded as share-based payment expense. The fair value of the outstanding entitlement is calculated based on the closing price of the Company's shares at year-end. As at 31 December 2012, the fair value of these shares was HK$30.5 per share.

(ii) C K Chow did not participate in the Company's New Joiners Share Option Scheme. Pursuant to the completion of his two-year contract which expired on 31 December 2011, he was paid on 4 January 2012 an equivalent value in cash of 222,161 shares in the Company, amounting to HK$5.6 million (calculated at a price of HK$25.0125 per share derived in accordance with the terms of the grant by reference to the average closing price of the Company's shares on the 20 business days immediately preceding 31 December 2011). For the year ended 31 December 2011, HK$2.3 million was recorded as share-based payment expense, measured on the same basis as described in note 50B(i) above.

51 Retirement Schemes

The Group operates a number of retirement schemes in Hong Kong, 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 operates five retirement schemes under trust in Hong Kong, including the MTR Corporation Limited Retirement Scheme (the "MTR Retirement Scheme"), the MTR Corporation Limited Retention Bonus Scheme (the "MTR RBS"), the MTR Corporation Limited Provident Fund Scheme (the "MTR Provident Fund Scheme") and two Mandatory Provident Fund ("MPF") schemes, the "MTR MPF Scheme" and the "KCRC MPF Scheme".

Currently, new eligible employees can choose between the MTR Provident Fund Scheme and the MTR MPF Scheme while the MTR MPF Scheme covers employees who did not opt for and who are not eligible to join the MTR Provident Fund Scheme.

(i) MTR Retirement Scheme

The MTR Retirement Scheme is a defined benefit scheme registered under the Occupational Retirement Schemes Ordinance (Chapter 426 of the Laws of Hong Kong) ("ORSO") and has been granted with an MPF Exemption by the Mandatory Provident Fund Schemes Authority ("MPFA").

The MTR Retirement Scheme has been closed to new employees since 31 March 1999. It provides benefits based on the greater of a multiple of final salary times the number of years of service rendered and a factor times the accumulated member contributions with investment returns. Members' contributions to the MTR Retirement Scheme are based on fixed percentages of base salary. The Company's contributions are determined with reference to an actuarial valuation carried out by an independent actuarial consulting firm. As at 31 December 2012, the total membership was 4,832 (2011: 4,979). In 2012, members contributed HK$72 million (2011: HK$70 million) and the Company contributed HK$184 million (2011: HK$120 million) to the MTR Retirement Scheme. The net asset value of the MTR Retirement Scheme as at 31 December 2012 was HK$8,709 million (2011: HK$7,794 million).

Actuarial valuation as at 31 December 2011 and 2012 to determine the accounting obligations in accordance with HKAS 19, *Employee benefits*, was carried out by an independent actuarial consulting firm, Towers Watson, using the Projected Unit Credit Method. The results of the valuation are shown in note 52.

Actuarial valuation as at 31 December 2011 and 2012 to determine the cash funding requirements was also carried out by Towers Watson using the Attained Age Method. The principal actuarial assumptions used included a long-term rate of investment return net of salary increases of 1.9% (2011: 1.3%) per annum, together with appropriate allowances for expected rates of mortality, turnover, redundancy and retirement. Towers Watson confirmed that, as at the valuation date:

(a) the MTR Retirement Scheme was solvent, with assets more than adequate to cover the aggregate value of members' vested benefits had all members left the MTR Retirement Scheme; and

(b) on the assumption that the MTR Retirement Scheme continued in force, the value of assets was more than sufficient to cover the aggregate past service liability, with a funding level of 109.1% (2011: 105.5%).

(ii) MTR RBS

The MTR RBS is a defined benefit scheme registered under the ORSO. It is a top-up scheme to supplement the MTR Retirement Scheme for employees who are classified by the Company as staff working on designated projects and who are not on gratuity terms. It provides eligible members with benefits only in the event of redundancy for service accrued up to 31 December 2002, offset by any benefits payable from the MTR Retirement Scheme and other applicable schemes. As at 31 December 2012, MTR RBS had 305 members (2011: 310), of which 31 of them (2011: 71) were eligible for benefits.

The MTR RBS is non-contributory for members. The Company's contributions are determined with reference to an actuarial valuation carried out by an independent actuarial consulting firm. During 2011 and 2012, the Company was not required to make any contribution to the MTR RBS. The net asset value of the MTR RBS as at 31 December 2012 was HK$1 million (2011: HK$12 million).

51 Retirement Schemes *(continued)*

A Retirement Schemes Operated by the Company in Hong Kong *(continued)*

Actuarial valuation as at 31 December 2011 and 2012 to determine the accounting obligations in accordance with HKAS 19, *Employee benefits*, was carried out by Towers Watson using the Projected Unit Credit Method. The results of the valuations are shown in note 52.

In accordance with the terms of the trust deed and pursuant to the actuarial valuation conducted as at 30 June 2012 by Towers Watson using the Attained Age Method, past service surplus of HK$11 million was refunded to the Company during the year ended 31 December 2012. The actuary confirmed that the level of assets remained in the MTR RBS after such refund would be sufficient to support the expected future benefit payments from the MTR RBS.

Actuarial valuation as at 31 December 2011 and 2012 to determine the cash funding requirements was carried out by Towers Watson using the Attained Age Method. The principal actuarial assumptions used included an expected weighted rate of investment return net of salary increases, of approximately -4.0% (2011: -3.5%) per annum, together with appropriate allowance for expected rates of redundancy. Towers Watson confirmed that, as at the valuation date:

(a) due to the nature of the MTR RBS which provides for benefits only on redundancy, there was no aggregate vested liability, and thus the MTR RBS was technically solvent; and

(b) on the assumption that the MTR RBS continued in force, the value of assets was more than sufficient to cover the aggregate past service liability.

(iii) MTR Provident Fund Scheme

The MTR Provident Fund Scheme is a defined contribution scheme registered under the ORSO and granted with MPF Exemption by the MPFA. All benefits payable under the MTR Provident Fund Scheme are calculated with reference to the Company's contributions and members' own contributions, together with investment returns on these contributions. Both the Company's and members' contributions are based on fixed percentages of members' base salary.

As at 31 December 2012, the total number of employees participating in the MTR Provident Fund Scheme was 7,075 (2011: 6,667). In 2012, total members' contributions were HK$64 million (2011: HK$58 million) and total contribution from the Company was HK$181 million (2011: HK$171 million). The net asset value as at 31 December 2012 was HK$4,098 million (2011: HK$3,527 million).

