Creating Value Driving Growth

Annual Report 2013

Grow
and Enhance our Hong Kong core businesses

Strengthen
our Hong Kong corporate citizen reputation

Accelerate
our success in the Mainland and internationally

Happy 35th Anniversary!

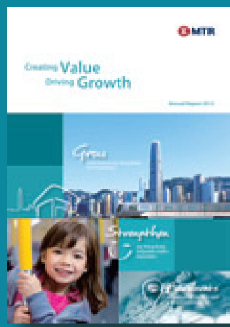
MTR started its first passenger service on 1 October 1979 with an eight-kilometre long line covering nine stations. Since then, the network has grown hand-in-hand with Hong Kong to encompass 84 stations that link old-established communities, while also serving as the public transport backbone for the development of new, seamlessly integrated communities atop and around rail stations, as well as the international airport.

Our shared journey with Hong Kong has been underpinned by our commitment to provide passengers with a safe and reliable public transport service and we are proud that with our consistent 99.9% on-time performance, MTR has been voted as Hong Kong's best public transport operator for many years in a row and recognised internationally as one of the world's best metro systems.

Marking this important milestone is a specially-designed MTR 35th Anniversary icon using the signature colours of the various MTR lines symbolising how MTR and Hong Kong have grown together, based on iconic landmarks linked by our network, including the Hong Kong Convention and Exhibition Centre that will soon benefit from the Shatin to Central Link. Celebrations for our 35th anniversary kicked off in January when a replica of the first generation MTR train compartment pulled into Choi Hung Station, one of the first MTR stations to open. Across the network, giant poster displays are telling the stories of people whose lives have been particularly touched by their experience of MTR over the decades. Passengers will be invited to join in the celebration through the purchase of commemorative smart tickets to be launched later, and a series of exciting activities will extend through the year.

Creating Value Driving Growth

Our integrated rail and property development model has a long track-record in Hong Kong and is establishing itself globally. We recognise that to drive further sustainable growth in our businesses, we need continually to create value by meeting the ever-changing needs of the communities we serve. Our Annual Report explains how we have progressed during 2013 in our extensive operations and in the new projects we are undertaking.



Contents

MTR Corporation in Numbers – 2013

Consolidated Financials

Total Revenue HK$ 38.7 billion

Underlying Profit HK$ 8.60 billion

Total Assets HK$ 215.8 billion

Net Debt-to-Equity Ratio 11.8 %

Hong Kong Transport Operations

Share of Franchised Public Transport Market 46.9 %

Passenger Journeys on-time 99.9 %

Domestic Service Fare Revenue Per Passenger HK$ 7.13

Total Route Length 218 km

Hong Kong Network Expansion

5 New Rail Projects are on track

56 km will be added to our Hong Kong network

Investment Property Portfolio in Hong Kong includes

213,334

sq.m. of Retail Properties

14,282

sq.m. of Offices

Hong Kong Property Development Profit

HK$ 1.4 billion

Hong Kong Property and Other Businesses

Hong Kong Station Commercial Businesses

Station Commercial Revenue 18.0% of Total Revenue in Hong Kong

Mainland of China and International Businesses

Over 1.35 billion passengers carried by our rail operations in 6 Cities outside of Hong Kong

Human Resources

23,236 Staff Worldwide

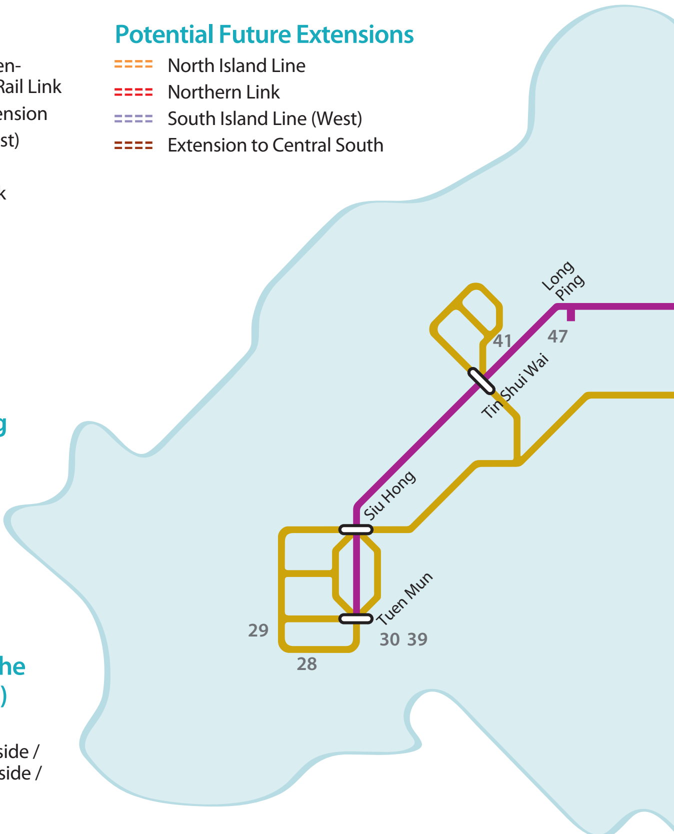
Hong Kong Operating Network with Future Extensions

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

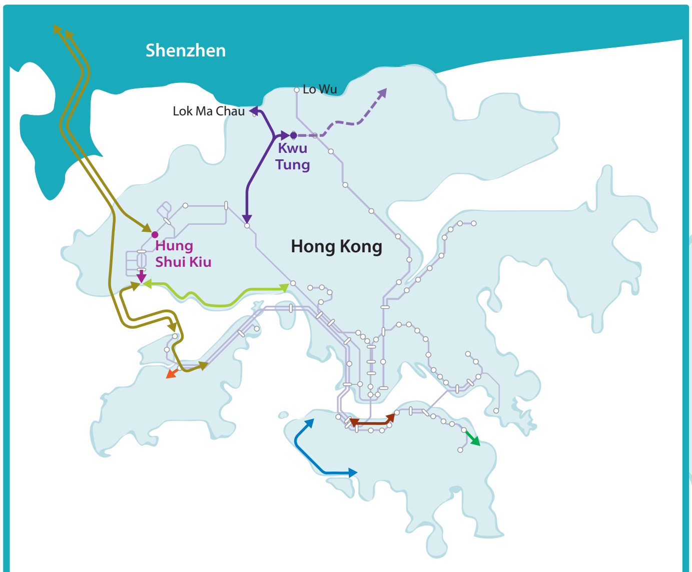
Potential Future Extensions
- North Island Line
- Northern Link
- South Island Line (West)
- Extension to Central South



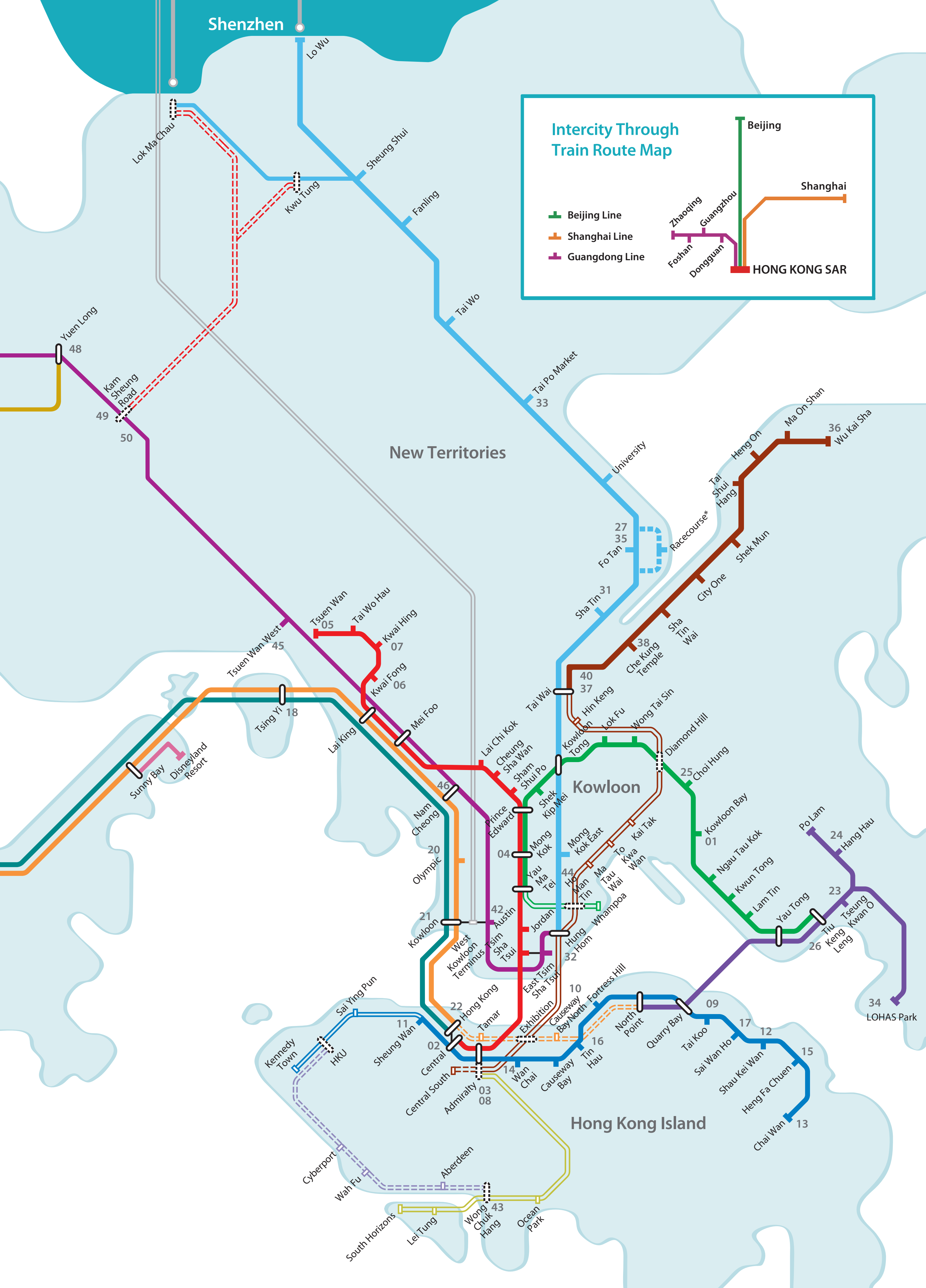
Properties Owned / Developed / Managed by the Corporation
01 Telford Gardens / Telford Plaza I and II
02 World-wide House
03 Admiralty Centre
04 Argyle Centre
05 Luk Yeung Sun Chuen / Luk Yeung Galleria
06 New Kwai Fong Gardens
07 Sun Kwai Hing Gardens
08 Fairmont House
09 Kornhill / Kornhill Gardens
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 Wings / PopCorn 1 / PopCorn 2 / Crowne Plaza Hong Kong Kowloon East / Holiday Inn Express Hong Kong Kowloon East / Vega Suites
24 Residence Oasis / The Lane
25 No.8 Clear Water Bay Road / Choi Hung Park & Ride
26 Metro Town
27 Royal Ascot / Plaza Ascot
28 Ocean Walk
29 Sun Tuen Mun Centre / Sun Tuen Mun Shopping Centre
30 Hanford Garden / Hanford Plaza
31 Citylink Plaza
32 MTR Hung Hom Building / Hung Hom Station Carpark
33 Trackside Villas
34 The Capitol / Le Prestige / Le Prime / La Splendeur
35 The Palazzo
36 Lake Silver
37 Festival City
38 The Riverpark
39 Century Gateway

Property Developments Under Construction / Planning
34 LOHAS Park Package 3-10
40 Tai Wai Station
41 Tin Wing Stop (Light Rail)
42 The Austin / Austin Station Site D
43 Wong Chuk Hang Station
44 Ho Man Tin Station

West Rail Line Property Developments (As Agent for the Relevant Subsidiaries of KCRC)
39 Century Gateway II
45 Tsuen Wan West Station (TW5) Bayside / Tsuen Wan West Station (TW5) Cityside / Tsuen Wan West Station (TW6) / Tsuen Wan West Station (TW7)
46 Nam Cheong Station
47 Long Ping Station (North) / Long Ping Station (South)
48 Yuen Long Station
49 Kam Sheung Road Station
50 Pat Heung Maintenance Centre



Schemes Proposed in 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


Intercity Through Train Route Map
Beijing Line
Shanghai Line
Guangdong Line
Beijing
Shanghai
Zhaoqing
Guangzhou
Foshan
Dongguan
HONG KONG SAR
Shenzhen
Lo Wu
Lok Ma Chau
Sheung Shui
Kwu Tung
Fanling
Tai Wo
Tai Po Market
33
University
Racecourse*
Fo Tan
27
35
Sha Tin
31
New Territories
Yuen Long
48
Kam Sheung Road
49
50
Tsuen Wan West
45
Tsuen Wan
05
Tai Wo Hau
Kwai Hing
07
Kwai Fong
06
Lai King
Mei Foo
Tsing Yi
18
Sunny Bay
Disneyland Resort
Ma On Shan
36
Wu Kai Sha
Heng On
Tai Shui Hang
Shek Mun
City One
Sha Tin Wai
38
Che Kung Temple
Tai Wai
40
37
Hin Keng
Lok Fu
Wong Tai Sin
Diamond Hill
Kowloon Tong
Lai Chi Kok
Cheung Sha Wan
Sham Shui Po
Shek Kip Mei
Kowloon
25
Choi Hung
Kowloon Bay
01
Ngau Tau Kok
Kwun Tong
Lam Tin
Yau Tong
Po Lam
24
Hang Hau
23
Tseung Kwan O
Tiu Keng Leng
26
34
LOHAS Park
46
Nam Cheong
Prince Edward
Mong Kok
04
Mong Kok East
Kai Tak
To Kwa Wan
Ma Tau Wai
Ho Man Tin
44
Yau Ma Tei
20
Olympic
21
Kowloon
42
Austin
Jordan
Whampoa
Hung Hom
32
West Kowloon Terminus
Tsim Sha Tsui
East Tsim Sha Tsui
Exhibition
10
Fortress Hill
Causeway Bay North
North Point
Quarry Bay
09
Tai Koo
Sai Wan Ho
17
Shau Kei Wan
12
Heng Fa Chuen
15
Chai Wan
13
22
Hong Kong
Tamar
Sai Ying Pun
11
Sheung Wan
02
Central
Kennedy Town
HKU
Central South
Admiralty
03
08
14
Wan Chai
Causeway Bay
16
Tin Hau
Hong Kong Island
Cyberport
Wah Fu
Aberdeen
South Horizons
Lei Tung
Wong Chuk Hang
43
Ocean Park

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 35 years ago, since then our activities have increased in size, scale, geographical coverage and diversity. Our strategy for future growth is making good progress, 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 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.

2013 Highlights

- Revenue increased on 3.0% growth in patronage and further gains in market share
- Successfully concluded the first five-yearly review of the Fare Adjustment Mechanism ("FAM") with Government. Under the same FAM formula but using a revised productivity factor, fares were adjusted by 2.7% instead of 3.2%, accompanied by additional fare concessions
- Train frequencies on the Tsuen Wan, Kwun Tong, Island, East Rail and West Rail lines increased, with over 1,300 train trips per week added since 2012
- 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 proceeding on schedule
- West Island Line connected to the existing network ready for operation in 2014

Hong Kong Station Commercial Businesses

Business Description

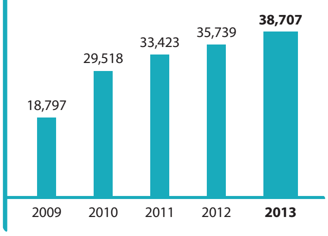
We leverage on our Hong Kong railway assets and expertise into other businesses, including rental of station retail space, advertising in trains and stations, and telecommunications.

2013 Highlights

- Station retail revenue was boosted by significant rental increases at Duty Free Shops at Lo Wu and Hung Hom stations, under the new licence that commenced in January 2013
- Advertising revenue increased, and we continued to launch new advertising formats, including "Supernova Zone" in Hong Kong Station, which blends advertising panels with interactive devices
- Higher telecommunications revenue, and by year-end 2013, 4G mobile service was available at all stations

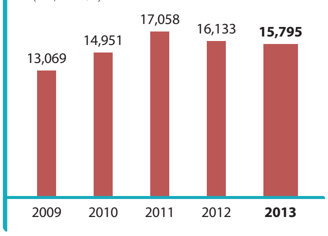
Turnover

(HK$ million)



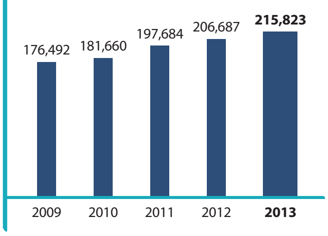
Operating Profit Before Depreciation, Amortisation and Variable Annual Payment

(HK$ million)



Total Assets

(HK$ million)



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 shopping malls and 18 office floors of the Two International Finance Centre office tower. We also engage in cable car operations, the Octopus card payments system, consulting and project management.

2013 Highlights

- Further sales of inventory units, especially at The Riverpark at Che Kung Temple Station, contributed to property development profit
- Achieved good pre-sale of The Austin (Austin Station Site C) with all units sold
- Tender for the Long Ping Station (South) site, where we act as agent for the relevant subsidiary of Kowloon-Canton Railway Corporation, was awarded in June 2013
- Successful renovation of The Edge and rebranding as Popcorn 2

Mainland of China and International Businesses

Business Description

We have invested in urban rail networks and related property developments 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.

2013 Highlights

In our Mainland of China railway and property businesses:

- Phase 1 of Beijing Metro Line 14 opened on schedule on 5 May 2013 with satisfactory service performance
- Successfully bid for the land use right for a site at Tianjin Beiyunhe Station on Tianjin Metro Line 6 at a price of RMB2,075 million in August 2013 through our 49% owned associate

In our International railway businesses:

- In recognition of excellent performance, our franchise on operating London Overground was extended for a further two years to November 2016
- A 455-km new rail service, MTR Express, will be launched to connect Sweden's two largest cities Stockholm and Gothenburg

Chairman's Letter

"MTR performed well in 2013, with our recurrent businesses showing steady growth and our growth strategy making good progress."

Dr Raymond Ch'ien Kuo-fung
Chairman

Dear Shareholders and other Stakeholders,

MTR performed well in 2013, with our recurrent businesses showing steady growth and our growth strategy making good progress. Hong Kong transport operations recorded increases in both patronage and market share. Our station commercial and property rental businesses achieved higher revenues. Modest Hong Kong property development profits were booked, mainly from the sale of inventory units at The Riverpark, and we achieved strong pre-sale at The Austin (Austin Station Site C), for which profit will be recognised upon the issuance of the Occupation Permit, which is expected later this year. Our franchises outside of Hong Kong made a stronger contribution and more railway operations were added to our Mainland of China and international portfolio.

MTR's recurrent profit after tax, being all underlying profit before property development profit and investment property revaluation, increased by 7.6% to HK$7,437 million. However, as a result of lower property development profit, underlying profit before investment property revaluation decreased by 10.6% to HK$8,600 million. Including investment property revaluation, net profit attributable to shareholders was HK$13,025 million, representing earnings per share after revaluation of HK$2.25. Your Board has proposed a final dividend of HK$0.67 per share, taking the full year dividend to HK$0.92 per share, as compared with HK$0.79 per share in 2012, with a scrip dividend option offered, subject to shareholders' approval.

Our passengers are now benefiting from the review of the Fare Adjustment Mechanism ("FAM") which we announced with Government in April 2013. The overall FAM formula and direct drive mechanism were left unchanged, but an objective and transparent methodology to calculate the value of the productivity factor was agreed. This resulted in the overall fare adjustment rate in 2013 being reduced to 2.7% from what would have been 3.2%. As part of the FAM review and to encourage usage of our network by various passenger groups, we announced additional fare concessions, including the "Monthly Pass Extra" and "MTR City Saver". A new profit-related fare concession scheme to share our success each year with passengers, as well as the Service Performance Arrangement, will provide funds for fare concessions under the "10% Same-Day Second-Trip Discount" scheme.

In addition, an Affordability Discount will be offered in future years when the FAM rate in any given year triggers a fare increase that is higher than the year-on-year percentage change in Median Monthly Household Income for the fourth quarter of the preceding year as published by Government.

This well-balanced package addresses the travelling public's desire to spend less on fares, while at the same time assures our shareholders of the Company's long-term sustainable development.

Creation of Long Term Value

MTR started its first passenger service on 1 October 1979, with an eight-kilometre line serving nine stations. Since then, the network has grown hand-in-hand with Hong Kong to encompass 84 stations that link old-established communities, while also serving as the public transport backbone for the development of new, seamlessly integrated communities atop and around stations, as well as the international airport.

Our shared journey with Hong Kong has been underpinned by our commitment to provide passengers with a safe and reliable public transport service and we are proud that, with our consistent 99.9% on-time performance, MTR has been voted more than ten years in a row as Hong Kong's best public transport operator and is recognised internationally as one of the world's best metro systems.

Our long-term vision is to be a leading multinational company that connects and grows communities with caring service. We are aiming to raise recurrent earnings, expand our network to serve more people and commuters around the world, and to be the undisputed leader in service quality.

To remain a leader in global best practice in urban mass transit development and operations, we need to invest in financially sustainable new projects, which we are doing continuously in Hong Kong, the Mainland of China and overseas. We are partnering with other transport companies and recognised research institutions to increase our level of research and development related to railway systems. We also continually benchmark our operations through involvement with bodies such as UITP (International Association of Public Transport), CoMET (Community of Metros) and through sponsoring and supporting iESM, the international Handbook on Engineering Safety Management for the rail industry.

In 2013, our growth strategy has made good progress. In Hong Kong, our five railway expansion projects, which will add 56 km to our network by 2020, are moving ahead simultaneously and are all on target. These lines are strategically planned and designed to expand capacity, upgrade services and bring the MTR to previously unserved communities on Hong Kong Island, in Kowloon and in the New Territories. The West Island Line is already connected to the existing network and will be the first to open this year. Over the course of the next six years it will be joined by the Hong Kong section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link, the South Island Line

(East), Kwun Tong Line Extension and Shatin to Central Link. These new lines will generate significant economic, social and environmental benefits as they enter service. Apart from these five new lines, Government has recently undertaken the Review and Update of the Railway Development Strategy 2000 ("RDS-2U") to map out the long-term railway development blueprint of Hong Kong. As the Chief Executive, Mr CY Leung, highlighted in his Policy Address in January 2014, 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 sustainable rail development that not only enhances movement across the city, but also unleashes the economic potential of areas along the railway lines.

In our Mainland of China and international growth activities, work has now begun on the next phase of Beijing Metro Line 14, as well as our rail-related property development projects in Shenzhen and Tianjin. In Sweden, we will launch a new service connecting Stockholm and Gothenburg. Last year, we submitted bids for the Essex Thameside and the Thameslink (Thameslink, Southern and Great Northern) franchises in the UK and the North West Rail Link in Sydney, Australia. We are exploring further opportunities in the Mainland of China, Europe and Australia, seeking to identify profitable opportunities that align with our expertise in rail operations and rail-related property development.

Corporate Sustainability

A unique Sustainable Competitive Advantage model is the management framework that guides our approach to sustainable development. It integrates the dynamics of risk management and stakeholder engagement to balance business risks and contribute to the long term development of communities. To this end, we focus on our sustainability priorities that reflect a longer-term focus for our business, ranging from resources management to societal development and climate change.

Our rail network expansion projects address these criteria from design through to construction. Currently, for example, we are monitoring the carbon footprint of the South Island Line (East) as its construction moves forward. A carbon assessment is also being implemented for the construction of the Shatin to Central Link. This will be the first time a carbon assessment has been undertaken on our projects from the design phase through to construction, which will improve the assessment methodology and allow for necessary mitigation measures to be adopted early in the project cycle.

Our property businesses are also taking a lead in sustainable practices in design, construction and management. In 2013, The Riverpark obtained a "Platinum" rating, the highest level obtainable, under Hong Kong's Building Environmental Assessment Method for New Buildings (4/04 Version). The new entrance at University Station received a certification rating of "Silver" under the US Green Building Council's Leadership in Energy and Environmental Design ("LEED") rating scheme. This award follows the "Gold" LEED certification that was granted to Two International Finance Centre.

As a signatory to Hong Kong's Energy Saving Charter, between June and September 2013 we maintained an average indoor temperature of 24-26 degrees Celsius in the common areas of our shopping malls, main office buildings and the common areas of office buildings managed by the Company. We have also stopped procuring incandescent light bulbs for general lighting purposes for MTR office buildings and the common areas of MTR shopping malls since June 2013.

Responding to concerns about food waste, we became one of the first organisations to sign the "Food Wise Charter" under the Food Wise Campaign initiated by the Environment Bureau. We have since supplemented this with our own "MTR Malls Food Waste Reduction Pledge 2013", an MTR sponsored incentive scheme to encourage food and beverage tenants to reduce food waste at source.

Underpinning our sustainable approach to business is our integrated rail and property development model, which has a long track-record in Hong Kong and is establishing itself globally. Recognition for the model's effectiveness came during the year from the prestigious International Business Model Award at the UITP (International Association of Public Transport) World Congress in Geneva in May 2013 and from the World Bank in November in Beijing. Visits to our network by the Secretary of State for Transport of the United Kingdom, the Governor of the State of Massachusetts in the United States and the Mayor of London also testify to our growing profile internationally.

Our Sustainability Report 2013 will be published in May 2014. Together with a dedicated website, it will follow the new Global Reporting Initiative G4 Guidelines, including performance data and a discussion of material issues arising from our subsidiaries.

In our Corporate Sustainability programmes we focus on Youth Development, Art & Culture, Green & Healthy Living and Community Outreach.