(iv) MTR MPF Scheme

The MTR MPF Scheme is a defined contribution scheme covered under an MPF master trust registered with the MPFA. It covers those employees who did not opt for or who are not eligible to join the MTR Retirement Scheme or the MTR Provident Fund Scheme. Both members and the Company each contribute to the MTR MPF Scheme at the mandatory levels as required by the MPF Ordinance. The Company makes additional contributions above the mandatory level for eligible members who joined the MTR MPF Scheme before 1 April 2008, subject to individual terms of employment.

As at 31 December 2012, the total number of employees of the Company participating in the MTR MPF Scheme was 4,253 (2011: 3,452). In 2012, total members' contributions were HK$26 million (2011: HK$19 million) and total contribution from the Company was HK$30 million (2011: HK$21 million).

(v) KCRC MPF Scheme

The KCRC MPF Scheme is a defined contribution scheme covered under an MPF master trust registered with the MPFA. It covers those former KCRC employees who were previously members of the KCRC MPF Scheme and are eligible to join the MTR Provident Fund Scheme but opt to re-join the KCRC MPF Scheme. Both members and the Company each contribute to the KCRC MPF Scheme at the mandatory levels as required by the MPF Ordinance.

As at 31 December 2012, the total number of employees of the Company participating in the KCRC MPF Scheme was 791 (2011: 856). In 2012, total members' contributions were HK$6 million (2011: HK$6 million) and total contribution from the Company was HK$7 million (2011: HK$6 million).

B Retirement Schemes for Employees of Mainland of China and Overseas Offices and Subsidiaries

Employees not eligible for joining the retirement schemes operated by the Company in Hong Kong are covered by the retirement schemes established by their respective subsidiary companies or in accordance with respective applicable labour regulations.

(i) Defined Benefit Plan

Certain employees of the Group's Australian subsidiary are entitled to receive retirement benefits from the Emergency Services Superannuation Scheme operated in Australia. The benefit amounts are calculated based on the member's years of service and final average salary. The Group does not recognise any defined benefit liability in respect of this scheme because the Group has no legal or constructive obligation to pay future benefits relating to its employees; its only obligation is to pay contributions as they fall due. As at 31 December 2012, total number of the Group's employees participating in this scheme was 792 (2011: 854). In 2012, total members' contributions were HK$37 million (2011: HK$38 million) and total contribution from the Group was HK$52 million (2011: HK$53 million).

(ii) Defined Contribution Plans

Except for the defined benefit plan stated in note 51B(i), all other retirement schemes to cover employees in overseas offices or in subsidiaries in Hong Kong, the Mainland of China or overseas are defined contribution schemes. For Hong Kong employees, these schemes are registered under the MPF Ordinance in Hong Kong. For the Mainland of China or overseas employees, these schemes are operated in accordance with the respective local laws and regulations. As at 31 December 2012, the total number of employees of the Group participating in these schemes was 7,968 (2011: 7,709). In 2012, total members' contributions were HK$114 million (2011: HK$104 million) and total contribution from the Group was HK$268 million (2011: HK$211 million).

52 Defined Benefit Retirement Plan Obligations

The Company makes contributions to and recognises defined benefit liabilities in respect of two defined benefit plans that provide benefits for employees upon retirement or termination of services for other reasons (note 51). The movements in respect of these defined benefit plans during the year are summarised as follows:

A The amounts recognised in the balance sheets are as follows:

The Group and The Company

	2012			2011		
in HK$ million	MTR Retirement Scheme	MTR RBS	Total	MTR Retirement Scheme	MTR RBS	Total
Present value of funded obligations	**(10,122)**	**–**	**(10,122)**	(10,669)	–	(10,669)
Fair value of plan assets	**8,709**	**1**	**8,710**	7,794	12	7,806
Net unrecognised actuarial losses/(gains)	**1,642**	**(3)**	**1,639**	3,064	(3)	3,061
Net assets/(liabilities)	**229**	**(2)**	**227**	189	9	198

A portion of the above asset is expected to be recovered after more than one year. However, it is not practicable to segregate this amount from the amounts to be recovered 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$124 million in contribution to the MTR Retirement Scheme in 2013.

B Plan assets consist of the following:

The Group and The Company

	2012			2011		
in HK$ million	MTR Retirement Scheme	MTR RBS	Total	MTR Retirement Scheme	MTR RBS	Total
Equity securities	**4,832**	**–**	**4,832**	3,761	–	3,761
Bonds	**3,582**	**–**	**3,582**	3,963	–	3,963
Cash	**392**	**1**	**393**	145	12	157
	8,806	**1**	**8,807**	7,869	12	7,881
Voluntary units	**(97)**	**–**	**(97)**	(75)	–	(75)
	8,709	**1**	**8,710**	7,794	12	7,806

The plan assets include no investment in the Company's ordinary shares and the Company's debt securities in 2011 and 2012.

C Movements in the Present Value of the Defined Benefit Obligations

The Group and The Company

	2012			2011		
in HK$ million	MTR Retirement Scheme	MTR RBS	Total	MTR Retirement Scheme	MTR RBS	Total
At 1 January	**10,669**	**–**	**10,669**	9,342	–	9,342
Members' contributions paid to the Schemes	**72**	**–**	**72**	70	–	70
Benefits paid by the Schemes	**(409)**	**–**	**(409)**	(336)	–	(336)
Current service cost	**303**	**–**	**303**	281	–	281
Interest cost	**279**	**–**	**279**	264	–	264
Actuarial (gains)/losses	**(792)**	**–**	**(792)**	1,048	–	1,048
At 31 December	**10,122**	**–**	**10,122**	10,669	–	10,669

52 Defined Benefit Retirement Plan Obligations *(continued)*

D Movements in Plan Assets

The Group and The Company

in HK$ million	2012 MTR Retirement Scheme	2012 MTR RBS	2012 Total	2011 MTR Retirement Scheme	2011 MTR RBS	2011 Total
At 1 January	**7,794**	**12**	**7,806**	8,200	12	8,212
Group's contributions paid to the Schemes	**184**	**–**	**184**	120	–	120
Members' contributions paid to the Schemes	**72**	**–**	**72**	70	–	70
Benefits paid by the Schemes	**(409)**	**–**	**(409)**	(336)	–	(336)
Surplus refunded to the Group	**–**	**(11)**	**(11)**	–	–	–
Expected return on plan assets	**484**	**–**	**484**	486	–	486
Actuarial gains/(losses)	**584**	**–**	**584**	(746)	–	(746)
At 31 December	**8,709**	**1**	**8,710**	7,794	12	7,806

E Expense recognised in the consolidated profit and loss account is as follows:

in HK$ million	2012 MTR Retirement Scheme	2012 MTR RBS	2012 Total	2011 MTR Retirement Scheme	2011 MTR RBS	2011 Total
Current service cost	**303**	**–**	**303**	281	–	281
Interest cost	**279**	**–**	**279**	264	–	264
Expected return on plan assets	**(484)**	**–**	**(484)**	(486)	–	(486)
Net actuarial losses recognised	**46**	**–**	**46**	32	–	32
Expense recognised	**144**	**–**	**144**	91	–	91
Less: Amount capitalised	**(24)**	**–**	**(24)**	(15)	–	(15)
	120	**–**	**120**	76	–	76

The retirement expense is recognised under staff costs and related expenses in the consolidated profit and loss account.

F Actual Return on Plan Assets

in HK$ million	2012	2011
MTR Retirement Scheme	**1,068**	(260)
MTR RBS	**–**	–

G The principal actuarial assumptions used as at 31 December 2012 (expressed as weighted average) are as follows:

	2012 MTR Retirement Scheme	2012 MTR RBS	2011 MTR Retirement Scheme	2011 MTR RBS
Discount rate at 31 December	**2.7%**	**1.0%**	1.5%	0.9%
Expected rate of return on plan assets	**6.0%**	**1.5%**	6.0%	1.5%
Future salary increases	**4.1%**	**5.5%**	4.7%	5.0%

The expected long-term rates of return on plan assets have been determined based on market expectations on returns over the entire life of the related obligations.

52 Defined Benefit Retirement Plan Obligations *(continued)*

H Historical Information

The Group and The Company

	MTR Retirement Scheme				
in HK$ million	**2012**	2011	2010	2009	2008
Present value of funded obligations	**(10,122)**	(10,669)	(9,342)	(8,959)	(9,064)
Fair value of plan assets	**8,709**	7,794	8,200	7,542	6,162
Deficit in the Scheme	**(1,413)**	(2,875)	(1,142)	(1,417)	(2,902)
Experience adjustments arising on plan liabilities – (loss)/gain	**(101)**	334	(357)	(785)	1,391
Experience adjustments arising on plan assets – gain/(loss)	**584**	(746)	331	941	(1,997)

	MTR RBS				
in HK$ million	**2012**	2011	2010	2009	2008
Present value of funded obligations	**–**	–	–	–	(1)
Fair value of plan assets	**1**	12	12	12	12
Surplus in the Scheme	**1**	12	12	12	11
Experience adjustments arising on plan liabilities – gain/(loss)	**–**	–	–	1	–
Experience adjustments arising on plan assets – gain/(loss)	**–**	–	–	–	–

53 Interests in Jointly Controlled Operations

The Group has the following jointly controlled operations in respect of its awarded property development projects in Hong Kong as at 31 December 2012:

Location/Development Package	Land Use	Total Gross Floor Area (sq.m.)	Actual or Expected Date of Completion of Construction Works *
Hong Kong Station	Office/Retail/Hotel	415,894	Completed by phases from 1998–2005
Kowloon Station			
Package One	Residential	147,547	Completed in 2000
Package Two	Residential	210,319	Completed by phases from 2002–2003
Package Three	Residential/Cross Border Bus Terminus	105,113	Completed in 2005
Package Four	Residential	128,845	Completed in 2003
Package Five, Six and Seven	Residential/Office/Retail/Hotel/ Service Apartment/Kindergarten	504,345	Completed by phases from 2006–2010
Olympic Station			
Package One	Residential/Office/Retail/Indoor Sports Hall	309,069	Completed in 2000
Package Two	Residential/Retail/Market	268,650	Completed in 2001
Package Three	Residential/Kindergarten	104,452	Completed in 2006
Tsing Yi Station	Residential/Retail/Kindergarten	292,795	Completed in 1999
Tung Chung Station			
Package One	Residential/Office/Retail/Hotel/Kindergarten	361,531	Completed by phases from 1999–2005
Package Two	Residential/Retail/Kindergarten	255,949	Completed by phases from 2002–2008
Package Three	Residential/Retail/Wet Market/Kindergarten	413,154	Completed by phases from 2002–2008
Hang Hau Station	Residential/Retail	142,152	Completed in 2004
Tiu Keng Leng Station	Residential/Retail	253,765	Completed by phases from 2006–2007
Tseung Kwan O Station			
Area 55b	Residential/Retail	96,797	Completed in 2006
Area 57a	Residential/Retail	29,642	Completed in 2005
Area 56	Residential/Hotel/Retail/Office	163,130	Completed by phases from 2011–2012

53 Interests in Jointly Controlled Operations *(continued)*

Location/Development Package	Land Use	Total Gross Floor Area (sq.m.)	Actual or Expected Date of Completion of Construction Works *
Tseung Kwan O Area 86			
Package One	Residential/Retail/Residential Care Home for the Elderly	139,840	Completed in 2008
Package Two	Residential/Kindergarten	310,496	Completed by phases from 2010–2012
Package Three	Residential/Kindergarten	129,544	2014
Choi Hung Park-and-Ride	Residential/Retail	21,538	Completed in 2005
Che Kung Temple Station	Residential/Retail/Kindergarten	90,655	Completed in 2012
Austin Station			
Sites C & D	Residential	119,116	2014

* Completion based on issuance of occupation permit

The Group's assets held in relation to these joint venture operations include various site foundation works and related staff and overhead costs, land costs, acquisition cost of development rights and interest expense. These are set off against any payments received from developers in relation to that development package, and the balance is shown on the balance sheet either as property development in progress (note 27) or deferred income (note 45) as the case may be. As at 31 December 2012, total property development in progress in respect of these jointly controlled operations was HK$4,581 million (2011: HK$6,780 million) and total deferred income was HK$60 million (2011: HK$68 million).

During the year ended 31 December 2012, profits attributable to jointly controlled operations of HK$3,189 million (2011: HK$4,934 million) were recognised (note 11).