A total of 100 students from 71 secondary schools participated in "'Train' for life's journeys", a ten-day summer programme that focuses on the individual skills and the responsibilities of Hong Kong's youth. The mentoring programme "'Friend' for life's journeys", now in its fifth year, took on 140 new students in November 2013. Additionally, the "MTR-Chinese University of Hong Kong (CUHK) Youth Quality of Life Index" and "MTR – CUHK Youth Quality of Life Champions Competition", both of which we sponsor, have been encouraging positive attitudes and civic engagement among young people. In addition, we continue to bring art into our railway network through our "art in mtr" initiative which includes the roving art programme, introducing new art pieces to light up our station environments, and hosting various performances in Hong Kong Station under our living art programme.

Our flagship annual event to promote healthy living, MTR HONG KONG Race Walking, which we co-organise with the Hong Kong Amateur Athletic Association, was held in October 2013 and raised a record HK$1.38 million. The funds raised support the Hospital Authority Health InfoWorld's work on disease prevention and health education.

During 2013, 239 community projects were organised under the "More Time Reaching Community" scheme, involving more than 6,000 volunteers. In addition, the Company and staff together donated more than HK$7 million to charitable and other organisations, such as the Community Chest.

To underline our commitment as an equal opportunity employer, we signed the Talent-Wise Employment Charter in September 2013 and participated in the Inclusive Organisations Recognition Scheme organised by the Labour and Welfare Bureau, to extend our corporate support to the employment of persons with disabilities.

Recognition for Sustainability and Corporate Responsibility

The Company's strong performance in corporate sustainability has been recognised through its selection as a constituent of the Hang Seng Corporate Sustainability Index ("HSCSI"), the Dow Jones Sustainability Index ("DJSI") Asia Pacific and the FTSE4Good Index Series. In 2013, our sustainability performance ranked number two out of 30 eligible Hong Kong companies on the HSCSI.

To increase the transparency of our sustainability reporting, we have participated in the Carbon Disclosure Project ("CDP") for eight consecutive years. CDP provides public information on corporate carbon emissions and strategies from the world's largest companies by market capitalisation for use by investors worldwide.

Since 2011, we have been awarded the "5 Years Plus Caring Company Logo", and in 2013 MTR gained numerous other awards that demonstrate the regard in which our commitment to sustainability is held. Most notable among them were *EastWeek's* "Hong Kong Services Awards 2013 – the Corporate Social Responsibility Award" and the "Platinum Award for Eco Transportation Systems" in the "Prime Awards for Eco-Business 2013" given by *MetroBox magazine*. The Company also performed outstandingly on the Hong Kong Quality Assurance Agency HSBC Corporate Social Responsibility Index in 2013, receiving an overall score of 5/5, the highest attainable.

Board Appointments

I would like to welcome Professor Frederick Ma Si-hang, Mrs Pamela Chan Wong Shui and Dr Dorothy Chan Yuen Tak-fai, who joined the Board in July 2013 as Independent Non-Executive Directors of the Company. I am also happy to report that Mr Jay Walder has extended his contract with us as CEO for a further two years.

Conclusion

It has been another year of all-round progress for MTR as we strive to create sustainable shareholder value while improving the lives of the communities we serve. I wish to thank my fellow directors for their contributions, all of our staff for their commitment to excellence and our other stakeholders for their solid support.

Over the past 35 years, the MTR has become part of the lives of Hong Kong people, journeying with the public via our expanding rail network, and reliable and caring services. We look forward to continuing this journey as we celebrate our 35th Anniversary in 2014.

Dr Raymond Ch'ien Kuo-fung, *Chairman*
Hong Kong, 11 March 2014

CEO's Review of Operations and Outlook

"The Listening • Responding programme is an important commitment to our passengers and our efforts continued in 2013 to deliver enhanced services and facilities..."

Jay H Walder
CEO

Dear Shareholders and other Stakeholders,

I am pleased to report that the Company has delivered solid financial results in 2013, supported by good operational performances and world-class safety standards. Our strategy remains to invest in Hong Kong to enhance our services and corporate citizen reputation, while building on our established hubs in the Mainland of China and overseas to pursue faster growth in markets outside of Hong Kong.

The Company's recurrent businesses in Hong Kong showed sustained growth momentum in 2013. Our rail and bus passenger services saw a steady increase in ridership while our station retail and property rental portfolio benefited from positive rental reversions. Property development profits were more modest than in 2012 and comprised mainly the sale of inventory units at The Riverpark. Meanwhile, we achieved strong pre-sale at The Austin (Austin Station Site C), with all 576 units sold, and profit will be recognised upon issuance of the Occupation Permit, which is expected later this year.

In Hong Kong, our professional and motivated staff continued to deliver highly reliable train services and strengthen our corporate citizen reputation. The Listening • Responding programme is an important commitment to our passengers and our efforts continued in 2013 to deliver enhanced services and facilities to lines and stations across our network in direct response to our passengers' feedback. Since the programme commenced in 2012, it has helped to ease crowding and reduce waiting time through adding over 93,000 additional train trips. It has also improved access and enhanced convenience through renovation of our station facilities, installation of five new lifts, as well as adding 52 wide gates and extra seats.

Enhancements in communication were achieved through an upgraded "MTR Mobile" app, as well as free Wi-Fi hotspots and provision of 4G mobile services at all stations. The feedback we have been receiving from passengers in response to our efforts is very encouraging and our initiatives are clearly bringing tangible benefit to the community.

Maintaining high safety standards across all our operations in Hong Kong, the Mainland of China and overseas remains an absolute priority for the Company. We continue to benchmark our safety performance against the best international standards and have increased our sharing of best practices through more programmes among our business units and with other organisations. As our recent Staff Attitude Survey in Hong Kong attested, the message of "safety first" is well understood at every level of our organisation.

In April 2013, the review of the Fare Adjustment Mechanism ("FAM") came to a successful conclusion. The outcome has ensured the Company's sustainable development over the long term and, while safeguarding the Company's interests, our passengers are now enjoying lower fares than would otherwise have been the case.

Our growth strategy is progressing well. The Company's five network expansion projects in Hong Kong continue to progress on time and within budget, and we are on target to open the West Island Line this year. Beyond the current programme, we are working closely with Government on planning the next phase of railway expansion arising from the Review and Update of the Railway Development Strategy 2000 ("RDS-2U"). With these current and future projects, the vision of a sustainable future for mobility in Hong Kong is coming into sight.

Outside of Hong Kong we continue to invest in a focused way in rail and rail-related property projects, where we believe that our expertise gives us an edge. The latest expansion of our rail network has been Phase 1 of Beijing Metro Line 14 ("BJL14"), which commenced passenger service in May 2013. We are currently developing Shenzhen Metro Longhua Line Depot Site Lot 1, and pre-sale may take place as early as the fourth quarter of 2014, subject to market conditions. In August 2013, Tianjin TJ-Metro MTR Construction Company Limited, a company formed by a wholly-owned subsidiary of the Company and Tianjin Metro (Group) Company Limited, successfully bid for the land use right of a site at Beiyunhe Station on Tianjin Metro Line 6. In the UK, recognising the excellent performance of London Overground Rail Operations Limited ("LOROL"), Transport for London ("TfL") has extended our franchise there for a further two years. We are also pursuing other opportunities in the Mainland of China and overseas using our existing hubs as a platform.

Looking at our financial performance, total revenue for 2013 grew by 8.3% to HK$38,707 million. Operating profit before Hong Kong property developments, depreciation, amortisation and variable annual payments also increased by 11.7% to HK$14,399 million. Excluding contributions from our Mainland of China and international subsidiaries, revenue increased by 10.9% and operating profit by 10.7%, while operating margin decreased slightly by 0.2 percentage point to 53.4%. Profit from

CEO's Review of Operations and Outlook

Hong Kong property developments was HK$1,396 million, compared with HK$3,238 million in 2012, and was derived mainly from the sale of inventory units at The Riverpark at Che Kung Temple Station. Excluding the revaluation of investment properties, net profit from underlying businesses attributable to equity shareholders decreased by 10.6% to HK$8,600 million, representing earnings per share of HK$1.48. The gain in revaluation of investment properties was HK$4,425 million, as compared with HK$3,757 million in 2012. As a result, net profit attributable to equity shareholders was HK$13,025 million, equivalent to earnings per share of HK$2.25 after the revaluation of investment properties. Your Board has proposed a final dividend of HK$0.67 per share, giving a full year dividend of HK$0.92 per share, an increase of 16.5% over 2012, with a scrip dividend option offered, subject to shareholders' approval.

Hong Kong Transport Operations

Total revenue in 2013 from our Hong Kong transport operations was HK$15,166 million, 4.4% higher than in 2012, while operating costs increased by 5.4% to HK$8,449 million, resulting in the operating profit for this business rising 3.2% to HK$6,717 million, with an operating margin of 44.3%.

Patronage

Total patronage from all of our rail and bus passenger services in Hong Kong increased by 3.0% to a record 1,823.4 million in 2013. Excluding the Intercity service, total patronage also increased by 3.0% to 1,819.1 million.

For the Domestic Service (which comprises the Kwun Tong, Tsuen Wan, Island, Tung Chung, Tseung Kwan O, Disneyland Resort, East Rail (excluding the Cross-boundary Service), West Rail and Ma On Shan lines), total patronage reached 1,474.7 million, a 3.0% increase over 2012. The increase was driven by continued growth in the economy and inbound tourism, as well as our service enhancements.

The Cross-boundary Service to Lo Wu and Lok Ma Chau reported a 1.5% increase in patronage to 111.4 million for the year 2013.

Passenger traffic on the Airport Express rose by 7.6% over 2012 to 13.7 million, supported by a rise in air travel and effective marketing campaigns.

Passenger volume on our Light Rail and Bus services during 2013 was 219.3 million, a 2.9% increase, while patronage on the Intercity service was 7.3% higher at 4.3 million.

Average weekday patronage for all of our rail and bus passenger services in Hong Kong increased by 3.5% to 5.25 million during 2013. The Domestic Service accounted for the majority of this patronage rise, recording a 3.6% increase to 4.30 million.

Market Share

The Company's overall share of the franchised public transport market in Hong Kong increased from 46.4% in 2012 to 46.9% in 2013. Within this total, our share of cross-harbour traffic was 66.7%. The Company's market share of Cross-boundary business for the year declined from 54.2% to 53.4%, while market share to and from the airport rose slightly to 22.0% from 21.8%.

Fare Revenue

Total Hong Kong fare revenue in 2013 was HK$15,021 million, a 4.4% increase over 2012. Within this total, the Domestic Service accounted for HK$10,511 million or about 70%. Average fare per passenger on our Domestic Service increased by 1.6% to HK$7.13.

Fare revenue from the Cross-boundary Service in 2013 was HK$2,923 million, an increase of 2.7% over 2012. Fare revenue from the Airport Express was 6.0% higher for the year at HK$843 million. Light Rail and Bus fare revenue in 2013 was HK$600 million, a 3.8% increase over 2012, while fare revenue from the Intercity service was HK$144 million, increasing by 7.5% over the 12 months.

In April 2013, we concluded the first five-yearly review of the FAM with Government. The overall FAM formula and the direct drive mechanism were left unchanged, but an objective and transparent methodology was agreed for calculating the productivity factor. The productivity factor, under the new calculation method, was 0.6% for the five years from 2013 to 2017, resulting in a fare adjustment in 2013 of 2.7% instead of 3.2%. Thus passengers are enjoying fares which are lower than they otherwise would have been.

As a supplement to the FAM review, passengers have received additional concessions. These include an enhanced monthly pass programme called "Monthly Pass Extra", which provides an additional 25% discount for connecting domestic journeys to stations beyond those covered by individual monthly passes, as well as a new "Tung Chung - Nam Cheong Monthly Pass Extra". An "MTR City Saver" ticket scheme allowing frequent medium-distance travellers to purchase discounted multi-ride tickets for use within the designated urban area will be introduced in the second quarter of 2014.

Passengers will also be able to share directly in the profits of the Company through a profit-related fare concession scheme. In addition, under the new Service Performance Arrangement, concessions will be made directly to passengers when an operational fault on our network deemed to be within the Company's control causes a lengthy service disruption. Both of these concessions will be given in the form of the "10% Same-Day Second-Trip Discount" promotion.

Service and Performance

During 2013, our train service delivery and passenger journeys on time across the network were maintained at a world-class standard of 99.9%, which exceeds the targets set out in the Operating Agreement and our own more demanding Customer Service Pledges. Our continuing service excellence gained both local and international recognition. The many awards we received in Hong Kong included "Top Favourite Service Brand Voted by Hong Kong Consumer" for the seventh year in a row and "Top Favourite Advertisement Commercials Voted by Hong Kong Consumer" in "Prestigious Corporate Brand Awards 2013" presented by Ming Pao Daily News and the MSc Marketing Programme of the Chinese University of Hong Kong, as well as "Top Service Awards 2013 in Public Transportation Category" for 15 years in a row presented by Next Magazine. The Airport Express achieved international recognition with the "North Star Air Rail Link of the Year" award in The Global AirRail AWARDS 2013. Our "MTR Mobile" app also won the 2013 APICTA (Asia Pacific Information and Communication Technology Alliance) Awards - Merit award in the Government & Public Sector category.

Our successful Listening • Responding programme is delivering enhancements to services in direct response to passengers' feedback. Our focus in 2013 has been to make MTR travel more comfortable and pleasant, enhancing train services to ease crowding, catering to the needs of senior citizens and persons with disabilities, and enhancing communication.

We continued to make improvements to service frequency in 2013, with an increase in train frequencies on the Tsuen Wan, Kwun Tong, Island, East Rail and West Rail lines during the year. We are now running an additional 1,300 train trips per week, with over 93,000 additional train trips operated since the launch of the Listening • Responding programme in 2012.

For Light Rail, more coupled-set vehicles have been deployed to provide additional capacity on busier routes. A new train schedule for the Guangdong Line Through Trains took effect in our Intercity service, with the departure time of the last Mainland-bound train from Hung Hom being pushed later, while Through Train capacity was enhanced by the addition of a ninth coach to our *Ktt* service. The introduction of brand new Mainland Through Trains for Guangdong Line also significantly improved service quality.

To enhance passengers' comfort and overall travelling experience, we are embarking on a programme to upgrade our trains through fitting inflatable door seals. Three trains on the Tseung Kwan O Line were retrofitted in 2013 and 90 train sets will be retrofitted by 2020. Our project to upgrade Light Rail vehicles continued in 2013 and, by year end, more than 50 refurbished vehicles had been put back into service.

Work on improving connectivity for passengers and enhancing the station environment also continued. Re-layout works at Kwun Tong Station were completed. Major renovations were substantially completed at Fanling and Sheung Shui stations. Improvement work commenced at Fo Tan Station in 2013 and is targeted for completion in 2015.

Journeys have been made more convenient for senior citizens, people with disabilities and those travelling with baby prams or luggage. Since the Listening•Responding programme was launched in 2012, an additional 52 wide gates have been installed in 30 stations, and five new lifts have entered into service. We remain firmly on course to deliver independent barrier-free access at 80 out of 83 existing full-time stations by 2016. A total of 326 new sets of seats will have been installed in stations by the first quarter of 2014 under the programme that began in 2012.

More accessible Customer Service Centres with a new look have replaced existing service centres at 15 of our busiest stations. We have also deployed additional station assistants and installed giant way-finding signboards to improve navigation. In 2013 a new and more convenient Single Journey Smart Ticket was rolled out at 41 stations, as part of the programme to replace all magnetic single journey tickets by the first half of 2014.

With over 1.8 million users, our "MTR Mobile" app has been integrated with our "Traffic News" app, which provides timely information on special train service arrangements or adjustments, while the "MTR Tourist" app helps visitors to navigate the MTR system by providing a simple point-to-point travel guide. Our real-time train schedule information service "Next Train" app was extended in September 2013 to the West Rail Line. Since July 2013, free Wi-Fi hotspots have been available at all 84 MTR stations.

We continue to invest in our existing railway assets to improve performance and capacity. In 2013, we started the tender process for a replacement signalling system for six existing MTR lines as well as the Airport Express. To be installed over the next several years, the system will increase reliability and passenger carrying capacity on these lines.

Enhancing Safety Performance

Our emphasis on safety in all aspects of our operations has resulted in a 20% reduction in reportable incidents on the Domestic Service, Cross-boundary Service and Airport Express in 2013. The improvement was particularly noticeable in relation to the number of incidents on escalators, showing a 27% reduction.

Following an incident on our Light Rail service in May 2013, we have increased the number of speed checks on Light Rail vehicles and are providing more structured reminders to train captains on the importance of adhering precisely to safe driving practices. Furthermore, we are installing fixed speed cameras specially designed for Light Rail operations.

To continue to promote safety awareness across all businesses, in addition to divisional safety promotion programmes, the Corporate Safety Month was held in June 2013. Over 30 seminars and promotional events were organised in Hong Kong, the Mainland of China and overseas offices under the theme "Keep SAFETY-FIRST in our hearts and minds, connect communities with better safety performance".

In February 2013 we engaged an external consultant to conduct an assessment of our Operations Division Safety Management System, using the Railway Management Maturity Model developed by the Office of Rail Regulation in the UK. Our performance far exceeded the 2012 average for UK train operating companies. Benchmarking of safety performance, safety management best practices and lessons learned from incidents has continued with other major metros around the world through the Community of Metros ("CoMET") and with our own subsidiaries and associates. Peer reviews of safety and operation and maintenance practices were held at MTR Stockholm AB ("MTRS") and LOROL in May 2013 and at Metro Trains Melbourne Pty. Ltd. ("MTM") in November 2013, bringing together experts from Hong Kong and across different subsidiaries and associates to share best practices.

Our efforts to maintain the highest levels of safety secured two important awards in 2013. In Hong Kong, we received the "Bronze Award for Safety Promotion" in the 12th Hong Kong Occupational Safety & Health Award Forum jointly organised by the Occupational Safety and Health Council and the Labour Department. In the UK, we also received the "British Safety Council International Safety Award 2013 – Merit Award".

Hong Kong Station Commercial Businesses

Revenue from our Hong Kong station commercial business increased by 24.7% in 2013 to HK$4,588 million. The increase was driven mainly by the rise in station retail revenue. Operating costs for this business increased by 16.9% to HK$464 million. Operating profit rose by 25.6% to HK$4,124 million, with an operating margin of 89.9%.

Station retail revenue in 2013 increased 36.9% to HK$2,933 million. The increase was due to significant rental increases at the Duty Free Shops at Lo Wu and Hung Hom stations under the new licence that commenced in January 2013, as well as higher rentals generated by trade mix refinements and favourable renewal rates in station shops. As at 31 December 2013, the number of station shops was 1,336, occupying a lettable area of 56,350 square metres, marginally higher than in 2012.

Advertising revenue in 2013 increased by 5.3% to HK$1,053 million. The number of advertising units increased by 407 to 45,058. Our continuing innovation in formats included a "Supernova Zone" in Hong Kong Station, blended advertising panels with interactive devices. 103" TV format advertising panels were introduced in the concourses at Kowloon Tong and Lo Wu stations. The upper platform and Jardine's Bazaar exits of Causeway Bay Station were enhanced to improve their advertising potential, while advertising panels in the concourses of Causeway Bay and Kowloon Tong stations have been revamped.

Revenue from telecommunications in 2013 increased by 12.9% to HK$447 million mainly due to incremental revenue from the launch of 4G mobile phone services and mobile data capacity increases by telecom operators along our network. By the end of 2013, 4G mobile services were made available at all stations.

Hong Kong Property and Other Businesses

In 2013, the sales activities of Hong Kong's property market continued to reflect Government measures intended to stabilise prices and curb speculation. Sales volumes for both residential and commercial property contracted sharply from the previous year, though residential flat prices remained relatively stable, supported by the low interest rate environment. The pace of sales launches of new residential projects slowed for some time after the Residential Properties (First-hand Sales) Ordinance took effect in late April 2013, which led to primary flat sales falling to a historical low. Office leasing in Central saw moderate activity, amid weaker demand from financial services companies. The retail property market remained solid as a result of inbound tourism, despite this sector also witnessing slowing growth in 2013 as compared with previous years.

Property Development in Hong Kong

Profit from Hong Kong property development in 2013 was HK$1,396 million. This mainly comprised the sale of inventory units at The Riverpark at Che Kung Temple Station and car parking spaces at various developments.

We launched the pre-sale of The Austin (Austin Station Site C), with all 576 units sold by November 2013. Profit will be recognised upon issuance of the Occupation Permit, which is expected later this year. For West Rail projects, where we act as agent for the relevant subsidiaries of Kowloon-Canton Railway Corporation ("KCRC"), we launched the pre-sale of Century Gateway II (Phase 2 of the Tuen Mun Station property development), with 99% of the total 911 units sold by January 2014. Meanwhile, Century Gateway (Phase 1 of the Tuen Mun

Station property development) was completed, with units sold handed over to purchasers in August 2013.

In our tendering activities, for West Rail projects where we act as agent for the relevant subsidiaries of KCRC, the Long Ping Station (South) site was tendered in May 2013 and awarded to a member company of Chinachem Group on 5 June 2013. We invited tenders for the Tin Wing Stop (Light Rail) property development site, with three tenders received upon tender closing on 21 January 2014. As none of the tenders received met the financial requirement, we decided not to accept any of the tenders. We are also currently examining the development packages at the LOHAS Park and Tai Wai Station sites, with a view to putting these sites out to tender, subject to market conditions.

Plans for future development sites, including the Wong Chuk Hang Depot site along the South Island Line (East), continued to progress well.

We continue to explore opportunities for other new developments along our railway lines, in response to market conditions as well as Government's request.

Property Rental and Management Businesses in Hong Kong

Revenue from our Hong Kong property rental and management businesses in 2013 grew by 11.1% to HK$3,778 million. Operating costs rose by 7.3% to HK$673 million, resulting in operating profit increasing 11.9% to HK$3,105 million, representing an operating margin of 82.2%.

Total property rental income in Hong Kong was HK$3,547 million, 10.9% higher than in 2012. Our shopping mall portfolio achieved an average 16% increase in rental reversion for the year. At the end of December 2013, our shopping malls in Hong Kong and the Company's 18 floors of office space at Two International Finance Centre ("Two ifc") remained close to 100% let.

As at 31 December 2013, the Company's attributable share of investment properties in Hong Kong comprised 213,334 square metres of lettable floor area of retail properties, 40,969 square metres of lettable floor area of offices, and 14,282 square metres of property for other use.

We continue to invest in our retail properties to enhance their attractiveness, financial return and environmental performance. To ensure the branding and experiential consistency of PopCorn, renovation works for the ceilings and floors of the common areas of PopCorn 2 (rebranding of "The Edge") commenced in October 2013, with a target for completion in 2014.

Building on the success of Maritime Square in Tsing Yi, we shall convert the relevant portion of the adjacent Tsing Yi Lorry Park into a shopping mall, which will add another 12,100 square metres of gross floor area to Maritime Square. The conversion works are planned to commence in 2014, with a target completion in end 2017.

Hong Kong property management revenue in 2013 rose by 13.8% to HK$231 million. As at 31 December 2013, the number of residential units under the Company's management had risen to 90,523, following the addition of 4,257 units from The Wings, Century Gateway, The Riverpark and La Splendeur. The area of managed commercial and office space was 763,018 square metres. Also during 2013, MTR managed properties made use of Government's Buildings Energy Efficiency Funding Schemes by implementing a number of projects designed to lower energy consumption and CO_2 emissions.

Other Businesses

The Ngong Ping cable car ("Ngong Ping 360") and associated theme village achieved a 26.9% increase in revenue in 2013 to HK$316 million. Visitor numbers in 2013 reached approximately 1.65 million, while reliability exceeded target and reached 99.8%. The growth in ridership was driven by innovations in ticketing schemes, such as the "360 Sky-Land-Sea Overnight Package", as well as lively themed events, ranging from the "360 Martial Arts Extravaganza" over the summer months, to the "360 Breadtacular" event in autumn, to the "Ngong Ping 360 Glittering Christmas Village" over the festive season. The new Galaxy Ticketing Systems that were introduced in December 2012 have helped increase efficiency and business growth, as well as enhance customer service.

Revenue from our consultancy business in 2013 was HK$128 million, 25.5% higher than in 2012. The Company entered into a new seven-year Maintenance Agreement for the Automated People Mover System at Hong Kong International Airport in July 2013.

Octopus continued to expand in Hong Kong's retail sector and the Company's share of Octopus' net profit for 2013 grew by 6.6% to HK$225 million. As at 31 December 2013, more than 5,000 service providers in Hong Kong were using the Octopus service. The total number of Octopus cards and other stored-value Octopus products in circulation during the year was 24.84 million. The average daily transaction volume and value reached 13.0 million and HK$139.6 million respectively.

Income from providing project management services to Government, predominantly for entrustment works on the Hong Kong section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link ("Express Rail Link") and the Shatin to Central Link, was HK$1,461 million in 2013, an increase of 50.9% over 2012. Income from the entrustment works is currently booked on a cost recovery basis.

Mainland of China and International Businesses

Revenue in 2013 from our Mainland of China and international subsidiaries was HK$13,246 million, of which our railway subsidiaries outside of Hong Kong, namely MTM, MTRS and MTR Corporation (Shenzhen) Limited ("SZMTR"), contributed HK$13,100 million. Our Mainland of China property rental and management businesses also contributed revenue of HK$146 million. Operating costs for our railway subsidiaries outside of Hong Kong were HK$12,332 million, resulting in a 31.5% increase in operating profit to HK$768 million and an operating profit margin of 5.9%.

Our associates outside of Hong Kong, namely Beijing MTR Corporation Limited ("BJMTR"), LOROL and Tunnelbanan Teknik Stockholm AB ("TBT"), continued to generate profit. Following the commencement of our operation of Hangzhou Metro Line 1 ("HZL1") on 24 November 2012, we have included the results of our 49% owned associate, Hangzhou MTR Corporation Limited ("HZMTR"), which incurred an operating loss in 2013. The loss is due mainly to lower than expected patronage. Plans have been put in place to enhance patronage on this line. Our overall share of losses from these four associates in 2013 was HK$74 million.

Total passengers carried by our rail subsidiaries and associates outside of Hong Kong was 1,355 million in 2013, as compared with approximately 1,171 million in 2012.

Railway Businesses in the Mainland of China

Beijing Metro Line 4 ("BJL4") and the Daxing Line again exceeded their service targets. Combined ridership in 2013 reached 454 million passenger trips, with an average weekday patronage of more than 1.28 million. The two lines have 35 stations and a combined length of 50 km.

Phase 1 of BJL14 opened on schedule on 5 May 2013. The service performance has been satisfactory. This section of the new line has seven stations, running for 12.4 km. Total passenger trips since its opening to year-end 2013 were 11.4 million. BJL14 is currently operated by BJMTR on an "O&M" (Operation and Maintenance) fee basis. The Public-Private-Partnership ("PPP") terms will start once the full line is open, estimated to be in 2015.

BJMTR received several awards during the year, including "Outstanding Safety Performer in Transport Sector 2012" from the Beijing Municipal Transport Committee.

The operational performance of Shenzhen Metro Longhua Line ("SZL4") also exceeded targets and contractual commitments during the year. Ridership for the year was 140 million, with average weekday patronage reaching 380,300. The line runs 20.5 km and has 15 stations. During the year, SZMTR was awarded ISO14001:2004 by Bureau Veritas.

HZL1 celebrated its first full year of operation in November 2013, with operational performance exceeding targets. Following the opening of the Hangzhou East high speed rail station and in response to our marketing initiatives, which are contributing to changing patterns of behaviour among commuters, the patronage has shown significant improvement. The average daily patronage in December 2013 reached over 318,000, far exceeding the 168,000 seen in January 2013. Total ridership for the year was 92.4 million. The last station on the line, East Railway Station, opened on 30 June 2013. HZL1 has 31 stations with a route length of 48 km.

International Railway Businesses

In the UK, LOROL continued to deliver excellent service to the nation's capital. A significant staff efficiency initiative was successfully delivered with the extension of driver-only operations to the North London and West London lines from November 2013. LOROL is also working with TfL to support a GBP320 million project to increase train lengths from four cars to five cars. Construction work to support this began in April 2013 and the first five-car train is scheduled to enter service in the second half of 2014.

The network of LOROL extends to 57 stations over 124 km. Ridership in 2013 increased to 101 million.

LOROL won some impressive awards during the year, including "European Commuter Operator of the Year" at the inaugural European Rail Congress Awards in London. In recognition of LOROL's excellent performance, TfL has extended our concession for a further two years to November 2016.

In Stockholm, MTRS's operational performance in the Swedish capital continues to improve, receiving recognition from the Swedish Institute of Quality for "Successful Business Development in 2013". Ridership for the year was 329 million, with average weekday patronage reaching 1.2 million. The metro system comprises three lines and 100 stations, and runs for 110 km.

In Melbourne, patronage on MTM held steady for the year at 227 million. The network has 218 stations and runs for 390 km, making it the largest contributor to revenue among our international businesses. Service delivery has continued to improve and record performance was achieved during the year. In February 2013, MTM's safety related advertising campaign won the prestigious "Ad Campaign of the Year" and "Ad of the Year" awards at the AdNews Agency of the Year Awards.

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

MTR Property Development (Shenzhen) Company Limited is currently developing Shenzhen Metro Longhua Line Depot

Site Lot 1. The total developable gross floor area of the site is approximately 206,167 square metres. The ground-breaking ceremony was held on 16 December 2013, marking the start of construction of this development project.

On 5 August 2013 Tianjin TJ-Metro MTR Construction Company Limited, a company formed by a wholly-owned subsidiary of the Company (49%) and Tianjin Metro (Group) Company Limited (51%), successfully bid for the land use right for a site at Beiyunhe Station on Tianjin Metro Line 6 in Tianjin, at a price of RMB2,075 million. The total developable gross floor area of the site is approximately 278,650 square metres. The site will be developed for residential and commercial use. The land premium was fully settled in November 2013 and detailed planning and design for the development is currently in progress.

Revenue from our property rental and property management businesses in the Mainland of China increased by 7.4% to HK$146 million in 2013. Our shopping mall in Beijing, Ginza Mall, had an occupancy rate of close to 100% at the end of 2013. The Company's managed gross floor area of commercial and residential space in the Mainland of China remained steady at 256,000 square metres.

Future Growth

In 2013, we made steady progress on our railway network expansion projects in Hong Kong, as well as in our businesses in the Mainland of China and overseas.

Growth in Hong Kong

The 3-km West Island Line is an extension of the Island Line. As at 31 December 2013, the project was 84% complete and remains on schedule to open in late 2014. It will be the first metro service to serve the major population and employment centres in Western District, adding a catchment population of 140,000 and catchment employment of an estimated 60,000 in 2016.

Major structural works and installation of platform screen doors at all three new stations, namely Sai Ying Pun, HKU and Kennedy Town, are complete, along with trackwork and overhead line installation. The AC power supply systems in all stations were energised in August 2013. Architectural Builders Works & Finishes ("ABWF") and Electrical and Mechanical ("E&M") installation works are progressing well.

The 7-km South Island Line (East) project will extend MTR services from Admiralty to the Southern District of Hong Kong Island, and will also include a train depot at Wong Chuk Hang. As at 31 December 2013, the project was 55% complete and is on target for completion in 2015. It will be the first metro service to the Southern District, adding a catchment population of 121,000 and catchment employment of an estimated 46,000 in 2016.

Work on the stations and related infrastructure has continued. Structural works for the new Ocean Park and Wong Chuk Hang stations have been completed and ABWF works are now in progress. Excavations continued for the Admiralty Station extension, the Nam Fung Tunnel and South Horizons Station, while erection of the noise barriers at the Aberdeen Channel Bridge was substantially completed. Construction of the Wong Chuk Hang Depot has continued and ABWF works are currently under way. Manufacturing of equipment and software development for the railway E&M systems are also in progress.

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 31 December 2013, the project was 54% complete and remains on schedule for completion in 2015. It will be the first metro service to link Ho Man Tin and Whampoa, adding a catchment population of 146,000 in 2016.

At Ho Man Tin Station, excavation was 95% complete by year end and construction of the station structure had commenced. At Whampoa Station, piling works were nearly complete and excavation work was in progress. Tunnel excavation between Yau Ma Tei and Whampoa stations is well advanced and lining works have commenced.

The 26-km Express Rail Link, funded by Government, will provide high-speed cross-boundary rail services connecting Hong Kong to Shenzhen, Guangzhou and the high-speed rail network in the Mainland of China. Served by the West Kowloon Terminus, it is targeted for completion in 2015. As at 31 December 2013, the project was 51% complete.

Excavation work for the West Kowloon Terminus and approach tunnels is progressing and work is also under way on casting the concrete structures. All Tunnel Boring Machines are now in operation and excavation work has made satisfactory progress. Ten out of 14 building structures for the Shek Kong Stabling Sidings were completed during 2013. Trackwork and overhead line installations are under way in Shek Kong and in the sections of tunnel from Nam Cheong to Kwai Chung. Building services installation is in progress at the West Kowloon Terminus, the ventilation buildings, the Shek Kong Stabling Sidings and the main tunnels. Production of the first eight-car train set was completed in September 2013 and testing is in progress.

The 17-km Shatin to Central Link, funded by Government, has two sections and ten stations, including six interchange stations linking existing and future railway lines. The first phase is scheduled for completion in 2018 and the second phase in 2020. It will provide much needed new links across the New Territories, adding a catchment population of 380,000 and catchment employment of an estimated 260,000 in 2021.

During 2013, site clearance and mobilisation commenced at Hin Keng Station, while construction of diaphragm walls and panels progressed at Diamond Hill and To Kwa Wan stations. At Kai Tak Station, following completion of sheet pile wall installation, pumping tests are in progress. The modification works for the Ma On Shan Line moved ahead, while construction of platform extension slabs at Che Kung Temple, Shek Mun and Tai Shui Hang stations were completed, with installation of platform ceilings in progress.

To help achieve the highest standards in our new projects, in 2013 we continued our "New Lines New Minds" programme which was launched in 2010. Its three key areas of People Development, Collaboration and Trusted Partnerships, and Project Delivery Effectiveness are driving step-change improvements by focusing on talent, better alignment of objectives, lateral thinking, collaborative working and optimisation of resources.

As an example of how the "New Lines New Minds" initiative is supporting safety, "War Rooms" have been set up in site offices as a platform for better communication and collaboration with contractors. They provide opportunities for in-depth discussions and to hold safety workshops involving subcontractors.

Support for the sustainable development of Hong Kong's railway network during the public engagement for RDS-2U was overwhelming. We are now working closely with Government on planning the next phase of railway expansion arising from RDS-2U, extending our horizons beyond 2020.

Mainland of China and International Growth

In Beijing, following the initialling of the Concession Agreement for BJL14 with the Beijing Municipal Government, the project is progressing as planned. The entire BJL14 will run for 47.3 km and have 37 stations, including ten interchange stations. Under the approximately RMB50 billion PPP project, BJMTR is responsible for investment of RMB15 billion for the provision of E&M systems and rolling stock, as well as operation and maintenance of the line over a term of 30 years. The Beijing Municipal Government is responsible for the rest of the investment. Phase 1 of the project opened on 5 May 2013. Phase 2 and Phase 3 are now targeted to open in 2014 and 2015 respectively.

BJMTR also submitted a bid for Beijing Metro Line 16 ("BJL16"), another PPP project, in February 2014. The 50-km BJL16 will have 29 stations running from Beianhe to Wanping. Phase 1 is targeted to open by the end of 2016, with full line service by the end of 2017.

The Company signed a Framework Agreement in May 2013 with the Shenzhen Development and Reform Commission regarding the construction of and an operating concession for Shenzhen Metro Line 6 ("SZL6"). SZL6 has a route length of 38 km with 20 stations extending north-westerly from Shenzhen North Station to Guangming New District. The terms of the Principle and Joint Venture agreements are being negotiated. In January 2014, the Company signed a Strategic Cooperation Framework Agreement with the Longhua New District Administration Commission in Shenzhen for the North Extension of SZL4.

In Sweden, we will launch a new express train service to connect Stockholm with Gothenburg on a 455 km route. Called MTR Express and operated by our wholly-owned subsidiary MTR Nordic, it will provide 110 weekly train trips. The service is aimed to be launched by early 2015 following testing and commissioning of the six new train sets after their delivery.

In Australia, our consortium was shortlisted to bid for the Operations, Trains and Systems Contract for the Sydney North West Rail Link in May 2013. The bid was submitted on 5 December 2013. MTR, as part of the consortium, would be responsible for the design and delivery of the rail systems, together with operation and maintenance of the system for 15 years after service opening. In addition, we lead a consortium which has entered into discussions with Victorian Government in relation to a project to transform the Dandenong Rail Corridor in Melbourne. Subject to the finalisation of procurement and financing of the project, construction is expected to start in 2015.

In the UK, we submitted bids for both the Essex Thameside and the Thameslink, Southern and Great Northern franchises in December 2013. We were also shortlisted to tender for the Crossrail concession by TfL in June 2013 and our bid was submitted in February 2014. In addition, we were shortlisted to tender for the ScotRail franchise in November 2013, and this bid will be submitted in April 2014.

Financial Review

Compared to 2012, total revenue grew 8.3% in 2013 to HK$38,707 million with our Hong Kong businesses, comprising transport operations, station commercial, property rental and management and other businesses, achieved a 10.9% increase to HK$25,461 million, while our Mainland of China and international subsidiaries recorded a 3.6% increase to HK$13,246 million. By individual segment, our Hong Kong transport operations recorded an increase of 4.4% in revenue (net of fare concessions) to HK$15,166 million while related operating costs (excluding depreciation, amortisation and variable annual payment) in support of various service enhancement initiatives increased by 5.4% to HK$8,449 million. For revenue from other Hong Kong businesses, station commercial increased by 24.7%, property rental and management by 11.1%, and other businesses by 43.0%. Operating costs for these businesses grew at a lower rate with station commercial increasing by 16.9%, property rental and management by 7.3%, and other businesses by 37.4%. Operating costs for our Mainland of China and international subsidiaries increased by 2.2%. Including project study and business development expenses, overall operating costs grew by 6.4% to HK$24,308 million. As a result, operating profit before Hong Kong property developments, depreciation, amortisation and variable annual payment increased by 11.7% to HK$14,399 million, with operating margin increasing by 1.1 percentage points to 37.2%. Excluding contributions from Mainland of China and international subsidiaries, operating margin decreased slightly by 0.2 percentage point to 53.4%, due mainly to higher costs incurred on bids for overseas franchises. Hong Kong property development profit decreased by HK$1,842 million to HK$1,396 million in 2013, derived mainly from the sale of inventory units at The Riverpark and car parking spaces at various developments. Depreciation and amortisation charges increased 5.1% to HK$3,372 million and the variable annual payment increased 41.2% to HK$1,247 million. Operating profit before interest and tax therefore decreased by 7.2% to HK$11,176 million. After accounting for interest and finance charges of HK$732 million, investment property revaluation gain of HK$4,425 million, share of profits from associates of HK$158 million, income tax of HK$1,819 million and non-controlling interests of HK$183 million, net profit attributable to equity shareholders of the Company in 2013 decreased by 2.6% to HK$13,025 million, or HK$2.25 per share. Excluding investment property revaluation, underlying profit decreased by 10.6% to HK$8,600 million, or HK$1.48 per share, due to the lower property development profit in 2013.

As at 31 December 2013, the Group's net assets increased by 6.7% to HK$152,702 million, with total assets increasing by 4.4% to HK$215,823 million and total liabilities decreasing by 0.7% to HK$63,121 million. The increase in total assets was mainly due to investment property revaluation gains, Tsing Yi Lorry Park Project costs, capitalisation of further construction costs of the South Island Line (East) and Kwun Tong Line Extension, and a capital injection into an associate, Tianjin TJ-Metro MTR Construction Company Limited. These asset additions were offset by lower properties held for sale due to the sale of units in inventory and reduced cash balances. The decrease in total liabilities was mainly due to the settlement of the land premium for the Shenzhen Metro Longhua Line Depot Site, the utilisation of the Government grant received in previous years for the construction of the West Island Line and lower defined benefit retirement plan obligation partly offset by the increase in total loan outstanding. The Group's net debt-to-equity ratio increased from 11.0% at 31 December 2012 to 11.8% at 31 December 2013.

In 2013, total cash outflow amounted to HK$21,624 million, an increase of 7.0% from 2012, which was mainly attributable to the Group's capital expenditure of HK$13,356 million, investment in Tianjin TJ-Metro MTR Construction Company Limited of HK$1,111 million, fixed and variable annual payments made to KCRC of HK$1,633 million, and the dividend paid to the Company's shareholders of HK$4,580 million. Total cash inflow amounted to HK$19,042 million, a decrease of 3.4% from 2012, which included net cash inflow from operating activities of HK$14,764 million and cash receipts from property developments of HK$3,937 million. The Group's net cash outflow before financing of HK$2,582 million was funded by net loan drawdown and debt issuance of HK$1,223 million and our existing cash balances. As a result, the Group's cash balance, net of bank overdrafts, decreased from HK$18,609 million in 2012 to HK$17,250 million in 2013.

In line with our progressive dividend policy, the Board has proposed a final dividend of HK$0.67 per share, giving a full year dividend of HK$0.92 per share, an increase of 16.5% over 2012, with a scrip dividend option offered, subject to shareholders' approval.

Human Resources

The Company, together with its subsidiaries, employed 16,158 people in Hong Kong and 7,078 outside of Hong Kong as at 31 December 2013.

We proactively formulate manpower resourcing strategies and initiatives to meet current manpower needs and to plan for our future expansion in Hong Kong, the Mainland of China and overseas. During 2013, we recruited over 2,200 new hires and 1,300 staff were promoted internally in Hong Kong. Staff turnover remained low at 4.2%. More emphasis has been placed on strengthening our human resources across Hong Kong and our Mainland of China and international businesses through building up mobile resources, enhancing localisation and strengthening the leadership pipeline for operations outside of Hong Kong.

The Company was voted as the "Most Attractive Employer" according to a survey conducted in Hong Kong by the Randstad Group, one of the world's largest human resources service firms. The results echoed the findings of our recent Staff Attitude Survey, conducted in October 2012, in which 88% of our staff in Hong Kong indicated they were proud to be a staff member of MTR, while 81% agreed that MTR was a good employer.

Our Executive Associate Scheme and People Development Initiative are designed to ensure continuity in management resources. We continued to provide structured, customised training for future management talent in 2013, and increasingly encouraged cross-functional and geographical career movements. Executives and senior managers benefited from

CEO's Review of Operations and Outlook

our Continuous Learning Programme, while newly promoted managers were assisted by a new "Reaching New Horizons" Leadership Transformation Programme. We also recruited Graduate Trainees and Apprentices. The 35th anniversary of the MTR Apprentice Programme was marked with a number of special commemorative activities throughout the year.

MTR's culture of excellence, learning and caring was reinforced during the year by further initiatives organised under the Academy of Excellent Service, involving experiential learning, external benchmarking visits and sharing sessions among staff. We have also continued to invest in mobile learning technology.

To encourage and reinforce two-way communication between line managers and staff, more than 4,500 sessions of the "Enhanced Staff Communication Programme" were organised in 2013, with over 65,500 participants. In September 2013, the bi-annual Management Communication Meeting helped communicate the Corporate Strategy and business updates to over 1,000 managers around the globe.

The Work Improvement Team ("WIT") initiative to encourage collective innovation and continuous improvement was strengthened by the theme of "You Have A Say" during the year. WIT has also been rolled out to our subsidiaries and associates, including our operations in Beijing, Shenzhen and Stockholm.

During 2013, 6,471 courses were delivered, providing 6.5 training days per Hong Kong employee. The Company's efforts in this area won a number of local and international awards during the year.

Community Engagement

The Company's commitment to corporate responsibility saw 239 community projects under the "More Time Reaching Community" scheme held during 2013, involving over 6,000 volunteers in a variety of areas, benefiting community groups, with the elderly, underprivileged families and children, and the disabled as the main beneficiaries.

Reaching out to the community, listening and responding to people's opinions, is also a key feature of our rail network expansion projects. We make every effort not merely to keep the public fully informed, but to deepen our relationship with the local communities through charity, environmental and volunteering activities. We also try to minimise disruption to traffic, pedestrians and residents through careful planning of closures or route diversions and the adoption of new construction techniques. Among the acknowledgements we have received for our efforts during the year was praise from the Southern District Council for the Kellett Bay Open Space we created during construction of the South Island Line (East).

During 2014 we will be marking our 35th anniversary, with events designed with the community in mind. Coinciding with the launch of our colourful anniversary logo, our celebrations kicked off in January 2014 with a replica of the first-generation MTR train compartments and giant poster displays telling the stories of people whose lives have been particularly touched by MTR. Souvenirs such as commemorative smart tickets and exciting events will extend our celebration with the community throughout the year.

Outlook

Global economic conditions remain challenging, and there have been signs of a slow-down in the economy in the Mainland of China in recent months from its outstanding growth in past years. Yet, although the outlook for the world economy is uncertain, the Company should maintain its growth trajectory in 2014.

Our recurrent businesses in Hong Kong should continue to benefit from rising patronage as a result of economic growth and an expected rise in tourist numbers. Our businesses outside of Hong Kong should make a higher contribution to revenue. We will also continue to pursue new business opportunities actively.

In property development, we expect to book profit for The Austin (Austin Station Site C) when the Occupation Permit is issued, which is expected to be later this year. We may also launch the pre-sale of Austin Station Site D and LOHAS Park Package 3 in 2014, depending on market conditions. New tendering activities will likewise depend on overall market conditions, and may include tenders for sites at LOHAS Park and Tai Wai Station.

Finally, I wish to thank my fellow Board Members and all my MTR colleagues for their contributions during another year of solid progress. I also once again welcome the two new members of the Executive Committee, Mr Stephen Law, who joined us as our Finance Director on 2 July 2013, and Ms May Wong, who was appointed as General Manager – Corporate Relations on 10 January 2013, upon the retirement of Mrs Miranda Leung.

I am very pleased to have been appointed for a further two years as CEO and I look forward to working together with our excellent team over the coming years for the benefit of our passengers, shareholders and other stakeholders.

Jay H Walder, *Chief Executive Officer*
Hong Kong, 11 March 2014

Key Figures

	2013	2012	% Increase/ (Decrease)
Financial highlights *(HK$ million)*			
Revenue			
– Hong Kong transport operations	**15,166**	14,523	4.4
– Hong Kong station commercial business	**4,588**	3,680	24.7
– Hong Kong property rental and management businesses	**3,778**	3,401	11.1
– Mainland of China and international subsidiaries	**13,246**	12,786	3.6
– Other businesses	**1,929**	1,349	43.0
Operating profit before Hong Kong property developments, depreciation, amortisation and variable annual payment	**14,399**	12,895#	11.7
Profit on Hong Kong property developments	**1,396**	3,238	(56.9)
Operating profit before depreciation, amortisation and variable annual payment	**15,795**	16,133#	(2.1)
Profit attributable to equity shareholders arising from underlying businesses	**8,600**	9,618#	(10.6)
Total assets	**215,823**	206,687#	4.4
Loans, other obligations and bank overdrafts	**24,511**	23,577	4.0
Obligations under service concession	**10,658**	10,690	(0.3)
Total equity attributable to equity shareholders	**152,557**	142,904#	6.8
Financial ratios			
Operating margin *(%)*	**37.2**	36.1#	1.1% pts.
Operating margin (excluding Mainland of China and international subsidiaries) *(%)*	**53.4**	53.6#	(0.2%) pt.
Net debt-to-equity ratio* *(%)*	**11.8**	11.0#	0.8% pt.
Return on average equity attributable to equity shareholders arising from underlying businesses *(%)*	**5.8**	7.0#	(1.2%) pts.
Interest cover *(times)*	**11.5**	13.0#	(1.5) times
Share information			
Basic earnings per share *(HK$)*	**2.25**	2.31#	(2.6)
Basic earnings per share arising from underlying businesses *(HK$)*	**1.48**	1.66#	(10.8)
Dividend per share *(HK$)*	**0.92**	0.79	16.5
Share price at 31 December *(HK$)*	**29.35**	30.50	(3.8)
Market capitalisation at 31 December *(HK$ million)*	**170,187**	176,692	(3.7)
Operations highlights			
Total passenger boardings in Hong Kong *(million)*			
– Domestic Service	**1,474.7**	1,431.0	3.0
– Cross-boundary Service	**111.4**	109.7	1.5
– Airport Express	**13.7**	12.7	7.6
– Light Rail and Bus	**219.3**	213.2	2.9
Average number of passengers *(thousand)*			
– Domestic Service *(weekday)*	**4,297**	4,148	3.6
– Cross-boundary Service *(daily)*	**305.1**	299.7	1.8
– Airport Express *(daily)*	**37.4**	34.7	7.9
– Light Rail and Bus *(weekday)*	**618.4**	597.3	3.5
Fare revenue per passenger *(HK$)*			
– Domestic Service	**7.13**	7.01	1.6
– Cross-boundary Service	**26.25**	25.95	1.1
– Airport Express	**61.70**	62.59	(1.4)
– Light Rail and Bus	**2.73**	2.71	0.9
Proportion of franchised public transport boardings *(%)*	**46.9**	46.4	0.5% pt.

* *Including obligations under service concession and loan from holders of non-controlling interests as components of debts.*

\# *Restated upon the adoption of Revised Hong Kong Accounting Standard 19 as described in note 2A(iii) to the accounts.*

Key Events in 2013

January

Under the Company's Listening • Responding programme, passengers can enjoy the additional 231 seats at station platforms and along interchange passageways.

February

The Company's associate, London Overground Rail Operations Limited ("LOROL"), secured an extension of its franchise to operate and maintain the London Overground rail services for two more years to November 2016.

March

To enhance passengers' comfort and overall travelling experience, we commenced the retrofitting of 90 trains with inflatable door seals under the Listening • Responding programme.

The Company began works to upgrade and enlarge Diamond Hill Station, the future interchange station between the East-West Corridor of the Shatin to Central Link and the Kwun Tong Line.

April

The Company celebrated the topping-out of Kennedy Town Station, the first of the West Island Line's three stations to be topped-out.

The first five-year review of the Fare Adjustment Mechanism was successfully completed, resulting in an objective and transparent methodology to calculate the value of productivity factor.

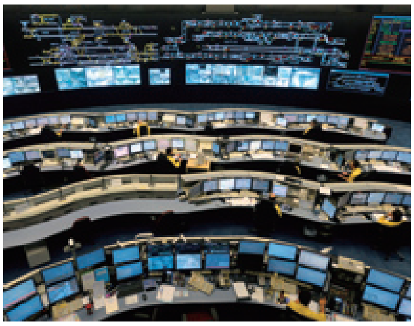
The Company was voted as Hong Kong's "Most Attractive Employer", according to a survey by the Randstad Group, covering the opinions of more than 4,000 working people and job seekers.

May

The first phase of Beijing Metro Line 14 opened to serve commuters.

A new mini-concourse with two new entrances at Che Kung Temple Station was opened for public use.

The Company received the International Business Model Award at the International Association of Public Transport ("UITP") World Congress for its rail plus property development model for the Shenzhen Metro Longhua Line.