In connection with the Rail Merger, the Company entered into agreements with KCRC relating to the property development projects on the following three awarded sites:

Location/Development Package	Land Use	Total Gross Floor Area (sq.m.)	Actual or Expected Date of Completion of Construction Works *
Fo Tan Station			
Ho Tung Lau	Residential/Retail	122,900	Completed in 2008
Wu Kai Sha Station	Residential/Retail/Kindergarten	172,650	Completed in 2009
Tai Wai Maintenance Centre	Residential	313,955	Completed by phases from 2010–2011

* Completion based on issuance of occupation permit

Under these agreements, the Company was appointed as KCRC's agent to exercise the rights and to perform the obligations of KCRC as stipulated in the agreements. The Company received a right to share the net surplus from the sale of these property development projects.

54 Material Related Party Transactions

The Financial Secretary Incorporated, which holds approximately 76.5% 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 2009), *Related party disclosures*, and are identified separately in these accounts.

Members of the Board and Members of the Executive Directorate and parties related to them, including their close family members, are also considered to be related parties of the Group. Transactions with these parties, except for those involving a Member of the Board or his related parties where the relevant Member abstains from voting, are separately disclosed in the accounts.

Major related party transactions entered into by the Group which are relevant for the current year include:

A On 30 June 2000, the Company was granted by the HKSAR Government a franchise, for an initial period of 50 years, to operate the then existing mass transit railway, and to operate and construct any extension to the railway. On the same day, the Company and the HKSAR Government entered into an Operating Agreement ("OA") which laid down the detailed provisions for the design, construction, maintenance and operation of the railway under the franchise. Pursuant to the terms of the OA, the Company's franchise will be extended for further periods of 50 years upon satisfying certain capital expenditure requirements at no payment and without any change in the terms of the franchise. The OA also provides that upon extension of the franchise and subject to the HKSAR Government's prevailing land policy on the date on which the franchise is extended, certain consequential amendments will be made to agreements between the HKSAR Government and the Company in relation to the mass transit railway, including the renewal of various railway running line leases and land leases at nominal cost. With the Rail Merger, the OA was replaced with effect from 2 December 2007 by a new operating agreement, details of which are set out in note 54C below.

54 Material Related Party Transactions *(continued)*

B On 14 July 2000, the Company received a comfort letter from the Government pursuant to which the HKSAR Government agreed to extend the period of certain of the Company's land interests so that they are coterminous with the Company's franchise period. To prepare for the Rail Merger, on 3 August 2007, the HKSAR Government wrote to KCRC confirming that, subject to all necessary approvals being obtained, the period of certain of KCRC's land interests (which are the subject of the service concession under the Rail Merger) will be extended so that they are coterminous with the concession period of the Rail Merger.

C In connection with the Rail Merger (note 3), on 9 August 2007, the Company and the HKSAR Government entered into a new operating agreement ("new OA"), which is based on the then existing OA referred to in note 54A above. On the Appointed Day, the Company's then existing franchise under the Mass Transit Railway Ordinance was expanded to cover railways other than the then existing MTR railway for an initial period of 50 years from the Appointed Day ("expanded franchise"). The new OA detailed the design, construction, maintenance and operation of the railways under the expanded franchise. Pursuant to the terms of the new OA and the MTR Ordinance, the Company's franchise may be extended for further periods of 50 years (from the date of the extension) upon satisfying certain capital expenditure requirements at no payment and without any change in the terms of the franchise. The new OA also sets out a framework for the award of new railway projects in Hong Kong and introduces a fare adjustment mechanism which is subject to review for every 5 years. A detailed description of the new OA is contained in the circular to shareholders in respect of the Extraordinary General Meeting convened to approve the Rail Merger.

D Other than the new OA described in note 54C above, the Company also entered into the following principal agreements with KCRC and the HKSAR Government in connection with the Rail Merger:

(i) Merger Framework Agreement, which was entered into on 9 August 2007, contains provisions for the overall structure and certain specific aspects of the Rail Merger;

(ii) Service Concession Agreement, which was entered into on 9 August 2007, contains provisions in relation to the grant and operation of a service concession and licence granted by KCRC to the Company;

(iii) Sale and Purchase Agreement, which was entered into on 9 August 2007, sets out the terms pursuant to which the Company acquired certain assets and contracts from KCRC;

(iv) Kowloon Southern Link ("KSL") Project Management Agreement, which was entered into on 9 August 2007, sets out the terms on which the Company was appointed by KCRC to manage the design and construction of the KSL in return for a management fee and an incentive payment if the construction of the KSL is completed ahead of time and under budget. KSL was completed for service commencement on 16 August 2009 and became part of the service concession. The final incentive payment was received in 2010;

(v) West Rail Agency Agreement, which was entered into on 9 August 2007, sets out the terms on which the Company was appointed to act as KCRC's agent to exercise certain rights and perform certain obligations relating to specified development sites along the West Rail;

(vi) Property Package Agreements, which were entered into on 9 August 2007, set out the arrangements in respect of the acquisition of the property package; and

(vii) US Cross Border Lease ("CBL") Assumption Agreements, which were entered into with KCRC on 30 November 2007, and US CBL Allocation Agreement, which was entered into with KCRC and KCRC's subsidiaries on 2 December 2007, set out the terms on which the Company has undertaken to perform, on a joint and several basis with KCRC, the obligations of KCRC under the respective CBLs, and delineate and allocate the obligations and responsibility for risks relating to the CBLs. Details of the commitment of the Company in connection with these agreements are specified in note 55E.

A detailed description of each of the above agreements is contained under the paragraph "Connected Transactions" of the Report of the Members of the Board.

E The Company entered into project agreements with the HKSAR Government for the design, construction, financing and operation of new railway extensions and, where applicable, the granting of land for commercial and residential property developments along these railway extensions. Project agreements on railway extensions that are still under construction or the property developments in respect of which have not been completed in the current year include:

(i) TKE Project Agreement in respect of the Tseung Kwan O Extension, which was signed on 4 November 1998 and includes the granting of property development rights at four sites along the extension;

(ii) Preliminary Project Agreement, which was signed on 6 February 2008, and Project Agreement, which was signed on 13 July 2009 in respect of the West Island Line. Pursuant to the agreements, the Company has received from the HKSAR Government a total of HK$12,652 million of government grant as funding support subject to a repayment mechanism (note 25A);

(iii) Project Agreement in respect of the SIL(E), which was signed on 17 May 2011 and includes the granting of property development rights at a site in Wong Chuk Hang (note 25B); and

(iv) Project Agreement in respect of the KTE, which was signed on 17 May 2011 and includes the granting of property development rights at a site in Ho Man Tin (note 25C).