June

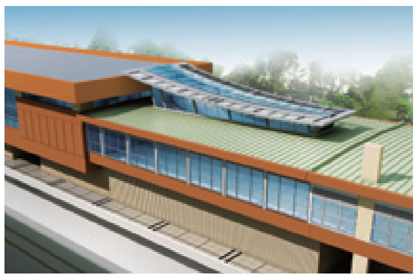
A new package of fare promotions, including the new Monthly Pass Extra, was launched as fares were adjusted according to the Fare Adjustment Mechanism.

The centralisation of all traffic control functions for Domestic, Cross-boundary and Airport Express services to the Super Operations Control Centre in Tsing Yi was completed.

July

A major refurbishment programme began at Fo Tan Station for completion in 2015, which will enclose the open space separating the two individual paid concourses to create one enlarged, integrated paid area.

Free Wi-Fi hotspot service was introduced at all MTR stations under the Company's Listening • Responding programme.



August

Tianjin TJ-Metro MTR Construction Company Limited, a company formed by an MTR wholly-owned subsidiary and Tianjin Metro (Group) Company Limited, won the bid for the land use right for a site at Beiyunhe Station atop Tianjin Metro Line 6.

Under the Listening • Responding programme, peak period train services were enhanced by increasing the number of train trips.

September

The Company held a ceremony to celebrate the completion of track laying works along the West Island Line.

Real time information on the arrival times of West Rail Line trains became available on the "Next Train" app.

October

The Company launched a new, more durable Single Journey Smart Ticket to replace magnetic single journey tickets. All magnetic tickets will take their place in history once conversion of the ticket issuing systems in all MTR stations is completed in the first half of 2014.

Around 1,400 race walkers took part in MTR HONG KONG Race Walking 2013 to promote healthy living. A record HK$1.38 million in donations was raised for the Hospital Authority Health InfoWorld's work on disease prevention and health education.

The West Island Line reached an important milestone with the completion of major structural works at all three new stations.

Pre-sale of flats at the new property development project at Austin Station Site C, The Austin, was launched, with all units sold by November.

November

The Company unveiled the first of the sleek new aerodynamic high-speed trains which will serve the Guangzhou-Shenzhen-Hong Kong Express Rail Link.

LOROL was honoured as "European Commuter Operator of the Year" at the inaugural European Rail Congress Awards held in London.

The Company announced it will launch an express train service, MTR Express, to connect Sweden's two largest cities, the capital Stockholm on the east coast and Gothenburg in the west.

December

The Company thanked passengers for contributing one-half of the cost for retrofitting platform screen doors and automatic platform gates. On 1 December 2013, it withdrew the 10-cent per Octopus journey passenger contribution towards the project.

The Company announced it celebrated the topping-out of Ocean Park Station, marking the first significant milestone for the South Island Line (East) project.

Construction began on the Shenzhen Metro Longhua Line Depot residential project, in which the Company holds a 100% stake.

4G mobile service became available at all MTR stations under the Listening • Responding programme.

Continuous

Enhancements

Additional train trips

mean even greater convenience

More **Station Seating** is enhancing passenger comfort

New **Single Journey Smart Tickets** are replacing magnetic tickets

Hong Kong Transport Operations

The Company's Hong Kong transport operations achieved a good performance both operationally and financially.

Total revenue in 2013 from our Hong Kong transport operations was HK$15,166 million, 4.4% higher than in 2012, while operating costs increased by 5.4% to HK$8,449 million, resulting in the operating profit for this business rising 3.2% to HK$6,717 million, with an operating margin of 44.3%.

Patronage

Total patronage from all of our rail and bus passenger services in Hong Kong increased by 3.0% to a record 1,823.4 million in 2013. Excluding the Intercity service, total patronage also increased by 3.0% to 1,819.1 million.

For the Domestic Service (which comprises the Kwun Tong, Tsuen Wan, Island, Tung Chung, Tseung Kwan O, Disneyland Resort, East Rail (excluding the Cross-boundary Service), West Rail and Ma On Shan lines), total patronage reached 1,474.7 million, a 3.0% increase over 2012. The increase was driven by continued growth in the economy and inbound tourism, as well as our service enhancements.

The Cross-boundary Service to Lo Wu and Lok Ma Chau reported a 1.5% increase in patronage to 111.4 million for the year 2013.

Passenger traffic on the Airport Express rose by 7.6% over 2012 to 13.7 million, supported by a rise in air travel and effective marketing campaigns.

Passenger volume on our Light Rail and Bus services during 2013 was 219.3 million, a 2.9% increase, while patronage on the Intercity service was 7.3% higher at 4.3 million.

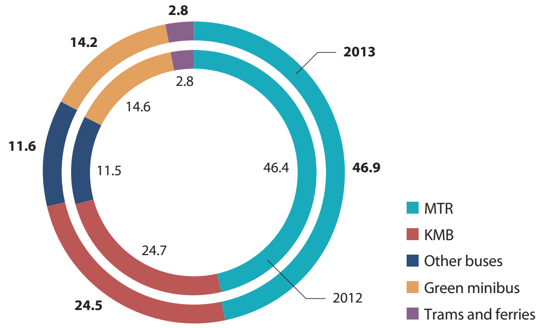
Average Weekday Patronage

Average weekday patronage for all of our rail and bus passenger services in Hong Kong increased by 3.5% to 5.25 million during 2013. The Domestic Service accounted for the majority of this rise in patronage, recording a 3.6% increase to 4.30 million.

Market Shares of Major Transport Operators in Hong Kong

The Company's overall market share increased from 46.4% in 2012 to 46.9% in 2013.

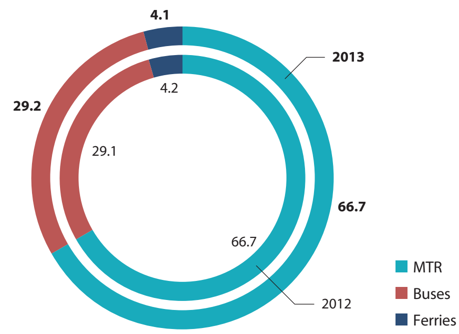
(Percentage)



Market Shares of Major Transport Operators Crossing the Harbour

The Company's market share of cross-harbour traffic was maintained at 66.7%.

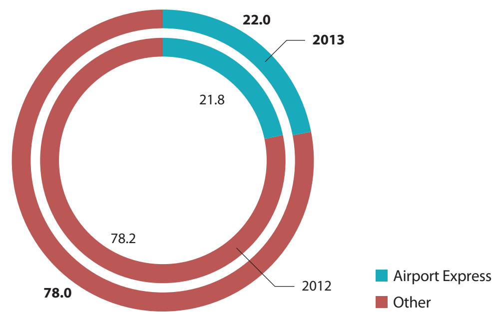
(Percentage)



Market Share of Airport Express

The proportion of air passengers using the Airport Express rose to 22.0%.

(Percentage)



Executive Management's Report

Hong Kong Transport Operations

Market Share

The Company's overall share of the franchised public transport market in Hong Kong increased from 46.4% in 2012 to 46.9% in 2013. Within this total, our share of cross-harbour traffic was 66.7%. The Company's market share of Cross-boundary business for the year declined from 54.2% to 53.4%, while market share to and from the airport rose slightly to 22.0% from 21.8%.

Fare Revenue

Total Hong Kong fare revenue in 2013 was HK$15,021 million, a 4.4% increase over 2012. Within this total, the Domestic Service accounted for HK$10,511 million or about 70%. Average fare per passenger on our Domestic Service increased by 1.6% to HK$7.13, mainly due to adjustments in fares, partly offset by fare concessions.

Fare revenue from the Cross-boundary Service in 2013 was HK$2,923 million, an increase of 2.7% over 2012. Fare revenue from the Airport Express was 6.0% higher for the year at HK$843 million. Light Rail and Bus fare revenue in 2013 was HK$600 million, a 3.8% increase over 2012, while fare revenue from the Intercity service was HK$144 million, increasing by 7.5% over the twelve months.

In April 2013, we concluded the first five-yearly review of the Fare Adjustment Mechanism ("FAM") with Government. The overall FAM formula and the direct drive mechanism were left unchanged, but an objective and transparent methodology was agreed for calculating the productivity factor. The productivity factor, under the new calculation method, was 0.6% for the five years from 2013 to 2017, resulting in a fare adjustment in 2013 of 2.7% instead of 3.2%. Thus passengers are enjoying fares which are lower than they otherwise would have been.

As a supplement to the FAM review, passengers have received additional concessions. These include an enhanced monthly pass programme called "Monthly Pass Extra", which provides an additional 25% discount for connecting domestic journeys to stations beyond those covered by individual monthly passes, as well as a new "Tung Chung – Nam Cheong Monthly Pass Extra". An "MTR City Saver" ticket scheme allowing frequent medium-distance travellers to purchase discounted multi-ride tickets for use within the designated urban area, will be introduced in the second quarter of 2014.

Passengers will also be able to share directly in the profits of the Company through a profit-related fare concession scheme. In addition, under the new Service Performance Arrangement, concessions will be made directly to passengers when an operational fault on our network deemed to be within the Company's control causes a lengthy service disruption (of 31 minutes or more). Both of these concessions will be given in the form of a "10% Same-Day Second-Trip Discount" promotion.

Operational control of our Domestic, Cross-boundary and Airport Express services is now under one roof – the "Super Operations Control Centre" at Tsing Yi

Promotions and Concessions

To deliver value for money services to our passengers, we have launched various promotions and concessions during the year.

To promote cross-boundary ridership, a new version of the "Holiday-Shenzhen" Travel eBook was published in August 2013 to encourage leisure travel to Shenzhen via Lo Wu or Lok Ma Chau stations. In addition, a 50% discount was offered from September to November 2013 for journeys to Lok Ma Chau from 17 selected MTR stations. Targeting Mainland visitors in Shenzhen, from August to November 2013, 50% discount coupons were direct-mailed to selected households in Futian District for journeys using Octopus from Lok Ma Chau to any MTR station. Besides, an advertising campaign was launched in Shenzhen promoting the convenience of the Lok Ma Chau train service. Special promotions were also organised to celebrate the 15th anniversary of *Ktt*.

Every day, I do my best to make sure our passengers have a safe and comfortable journey

Edward Tso
Station Master

Hong Kong Transport Operations

Our offers to MTR Club members included "Early Bird Rewards" programmes to encourage members to travel earlier during non-peak hours, two "Bonus Points Schemes", cross-selling programmes for the Airport Express and Cross-boundary services, as well as various exclusive events to look behind the scenes of our operations. As of 31 December 2013 membership had reached over 1.4 million.

A special promotion was held in July 2013 to mark the 15th anniversary of the Airport Express, with a limited number of tickets sold online at a special price of HK$15 per journey, which received an overwhelming response. Other promotions for the Airport Express included an online "Buy 1 Get 1 Free" Single Journey Ticket promotion with credit card companies and free rides for children using Octopus during festive seasons. There were also tourist ticket offerings in 2013.

Service and Performance

During 2013, our train service delivery and passenger journeys on time across the network were maintained at 99.9%, which exceeds the targets set out in the Operating Agreement and our own more demanding Customer Service Pledges.

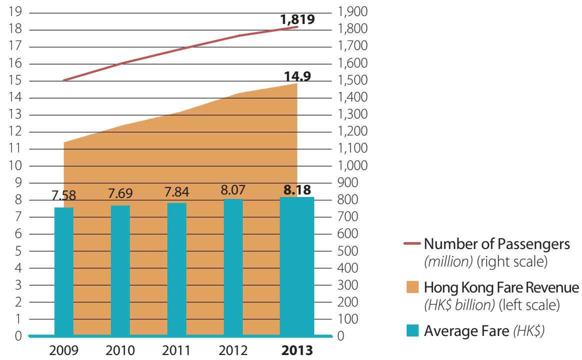
Customer satisfaction, as recorded by our regular surveys, remained high during 2013. The Service Quality Index and the Fare Index that measures the level of customer satisfaction with fares, can be found below:

	2013	2012
Service Quality Index		
Domestic and Cross-boundary services	**73**	74
Airport Express	**84**	84
Light Rail	**69**	66
Bus	**69**	68
Fare Index		
Domestic and Cross-boundary services	**62**	63
Airport Express	**72**	70
Light Rail	**69**	64
Bus	**66**	66

The lift priority user and queuing system is part of our continuing efforts to promote courtesy on the network

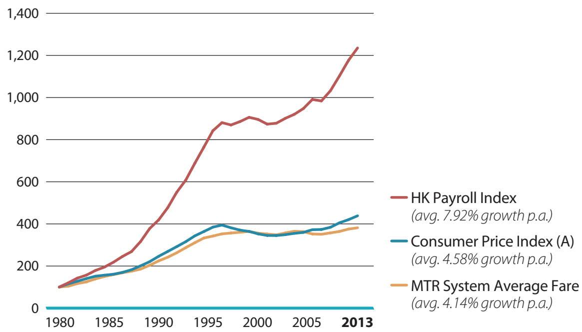
Passengers and Fares (Hong Kong Transport Operations excluding Intercity)

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



Fare Trend

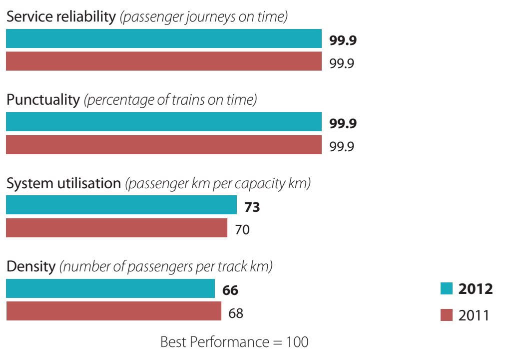
In past years, MTR fares have consistently lagged behind the growth in the Hong Kong payroll but were in line with the long-term changes in consumer prices in Hong Kong.



Benchmarking Comparisons

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

MTR Performance vs. Best Performance



More trains and enhanced schedules have strengthened our train services

Our excellent service quality gained recognition both locally and internationally, with some of the awards received listed in the table below:

Awards Received in Hong Kong	Organisation
Prestigious Corporate Brand Awards 2013 • Top Favourite Service Brand Voted by Hong Kong Consumer • Top Favourite Advertisement Commercials Voted by Hong Kong Consumer	Ming Pao Daily News and MSc Marketing Programme of the Chinese University of Hong Kong
Top Service Awards 2013 in the Public Transportation Category	Next Magazine
Sing Tao Excellent Services Brand Award 2012 • The Best Public Transportation Service Award	Sing Tao Daily
Prime Awards for Brand Excellences 2013 – Transportation Services (Platinum Awards)	MetroBox Magazine
Hong Kong Service Awards 2013 • Category Award of Infrastructure & Economic – Public Transportation • Corporate Responsibility Award Hong Kong Classic Brand Award – Classic Brand Award	East Week Magazine
2013 HKICT Best Public Service Application (Web/Mobile Application) – Bronze Award *(For "MTR Mobile" app)*	Office of the Government Chief Information Officer and The Hong Kong Institution of Engineers

Awards Received outside of Hong Kong	Organisation
The Global AirRail AWARDS 2013 • North Star Air Rail Link of the Year Award *(for Airport Express)*	Global AirRail in Frankfurt, Germany
2013 Most Popular Hong Kong and Macau Brands Gold Award *(for The Guangzhou-Kowloon Through Train service)*	China Media in the Mainland of China
2013 APICTA Awards – Merit award in Government & Public Sector category *(For "MTR Mobile" app)*	Asia Pacific Information and Communication Technology Alliance (APICTA)

Executive Management's Report
Hong Kong Transport Operations

Service Enhancements

During 2013, we continued to improve barrier-free access to stations, upgrade passenger communications and increase train service frequency, reliability and comfort.

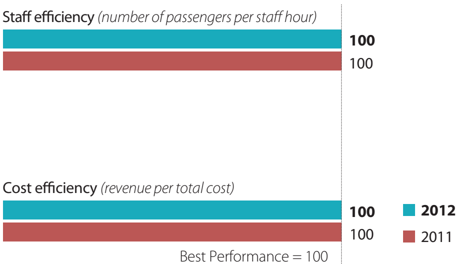
We continued to make improvements to service frequency in 2013. Train frequencies on the Tsuen Wan, Kwun Tong, Island, East Rail and West Rail lines have been increased on weekdays and at weekends. Altogether, we are now running an additional 1,300 train trips per week, with over 93,000 additional train trips operated since the launch of the Listening • Responding programme in 2012.

On Light Rail, more coupled-set vehicles have also been deployed to provide additional capacity on busier routes. For our Intercity Service, a new train schedule for the Guangdong Line Through Trains took effect, with the departure time of the last Mainland-bound train from Hung Hom being pushed later, while the capacity was enhanced by the addition of a ninth coach to *Ktt*. Brand new electric-powered Mainland Through Trains for Guangdong Line also improved the service quality. Six new buses have enabled us to raise frequency on six bus routes since September 2013.

Staff Efficiency and Cost Efficiency

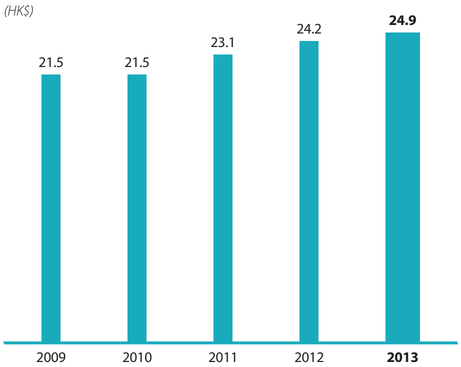
New initiatives continue to be introduced to enhance operating efficiency.

MTR performance vs. Best Performance



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.



Train service delivery and passenger journeys on time across the network were maintained at a world-class standard of 99.9%

Hong Kong Transport Operations

Ensuring a safe and convenient journey to our passengers is always a top priority for us

To enhance passengers' comfort and overall travelling experience, we are embarking on a programme to upgrade our trains by fitting them with inflatable door seals. Three trains on the Tseung Kwan O Line were retrofitted in 2013 and 90 train sets will be retrofitted by 2020. The 60-month project to upgrade Light Rail vehicles continued in 2013 and, by year end, more than 50 refurbished vehicles had been put back into service.

Improving connectivity for passengers and enhancement of the station environment continued. Re-layout works at Kwun Tong Station were completed. Major renovations at Fanling and Sheung Shui stations, under an "In Touch with Nature" theme, were substantially completed. Improvement works that commenced at Fo Tan Station in 2013 will provide passengers with better connectivity and a more inviting environment, and are targeted for completion in 2015.

Journeys have been made more convenient for senior citizens, people with disabilities and those travelling with baby prams or luggage through changes to stations. Since the Listening • Responding programme was launched in 2012, an additional 52 wide gates have been installed in 30 stations, and five new lifts have entered into service at Cheung Sha Wan, Sham Shui Po, Jordan, Sheung Wan and Shek Kip Mei stations. We remain firmly on course to deliver independent barrier-free access at 80 out of 83 existing full-time stations by 2016. A total of 326 new sets of seats will have been installed in stations by the first quarter of 2014 under the programme that began in 2012.

New Customer Service Centres that are brighter and more accessible to those with disabilities, replaced existing service centres at 15 of our busiest stations. Since the launch of Listening • Responding programme in 2012, we have also deployed 650 additional station assistants to help passengers and installed giant way-finding signboards to make navigation easier. In 2013 a new and more convenient Single Journey Smart Ticket was rolled out at 41 stations, as part of the programme to replace all magnetic single journey tickets by the first half of 2014.

With over 1.8 million users, our popular "MTR Mobile" app has been integrated with our "Traffic News" app, which provides timely information on special train service arrangements or adjustments. The "MTR Tourist" app, meanwhile, helps visitors to navigate the MTR system by providing a simple point-to-point travel guide. Our real-time train schedule information service "Next Train" app was extended in September 2013 to the West Rail Line. Since July 2013, free Wi-Fi hotspots have been available at all 84 MTR stations to enable passengers to stay connected through Wi-Fi.

Starting from June 2013, the Super Operations Control Centre in Tsing Yi is now exercising operational control over our railway network, including the Domestic, Cross-boundary and Airport Express services, all under one roof.

As the 2011 Hong Kong Management Association ("HKMA") Quality Award Gold Award winner, the Company has sponsored the HKMA to support its work in promoting the sharing of best quality management practices across different industries.

We continue to invest in our existing railway assets to improve performance and capacity. In 2013, we started the tender process for a replacement signalling system for six existing MTR lines as well as the Airport Express. To be installed over the next several years, the system will increase reliability and passenger carrying capacity on these lines.

Enhancing Safety Performance

As our recent Staff Attitude Survey in Hong Kong attested, the importance of "safety first" is well understood at every level. Our strong emphasis on safety in all aspects of operations and our safety promotion campaigns, targeted to influence passenger behaviour, have led to an overall improvement in our safety performance in 2013. There was a 20% reduction in reportable incidents on the Domestic Service, Cross-boundary Service and Airport Express in 2013. The improvement was particularly noticeable in relation to the number of incidents on escalators, which showed a 27% reduction.

The "Next Train" app provides real-time accurate schedules for the next four Airport Express trains

Our series of safety campaigns has resulted in changes in passenger behaviour. Among them was a month-long Courtesy Campaign during which a humorous video about good passenger behaviour was aired on the network, an Escalator Safety Campaign reminding passengers of proper behaviour on escalators, and an initiative highlighting the potential dangers of mobile phone usage while using the escalators. Other initiatives targeting specific demographic groups, such as the elderly and school children, were also launched during the year. These campaigns were accompanied by improvement works inside stations, including the use of brightly coloured escalator handrails encouraging passengers to hold them, as well as anti-slip strips and warning signs on staircase edges reminding passengers to mind the steps. For the Elderly Safety Programme held in November 2013, we engaged more than 100 senior citizens to be our ambassadors to promote awareness of safe railway behaviour with safety tips and knowledge to share with their peers in their community.

Following an incident on our Light Rail service in May 2013, we have increased the number of speed checks on Light Rail vehicles and are providing more structured reminders to train captains on the importance of adhering precisely to safe driving practices. Furthermore, we are installing fixed speed cameras specially designed for Light Rail operations.

To continue to promote safety awareness across all businesses, in addition to divisional safety promotion programmes, the Corporate Safety Month under the theme "Keep SAFETY-FIRST in our hearts and minds, connect communities with better safety performance" was held in June with over 30 seminars and promotional events organised in Hong Kong, the Mainland of China and overseas offices.

In February 2013 we engaged an external consultant to conduct an assessment of our Operations Division Safety Management System, using the Railway Management Maturity Model developed by the Office of Rail Regulation in the UK. Our performance far exceeded the 2012 average for UK train operating companies. Benchmarking of safety performance, safety management best practices and lessons learned from incidents has continued with other major metros around the world through the Community of Metros ("CoMET") and with our own subsidiaries and associates. Peer Reviews on safety and operation and maintenance practices were held at MTR Stockholm AB ("MTRS") and London Overground Rail Operations Limited ("LOROL") in May and at Metro Trains Melbourne Pty. Ltd. ("MTM") in November 2013, bringing together experts from Hong Kong and across different subsidiaries and associates to share best practices.

To learn and exchange best practices with other industries, we participated in local and international safety awards in 2013. We received the "Bronze Award for Safety Promotion" in the 12th Hong Kong Occupational Safety & Health Award Forum jointly organised by the Occupational Safety and Health Council and the Labour Department. We also received the "British Safety Council International Safety Award 2013 – Merit Award" in the UK.

Reliable rail journeys require continuous performance monitoring and maintenance of rolling stock

System and Market Information

Railway operation data	**2013**		2012	
Total route length *(km)*	**218.2**		218.2	
Number of rail cars	**2,106**		2,050	
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	**1,336**		1,331	
Number of advertising points in stations	**21,104**		21,081	
Number of advertising points in trains	**23,954**		23,570	
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**	120	120
– Kwun Tong Line	**126**	**144**	126	144
– Island Line	**112**	**130**	120	130
– 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	360
Hong Kong to Tsing Yi	**240**	**240**	240	240
– Airport Express	**600**	**600**	600	600
– West Rail Line	**171**	**210**	180	210
– Disneyland Resort Line	**270**	**270**	270	270
– Light Rail	**270**	**300**	270	300

International Performance Comparisons: the 15-member Community of Metros (CoMET)

Metro system network data (2012)	**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	Metro O
Passenger journeys *(million)*	**1,541**	1,147	1,076	1,246	1,609	606	2,464	1,681	1,620	491	650	1,380	877	602	507
Car kilometres *(million)*	**261**	263	205	517	361	194	776	559	249	104	132	339	130	105	122
Route length *(km)*	**175**	323	229	439	226	283	313	480	217	115	104	439	65	113	146
Number of stations	**82**	154	132	270	163	247	172	424	303	66	100	250	58	97	173

* *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 and 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, Berliner Verkehrsbetriebe, 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 2013

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	600,000	**3,474,269**
– East Rail Line (including Ma On Shan Line) and West Rail Line	N/A	600,000	**4,412,228**
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	**14,606**
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%	**99.6%**
– East Rail Line (including Ma On Shan Line)	98.0%	99.0%	**99.9%**
– West Rail Line	98.0%	99.0%	**99.8%**
– Light Rail	N/A	99.0%	**99.7%**
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%	**99.6%**
– Light Rail	N/A	99.0%	**99.9%**

Operations Performance in 2013 *(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%	**99.8%**
– West Rail Line	98.5%	99.5%	**99.9%**
Temperature and ventilation			
– Trains, except Light Rail: to maintain a cool, pleasant and comfortable train environment generally at or below 26°C	N/A	97.5%	**99.9%**
– Light Rail: on-train air-conditioning failures per month	N/A	<3	**0**
– Stations: to maintain a cool, pleasant and comfortable environment generally at or below 27°C for platforms and 29°C for station concourses, except on very hot days	N/A	91.0%	**99.7%**
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%	**99.5%**
– Cleanliness: washed daily	N/A	99.0%	**100.0%**
Passenger enquiry response time within 6 working days	N/A	99.0%	**100.0%**

4G

data access

throughout the journey

Over

270 brands

offering shopping
convenience to passengers

Continuous

Innovation

Creative advertising

formats to increase appeal

Hong Kong Station Commercial Businesses

MTR advertising, such as these giant panels in Hong Kong Station, reaches millions of passengers each day

Revenue from our Hong Kong station commercial business increased by 24.7% in 2013 to HK$4,588 million. The increase was driven mainly by the rise in station retail revenue. Operating costs for this business increased by 16.9% to HK$464 million. Operating profit rose by 25.6% to HK$4,124 million, with an operating margin of 89.9%.