54 Material Related Party Transactions *(continued)*

F The Company entered into entrustment agreements with the HKSAR Government for the design, site investigation, procurement activities, construction, testing and commissioning of new railway extensions, pursuant to which the HKSAR Government funds the costs of such activities while the Company is paid a fee for its project management service. Entrustment agreements on railway extensions that are still under construction in the current year include:

(i) Preliminary Entrustment Agreement, which was signed on 24 November 2008, and Entrustment Agreement, which was signed on 26 January 2010, in respect of the Guangzhou-Shenzhen-Hong Kong Express Rail Link ("XRL"). The two agreements together entrust the Company with the project management of activities leading to the completion of XRL. Detailed description of the agreements and the amount of project management fees recognised for the year ended 31 December 2012 are provided in note 26B; and

(ii) The Preliminary Entrustment Agreement, which was signed on 24 November 2008, Advance Works Entrustment Agreement, which was signed on 17 May 2011, and Entrustment Agreement, which was signed on 29 May 2012, in respect of the Shatin to Central Link ("SCL"). The three agreements together entrust the Company with the project management of activities leading to the completion of SCL. Detailed description of the agreements and the amount of project management fees recognised for the year ended 31 December 2012 are provided in note 26C.

G On 19 November 2003, the Company entered into a project agreement with the HKSAR Government to develop the Tung Chung Cable Car system together with a Theme Village at Ngong Ping on the Lantau Island under a franchise granted by the HKSAR Government for a period of 30 years commencing 24 December 2003. The project was completed with operation commencement on 18 September 2006.

H In connection with the construction of various railway projects, certain essential project works are embedded within the infrastructure works to be undertaken by the HKSAR Government or certain of its related parties. These works have been entrusted to the HKSAR Government and its related parties and are payable on an actual cost basis according to architectural certifications. The HKSAR Government and certain of its related parties, on the other hand, have entered into entrustment agreements with the Company for the construction of various other infrastructure works that are also reimbursable according to actual costs certified. Details of the amounts receivable and the amounts paid and payable as at 31 December 2012 are provided in notes 37 and 42 respectively.

I In connection with certain property developments along the railway extensions, the Company has been granted land lots by and paid land premiums to the HKSAR Government in accordance with the terms of the development agreements in respect of the following sites:

Property development site	Land grant acceptance date	Total land premium HK$ million	Land premium settlement date
Site F of Tseung Kwan O Town Lot No. 70, Area 86	24 January 2005	2,319	14 April 2005
Sha Tin Town Lot No. 519	23 April 2008	3,662	14 July 2008
Kowloon Inland Lot No. 11126 and 11129 (Sites C and D, Canton Road, Kowloon)	12 March 2010	11,708	7 June 2010

J On 16 November 2011, the Company and KCRC entered into an Outsourcing Agreement pursuant to which the Company will provide certain administrative and financial activities to KCRC. The Agreement has no specific term but can be terminated by either party giving notice period specified in the Agreement. The fee payable pursuant to the Agreement and the scope of services are to be reviewed on an annual basis and amended upon the mutual agreement of the parties.

K On 21 August 2008, the Company renewed the maintenance agreement with the Hong Kong Airport Authority in respect of the automatic people mover system serving the Hong Kong International Airport including the Sky Plaza and Sky Pier terminal buildings. The agreement covers a period of five years effective from 6 July 2008. In respect of the agreement, HK$50 million was recognised as consultancy income during the year ended 31 December 2012 (2011: HK$46 million).

L Other than those stated in notes 54A to 54J, the Company has business transactions with the HKSAR Government, entities related to the HKSAR Government and the Company's non-controlled subsidiaries and associates in the normal course of business operations. Details of the transactions and the amounts involved for the reporting period are disclosed in notes 29, 31, 37 and 42.

M The Group has paid remuneration to Members of the Board and the Executive Directorate. Details of these transactions are described in note 10A. In addition, Members of the Executive Directorate were granted share options under the Company's New Joiners Share Option Scheme and 2007 Share Option Scheme. Details of the terms of these options are disclosed in note 10B and the Report of the Members of the Board. Their gross remuneration charged to the profit and loss account is summarised as follows:

in HK$ million	**2012**	2011
Short-term employee benefits	**59.2**	59.5
Post-employment benefits	**3.5**	2.5
Equity compensation benefits	**8.1**	14.2
	70.8	76.2

The above remuneration is included in staff costs and related expenses disclosed in note 9A.

54 Material Related Party Transactions *(continued)*

N During the year, the following dividends were paid to the Financial Secretary Incorporated of the HKSAR Government:

in HK$ million	2012	2011
Cash dividends paid	**3,370**	3,104

55 Commitments

A Capital Commitments

(i) Outstanding capital commitments as at 31 December 2012 not provided for in the accounts were as follows:

The Group

in HK$ million	Hong Kong transport, station commercial and other businesses	Hong Kong railway extension projects	Hong Kong property rental and development	Mainland of China and overseas operations	Total
2012					
Authorised but not yet contracted for	**2,627**	**–**	**808**	**1**	**3,436**
Authorised and contracted for	**3,793**	**8,706**	**279**	**104**	**12,882**
	6,420	**8,706**	**1,087**	**105**	**16,318**
2011					
Authorised but not yet contracted for	2,079	–	824	9	2,912
Authorised and contracted for	1,447	13,099	624	216	15,386
	3,526	13,099	1,448	225	18,298

The Company

in HK$ million	Hong Kong transport, station commercial and other businesses	Hong Kong railway extension projects	Hong Kong property rental and development	Total
2012				
Authorised but not yet contracted for	**2,601**	**–**	**808**	**3,409**
Authorised and contracted for	**3,723**	**8,706**	**278**	**12,707**
	6,324	**8,706**	**1,086**	**16,116**
2011				
Authorised but not yet contracted for	2,074	–	824	2,898
Authorised and contracted for	1,447	13,099	624	15,170
	3,521	13,099	1,448	18,068

(ii) The commitments under Hong Kong transport, station commercial and other businesses comprise the following:

The Group and The Company

in HK$ million	Improvement and enhancement works	Acquisition of property, plant and equipment	Additional concession property	Total
2012				
Authorised but not yet contracted for	**1,339**	**205**	**1,083**	**2,627**
Authorised and contracted for	**545**	**320**	**2,928**	**3,793**
	1,884	**525**	**4,011**	**6,420**
2011				
Authorised but not yet contracted for	897	279	903	2,079
Authorised and contracted for	468	602	377	1,447
	1,365	881	1,280	3,526

55 Commitments *(continued)*

B Operating Lease Commitments

The Group had operating leases on office buildings, staff quarters, bus depot and a shopping centre in Beijing as at 31 December 2012. The total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group		The Company	
in HK$ million	**2012**	2011	**2012**	2011
Payable within one year	**141**	132	**14**	6
Payable after one but within five years	**15**	3	**11**	3
	156	135	**25**	9

The above includes HK$3 million (2011: HK$6 million) in respect of the office accommodation and quarters for construction project staff, majority of which are subject to rent reviews.