Station Retail

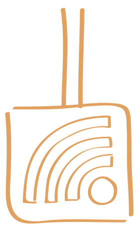
Station retail revenue in 2013 increased by 36.9% to HK$2,933 million. The increase was due to significant rental increases at the Duty Free Shops at Lo Wu and Hung Hom stations under the new licence that commenced in January 2013, as well as higher rentals generated by trade mix refinements and favourable renewal rates in station shops. As at 31 December 2013, the number of station shops was 1,336, involving 56,350 square metres of retail space, marginally higher than in 2012. As compared with the end of 2012, the total number of shops increased by five, with the growth partially offset by shops repossessed at Diamond Hill, Tsing Yi and Mei Foo stations to allow for renovation works.

In total, 20 new shops were refurbished at 11 stations during the year, while renovation works progressed at six stations. A total of 24 new brands were attracted to our station shops. To cater for the increasing demand for personal care as well as food and beverage products, new health and beauty as well as food and beverage brands were introduced for the convenience of passengers.

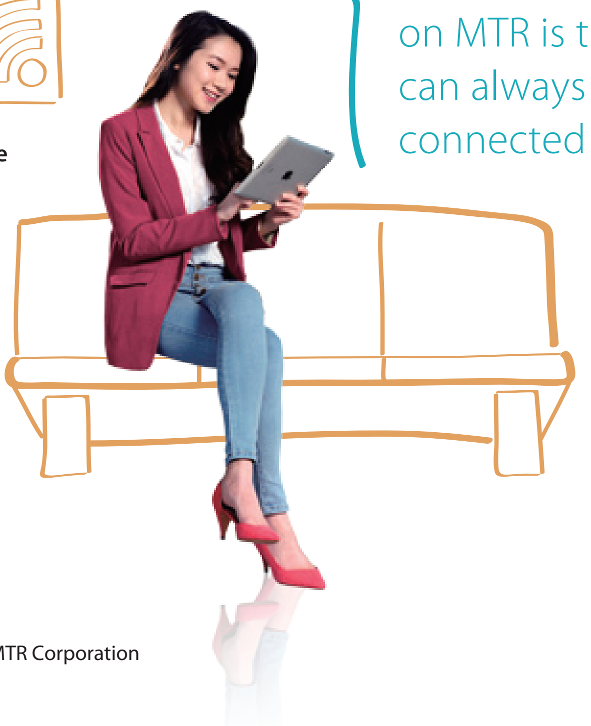
Shops in MTR stations provide passengers with varied goods and services

Hong Kong Station Commercial Businesses

We continually refresh our offering through refinement of the trade mix to address passengers needs



Miss Lee
Passenger

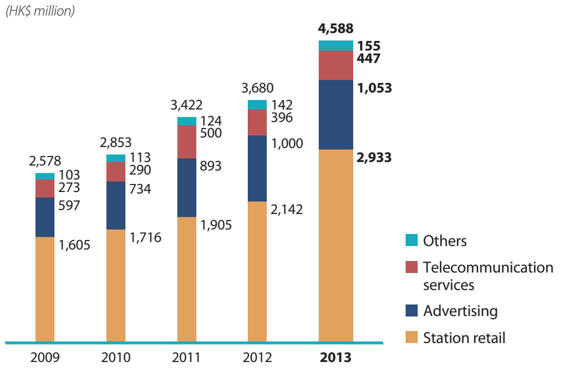


One thing I like about travelling on MTR is that I can always stay connected

Revenue from Hong Kong Station Commercial Business

Revenue increased in 2013 due to a marked improvement in station shop rental and advertising revenues.

(HK$ million)



The brand positioning of MTR Shops was refined to "Style-to-go" in 2013, reinforced by publicity campaigns ranging from traditional print media to a Facebook game. In May 2013, an "MTR Club Bonus Points Scheme" was launched, under which customers were rewarded with a "Bonus Points Card" instantly upon designated spending at participating MTR Shops. Furthermore, to foster the brand awareness and promote the trade variety of MTR Shops, a public voting campaign called "My Favourite MTR Shops Voting Campaign 2013" was also launched between October and November 2013.

Advertising

Advertising revenue also grew in 2013 with an increase of 5.3% to HK$1,053 million. The number of advertising units increased by 407 to 45,058. Our continuing innovation in formats included a "Supernova Zone" in Hong Kong Station, blended advertising panels with interactive devices. The upper platform and Jardine's Bazaar exits of Causeway Bay Station were enhanced to improve their advertising potential, while advertising panels in the concourses of Causeway Bay and Kowloon Tong stations were revamped. 103" TV format advertising panels were introduced in the concourses at Kowloon Tong and Lo Wu stations. Trial of a new advertising format, Ambient Showcase, was conducted at Mong Kok Station. It can display advertisers' products and apply interactive functions simultaneously via a 65" transparent televisual display.

Telecommunications

Revenue from the Company's telecommunications businesses in 2013 increased by 12.9% to HK$447 million, mainly due to incremental revenue from the launch of 4G mobile phone services and mobile data capacity increases by telecom operators along our network. By the end of 2013, 4G mobile services were made available at all stations, by adapting the existing infrastructure and building new infrastructure.

High impact advertising is offered in a variety of formats

Enriching Living

Quality

We build homes

for Hong Kong people
which connect to
our network

Award-winning

property
management
ensures a high
quality of life

Hong Kong Property and Other Businesses

Our shopping malls offer an exciting shopping experience to customers

In 2013, the Hong Kong property market continued to reflect Government measures intended to stabilise prices and curb speculation. Transaction volumes in both residential and commercial property were markedly lower than in 2012, although residential flat prices remained relatively stable during the year, supported by the low interest rate environment. Primary flat sales volumes shrank to a historical low, owing to the delayed sales launches of new residential projects after the Residential Properties (First-hand Sales) Ordinance took effect in late April 2013. Office leasing in Central saw moderate activity, given weaker demand from financial services companies. The retail property market remained solid as a result of inbound tourism, despite this sector also witnessing slowing growth in 2013.

Property Development in Hong Kong

Profit from Hong Kong property developments in 2013 was HK$1,396 million. This was mainly comprised of the sale of inventory units at The Riverpark at Che Kung Temple Station and car parking spaces at various developments.

During 2013, we continued to sell inventory units at The Riverpark, with 99% of 981 units sold by year end. Meanwhile, the strong sales at The Austin (Austin Station Site C), in November 2013 with all 576 units sold, bode well for other presale projects in the pipeline. Profit will be recognised upon issuance of the Occupation Permit, which is expected later this year.

For West Rail projects, where we act only as agent for the relevant subsidiaries of Kowloon-Canton Railway Corporation ("KCRC"), we launched the pre-sale of Century Gateway II (Phase 2 of the Tuen Mun Station property development), and by January 2014, 99% of the 911 units had been sold. Century Gateway (Phase 1 of the Tuen Mun Station property development), comprising 1,080 units, was completed and units sold were handed over to purchasers in August 2013.

In our tendering activities, for West Rail projects where we act as agent for the relevant subsidiaries of KCRC, the Long Ping Station (South) site was tendered in May 2013 and awarded to a member company of Chinachem Group on 5 June 2013. We invited tenders for the Tin Wing Stop (Light Rail) property development site, with three tenders received upon tender closing on 21 January 2014. As none of the tenders received met the financial requirement, we decided not to accept any of the tenders. We are currently examining the development packages at the LOHAS Park and Tai Wai Station sites, with a view to putting these sites out to tender, subject to market conditions. Other property development packages include the Wong Chuk Hang Depot site along the South Island Line (East) and the Ho Man Tin Station site along the Kwun Tong Line Extension. The Master Layout Plan for the Wong Chuk Hang Depot site was approved by the Town Planning Board in February 2013.

We continue to explore opportunities for other new developments along our railway lines in response to market conditions as well as Government's request.

Property Rental and Management Businesses in Hong Kong

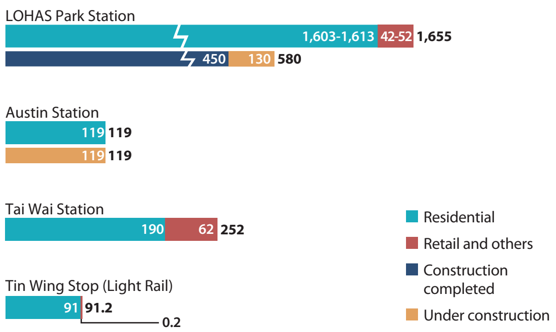
Revenue from our Hong Kong property rental and management businesses in 2013 grew by 11.1% to HK$3,778 million. Operating costs rose by 7.3% to HK$673 million, resulting in operating profit increasing 11.9% to HK$3,105 million, representing an operating margin of 82.2%.

Over 1,000 units of Century Gateway were handed over in August

Property Development Packages for Operating Network – Plan and Progress

The pre-sale of The Austin (Austin Station Site C) launched, with all 576 units sold.

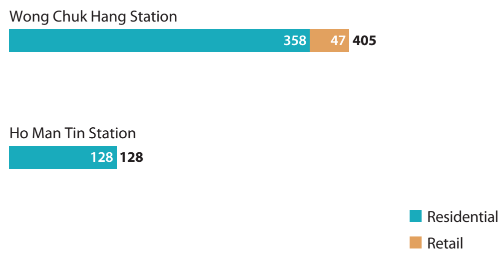
Gross floor area (thousand sq. m.)



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.

Gross floor area (thousand sq. m.)



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 – 2014
Tsuen Wan West (TW7)	2.37	Sep 2008	2014
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
Long Ping (South)	0.84	Jun 2013	2019
	20.04		
Property Development Packages to be awarded			
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
	36.39		
Total	**56.43**		

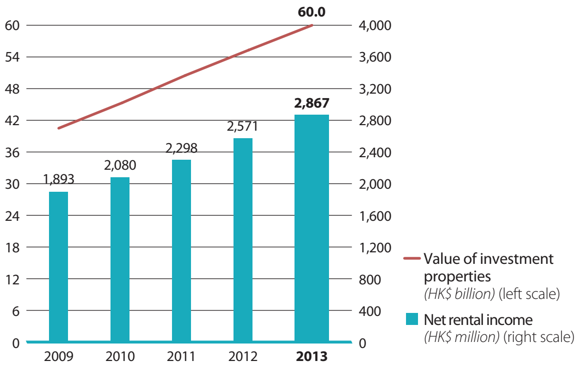
"Our shopping mall portfolio achieved an average 16% increase in rental reversion for the year."

Total property rental income in Hong Kong was HK$3,547 million, 10.9% higher than in 2012. Our shopping mall portfolio achieved an average 16% increase in rental reversion for the year. At the end of December 2013, our shopping malls in Hong Kong and the Company's 18 floors of office space at Two International Finance Centre ("Two ifc") remained close to 100% let.

Hong Kong Property and Other Businesses

Investment Properties

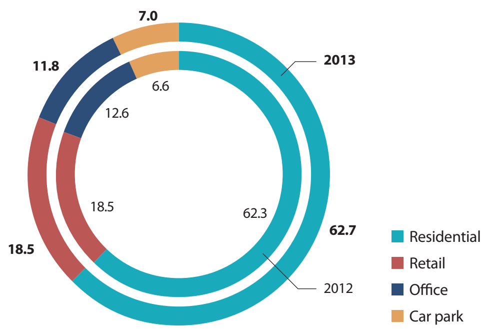
Rental income continued to grow with good rental reversion in our shopping malls.



Distribution of Hong Kong Property Management Income

At the end of the year, the Company had 90,523 residential units and 763,018 sq.m. of commercial and office space under management in Hong Kong.

(Percentage)



As at 31 December 2013, the Company's attributable share of investment properties in Hong Kong was 213,334 square metres of lettable floor area of retail properties, 40,969 square metres of lettable floor area of offices, and 14,282 square metres of property for other use.

We continued to invest in our retail properties to enhance their attractiveness to both tenants and shoppers, thereby enhancing financial returns. We have also made further efforts to optimise the environment and performance of these buildings.

A major project during the year was to revamp the trade mix and rebrand The Edge as PopCorn 2. To ensure the branding and experiential consistency of the entire PopCorn, renovation works for ceilings and floors of the common areas of PopCorn 2 commenced in October 2013, with a target for completion in 2014.

Our efforts in committing to Government's Energy Saving Charter and reducing environmental impacts through continual improvements to our property management systems has gained wide recognition, including our shopping malls winning the "Platinum Prime Award for Eco-Business 2013" awarded by Prime Magazine and the Business Environment Council. Having joined the Quality Water Recognition Scheme of the Water Supplies Department, we secured Gold Certificates for Elements and Maritime Square and a Blue Certificate for Telford Plaza II, Ocean Walk, Hanford Plaza and Citylink Plaza.

Other awards received during 2013 include the "Experiential Marketing Excellence Awards Hong Kong 2013 - Top Ten Experiential Marketing Excellence Awards Hong Kong" by Metro Finance and the "Best Shopping Mall Flower Arrangement Award" of Elements by Fusion Flowers Magazine and Hong Kong Flower Arranging Association.

We appreciate the convenience and choice that MTR shopping malls offer

Mr. and Mrs. Chan
Resident

The Edge was upgraded and rebranded as PopCorn 2

Building on the success of Maritime Square in Tsing Yi, we shall convert the relevant portion of the adjacent Tsing Yi Lorry Park into a shopping mall, which will add another 12,100 square metres of gross floor area to Maritime Square. The conversion works are planned to commence in 2014, with a target completion towards the end of 2017.

Hong Kong property management revenue in 2013 rose by 13.8% to HK$231 million. As at 31 December 2013, the number of residential units under the Company's management had risen to 90,523, following the addition of 4,257 units from The Wings, Century Gateway, The Riverpark and La Splendeur. The area of managed commercial and office space was 763,018 square metres.

MTR managed properties made use of Government's Buildings Energy Efficiency Funding Schemes. By the end of 2013 we had successfully assisted Owners' Committees to implement over 60 energy-saving projects that were funded by the Environment and Conservation Fund, while energy audits were conducted for MTR office buildings, managed office buildings and MTR shopping malls to promote energy-saving projects.

Our efforts have gained wide recognition, with awards including the "Gold Level" under the scheme of Leadership in Energy and Environmental Design ("LEED") for Two ifc, the "Energywi$e label – Hong Kong Awards for Environmental Excellence" for The Cullinan, and "Wastewi$e HK Awards for Environmental Excellence" for Lake Silver and No. 8 Clear Water Bay Road, both given by the Environmental Protection Department. During the year, The Capitol obtained full sponsorship of its food waste recycling project under the Food Waste Recycling Projects in Housing Estates from the Environment and Conservation Fund and our managed residential properties implemented a glass-bottle recycling programme to encourage residents to adopt "green" living. Two ifc also gained a "Hearing Conservation Best Practices Award – Excellence Award" from the Occupational Safety and Health Council.

Hong Kong Property and Other Businesses

Other Businesses

Ngong Ping 360

The Ngong Ping cable car ("Ngong Ping 360") and associated theme village achieved a 26.9% increase in revenue in 2013 to HK$316 million. Visitor numbers in 2013 reached approximately 1.65 million and reliability exceeded target and reached 99.8%. The growth in ridership was supported by innovations in ticketing schemes, such as the "360 Sky-Land-Sea Overnight Package". There were also a number of lively themed marketing events. These included the "360 Martial Arts Extravaganza" over the summer months, the "360 Breadtacular" event in autumn and the "Ngong Ping 360 Glittering Christmas Village" over the festive season. The new Galaxy Ticketing Systems that were introduced in December 2012 also helped increase efficiency and business growth as well as enhance customer service during 2013.

Consultancy Business

Revenue from our consultancy business in 2013 was HK$128 million, 25.5% higher than in 2012. The Company entered into a new seven-year Maintenance Agreement for the Automated People Mover System at Hong Kong International Airport in July 2013.

Octopus

Octopus continued to expand in Hong Kong's retail sector and the Company's share of Octopus' net profit for 2013 grew by 6.6% to HK$225 million. As at 31 December 2013, more than 5,000 service providers in Hong Kong were using the Octopus service. The total number of Octopus cards and other stored-value Octopus products in circulation during the year was 24.84 million. The average daily transaction volume and value reached 13.0 million and HK$139.6 million respectively.

Project Management

Income from providing project management services to Government, predominantly for entrustment works on the Hong Kong section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link ("Express Rail Link") and the Shatin to Central Link, was HK$1,461 million in 2013, an increase of 50.9% over 2012. Income from the entrustment works is currently booked on a cost recovery basis.

Residents in our managed properties enjoy excellent services and well-maintained facilities

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 3	Cheung Kong (Holdings) Ltd.	Residential Kindergarten	128,544 1,000	Awarded in November 2007	2014
Austin Station					
The Austin and Site D	New World Development Co. Ltd. and Wheelock Properties Limited	Residential	119,116	Awarded in March 2010	2014
Tuen Mun Station#					
Century Gateway and Century Gateway II	Sun Hung Kai Properties Ltd.	Residential Retail	119,512 25,000	Awarded in August 2006	By phases from 2012 – 2014
Tsuen Wan West Station#					
TW7	Cheung Kong (Holdings) Ltd.	Residential	113,064	Awarded in September 2008	2014
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 (Overseas) 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
Long Ping (South)	Chinachem Group	Residential	41,990	Awarded in June 2013	2019

 # as a development agent for the relevant subsidiaries of KCRC

Property Development Packages to be Awarded Notes 1 and 2

Location	Type	Gross floor area *(sq. m.)*	Period of package tenders	Expected completion date
LOHAS Park Station	Residential Retail	1,025,220 – 1,035,220 39,500 – 49,500		
Tai Wai Station	Residential Retail	190,480 62,000		
Tin Wing Stop (Light Rail)	Residential Retail	91,051 205	2014 – 2020	2020 – 2024
Wong Chuk Hang Station	Residential Retail	357,500 47,000		
Ho Man Tin Station	Residential	128,400		

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 2013)

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	19,363	–	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	29,129	–	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%
PopCorn 2, Tseung Kwan O	Shopping centre	8,463	–	70%
	Car park	–	50	70%
PopCorn 1, Tseung Kwan O	Shopping centre	12,173	–	50%
	Car park	–	115	50%
	Motorcycle park	–	16	50%
G/F, No. 308 Nathan Road, Kowloon	Shop unit	70	–	100%
G/F, No. 783 Nathan Road, Kowloon	Shop unit	36	–	100%
New Kwai Fong Gardens, Kwai Chung, New Territories	Kindergarten	540	–	100%
	Car park	–	126	100%
International Finance Centre (ifc), Central, Hong Kong				
– Two ifc	Office	39,373	–	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	7,720	–	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	2,571	–	100%
Le Prestige, LOHAS Park	Kindergarten	800	2	100%
The Riverpark, Che Kung Temple	Shop unit	154	–	100%
	Kindergarten	708	–	100%

Investment Property Portfolio in Hong Kong (as at 31 December 2013) *(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*
- *PopCorn 2 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 2013)

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	–	169	40%
Olympian City One, No. 11 Hoi Fai Road, Kowloon	Shopping centre	6,026*	–	40%
	Car park	–	330	40%
Bank of China Centre, No. 11 Hoi Fai Road, Kowloon	Car park	–	117	40%
The Arch, No. 1 Austin Road West, Kowloon	Residential	548**	–	38.5%
	Car park	–	12	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	–	24	35%
	Kindergarten	1,299	–	50%
The Palazzo, No. 28 Lok King Street, Shatin	Residential	1,022**	–	55%
	Retail	2,000	–	55%
	Car park	–	55	55%
	Motorcycle park	–	8	55%
Lake Silver, No. 599, Sai Sha Road, Shatin	Residential	1,674**	–	93%
	Retail	3,000	–	93%
	Kindergarten	1,000	–	93%
	Car park	–	121	93%
	Motorcycle park	–	–	93%
Festival City, No. 1 Mei Tin Road, Shatin	Car park	–	231	100%
Le Prestige, LOHAS Park, Tseung Kwan O	Car park	–	82	52.93%
The Riverpark, No. 8 Che Kung Miu Road, Shatin	Residential	2,380***	–	87%
	Car park	–	30	87%
	Motorcycle park	–	–	87%

* *Lettable floor area*

** *Brochure gross floor area as per the marketing brochures issued prior to the Residential Properties (First-hand Sales) Ordinance*

*** *Saleable area*

Managed properties in Hong Kong (as at 31 December 2013)

Number of managed residential flats	90,523 units
Area of managed commercial and office space	763,018 sq.m.

Going towards a bright

future

connecting people

from every district in Hong Kong

West Island Line is targeted to open in 2014

Hong Kong Network Expansion

In Hong Kong, the Company is simultaneously engaged in five railway projects, which will add 56 km to the network by 2020. All five projects are moving on schedule and within budget.

West Island Line

The 3-km West Island Line is an extension of the Island Line. As at 31 December 2013, the project was 84% complete and it remains on schedule to open in late 2014.

This new line will be the first rail service to serve the major population and employment centres in Western District on Hong Kong Island, adding a catchment population of 140,000 and catchment employment of an estimated 60,000 in 2016.

During 2013, the major structural works and installation of platform screen doors at all three new stations, namely Sai Ying Pun, HKU and Kennedy Town, were completed, along with the related trackwork and overhead line installation. The AC power supply systems in all stations were energised in August 2013. Architectural Builders Works & Finishes ("ABWF") and Electrical and Mechanical ("E&M") installation works are currently progressing well.

South Island Line (East)

The 7-km South Island Line (East) project will extend MTR services from Admiralty to the Southern District of Hong Kong Island, with a train depot at Wong Chuk Hang. The project was 55% complete at end December 2013 and, while construction works to integrate the new line with the existing Admiralty Station present a significant challenge to the programme, the target for completion in 2015 is being maintained. It will be the first metro service to the Southern District, an area containing a number of tourist attractions, adding a catchment population and employment of an estimated 121,000 and 46,000 respectively in 2016.


Construction of the new lines has involved extensive tunnelling work

Work on the stations and related infrastructure continued through the year. The structural works for the new Ocean Park and Wong Chuk Hang stations were completed and ABWF works are now in progress. Excavations continued for the Admiralty Station extension, the Nam Fung Tunnel and South Horizons Station, while erection of the noise barriers at the Aberdeen Channel Bridge was substantially completed. Construction of the Wong Chuk Hang Depot has continued and ABWF works are currently under way. Manufacturing of equipment and software development for the railway E&M systems are also in progress.

"In Hong Kong, the Company is simultaneously engaged in five railway projects, which will add 56 km to the network by 2020."

Hong Kong Network Expansion

The Express Rail Link will connect to the Mainland of China's high speed rail network

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 31 December 2013, the project was 54% complete and remains on schedule for completion in 2015. It will be the first metro service to link Ho Man Tin and Whampoa, adding a catchment population of 146,000 in 2016.

At Ho Man Tin Station, excavation was 95% complete by year-end 2013 and construction of the station structure had commenced. At Whampoa Station, piling works were also nearly complete by year end and excavation work is in progress. Tunnel excavation between Yau Ma Tei and Whampoa stations is well advanced and lining works have commenced.

Express Rail Link

The 26-km Express Rail Link, funded by Government, will provide high speed cross-boundary rail services connecting Hong Kong to Shenzhen, Guangzhou and the high speed rail network in the Mainland of China. While completion in 2015 continues to be the target, construction of the complex West Kowloon Terminus and interface issues at the Mainland boundary crossing are proving to be significant challenges. As at 31 December 2013, the project was 51% complete.

Excavation work for the West Kowloon Terminus and approach tunnels is progressing well and work is also under way on casting the concrete structures. All Tunnel Boring Machines are now in operation and excavation work has made satisfactory progress. Ten out of 14 building structures for the Shek Kong Stabling Sidings were completed during 2013 and trackwork and overhead line installations are under way in Shek Kong and in the sections of tunnel from Nam Cheong to Kwai Chung. Building services are currently being installed at the terminus, the ventilation buildings, the Shek Kong Stabling Sidings and in the main tunnels. Production of the first eight-car train set was completed in September 2013 and testing is in progress.

Hong Kong Network Expansion

Shatin to Central Link

The 17-km Shatin to Central Link, funded by Government, has two sections and ten stations, including six interchange stations linking existing and future railway lines. The first phase – an 11-km section between Tai Wai and Hung Hom – was 12% complete as at 31 December 2013. It is scheduled for completion in 2018, with the second phase following in 2020. The line will provide much needed new transport routes across the New Territories, as well as in the areas of Ho Man Tin, To Kwa Wan, Ma Tau Wai and Kai Tak, adding a catchment population of 380,000 and catchment employment of an estimated 260,000 in 2021.

During 2013, site clearance and mobilisation commenced at Hin Keng Station, while construction of diaphragm walls and panels progressed at Diamond Hill and To Kwa Wan stations. In Kai Tak Station, following completion of sheet pile wall installation, pumping tests are in progress. The modification works for the Ma On Shan Line moved ahead, while construction of platform extension slabs at Che Kung Temple, Shek Mun and Tai Shui Hang stations were completed, with installation of platform ceilings under way.