In addition to the above, the Group has future operating lease commitments of HK$4,905 million (2011: HK$6,061 million) in respect of railway subsidiaries outside of Hong Kong over the respective franchise periods, of which HK$1,039 million (2011: HK$1,065 million) is payable within one year, HK$3,842 million (2011: HK$4,140 million) is payable after one but within five years and HK$24 million (2011: HK$856 million) is payable over five years. These railway subsidiaries will generate franchise revenue to the Group.

C Liabilities and Commitments in respect of Property Management Contracts

The Group has, over the years, jointly developed with outside property developers certain properties above or adjacent to railway depots and stations. Under most of the development agreements, the Group retained the right to manage these properties after their completion. The Group, as manager of these properties, enters into service contracts with outside contractors for the provision of security, cleaning, maintenance and other services on behalf of the managed properties. The Group is primarily responsible for these contracts, but any contract costs incurred will be reimbursed by the owners and tenants of the managed properties from the management funds as soon as they are paid.

As at 31 December 2012, the Group had total outstanding liabilities and contractual commitments of HK$1,611 million (2011: HK$1,599 million) in respect of these works and services. Cash funds totalling HK$1,781 million (2011: HK$1,655 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 39C), the Company has provided guarantees to the investors of approximately HK$18,237 million (in notional amount) as at 31 December 2012. The proceeds from the debts issued are on lent to the Company and MTR Corporation (Shenzhen) Limited. As such, the primary liabilities have been recorded in the Company's balance sheet.

In respect of the lease out/lease back transaction ("Lease Transaction") (note 22E), 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$113 million (HK$872 million) as at 31 December 2012. 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$41 million (HK$315 million) as at 31 December 2012.

In respect of the operating lease on the shopping centre in Beijing, the Group provided a bank guarantee of RMB12.5 million (HK$16 million) and a parent company guarantee of RMB52.5 million (HK$65 million) in respect of the quarterly rental payments to the landlord.

In respect of the Melbourne Metropolitan Train Franchise, the Group and the other shareholders of the Group's 60% owned subsidiary, Metro Trains Melbourne Pty. Ltd. ("MTM"), have provided to the State of Victoria Government a joint and several parent company guarantee of AUD135 million (HK$1,088 million) and a performance bond of AUD81 million (HK$653 million) for MTM's performance and other obligations under the franchise agreement, with each shareholder bearing its share of liability based on its shareholdings in MTM. In respect of the operating lease on the office premises, MTM has provided bank guarantees of AUD2 million (HK$16 million) for the monthly rental payments to the landlords. In respect of the project activities, MTM has provided a bank guarantee of AUD1 million (HK$8 million) to the contractor for contract payments.

In respect of the Stockholm Metro Franchise, the Group has provided to the Stockholm transport authority a guarantee of SEK1,000 million (HK$1,188 million), which can be called if the franchise is terminated early as a result of default by MTR Stockholm AB, the wholly owned subsidiary of the Group to undertake the franchise.

In respect of the London Overground Franchise, London Overground Rail Operations Ltd ("LOROL"), the Group's 50% owned associate company to undertake the franchise, has provided to Transport for London (TfL) a performance bond of GBP12 million (HK$150 million), which may be called by TfL if the franchise is terminated early as a result of default. The performance bond is guaranteed by Deutsche Bahn, the ultimate parent company of the other shareholder of LOROL, with the Group providing to Deutsche Bahn a counter indemnity that is further backed by a performance bond of GBP6 million (HK$75 million) for the Group's share of the Guarantee.

55 Commitments *(continued)*

D Material Financial and Performance Guarantees *(continued)*

In respect of the construction of Shenzhen Metro Longhua Line Phase 2, the Group has provided payment guarantees of RMB165 million (HK$205 million) to the counterparties of the construction contracts.

In respect of the price for Lot 1 of the Shenzhen Metro Longhua Line Depot Site, the Group has provided a payment guarantee of RMB332 million (HK$413 million) to the Urban Planning Land and Resources Commission of Shenzhen Municipality. The price for the lot was fully paid in January 2013.

E US Cross Border Lease ("CBL") Agreements

In connection with the Rail Merger, the Company entered into a number of agreements ("US CBL Assumption Agreements") with respect to the CBLs that KCRC had entered into with its CBL counterparties in relation to certain of its property and equipment ("CBL Property") between 1998 and 2003. Pursuant to the US CBL Assumption Agreements, the Company has undertaken to perform, on a joint and several basis with KCRC, the obligations of KCRC under the respective CBLs.

In addition, the Company has entered into a US CBL Allocation Agreement with KCRC, whereby the rights, obligations and responsibility for risks relating to the CBLs are delineated and allocated between the Company and KCRC. Generally, the Company is responsible for operational matters, such as repair, maintenance and insurance of the CBL Property, and KCRC is responsible for all other obligations, including payment of periodic rents and collateral related obligations. Despite this allocation of obligations, the Company is prima facie jointly and severally liable to the CBL counterparties for any failure of KCRC to perform its obligations under the CBLs.

KCRC and the HKSAR Government have agreed to indemnify the Company for its reasonable costs incurred as a result of the due and proper performance by the Company of its obligations under the CBLs (unless such costs would have been incurred in any event). In addition, KCRC has agreed to indemnify the Company for losses and reasonable costs incurred arising from KCRC not complying with its obligations under the CBLs or from any breach of KCRC's representations, covenants and agreements provided for in relation to the CBLs.

The Company has agreed to indemnify each of the HKSAR Government and KCRC for losses and reasonable costs incurred arising from any breach of the Company's representations, covenants and agreements provided for in relation to the CBLs.

F Service Concession in respect of the Rail Merger

Pursuant to the Rail Merger, the Company is obliged under the Service Concession Agreement ("SCA") to pay an annual fixed payment of HK$750 million to KCRC over the period of the service concession. Additionally, commencing after three years from the Appointed Day, the Company is obliged to pay a variable annual payment to KCRC based on the revenue generated from the KCRC system above certain thresholds. Furthermore, under the SCA, the Company is obliged to maintain, repair, replace and/or upgrade the KCRC system over the period of the service concession which is to be returned at the expiry of the service concession.