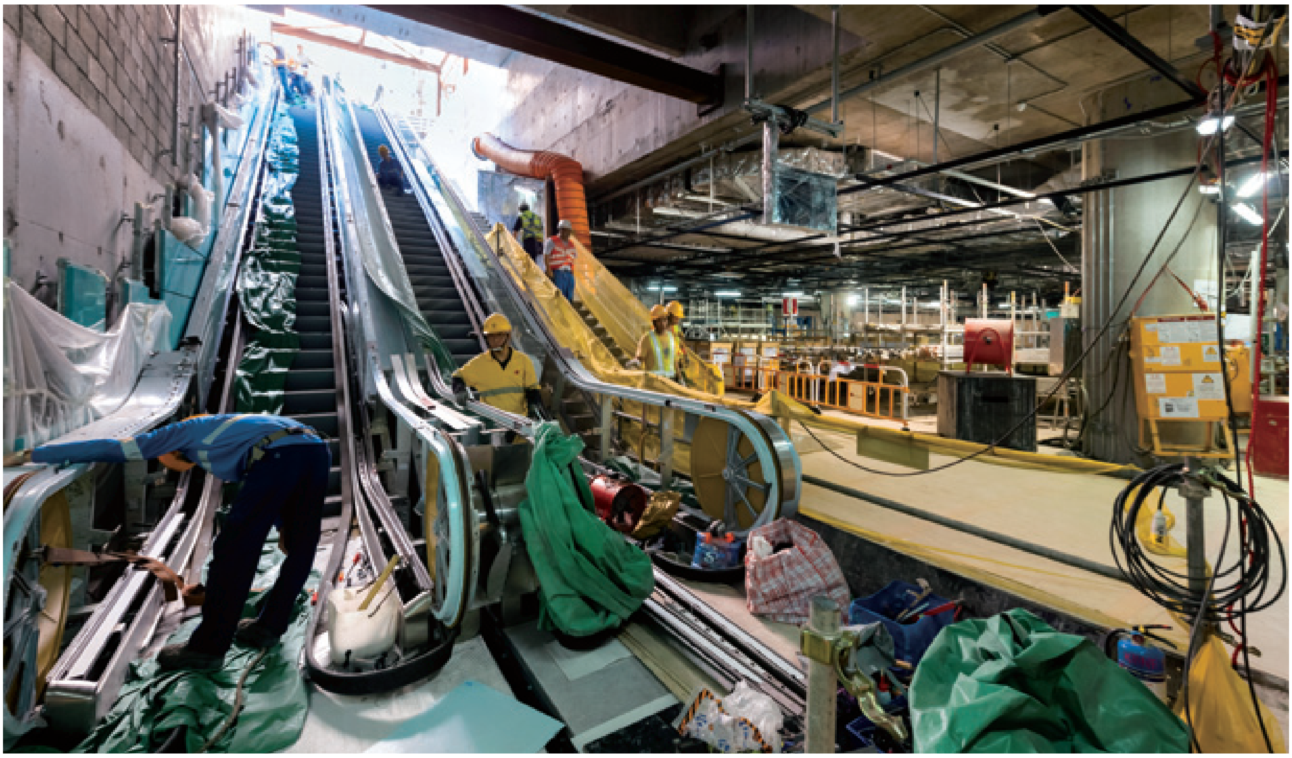
Manpower Supply

The simultaneous construction of our five railway expansion projects in Hong Kong has introduced challenges on manpower supply. A number of initiatives have been put forward in collaboration with the construction industry to address the labour shortage issue and attract workers to the industry, including job fairs, promotional campaigns and labour forums. The Company also provides a Workers' Life Insurance Scheme and requirements are incorporated into works contracts to enhance health and safety provisions as well as training of workers.

Enhancing Site Safety

To help achieve the highest standards in our new projects, we continued to implement the "New Lines New Minds" programme which was introduced in 2010. It centres on the three key areas of People Development, Collaboration and Trusted Partnership, and Project Delivery Effectiveness. The programme is driving step-change improvements by focusing on talent and competency, better alignment of objectives, lateral thinking, collaborative working and optimisation of company resources.

The South Island Line (East) will be the first metro service to the Southern District



Major structural works are complete at all three new West Island Line stations

As an example of how the "New Lines New Minds" initiative is supporting safety, "War Rooms" have been set up in site offices as a platform for better communication and collaboration with contractors. These provide opportunities for in-depth discussions and a venue for safety workshops involving both Company staff and subcontractors.

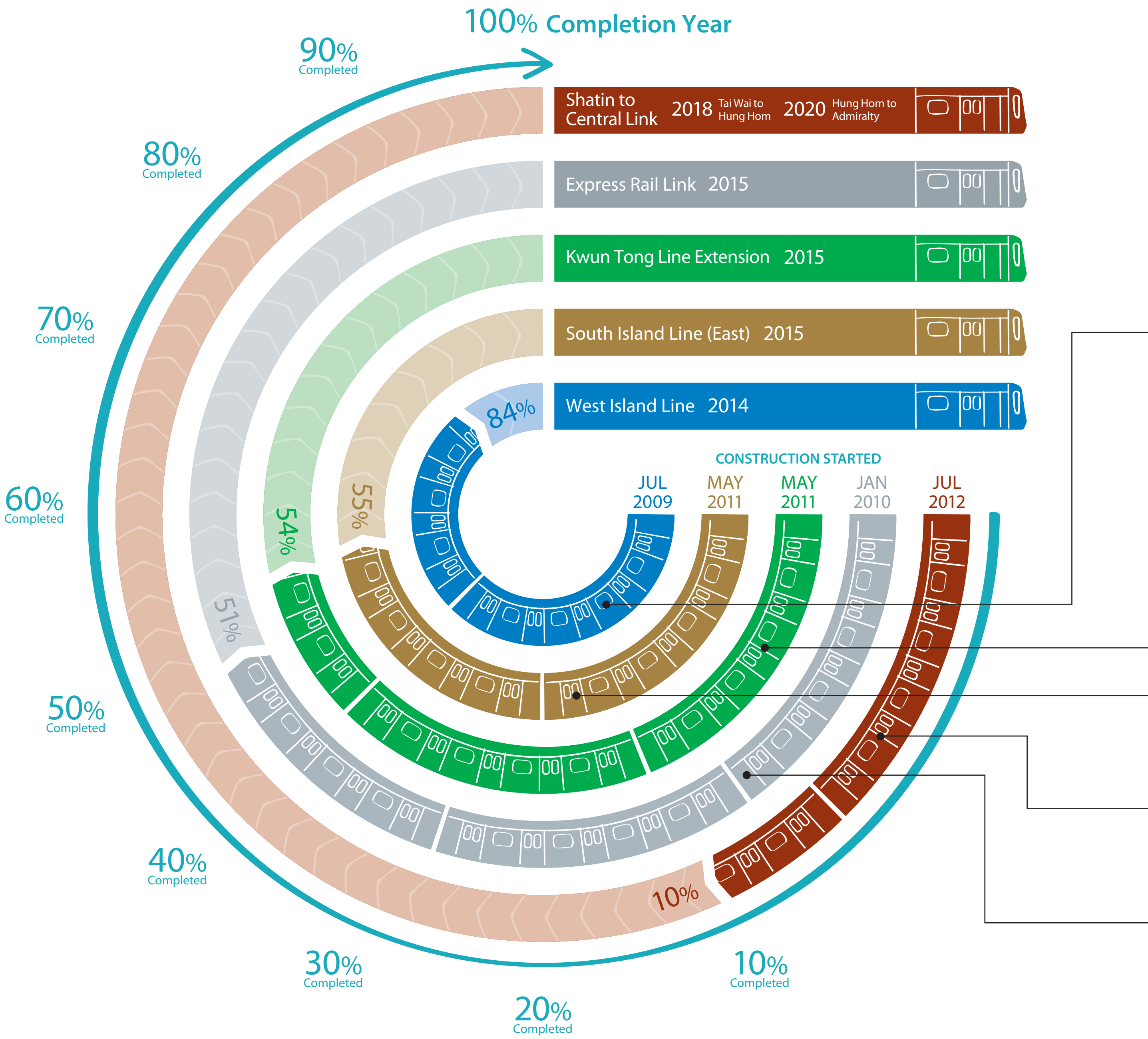
Steve Hamill
Project Manager – WIL Civil

Future Rail Development

Support for the sustainable development of Hong Kong's railway network during the public engagement for RDS-2U was overwhelming. We are now working closely with Government on planning the next phase of railway expansion arising from RDS-2U, extending our horizons beyond 2020.

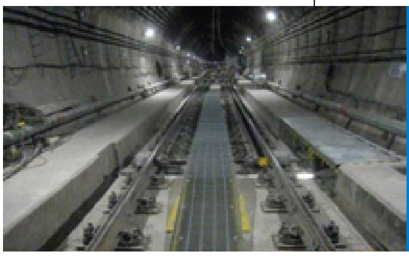
The West Island Line will open in 2014, adding a catchment of 140,000

Progress of 5 New Railway Projects in 2013



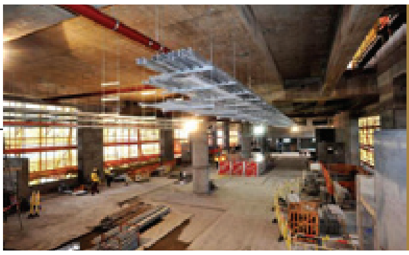
	West Island Line	South Island Line (East)	Kwun Tong Line Extension	Express Rail Link	Shatin to Central Link	
	Sheung Wan to Kennedy Town	Admiralty to South Horizons	Yau Ma Tei to Whampoa	West Kowloon to Guangzhou South	Tai Wai to Hung Hom	Hung Hom to Admiralty
No of Stations	3	5	2	1	8	2
Route Length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



Track laying works along the West Island Line alignment were completed in September.

Major structural works at all three new West Island Line stations have been completed.



Ocean Park Station was the first of the South Island Line (East)'s new stations to be topped-out in December.

Excavation work for Ho Man Tin Station was substantially complete by the end of 2013.

The first of the new high-speed trains which will serve the Guangzhou-Shenzhen-Hong Kong Express Rail Link was unveiled in November.

Works to upgrade and enlarge Diamond Hill Station, the future interchange station between the Shatin to Central Link and the Kwun Tong Line, began in March.

Growing

Globally

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

We provide service to
1,355 million passengers
in 6 cities outside of Hong Kong

Mainland and International Businesses and Growth

Revenue in 2013 from our Mainland of China and international businesses was HK$13,246 million, a 3.6% increase over 2012, of which our three railway subsidiaries, namely MTM, MTRS and MTR Corporation (Shenzhen) Limited ("SZMTR"), contributed HK$13,100 million, 3.6% more than in 2012. Operating costs of these railway subsidiaries were HK$12,332 million, resulting in a 31.5% increase in operating profit to HK$768 million and an operating profit margin of 5.9%.

Our associates outside of Hong Kong, Beijing MTR Corporation Limited ("BJMTR"), LOROL and Tunnelbanan Teknik Stockholm AB ("TBT") continued to generate profit. Following the commencement of our operation of Hangzhou Metro Line 1 ("HZL1") on 24 November 2012, we have included the results of our 49% owned associate, Hangzhou MTR Corporation Limited ("HZMTR"), which incurred an operating loss in 2013. The loss is due mainly to lower than expected patronage. Plans have been put in place to enhance patronage on this line. Our overall share of losses from these four associates in 2013 was HK$74 million.

Total passengers carried by our rail subsidiaries and associates outside of Hong Kong was 1,355 million in 2013, as compared with approximately 1,171 million in 2012.

Railway Businesses in the Mainland of China

Beijing Metro Line 4 ("BJL4") and the Daxing Line again exceeded their service targets. Combined ridership in 2013 reached 454 million passenger trips, with an average weekday patronage of more than 1.28 million. The two lines have 35 stations and a combined length of 50 km.

Our vision of being a leading multinational operator of rail services goes from strength to strength

Jeremy Bennett
Legal Manager – General

Phase 1 of Beijing Metro Line 14 ("BJL14") opened on schedule on 5 May 2013. The service performance has been satisfactory. This section of the new line has seven stations, running from Zhangguozhuang Station to Xiju Station with a length of 12.4 km. Total passenger trips since its opening to end 2013 were 11.4 million. BJL14 is currently operated by BJMTR on an "O&M" (Operation and Maintenance) fee basis. The Public-Private-Partnership ("PPP") terms will start once the full line is open, estimated to be in 2015.

Phase 1 of the BJL14 opened on 5 May 2013

BJMTR received several awards during the year, including "Outstanding Safety Performer in Transport Sector 2012" from the Beijing Municipal Transport Committee by virtue of the excellent operational performance by its metro concession in Beijing. Meanwhile, BJMTR was named one of the "TOP10 influential enterprises in Beijing" in the 6th Beijing Influence Campaign hosted by mainstream media including Beijing Television, Beijing Daily and supported by government authorities including Beijing Municipal State-owned Assets Supervision and Administration Commission and Beijing Municipal Commission of Development and Reform, based on its long-term contribution to the metro sector in Beijing and the high quality brand image it has built. Also in 2013, in the "China Best Employer 2013" jointly organised by Zhaopin and Social Responsibility and Employer Brand Publicity Center of Beijing University, BJMTR was honoured "Top30 in Beijing in China Best Employer 2013".

The operational performance of Shenzhen Metro Longhua Line ("SZL4") also exceeded targets and contractual commitments during the year. Ridership for the year was 140 million, with average weekday patronage reaching 380,300. The line runs 20.5 km and has 15 stations. During the year, SZMTR was awarded ISO14001:2004 by Bureau Veritas for its project management of new railways as well as its operation and maintenance of railway services and assets.

HZL1 celebrated its first full year of operation in November 2013 with operational performance exceeding targets. Following the opening of the Hangzhou East high speed rail station and in response to our marketing initiatives, which are contributing to changing patterns of behaviour among commuters, the patronage numbers have shown significant improvement. The average daily patronage in December 2013 reached over 318,000, far exceeding the 168,000 seen in January 2013. Total ridership for the year was 92.4 million. The last station on the line, East Railway Station, opened on 30 June 2013. HZL1 has 31 stations with a route length of 48 km.

International Railway Businesses

In the United Kingdom, LOROL continued to deliver excellent service to the nation's capital. Driver-only operation was extended to the North London and West London lines from November 2013. LOROL is also working with Transport for London ("TfL") to support a GBP320 million project to increase train length from four cars to five cars. Construction work to support this began in April and the first five-car train is scheduled to enter service in the second half of 2014.

The network of LOROL extends to 57 stations over 124 km. Ridership in 2013 increased to 101 million.

LOROL won some impressive awards during the year, including "European Commuter Operator of the Year" at the inaugural European Rail Congress Awards in London. This came on top of the three awards in the tenth annual London Transport Awards in March 2013, namely "London 2012 Transport Teams", "Frontline Employee of the Year" and "Rail Station of the Year". In recognition of LOROL's excellent performance, TfL has extended our concession for a further two years to November 2016.

In Stockholm, MTRS' operational performance in the Swedish capital continues to improve, receiving recognition from the Swedish Institute of Quality for "Successful Business Development in 2013". Ridership for the year was 329 million, with average weekday patronage reaching 1.2 million. The metro system comprises of three lines and 100 stations, and runs for 110 km.

In Melbourne, patronage on MTM held steady for the year at 227 million. The network has 218 stations and runs for 390 km, making it the largest contributor to revenue among our international businesses. Service delivery has continued to improve and record performance was achieved during the year. In February 2013, MTM's safety related advertising campaign won the prestigious "Ad Campaign of the Year" and "Ad of the Year" awards at the AdNews Agency of the Year Awards.

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

MTR Property Development (Shenzhen) Company Limited is currently developing Shenzhen Metro Longhua Line Depot Site Lot 1. The total developable gross floor area of the site is approximately 206,167 square metres. Planning approvals, submission of building plans, and obtaining construction and works permits have all proceeded according to programme. The project loan was successfully arranged and the first drawdown was made in the third quarter of 2013. Upon the award of the Main Contract in October 2013, the ground breaking ceremony was held on 16 December 2013, marking the start of construction of this development project.

MTRS received recognition from the Swedish Institute of Quality for "Successful Business Development in 2013"

On 5 August 2013 Tianjin TJ-Metro MTR Construction Company Limited, a company formed by a wholly-owned subsidiary of the Company (49%) and Tianjin Metro (Group) Company Limited (51%), successfully bid for the land use right for a site at Beiyunhe Station on Tianjin Metro Line 6 in Tianjin, at a price of RMB2,075 million. The total developable gross floor area of the site is approximately 278,650 square metres and the site will be developed for mixed residential and commercial use. The land premium was fully settled in November 2013 and detailed planning and design for the development is currently in progress.

MTR received the "International Business Model Award" at the International Association of Public Transport ("UITP") 2013 World Congress for its rail plus property development model. The award acknowledges the Company's innovation in adopting the integrated development model for SZL4.

Revenue from our property rental and property management businesses in the Mainland of China increased by 7.4% to HK$146 million in 2013. Our shopping mall in Beijing, Ginza Mall, had an occupancy rate of close to 100% at the end of 2013.

The Company's managed gross floor area in the Mainland of China remained steady at 256,000 square metres. This comprised two major developments in Beijing, namely the AO City Fortune Centre, with 109,000 square metres of commercial and residential space, and the North Star Paseo Mall and office towers, with 147,000 square metres of commercial space.

Mainland of China and International Growth

In Beijing, following the initialling of the Concession Agreement for BJL14 with the Beijing Municipal Government, the project is progressing as planned. The entire BJL14 will run for 47.3 km and have 37 stations, including ten interchange stations. Under the approximately RMB50 billion PPP project, BJMTR is responsible for an investment of RMB15 billion for the provision of E&M systems and rolling stock, as well as the operation and maintenance of the line over a term of 30 years. The Beijing Municipal Government is responsible for the rest of the investment. Phase 1 of the project opened on 5 May 2013; Phase 2 and Phase 3 are now targeted to open in 2014 and 2015 respectively.

BJMTR also submitted a bid for Beijing Metro Line 16 ("BJL16"), another PPP project, in February 2014. The 50-km BJL16 will have 29 stations running from Beianhe to Wanping. Phase 1 is targeted to open by the end of 2016, with full line service by the end of 2017.

The Company signed the Framework Agreement in May 2013 with the Shenzhen Development and Reform Commission regarding the construction and an operating concession for Shenzhen Metro Line 6 ("SZL6"). SZL6 has a route length of 38 km with 20 stations extending north-westerly from Shenzhen North Station to Guangming New District. The terms for the Principle and Joint Venture agreements are being negotiated. In January 2014, the Company signed a Strategic cooperation Framework Agreement with the Longhua New District Administration Commission in Shenzhen for the North Extension of SZL4.

In Sweden, we will launch a new, 455-km rail service connecting Stockholm with Gothenburg. Called MTR Express and operated by our wholly-owned subsidiary MTR Nordic, it will provide 110 weekly train trips. The service is aimed to be launched by early next year following testing and commissioning of six new train sets, after their delivery.

In Australia, our consortium was shortlisted to bid for the Operations, Trains and Systems Contract for the Sydney North West Rail Link in May 2013. The bid was submitted on 5 December 2013. MTR, as part of the consortium, would be responsible for the design and delivery of the rail systems together with operation and maintenance of the system for 15 years after service opening. In addition, we lead a consortium which has entered into discussions with Victorian Government in relation to a project to transform the Dandenong Rail Corridor in Melbourne. Subject to the finalisation of procurement and financing of the project, construction is expected to start in 2015.

In the United Kingdom, we submitted bids for both the Essex Thameside and the Thameslink, Southern and Great Northern franchises in December 2013. We were also shortlisted to tender for the Crossrail concession by TfL in June 2013 and our bid was submitted in February 2014. In addition, we were shortlisted to tender for the ScotRail franchise in November 2013, and this bid will be submitted in April 2014.

Mainland of China and International 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	Beijing Metro Line 14	London Overground, United Kingdom	Stockholm Metro, Sweden	Melbourne Metro, Australia	Beijing Metro Line 14, Mainland of China	MTR Express, Sweden
MTR Corporation Shareholding	49%	49%	100%	49%	49%	50%	100%	60%	49%	100%
Business Model	Public-Private-Partnership ("PPP")	Operations and Maintenance ("O&M") Concession	Build-Operate-Transfer ("BOT")[Note 1]	PPP	O&M Concession	O&M Concession	O&M Concession[Note 3]	O&M Concession	PPP	Open Access Operation
Commencement of Franchise/ Expected date of commencement of operation	Sep 2009	Dec 2010	Phase 1: Jul 2010 Phase 2: Jun 2011	Nov 2012	Phase 1: May 2013	Nov 2007	Nov 2009	Nov 2009	Phase 2: 2014 Phase 3: 2015	N/A[Note 4]
Franchise/ Concession Period *(years)*	30	10	30	25	30	9	8	8	30	N/A[Note 5]
Number of Stations	24	11	Phase 1: 5 Phase 2: 10	31	Phase 1: 7	57[Note 2]	100	218	Phase 2 and 3 : 30	7
Route Length *(km)*	28	22	Phase 1: 4.5 Phase 2: 16	48	Phase 1: 12.4	124	110	390	Phase 2 and 3 : 34.9	455

Notes :

1 *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 July 2010.*
2 *This represented the number of stations operated and managed by LOROL. The total number of stations served for London Overground is 83.*
3 *Rolling stock maintenance under an associate formed between MTR Stockholm and Mantena AS.*
4 *After the delivery of the new trains, service will be launched following testing and commissioning of the trains.*
5 *The license to operate this service is subject to renewal.*

6.5 training days per employee,

4,500 enhanced staff communication sessions

Over 6,000 volunteers participating in

239 "More Time Reaching Community" projects

Teamwork
for growth

Human Resources

Various awards were given to staff to recognise their accomplishments, contributions and dedicated service

The Company, together with its subsidiaries, employed 16,158 people in Hong Kong and 7,078 outside of Hong Kong as at 31 December 2013.

Recruitment and Retention

As our businesses continue to grow, we proactively formulate various manpower resourcing strategies and initiatives to meet current manpower needs and to plan for our future in both Hong Kong and markets outside of Hong Kong.

During 2013, over 2,200 people were recruited and 1,300 staff were promoted internally in Hong Kong. Staff turnover remained low at 4.2%. Proactive manpower resourcing and advance recruitment activities were conducted, including recruitment days, job fairs, career talks and partnership programmes with tertiary institutions, in order to reach out to job seekers. A total of 25 Graduate Engineers were recruited, as well as seven Functional Associates and six Graduate Trainees for succession to future managerial positions. We also successfully recruited 119 Apprentices and Technician Associates who will undergo structured training schemes to meet our future operational requirement.

The Company was voted as the "Most Attractive Employer" according to a survey conducted in Hong Kong by the Randstad Group, one of the world's largest human resources service firms, covering job seekers' attitudes to the 75 largest commercial employers in Hong Kong. The results echoed the findings of our recent Staff Attitude Survey, conducted in October 2012, in which 88% of our staff in Hong Kong indicated that they were proud to be a staff member of MTR, while 81% agreed that MTR was a good employer.

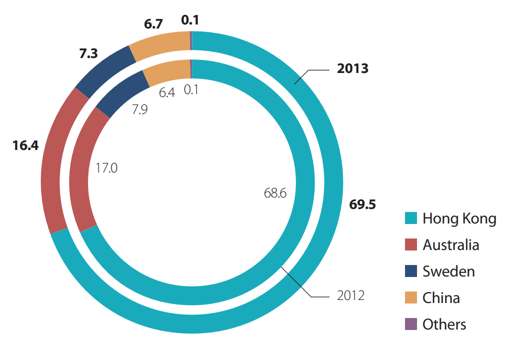
The increasingly multinational nature of the Company has resulted in more emphasis being placed on strengthening human resources in our Mainland of China and international businesses. A three-pronged approach has been adopted: increasing dedicated mobile resources to lead the development of existing and new rail and property projects; enhancing localisation in existing business hubs to free up resources for new projects; and strengthening the leadership pipeline for Mainland of China and international businesses. In both Beijing and Shenzhen, meanwhile, a variety of programmes have been initiated to aid the recruitment and retention of skilled people.

Staff Motivation and Engagement

To build pride in MTR among staff, we produced the third series of motivational videos during 2013 titled "MTR People

Staff Distribution by Geographical Location

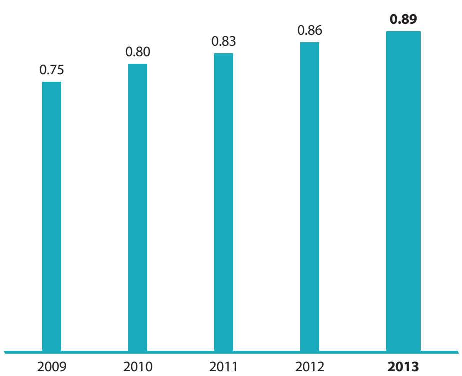
(Percentage)



Staff Productivity – Earnings Per Employee*

* Hong Kong businesses excluding property development

(HK$ million)



Human Resources

The MTR Apprentice Programme marked its 35th anniversary and I am proud of starting my engineering career with MTR

Jason Lam
Technician Apprentice

Making a Difference", featuring unscripted sharing by frontline staff members from different departments about their experience at work. These attracted more than 52,000 viewings and 8,000 positive comments. Reflecting the multinational nature of the Company, the annual MTR Grand Awards for Outstanding Contribution scheme in 2013 received 86 submissions, including quite a few first time entries from MTR subsidiaries and associates.

Engaging retirees as part of the MTR community helps connect those retiring from the Company and motivate our current staff. To this end, a new "We are MTR" programme has been developed to build closer connections with retirees and maintain their sense of pride in MTR through a variety of initiatives such as a Retiree Information Pack, gatherings and personal thank-you letters from the CEO.

In the Mainland of China, more schemes were introduced to increase identification with the Company and our values. These included family visits and long-service awards in Shenzhen, a staff survey in Beijing and the roll-out of a "vision, mission, values" ("VMV") education programme in Hangzhou. Internationally, in Sweden, MTRS successfully launched an "Our Common Journey" workshop, which introduced VMV and company goals. Phase 1 of the workshop was completed in May 2013 with approximately 1,500 staff participating. In July 2013, MTM in Australia launched a new scheme highlighting values and expected behaviours.

Leadership Development

Our efforts to develop future managerial talent continued during 2013. Among them, our Executive Associate Scheme and People Development Initiative were keys to ensuring continuity in management resources. We continued to provide structured, customised training for future management talent, and increasingly encouraged cross-functional and geographical career movements. Executives and senior managers have again benefited from our Continuous Learning Programme, while newly promoted managers were assisted by a new "Reaching New Horizons" Leadership Transformation Programme. A new "MTR Advanced Management Programme" was also launched for senior managers from Hong Kong and around the world. This six-day programme allows them to learn and share best practices and experiences from MTR's various businesses.

A Culture of Excellence, Learning and Caring

MTR's culture of excellence, learning and caring was reinforced during the year by further initiatives organised under the Academy of Excellent Service, involving experiential learning, external benchmarking visits and sharing sessions among staff. We have also continued to invest in mobile learning technology.

During 2013, 6,471 courses were delivered providing 6.5 training days per Hong Kong employee. The Company's efforts in this area won a number of local and international awards during the year including the "China's Best Corporate University Award, Learning! 100 Award" and the "HKMA Award for Excellence in Training and Development".

The year 2013 marked the 35th anniversary of the MTR Apprentice Programme. A number of special commemorative activities were organised throughout the year to celebrate the achievements of the programme, which has turned more than 1,200 youngsters into competent railway engineering professionals since its establishment. A total of 71 apprentices graduated during 2013, including 27 craft apprentices, 38 technician apprentices and six technician associates. The third intake for the Supervisor Associate Programme was launched in September 2013 for fast track development of supervisors in Operations Engineering.

Employee Communication

To encourage and reinforce two-way communication between line managers and staff, more than 4,500 sessions of the "Enhanced Staff Communication Programme" were organised in 2013, with over 65,500 participants. In September 2013, the bi-annual Management Communication Meeting communicated business updates to over 1,000 managers around the globe.

During 2013, we continued to make every effort to increase communication between our CEO and staff at all levels. More than 30 personal messages from Mr Walder were featured on the "CEO My Post" on the corporate intranet or sent to staff via email, keeping staff abreast of the latest business developments and corporate strategies. Feedback has been very positive. Forums for Executive Managers and CEO audio messages were used to strengthen communication and interaction. Site visits, during which Mr Walder met and exchanged ideas with staff in different work positions and locations, have further enhanced communications with staff.

Driving Work Improvement

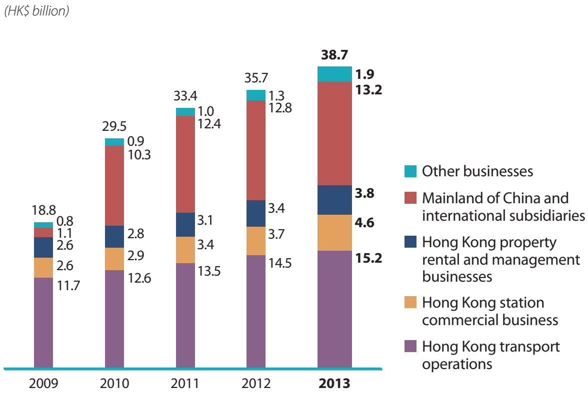
The Work Improvement Team ("WIT") initiative to encourage collective innovation and continuous improvement was strengthened by the theme of "You Have A Say" during the year, with 5,500 members and 967 projects submitted. WIT has also been rolled out to our subsidiaries and associates, including our operations in Beijing, Shenzhen and Stockholm, with annual project presentations to share the WIT best practices.

We continue to promote work-life balance and healthy living through organising various activities for our staff and their families

Financial Review

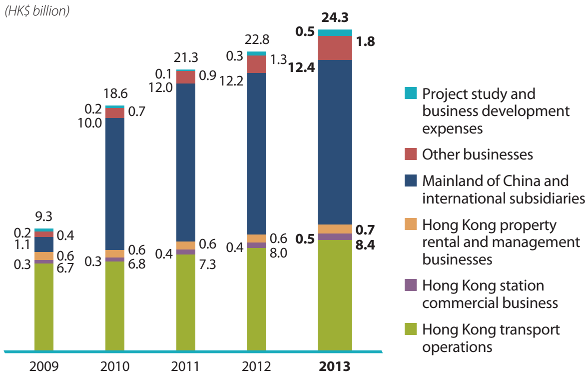
Turnover

Benefited from the continuous economic growth and better performance of all business segments, turnover in 2013 recorded an 8.3% increase.



Operating Expenses

Operating expenses in 2013 increased to HK$24.3 billion in support of various service enhancement initiatives under the Listening • Responding Programme, revenue growth and project management services.



Profit and Loss

In 2013, the Group achieved solid financial results through sustained growth in our recurring businesses, while higher fare concessions and continued service enhancements to our passengers in Hong Kong were delivered. A lower profit from Hong Kong property development was reported in 2013 and derived mainly from the sale of inventory units at The Riverpark. Higher fees and costs related to project management of the Shatin to Central Link and Express Rail Link were recorded under other businesses, on a cost recovery basis. Apart from Hangzhou MTR Corporation Limited ("HZMTR"), which was in its first full year of operation, our businesses in the Mainland of China and overseas made further profit contributions.

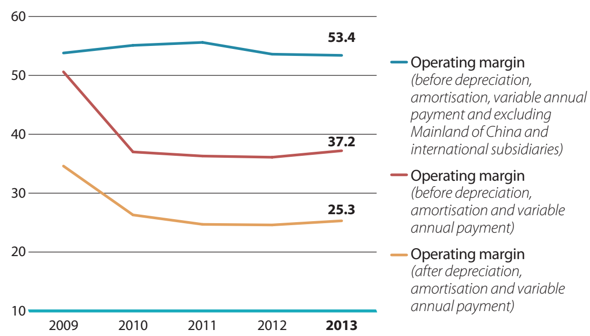
Fare revenue from Hong Kong transport operations grew 4.4% to HK$15,021 million in 2013, due to patronage growth brought by continued growth in the economy and inbound tourists, as well as fare changes in accordance with the Fare Adjustment Mechanism ("FAM") after netting off fare promotions. Patronage for our Domestic Service, Cross-boundary Service and Light Rail and Bus services rose 3.0%, 1.5% and 2.9% respectively, while total patronage on the Airport Express rose by 7.6%. The average fare for the Domestic Service, Cross-boundary Service as well as Light Rail and Bus services was slightly higher than 2012, rising by 1.6%, 1.1% and 0.9% respectively due to the fare adjustments under the FAM after accounting for fare concessions, while the average fare of the Airport Express, which is not subject to FAM, decreased by 1.4% due to fare promotions targeted at achieving higher patronage. Fare revenues in 2013 amounted to HK$10,511 million for the Domestic Service, HK$2,923 million for the Cross-boundary Service, HK$843 million for the Airport Express and HK$600 million for Light Rail and Bus services, with growth in the range of 2.7% to 6.0%. Including fare revenues from Intercity of HK$144 million and other rail related income of HK$145 million, total revenue from Hong Kong transport operations increased by 4.4% to HK$15,166 million. Expenses related to Hong Kong transport operations grew 5.4% to HK$8,449 million in 2013 mainly due to increased levels of manpower, repairs and maintenance, energy and costs associated with our continued service enhancement initiatives under the Listening • Responding programme, coupled with increases in staff salaries, energy tariffs and government rent and rates. As a result, operating profit for Hong Kong transport operations rose 3.2% to HK$6,717 million while operating margin changed slightly by 0.5 percentage point to 44.3%.

Our Hong Kong station commercial business had a strong year with a reported revenue of HK$4,588 million, up 24.7% against 2012. A buoyant retail market, together with increased patronage from transport operations along with station layout improvements and trade mix refinements resulted in favourable renewal rates at station shops. These, together with significant rental increases at the Duty Free Shops at Lo Wu and Hung Hom stations under the new licence in 2013, contributed to a 36.9% increase in station retail revenue, to HK$2,933 million. New advertising formats and the launch of 4G mobile device services contributed to higher revenue

Operating Margin

Operating margin improved to 37.2% with higher contribution from Mainland of China and international subsidiaries as compared with last year.

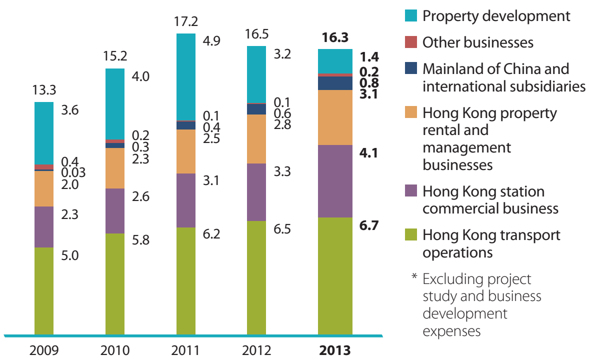
(Percentage)



Operating Profit Contributions*

Recurrent businesses in Hong Kong continued to be the major profit contributors while non-recurrent property development profits was modest in 2013.

(HK$ billion)



* Excluding project study and business development expenses

from advertising and telecommunications. Advertising revenue grew 5.3% to HK$1,053 million, while revenue from telecommunications increased by 12.9% to HK$447 million. Other station commercial businesses recorded a 9.2% higher income of HK$155 million. Expenses in relation to Hong Kong station commercial business increased by 16.9% to HK$464 million mainly due to higher government rent and rates and agency fees relating to advertising revenue growth. Overall, a higher operating margin of 89.9%, up 0.7 percentage point, and operating profit of HK$4,124 million, up 25.6%, were achieved in 2013.

Hong Kong property rental and management businesses also benefited from the strong retail environment to generate a 11.1% increase in revenue to HK$3,778 million in 2013. Positive rental reversion, at an average of 16.0%, coupled with an occupancy rate close to 100%, higher turnover rent and the full-year effect of PopCorn 1, which opened in March 2012, contributed to a 10.9% higher rental income of HK$3,547 million. Property management business continued to grow as Hong Kong property management revenue rose 13.8% to HK$231 million due to residential units under our management increasing by 4,257 units from 2012, to 90,523 units while the area of managed commercial and office space remained at 763,018 square metres. Compared to revenue, expenses relating to Hong Kong property rental and management businesses increased at a lower rate of 7.3% to HK$673 million in 2013. The resulting operating profit from Hong Kong property rental and management businesses increased 11.9% to HK$3,105 million, and operating margin improved 0.6 percentage point to 82.2% in 2013.

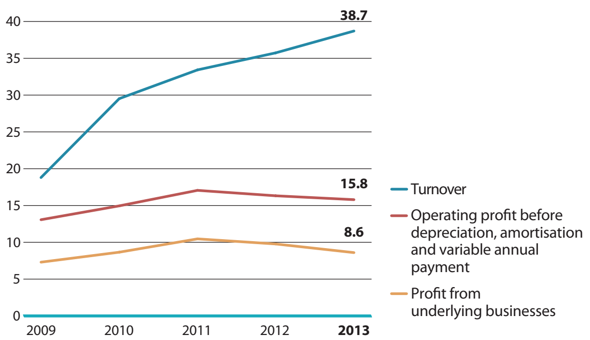
Mainland of China and international subsidiaries, comprising rail franchise operations in Melbourne, Stockholm and Shenzhen as well as property rental and management activities in the Mainland of China, generated a 3.6% increase in revenue to HK$13,246 million. Revenue from Metro Trains Melbourne Pty. Ltd. ("MTM") and MTR Stockholm AB ("MTRS") grew 1.5% and 7.1% to HK$9,269 million and HK$3,325 million respectively. In the Mainland of China, Shenzhen Metro Longhua Line and our property rental and management businesses also reported growth in revenue, of 21.9% and 7.4% to HK$506 million and HK$146 million respectively. With overall operating expenses having increased by 2.2% to HK$12,455 million, the resulting operating profit amounted to HK$791 million, a 31.4% increase. MTM generated operating profit of HK$552 million, a rise of 18.2%, mainly due to increased income from a higher level of project activities. MTRS reported an operating profit of HK$138 million, up from HK$56 million in 2012, as an arbitration settlement with local transport authority for energy cost provision amounted to HK$46 million was awarded in favour of MTRS. Operating profit from Shenzhen Metro Longhua Line rose by 27.9% in 2013 to HK$78 million, mainly due to a 19.9% increase in patronage. Property rental and management businesses in the Mainland of China recorded an operating profit of HK$23 million, an increase of 27.8% from last year.

Other businesses, including 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, recorded an overall operating profit of HK$148 million, up 179.2% from last year. The increase

Financial Review

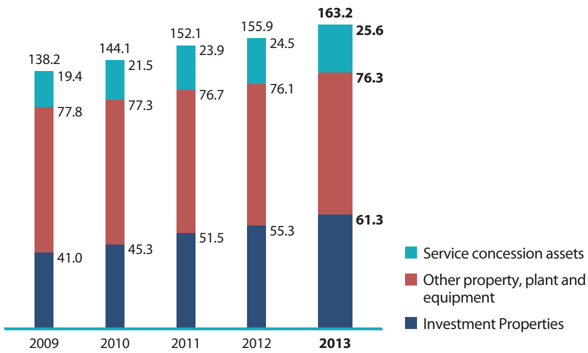
Net Results from Underlying Businesses

Underlying business profit in 2013 decreased to HK$8.6 billion resulted from lower property development profits.



Fixed Assets Growth

Fixed assets in 2013 increased to HK$163.2 billion due to revaluation gains in investment properties, land premium for Tsing Yi Lorry Park and capital expenditures on railway assets.



was mainly due to Ngong Ping 360 having experienced unscheduled repair and maintenance works as well as a loss in revenue during the suspension of cable car service in 2012. Overall operating margin was up 3.7 percentage points to 7.7%. Revenue from entrustment works for the Government amounted to HK$1,461 million, up 50.9%, and has been booked on a cost recovery basis.

Including project study and new business development expenses, which increased to HK$486 million in 2013 from HK$323 million in 2012 due to higher bidding costs for the Essex Thameside and Thameslink, Southern and Great Northern franchises in the UK as well as North West Rail Link in Australia, operating profit before Hong Kong property developments, depreciation, amortisation and variable annual payment showed a solid growth of 11.7% to HK$14,399 million in 2013. Operating margin improved from 36.1% in 2012 to 37.2% in 2013. Excluding contributions from the Mainland of China and international subsidiaries, operating margin slightly decreased by 0.2 percentage point to 53.4% mainly due to the impact of recognising the fees from project management services provided to the Government at cost as well as higher expenses relating to project studies and new business development. Excluding such factors, the operating margin would have improved by 1.3 percentage points.

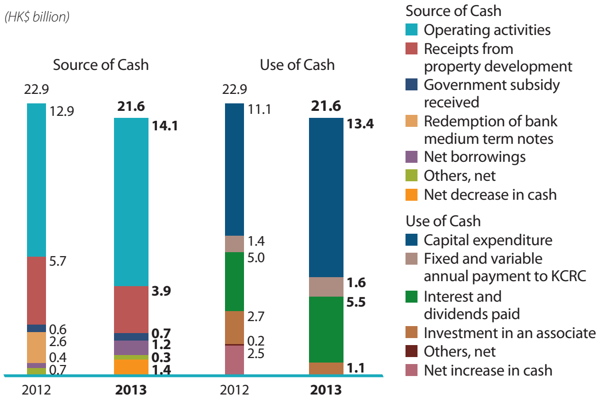
Hong Kong property development profit in 2013 was HK$1,396 million, mainly derived from sale of inventory units at The Riverpark at Che Kung Temple Station and car parking spaces at various developments. In comparison with 2012, when we booked profit from The Riverpark and surplus from the sale of inventory units mainly at Festival City in Tai Wai and The Palazzo in Fo Tan and an agency fee from the West Rail property development at Tuen Mun, Hong Kong property development profit in 2013 decreased by HK$1,842 million.

Variable annual payment to Kowloon-Canton Railway Corporation ("KCRC") on relevant revenue generated from use of KCRC assets was HK$1,247 million, increasing by 41.2% as relevant revenue reached the highest 35% charge band. Depreciation and amortisation increased slightly from HK$3,208 million in 2012 to HK$3,372 million in 2013. Net interest and finance charges were HK$732 million, down from HK$879 million in 2012 due to higher interest expenses capitalised partly offset by lower interest income in 2013. Investment property revaluation gain amounted to HK$4,425 million in 2013, up from HK$3,757 million in 2012.

Share of profits from associates decreased from HK$456 million in 2012 to HK$158 million in 2013. Profit sharing from Octopus Holding Limited increased by 6.6% to HK$225 million mainly due to growth in transaction fees. Share of profit from Beijing MTR Corporation Limited ("BJMTR") amounted to HK$203 million in 2013, a decrease of HK$49 million from 2012 as a positive accounting adjustment of HK$66 million was recorded in 2012. Excluding this one-off item, profit contribution would have been 9.1% higher than 2012. Share of profit from London Overground Rail Operations Limited

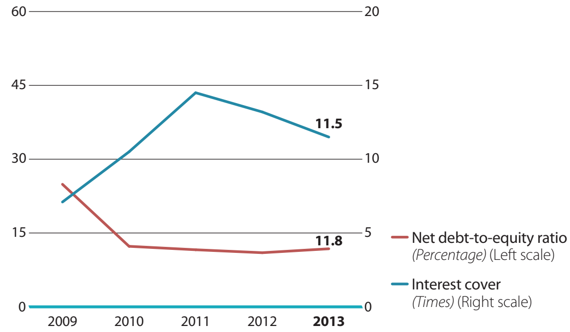
Cash Utilisation

Net decrease in cash in 2013 was mainly due to payments for capital expenditure, dividends as well as fixed and variable annual payment to KCRC.



Debt Servicing Capability

Gearing ratio maintained at a healthy level of 11.8% in 2013.



("LOROL") amounted to HK$18 million in 2013, a decrease of HK$15 million from 2012. Including the additional net management fee income to the Group of HK$15 million, total contribution from LOROL remained stable when compared to 2012. Share of loss from HZMTR amounted to HK$312 million in 2013 as Hangzhou Metro Line 1, which commenced service in November 2012, reported a lower patronage than expected in its initial stage of operations. Share of profits from the other associates increased by HK$4 million to HK$24 million in 2013.

With a lower property development profit, net profit attributable to shareholders, after deducting income tax of HK$1,819 million and profits shared by non-controlling interests of HK$183 million, recorded a slight decrease of 2.6% in 2013 to HK$13,025 million. Earnings per share therefore decreased from HK$2.31 to HK$2.25. Excluding investment property revaluation, the underlying profit attributable to equity shareholders was HK$8,600 million with earnings per share also decreased from HK$1.66 in 2012 to HK$1.48. Underlying profit from our recurrent businesses continued to grow with a 7.6% increase in profitability to HK$7,437 million while post-tax property development profits decreased from HK$2,704 million in 2012 to HK$1,163 million in 2013.

In line with our progressive dividend policy, the Board has proposed a final dividend of HK$0.67 per share, giving a full year dividend of HK$0.92 per share, an increase of 16.5% over 2012, with a scrip dividend option offered, subject to shareholders' approval.

Balance Sheet

Our balance sheet remained strong, as net assets increased 6.7% to HK$152,702 million at the end of 2013 as compared with the end of 2012.

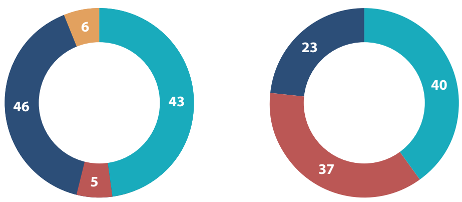
Total assets increased by HK$9,136 million during the year to HK$215,823 million at 31 December 2013. Total fixed assets increased by HK$7,262 million to HK$163,156 million. The increase was mainly due to asset additions, revaluation gains on our investment properties and self-occupied properties as well as our expenditures in relation to the Tsing Yi Lorry Park Project, after depreciation, amortisation and disposal were deducted. Railway construction in progress increased by HK$4,090 million to HK$11,548 million with further construction works for the South Island Line (East) and Kwun Tong Line Extension. Interests in associates increased by HK$1,019 million to HK$5,277 million mainly relating to our capital injection into an associate, Tianjin TJ-Metro MTR Construction Company Limited ("TJ-MTR"). The increase in total assets was offset by fewer properties held for sale, a decrease of HK$1,911 million to HK$1,105 million as inventory units were sold during the year, and by a reduction in cash, bank balances and deposits of HK$1,367 million to HK$17,297 million to fund operating and capital expenditures.

Total liabilities decreased slightly by HK$455 million to HK$63,121 million at 31 December 2013 was mainly due to lower creditors and accrued charges offset by increases in

Sources of Borrowing

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

(Percentage) (As at 31 December 2013)



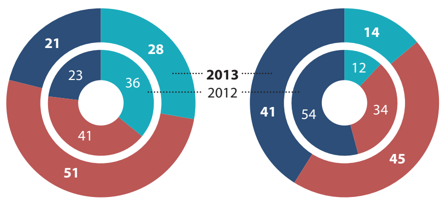
By market
- Hong Kong
- US
- Asia
- Europe

By instrument
- Medium term notes
- US$ Eurobonds
- Bank loans

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 2013)*



By instrument
- Interest rate swaps
- Cross currency & interest rate swaps
- Foreign exchange forwards

By maturity
- Beyond 5 years
- 2 to 5 years
- Within 2 years

* Calculated based on nominal value

total borrowings, amounts due to related parties and deferred tax liabilities. Creditors and accrued charges decreased by HK$2,737 million to HK$13,793 million as a result of further utilisation of the government grant for the construction of the West Island Line, payment of land premium for Shenzhen Metro Longhua Line Depot site and lower defined benefit retirement plan obligations, offset by an outstanding land premium payable for the Tsing Yi Lorry Park. Total borrowings increased from HK$23,577 million in 2012 to HK$24,511 million in 2013 to fund our operating and capital expenditures. Amounts due to related parties increased from HK$1,061 million in 2012 to HK$1,388 million in 2013, mainly relating to costs recoverable from the Government for the Shatin to Central Link. Deferred tax liabilities balance increased from HK$9,587 million in 2012 to HK$10,289 million in 2013 mainly in relation to temporary differences of tax depreciation of fixed assets.

Share capital, share premium and capital reserve increased by HK$161 million to HK$44,442 million from new shares issued under the employee share option schemes. Together with the increase in retained earnings, net of dividends paid and remeasurement effect of the net liability of our defined benefit retirement plans amounting to HK$9,133 million, and increase in fixed asset revaluation reserve and other reserves of HK$359 million, total equity attributable to shareholders of the Company increased by HK$9,653 million to HK$152,557 million at 31 December 2013.

The net debt-to-equity ratio increased from 11.0% at 2012 year-end to 11.8% at 2013 year-end.

Cash Flow

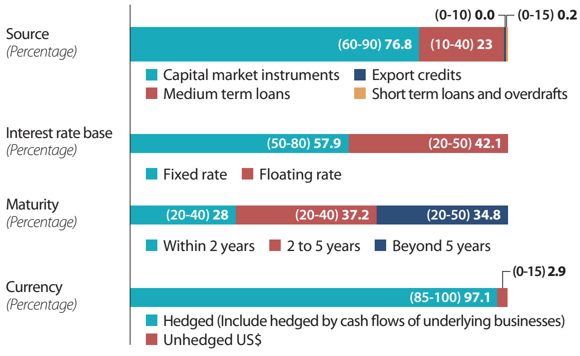
Cash generated from operations, net of taxes paid and working capital movements, was HK$14,103 million in 2013, an increase of HK$1,201 million from 2012 which is consistent with the increase in operating profit before Hong Kong property developments, depreciation, amortisation and variable annual payment. Receipt of the government subsidy for the Shenzhen Metro Longhua Line amounted to HK$661 million. Cash receipt from property developments was HK$3,937 million mainly relating to the reimbursement of the remaining land premium for The Riverpark and surplus proceeds for The Riverpark, Lake Silver and The Palazzo. Dividend and loan repayments received from associates, as well as proceeds from liquidation of Shenyang MTR, amounted to HK$283 million. After receipts from miscellaneous activities totalling HK$58 million, net cash receipts from operating and investing activities amounted to HK$19,042 million in 2013, a decrease of HK$671 million from 2012.

Total capital expenditure paid during the year for railway operations was HK$10,294 million, including HK$2,868 million for the purchase of assets for Hong Kong transport and other existing railways and related operations, HK$6,849 million for the construction of West Island Line, South Island Line (East) and Kwun Tong Line Extension projects, HK$577 million for Shenzhen Metro Longhua Line railway operations. Capital expenditure for property developments, renovation and fitting-out works amounted to HK$3,062 million, including

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 2013*



the settlement of land premium for the Shenzhen Metro Longhua Line Depot site, deposit for the Tsing Yi Lorry Park land premium, construction costs for property developments and other property renovation and fitting out works for our investment properties. The Group also paid HK$1,111 million in relation to its equity injection into TJ-MTR, HK$1,633 million for fixed and variable annual payments and HK$752 million for net interest payment. After dividend payments to shareholders and holders of non-controlling interests of HK$4,772 million, net cash payments for operating and capital expenditures as well as dividend payments amounted to HK$21,624 million in 2013, an increase of HK$1,411 million from 2012.

The Group's net cash outflow before financing of HK$2,582 million was funded by net loan drawdown of HK$1,223 million and our existing cash balances. As a result, the Group's cash balance, net of bank overdrafts, decreased from HK$18,609 million in 2012 to HK$17,250 million in 2013.