56 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 2I).

(ii) Impairment of Long-lived Assets

The Group reviews its long-lived assets for indications of impairment at each balance sheet date according to accounting policies set out in note 2H(ii). In analysing potential impairments identified, the Group uses projections of future cash flows from the assets based on management's assignment of a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

(iii) Pension Costs

The Group employs independent valuation professionals to conduct annual assessment of the actuarial position of the Group's retirement plans. The determination of the Group's obligation and expense for the defined benefit element of these plans is dependent on certain assumptions and factors provided by the Company, which are disclosed in notes 51A(i), 51A(ii) and 52G.

(iv) Revenue Recognition on Property Development

Recognition of 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.

56 Accounting Estimates and Judgements *(continued)*

A Key sources of accounting estimates and estimation uncertainty include the following: *(continued)*

(v) Properties Held for Sale

The Group values unsold properties at the lower of their costs and net realisable values (note 33) at each balance sheet date. In ascertaining the properties' net realisable values, which are represented by the estimated selling prices less costs to be incurred in relation to the sales, the Group employs independent valuation professionals to assess the properties' estimated selling prices and makes estimations on further selling and property holding costs to be incurred based on past experience and with reference to general market practice.

(vi) Valuation of Investment Properties

The valuation of investment properties requires management's input of various assumptions and factors relevant to the valuation. The Group conducts semi-annual revaluation of its investment properties by independent professionally qualified valuers based on these assumptions agreed with the valuers prior to adoption.

(vii) Franchise in Hong Kong

The current franchise under which the Group is operating in Hong Kong allows the Group to run the mass transit railway system in Hong Kong until 1 December 2057. Pursuant to the terms stipulated in the new Operating Agreement with the HKSAR Government, the Company considers that it has the legal right to extend the franchise for further periods of 50 years upon expiry of each franchise term (note 54C). The Group's depreciation policies (note 2I) in respect of certain assets' lives which extend beyond 2057 are set on this basis.

(viii) Income Tax

Certain treatments adopted by the Group in its Hong Kong Profits Tax returns in the past years are yet to be finalised with the Hong Kong Inland Revenue Department. In assessing the Group's income tax and deferred taxation in the 2012 accounts, the Company has predominantly followed the tax treatments it has adopted in these tax returns, which may be different from the final outcome in due course.

(ix) Project Provisions

The Group establishes project provisions for the settlement of estimated claims that may arise due to time delays, additional costs or other unforeseen circumstances common to major construction contracts. The claims provisions are estimated based on an assessment of the Group's liabilities under each contract by professionally qualified personnel, which may differ from the actual claims settlement.

(x) Deferred Expenditure

As disclosed in note 2J(i), the Group capitalises proposed railway and property development project costs in deferred expenditure when the projects are at a detailed study stage and having been approved in principle by the Members of the Board. Such decision involves the Board's judgement on the outcome of the proposed project.

(xi) Fair Value of Derivatives and Other Financial Instruments

In determining the fair value of financial instruments, the Group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at each balance sheet date. For financial instruments that are not traded in active markets, the fair values were derived using the discounted cash flows method which discounts the future contractual cash flows at the current market interest or foreign exchange rates, as applicable, for similar financial instruments that were available to the Group at the time.

(xii) Obligations under Service Concession

In determining the present value of the obligations under service concession, the discount rate adopted was the relevant Group company's estimated long-term incremental cost of borrowing at inception after due consideration of the relevant Group company's existing fixed rate borrowing cost, future interest rate and inflation trends.

B Critical accounting judgements in applying the Group's accounting policies include the following:

(i) Provisions and Contingent Liabilities

The Group recognises provisions for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as contingent liability. As at 31 December 2012, the Group considered that it had no disclosable contingent liabilities as there were neither pending litigations nor events with potential obligation which were probable to result in material outflow of economic benefits from the Group.

(ii) Non-controlled Subsidiaries

The Group regards Octopus Holdings Limited and its subsidiaries (the "OHL Group") as non-controlled subsidiaries. In determining whether the Group has control over these subsidiaries, the Group has taken into account its voting right conferred to it under the Shareholder's Agreement of OHL and the effective influence it may exercise over the decision of OHL's Board. Throughout the year ended 31 December 2012, the Group considered that its voting right in the OHL Group has been maintained at 49% despite an equity interest of 57.4%. As such, the OHL Group was accounted for as non-controlled subsidiaries in the Group's accounts.

57 Possible Impact of Amendments, New Standards and Interpretations Issued but Not Yet Effective for the Annual Accounting Year Ended 31 December 2012

Up to the date of issue of these accounts, the HKICPA has issued a number of amendments and new standards which are not yet effective for the year ended 31 December 2012 and have not been adopted in these accounts. These include the following which may be relevant to the Group:

	Effective for accounting periods beginning on or after
Amendments to HKAS 1, *Presentation of financial statements – Presentation of items of other comprehensive income*	1 July 2012
HKFRS 10, *Consolidated financial statements*	1 January 2013
HKFRS 11, *Joint arrangements*	1 January 2013
HKFRS 12, *Disclosure of interests in other entities*	1 January 2013
HKFRS 13, *Fair value measurement*	1 January 2013
HKAS 27, *Separate financial statements (2011)*	1 January 2013
HKAS 28, *Investments in associates and joint ventures*	1 January 2013
Revised HKAS 19, *Employee benefits*	1 January 2013
Annual improvements to HKFRSs 2009-2011 Cycle	1 January 2013
Amendments to HKFRS 7, *Financial instruments: Disclosures – Offsetting financial assets and financial liabilities*	1 January 2013
Amendments to HKAS 32, *Financial instruments: Presentation – Offsetting financial assets and financial liabilities*	1 January 2014
Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) – *Investment entities*	1 January 2014
HKFRS 9, *Financial instruments*	1 January 2015

The Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. At this moment, the Group considers that the adoption of the following new issues or amendments will have impact on the Group's accounts:

(i) Amendments to HKAS 1, *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*

The amendments to HKAS 1 require entities to present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss. The Group's presentation of other comprehensive income will be modified accordingly when the amendments are adopted for the first time.

(ii) HKFRS 12, *Disclosure of Interests in Other Entities*

HKFRS 12 brings together into a single standard all the disclosure requirements relevant to an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The disclosures required in HKFRS 12 are generally more extensive than those required in the current standards. The Group may have to make additional disclosures about its interests in other entities upon first adoption.

(iii) HKFRS 13, *Fair Value Measurement*

HKFRS 13 replaces existing guidance in individual HKFRSs with a single source of fair value measurement guidance. HKFRS 13 also contains extensive disclosure requirements about fair value measurements for both financial instruments and non-financial instruments. No retrospective adoption is required. The Group estimates that the adoption of HKFRS 13 will not have any significant impact on the fair value measurements of its assets and liabilities, but additional disclosures may need to be made in the 2013 Group's accounts.

(iv) Revised HKAS 19, *Employee Benefits*

Revised HKAS 19 introduces a number of amendments to the accounting for employee benefits. Among them, revised HKAS 19 eliminates the "corridor method" under which the recognition of actuarial gains and losses relating to defined benefit schemes could be deferred and recognised in profit or loss over the expected average remaining service lives of employees. Under the revised standard, all actuarial gains and losses are required to be recognised immediately in other comprehensive income. This will change the Group's accounting for defined benefit plans under which the corridor method is currently applied. Upon retrospective adoption of the revised HKAS 19, the Group's retained earnings as at 1 January 2012 and 31 December 2012 will decrease by HK$3,061 million and HK$1,639 million respectively to HK$85,001 million and HK$95,562 million respectively.

Other than the above, it has concluded so far that the adoption of other new issues or amendments is unlikely to have a material impact on the Group's results of operations and financial position.

58 Approval of Accounts

The accounts were approved by the Board on 11 March 2013.

Glossary

Airport Express	Train Service provided between AsiaWorld-Expo Station and Hong Kong Station
Appointed Day or Day One or Merger Date	2 December 2007 when the Rail Merger was completed
Articles of Association	The articles of association of the Company
BJL4	Beijing Metro Line 4, which provided train service between Anghequao North Station and Gongyixiqiao Station, and connected with its extension Daxing line providing service between Gongyixiqiao Station and Tian Gongyuan Station
BJMTR	Beijing MTR Corporation Limited
Board	The board of directors of the Company
Bus	Feeder bus services operated in support of West Rail Line, East Rail Line and Light Rail
Company or MTR Corporation	MTR Corporation Limited , a company which was incorporated under the Companies Ordinance on 26 April 2000
Companies Ordinance	The Companies Ordinance (Chapter 32 of the Laws of Hong Kong)
Computershare	Computershare Hong Kong Investor Services Limited
Cross-boundary Service or Cross-boundary	Journeys with the destination to/commencing from Lo Wu and Lok Ma Chau stations
Customer Service Pledge	Annually published performance targets in accordance with the Operating Agreement
Director or Member of the Board	A member of the Board
Domestic Service	Collective name for Kwun Tong, Tsuen Wan, Island, Tung Chung, Tseung Kwan O, Disneyland Resort, East Rail (excluding Cross-boundary Service), West Rail and Ma On Shan lines
Express Rail Link	Hong Kong section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link
Fare Index	A measure of customer satisfaction for the fares charged for Domestic/Cross-boundary services and Airport Express 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
Hong Kong or Hong Kong SAR or HKSAR	The Hong Kong Special Administrative Region of the People's Republic of China
Intercity	Intercity passenger services operated between Hong Kong and certain major cities in the Mainland of China such as Guangzhou, Beijing and Shanghai
Interest Cover	Operating profit before depreciation, amortisation and variable annual payment for rail concessions divided by gross interest and finance charges before capitalisation and accreted interest on loan to a property developer
KCRC	Kowloon-Canton Railway Corporation
Kowloon Southern Link	Project for extension of the West Rail Line from Nam Cheong Station to East Tsim Sha Tsui Station via Austin Station, providing direct access between the East Rail Line and West Rail Line after the completion of the project
Light Rail	Light rail system serving North West New Territories
Listing Rules	The Rules Governing the Listing of Securities on the Stock Exchange
LOROL	London Overground Rail Operations Limited
Mainland or Mainland China or Mainland of China	The People's Republic of China excluding Hong Kong SAR
MTM	Metro Trains Melbourne Pty. Ltd.
MTRS	MTR Stockholm AB
MTR Ordinance	The Mass Transit Railway Ordinance (Chapter 556 of the Law of Hong Kong)
Net Debt-to-equity Ratio	Loans and other obligations, bank overdrafts, obligations under service concession and loan from holders of non-controlling interests net of cash, bank balances and deposits, and investment in bank medium term notes in the consolidated balance sheet as a percentage of the total equity
Operating Agreement	The agreement entered into by the Company and the Government on 30 June, 2000 for the operation of our rail services before the Rail Merger and a new agreement entered on 9 August 2007 for the operation of all of our rail and bus passenger services after the Rail Merger
Operating Margin	Operating profit before property developments, depreciation, amortisation and variable annual payment for rail concessions as a percentage of turnover
Ordinary Shares	Ordinary shares of HK$1.00 each 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 Bill or Rail Merger Ordinance	The Rail Merger Bill refers to the draft legislation on the Rail Merger which was passed by the Legislative Council of Hong Kong on 8 June 2007 and became the Rail Merger Ordinance (Ordinance No.11 of 2007)
Rail Merger Circular	Refers to the circular dated 3 September 2007 despatched to the Company's shareholders in connection with the Rail Merger
Return on Average Equity Attributable to Equity Shareholders	Profit attributable to equity shareholders of the Company as a percentage of the average of the beginning and closing total equity attributable to equity shareholders of the Company of the period
Service Concession	A contract to provide services for a particular period which is awarded by a public sector entity to an operator; in the context of concession projects in Hong Kong, service concession refers to the concession granted or to be granted by KCRC and/or Government to the Company to operate, maintain and renew certain railway lines under the Service Concession Agreement or a Supplemental Service Concession Agreement, as more particularly described in the Rail Merger Circular; in the context of concession projects in the Mainland of China and Overseas, service concession refers to the concession granted by the government or relevant public sector entity to a subsidiary or associate of the Company to provide certain specified services for a specified period under a negotiated concession agreement.
Service Quality Index	A measure of customer satisfaction for the services provided by Domestic/Cross-boundary services and Airport Express based on satisfaction scores for different service attributes (excluding fares) weighted by the corresponding importance rating from the customer research
SZL4	Shenzhen Metro Longhua Line, which provided train service between Futian checkpoint Station to Qinghu Station
SZMTR	MTR Corporation (Shenzhen) Limited
TBT	Tunnelbanan Teknik Stockholm AB

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SHAREHOLDER SERVICES

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

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