Financing Activities

Despite massive liquidity created by the US Federal Reserve Board's third round of purchases under its bond buying programme, known as "quantitative easing", the financial markets began 2013 with a mood of uncertainty and pessimism, amid concerns over the scheduled US government spending cuts and the attendant debt ceiling negotiations. This situation, coupled with the Japanese government's own quantitative easing measures to revive its economy, created enormous demand for US Treasury bonds and other "safe haven" assets, causing Treasury yields to decline further, with the 10-year yield reaching a near-historical low of 1.63% by May 2013.

Market sentiment turned around in early May after the job market in the US foreshadowed a more sustained recovery with stronger employment numbers, in turn fuelling speculation that the Federal Reserve might soon start tapering its bond purchases. Treasury yields rose rapidly over the ensuing months until September, when the Federal Reserve announced its decision not to start tapering. However, after a brief decline, yields crept up again from October on renewed expectation of tapering, with the 10-year yield ending the year at a year-high of 3.03% after the Federal Reserve finally announced its plan to implement tapering in December 2013. During the year, yields of Hong Kong Exchange Fund Notes followed a similar trajectory to that of US Treasury bonds, with the 10-year yield declining to a low of 0.82% in early May and ending the year higher at 2.31%.

During the year, a core financing strategy of the Group was to take advantage of the near-historically low interest rates and abundant liquidity to extend and diversify its debt maturity profile whilst at the same time locking in attractive fixed rate funding. Following this strategy, the Group issued a total of HK$3,285 million equivalent in long-term fixed rate notes in different currencies and maturities at highly attractive interest rates during the year. These comprised its inaugural HK dollar and US dollar 30-year note issues as well as issuance of 10- and 15-year notes in Australian dollars and 15-year notes in Japanese Yen, with the latter two types of notes swapped into HK dollars at a fixed rate.

The banking market in Hong Kong continued to recover as banks became more confident about the implications of the new Basel III capital and liquidity requirements and their plans for compliance. In general, banks were more willing to lend, to extend loan maturities and to lower fees and credit margins, with volumes of syndicated loans registering a record high with better pricing and longer tenors offered.

Reflecting the ample liquidity in the market, short-term interest rates were lower in both the US and Hong Kong with the average 3-month US$-LIBOR and 3-month HK$-HIBOR rates in 2013 respectively lower at 0.27% and 0.38%, compared with 0.43% and 0.40% in the previous year.

Taking advantage of the favourable conditions, the Group arranged for its funding requirements in Hong Kong a total of HK$3,800 million in bilateral banking facilities with its relationship banks, with maturities of five and seven years, at more attractive fees and credit margins than the previous year.

In the Mainland of China, a non-recourse RMB1.95 billion 3-year construction loan for the Shenzhen Longhua depot property development project was signed with a syndicate of Mainland, foreign and Hong Kong based banks in August 2013. In addition, further financings were arranged for the Shenzhen Metro Longhua Line in the form of a RMB500 million 5-year term loan for purchasing additional rolling stock and a RMB300 million 1-year working capital loan in November 2013.

Cost of Borrowing

The Group's consolidated gross debt position increased from HK$23,577 million at year-end 2012 to HK$24,511 million at year-end 2013. Weighted average borrowing cost increased slightly to 3.6%, from 3.3% in 2012, as a result of the additional long-term fixed rate debts issued during the year. However, despite higher average borrowing cost and higher year-end borrowing outstanding, thanks to higher interest expenses capitalised offset by lower interest income during the year, net interest expense charged to the Profit and Loss Account for 2013 was lower at HK$732 million as compared to HK$879 million in 2012.

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 debt, 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.

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 reduce risk further, 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, its note issuing bank status in Hong Kong, and the length of time that a deposit or short-term investment to be maintained with the counterparty.

The Group actively monitors the 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 between 6 to 15 months of projected cash requirements. The Group also conducts regular stress testing of projected cash flow to identify and estimate any potential shortfall, and would arrange new financings or take other appropriate actions if such stress tests revealed significant risk of material cash-flow shortfall.

Credit Rating

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

The Company's long-term corporate credit and short-term ratings were affirmed in April 2013 by Standard & Poor's at respectively "AAA" and "A-1+" with a stable outlook.

The Company's issuer and senior unsecured debt ratings as well as short-term rating were affirmed in August 2013 by Moody's Investors Service at respectively "Aa1" and "P-1" with a stable outlook.

This was followed in November 2013 by the affirmation of Rating & Investment Information Inc. of Japan of the Company's issuer and short-term credit ratings of respectively "AA+" 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 of 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 existing rail lines. Concession projects such as the Express Rail Link and the Shatin to Central Line are generally funded by the Government although for the latter the Company will share certain costs for the rolling stock and signalling systems attributable to the East Rail and Ma On Shan Lines.

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

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, and potential payments of portions of land premium for certain property development projects. Expenditure for Mainland of China and overseas investments consists primarily of 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 and Tianjin property development projects.

Based on our current programme, total net capital expenditure for the next three years from 2014 to 2016 (inclusive) is estimated at HK$28.6 billion for Hong Kong railway projects, HK$20.0 billion for Hong Kong property investment and development, and HK$6.8 billion for Mainland of China and overseas investments for a total of HK$55.4 billion. Out of this total, it is estimated that HK$29.3 billion will be incurred in 2014, HK$14.7 billion in 2015, and HK$11.4 billion in 2016.

With forward financing coverage extending well into 2014 and a strong financial position, the Group believes that it has sufficient financing capacity to fund these capital expenditure projects and to capture other potential investment opportunities.

Ten-Year Statistics

	2013	2012	2011	2010	2009	2008	2007#	2006	2005	2004
Financial										
Consolidated Profit and Loss Account *(HK$ million)*										
Turnover	**38,707**	35,739	33,423	29,518	18,797	17,628	10,690	9,541	9,153	8,351
Operating profit before depreciation, amortisation and variable annual payment *	**15,795**	16,133	17,058	14,951	13,069	14,009	14,229	11,032	11,259	9,110
Depreciation and amortisation	**3,372**	3,208	3,206	3,120	2,992	2,944	2,752	2,688	2,695	2,512
Interest and finance charges	**732**	879	921	1,237	1,504	1,998	1,316	1,398	1,361	1,450
Investment property revaluation gain/(loss)	**4,425**	3,757	5,088	4,074	2,798	(146)	8,011	2,178	2,800	2,486
Profit *	**13,208**	13,514	15,688	12,844	10,101	8,035	16,584	8,139	8,953	6,978
Profit attributable to equity shareholders arising from underlying businesses *	**8,600**	9,618	10,468	8,657	7,303	8,185	8,571	5,962	6,140	4,492
Dividend proposed and declared	**5,335**	4,575	4,396	3,405	2,977	2,715	2,522	2,328	2,299	2,259
Earnings per share *(HK$)* *	**2.25**	2.31	2.69	2.21	1.77	1.43	2.98	1.48	1.65	1.31
Consolidated Balance Sheet *(HK$ million)*										
Total assets *	**215,823**	206,687	197,684	181,660	176,492	159,345	155,668	120,421	113,666	106,674
Loans, other obligations and bank overdrafts	**24,511**	23,577	23,168	21,057	23,868	31,289	34,050	28,152	28,264	30,378
Obligations under service concession	**10,658**	10,690	10,724	10,749	10,625	10,656	10,685	–	–	–
Deferred income	**623**	488	403	605	167	156	515	1,682	3,584	4,638
Total equity attributable to equity shareholders *	**152,557**	142,904	131,907	121,914	110,479	101,431	94,889	79,242	71,969	63,496
Financial Ratios										
Operating margin *(%)* *	**37.2**	36.1	36.3	37.0	50.6	53.0	55.4	54.7	55.9	54.4
Operating margin (excluding Mainland of China and international subsidiaries) *(%)* *	**53.4**	53.6	55.6	55.1	53.8	53.2	55.9	55.3	55.9	54.4
Net debt-to-equity ratio *(%)* *	**11.8**	11.0	11.6	12.3	24.9	40.6	46.5	35.1	38.8	47.4
Interest cover *(times)* *	**11.5**	13.0	14.5	10.5	7.1	6.0	9.0	6.7	7.6	6.1
Employees										
Corporate management and support departments	**1,676**	1,600	1,486	1,362	1,319	1,235	1,530	823	810	792
Station commercial businesses	**158**	148	144	144	137	125	138	82	82	67
Operations	**10,033**	9,460	9,244	9,026	8,789	8,708	8,937	4,521	4,600	4,669
Projects	**2,804**	2,495	2,109	1,794	1,365	995	942	260	242	362
Property and other businesses	**1,305**	1,273	1,282	1,291	1,242	1,170	1,141	832	688	660
Mainland of China and international subsidiaries	**182**	224	179	212	239	197	135	112	83	–
Offshore employees	**7,078**	6,955	6,851	6,672	7,059	1,646	1,311	733	486	5
Total	**23,236**	22,155	21,295	20,501	20,150	14,076	14,134	7,363	6,991	6,555

	2013	2012	2011	2010	2009	2008	2007#	2006	2005	2004
Hong Kong Transport Operations										
Revenue car-km operated *(thousand)*										
Domestic and Cross-boundary	**269,141**	260,890	254,407	253,067	247,930	245,856	128,041	115,784	114,449	114,364
Airport Express	**23,216**	23,134	19,603	19,833	19,643	19,891	19,956	20,077	17,122	16,081
Light Rail	**10,554**	10,453	10,166	9,586	8,950	8,984	755	–	–	–
Total number of passengers *(thousand)*										
Domestic Service	**1,474,659**	1,431,040	1,366,587	1,298,714	1,218,796	1,205,448	915,755	866,754	857,954	833,550
Cross-boundary Service	**111,362**	109,707	103,881	99,954	94,016	93,401	8,243	–	–	–
Airport Express	**13,665**	12,695	11,799	11,145	9,869	10,601	10,175	9,576	8,493	8,015
Light Rail	**171,652**	167,210	161,289	154,522	143,489	137,730	11,100	–	–	–
Bus	**47,738**	45,962	43,956	40,883	37,522	34,736	2,757	–	–	–
Intercity	**4,324**	4,028	3,787	3,244	2,921	3,220	285	–	–	–
Average number of passengers *(thousand)*										
Domestic Service – weekday average	**4,297**	4,148	3,968	3,770	3,544	3,514	2,662§	2,523	2,497	2,403
Cross-boundary Service – daily average	**305**	300	285	274	258	255	–@	–	–	–
Airport Express – daily average	**37**	35	32	31	27	29	28	26	23	22
Light Rail – weekday average	**482**	466	451	433	402	385	–@	–	–	–
Bus – weekday average	**137**	131	126	118	107	99	–@	–	–	–
Intercity – daily average	**12**	11	10	9	8	9	–@	–	–	–
Average passenger km travelled										
Domestic and Cross-boundary	**11.0**	10.9	10.9	10.9	10.7	10.4	7.9	7.7	7.6	7.7
Airport Express	**29.0**	29.0	29.4	29.4	29.5	29.4	29.5	29.7	30.4	30.2
Light Rail	**2.8**	2.8	2.8	2.8	2.9	3.0	3.0	–	–	–
Bus	**4.5**	4.5	4.5	4.5	4.6	4.6	4.6	–	–	–
Average car occupancy *(number of passengers)*										
Domestic and Cross-boundary	**65**	65	63	60	57	55	58	58	57	56
Airport Express	**17**	16	18	17	15	16	15	14	15	15
Light Rail	**45**	45	45	45	46	46	45	–	–	–
Proportion of franchised public transport boardings *(%)*	**46.9**	46.4	45.4	44.3	42.6	42.0	26.7	25.0	25.2	24.8
HK$ per car-km operated (Hong Kong Transport Operations)										
Total revenue	**48.4**	47.6	45.9	43.2	40.8	40.9	47.9	48.3	48.1	45.8
Operating costs *	**24.9**	24.2	23.1	21.5	21.5	21.2	21.6	22.1	22.8	22.3
Operating profit *	**23.5**	23.4	22.8	21.7	19.3	19.7	26.3	26.2	25.3	23.5
HK$ per passenger carried (Hong Kong Transport Operations)										
Total revenue	**8.31**	8.20	7.99	7.86	7.74	7.83	7.55	7.48	7.31	7.09
Operating costs *	**4.27**	4.18	4.02	3.91	4.08	4.07	3.40	3.43	3.47	3.45
Operating profit *	**4.04**	4.02	3.97	3.95	3.66	3.76	4.15	4.05	3.84	3.64
Safety Performance										
Domestic, Cross-boundary and Airport Express										
Number of reportable events ^	**1,408**	1,761	1,769	1,592	1,539	1,514	989	826	748	701
Reportable events per million passengers carried ^	**0.88**	1.13	1.19	1.13	1.16	1.16	1.05	0.94	0.86	0.83
Number of staff and contractors' staff accidents Δ	**67**	58	44	46	60	42	26	23	31	25
Light Rail										
Number of reportable events ^	**118**	151	164	165	146	136	6	–	–	–
Reportable events per million passengers carried ^	**0.69**	0.90	1.02	1.07	1.02	0.99	0.54	–	–	–
Number of staff and contractors' staff accidents Δ	**4**	2	7	5	11	5	0	–	–	–

* *Certain figures have been restated upon the adoption of Revised Hong Kong Accounting Standard 19, 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 operations of KCRC, 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

Investor and MTR Corporation

The Company has been active in the international capital markets for 30 years. Over these three decades, our corporate governance and disclosure practices have made us a recognised leader 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, many on a regular basis. We are also followed by a wide range of institutional investors.

Management makes sincere efforts to maintain an open dialogue with the investment community to ensure a thorough understanding of the Company and its business strategies. To further achieve this goal, we participate regularly in investor conferences and roadshows. During 2013, close to 300 meetings were held with institutional investors and research analysts in and outside of Hong Kong.

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 the website.

In addition to the shareholder services offered by Computershare, the Company's dedicated hotline answered over 42,000 enquiries from individual shareholders in 2013.

Index and Recognition

The stock is currently a constituent member of the Hang Seng Index Series, MSCI Index Series, FTSE Index Series and S&P Dow Jones Index Series. Since 2002, our achievements in the fields of sustainability and corporate responsibility have been recognised by the Dow Jones Sustainability Index Family and the FTSE4Good Index Series. Since 2010, MTR has also been included in the Hang Seng Corporate Sustainability Index, in 2013 attaining the highest rating of AAA.

Market Recognition

The Company's 2012 Annual Report won three awards at the 2013 International Annual Reports ("ARC") Awards organised by MerComm, Inc. in New York on 26 September 2013. For the 25th consecutive year, our Annual Report also achieved recognition in the Hong Kong Management Association ("HKMA") Annual Report Awards, with the 2012 report winning the Bronze Award under the "General Category" in the 2013 Best Annual Reports Awards Competition. Recognition also came from Institutional Investor Magazine's Institutional Investor's Poll 2013, with the Company ranking first in the "Best IR Companies, Transportation Sector" category and third in the "Best IR Professionals, Transportation Sector" category.

Key Shareholder Information

Financial Calendar 2014

Announcement of 2013 annual results	11 March
Annual General Meeting	8 May
Last day to register for 2013 final dividend	13 May
Book closure period	14 to 19 May (both dates inclusive)
2013 final dividend payment date	On or about 4 July
Announcement of 2014 interim results	August
2014 interim dividend payment date	October
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

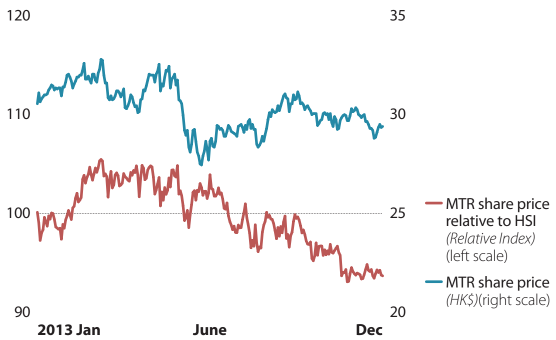
MTR Corporation Limited's shares are listed on the Stock Exchange of Hong Kong. In addition, shares are traded in the United States through an American Depositary Receipt ("ADR") Level 1 Programme sponsored by JPMorgan Chase Bank, N.A.

Ordinary Shares *(as at 31 December 2013)*

Shares outstanding	5,798,541,650 shares
Hong Kong SAR Government Shareholding	4,434,552,207 shares (76.5%)
Free float	1,363,989,443 shares (23.5%)

Nominal Value	HK$1 per share
Market Capitalisation *(as at 31 December 2013)*	HK$170,187 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 October and July respectively.

Dividend per Share

	(in HK$)
2012 Total Dividend	0.79
2013 Interim Dividend	0.25
2013 Final Dividend	0.67

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	66HK
ADR Level 1 Programme	MTRJY

Annual Report 2013

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:

Corporation 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 enquires 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

Caring
from heart

We live a green life

Cherish our community

Corporate Sustainability

Corporate Sustainability brings together the policies and actions in relation to both Corporate Responsibility and Sustainability that guide the Company's business strategies and their implementation.

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

We have aimed to play a leading role in the protection of the environment in our home market in Hong Kong, and are now sharing our experiences with our businesses in the Mainland of China and overseas.

When compared with buses, private cars or taxis, electrically powered rail travel is the least polluting form of mass transit available. Hong Kong residents are amongst the most frequent users of public transport in the world, and the MTR network means that the city's emissions from transport are kept very low.

MTR volunteers have carried out services for different sectors of the society

As a signatory to Hong Kong's Energy Saving Charter, between June and September we maintain an average indoor temperature of 24-26 degrees Celsius in the common areas of our shopping malls, main office buildings and the common areas of office buildings managed by the Company. Additionally, since June 2013 we stopped procuring incandescent light bulbs for general lighting purposes for MTR office buildings and the common areas of MTR shopping malls.

Responding to concerns about food waste, we became one of the first organisations to sign the "Food Wise Charter" under the Food Wise Campaign by the Hong Kong Environment Bureau. We have since supplemented this with our own "MTR Malls Food Waste Reduction Pledge 2013", an incentive scheme to encourage food and beverage tenants to reduce food waste at source.

In 2013, The Riverpark property obtained "Platinum" rating, the highest level obtainable, under Hong Kong's Building Environmental Assessment Method for New Buildings (4/04 Version). The new entrance at University Station received a rating of "Silver" under the US Green Building Council's Leadership in Energy and Environmental Design ("LEED") rating scheme. This award follows the "Gold" LEED certification that was granted to Two International Finance Centre.

Engaging and Building Communities

Our Corporate Sustainability programmes target the wider communities in which we operate and focus on Youth Development, Art & Culture, Green & Healthy Living and Community Outreach.

In 2013, a total of 100 students from 71 secondary schools participated in "'Train' for life's journeys", a ten-day summer programme that focuses on the individual skills and the responsibilities of Hong Kong's youth. The mentoring programme "'Friend' for life's journeys", now in its fifth year, took on 140 new students in November 2013. Additionally, the "MTR-Chinese University of Hong Kong (CUHK) Youth Quality of Life Index" and "MTR – CUHK Youth Quality of Life Champions Competition", both of which we sponsor, have been encouraging positive attitudes and civic engagement among young people.

Among our programmes to promote arts and culture, "Brushstrokes Over Hong Kong: International Children Painting Competition in Hong Kong 2012/13", was a major initiative. Co-sponsored by the Promotion of Young Artists Foundation, it came to a successful conclusion in August 2013 with 80 finalists from Hong Kong and around the world. Art and fundraising for environmental issues were successfully combined in our "Serenity of Antarctica by Olivia Cheng" exhibition of 33 photographs that were displayed at Hong Kong and Olympic stations. The accompanying book raised funds for the restoration of natural habitats on South Georgia Island in the South Atlantic.

Our flagship annual event to promote health, the MTR HONG KONG Race Walking, was co-organised with the Hong Kong Amateur Athletic Association. The 2013 event, held in October, raised a record HK$1.38 million. In total the event brought together some 1,400 people from all walks of life, including elite international race walkers. The funds raised support the Hospital Authority Health InfoWorld's work on disease prevention and health education.

More generally, 239 community projects were organised under the "More Time Reaching Community" Scheme in 2013, involving more than 6,000 volunteers. In addition, the Company and staff together donated a total of more than HK$7 million to charitable and other organisations, such as the Community Chest.

Ensuring Services of Value to Customers

Our Listening • Responding programme is delivering improvements to services in response to passengers' feedback. Our focus in 2013 has been to improve barrier-free access to stations, upgrade passenger communications and increase train service frequency, reliability and comfort.

Developing People

MTR has numerous programmes in place to ensure our people are well-equipped for their tasks, and to nurture talent at all levels for advancement to more senior roles. Specific 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.

To underline our commitment to equal opportunities for the disabled, we signed the Talent-wise Employment Charter in September 2013 and participated in the Inclusive Organisations Recognition Scheme organised by the Labour and Welfare Bureau.

Providing Reasonable Returns to Investors

The year 2013 saw sound performances by our businesses in Hong Kong, the Mainland of China and overseas. Our five railway expansion projects in Hong Kong, which are at various stages of construction, are all on time and within budget. In the Mainland of China we continue to explore new opportunities, focusing on our existing business hubs of Beijing, Shenzhen and Hangzhou. Internationally, we are actively pursuing further opportunities in Australia, the UK and Sweden.

We monitor the risks involved in these and other projects and adopt a prudent policy of closely examining the risks involved in new investments and their potential profitability. We also adhere strictly to our competence in rail and rail-related property when considering investment options.

We communicate developments to our investors through a variety of effective channels, taking care to ensure that in our disclosures, we present clear, relevant and up-to-date information, in an equal manner, to all categories of investor.

Promoting Safe and Ethical Business Practices

The Company embraces a safety-first culture, outlined in its guidance on Corporate Safety Governance. Best practices support our enterprise risk management in addressing the changing nature of our operating environment. We take care to identify and examine the risks involved in our current operations and expansion plans, and their potential impacts. We 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. We also have a robust system of corporate governance that aims to ensure ethical behaviour, details of which can be found in the Corporate Governance Report section.

Corporate Sustainability

Rail plus Property

Underpinning our sustainable approach to business is our integrated rail and property development model, which has a long track-record in Hong Kong and is establishing itself globally. Recognition for the model's effectiveness came during the year from the prestigious International Business Model Award at the UITP (International Association of Public Transport) World Congress in Geneva in May 2013 and from the World Bank in November 2013 in Beijing. Visits to our network by the Secretary of State for Transport of the United Kingdom, the Governor of the State of Massachusetts in the United States, and the Mayor of London also testify to our growing profile internationally.

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 sustainable transport development.

Creating Sustainable Competitive Advantage

A unique Sustainable Competitive Advantage model is the management framework that guides the Company's approach to sustainable development. It integrates the dynamics of risk management and stakeholder engagement to balance business risks and contribute to the long-term development of communities.

Our Competitive Advantage model leads to the identification of eight sustainability priorities which reflect the longer-term focus of our business. Our current sustainability priorities include Resources Management, Customer Services, Health and Safety, Environmental Management, Supply Chain Sustainability, Sustained and Dynamic Engagement, Societal Development and Climate Change. Details of how we are addressing these issues can be found in our Sustainability Report and website.

Carbon Management

Public transportation, especially rail travel, is one of the most convenient ways to achieve a low-carbon lifestyle.

Assessing, reporting on and managing our overall carbon footprint is central to MTR's approach to building sustainable value. To increase the transparency of our sustainability reporting, we have participated in the Carbon Disclosure Project ("CDP") for the eighth consecutive year. CDP provides public information on corporate carbon emissions and strategies from the world's largest companies by market capitalisation for use by investors worldwide.

The five network expansion projects in Hong Kong demonstrate how we are integrating the management of carbon emissions into our approach. We are monitoring the carbon footprint of the South Island Line as its construction moves forward. A carbon assessment is also being implemented for the Shatin to Central Link. This will be the first time a carbon assessment has been undertaken on one of our projects from the design phase through to construction, which will improve the assessment methodology and allow for necessary mitigation measures to be taken up early in the project cycle.

Sustainability Leadership

Our Sustainability Report 2013 will be published in May 2014, together with a dedicated website. Building on the 2012 report, it will follow Global Reporting Initiative G4 Guidelines and will include performance data and a discussion of material issues arising from our wholly and majority owned subsidiaries.

The Company's performance in corporate sustainability has been recognised through its selection as a constituent of the Hang Seng Corporate Sustainability Index ("HSCSI") and the Dow Jones Sustainability Index ("DJSI") Asia Pacific and the FTSE4Good Index Series. MTR has been a constituent of the DJSI Family and the FTSE4Good Index Series since 2002, and the HSCSI since its inception in 2010. This year, we ranked number two out of 30 eligible Hong Kong companies on the HSCSI.

Since 2011, we have been awarded the "5 Years Plus Caring Company Logo", and in 2013 MTR gained numerous other awards that demonstrate the regard in which our commitment to sustainability is held. Most notable among them were EastWeek's "Hong Kong Services Awards 2013 - the Corporate Social Responsibility Award" and the "Platinum Award for Eco Transportation Systems" in the "Prime Awards for Eco-Business 2013" given by MetroBox magazine. The Company also achieved outstanding results on the Hong Kong Quality Assurance Agency HSBC Corporate Social Responsibility Index in 2013, receiving an overall score of 5/5, the highest attainable.

Risk Management

Business units across the Company fully embrace the Company's Enterprise Risk Management ("ERM") framework that underpins their day-to-day business activities. The framework provides a simple and effective management process to aid 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. The 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.

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:

- Patronage continues to grow year after year and the Company must maintain railway safety standards at the highest level and continue to improve service quality in these challenging circumstances. The Company has implemented many initiatives over the years to allow more train trips to be run in order to ease train crowding, while station enhancement through the modernisation and relocation of station facilities and kiosks is conducted in parallel to address station crowding. In addition, some parts of the Operating Railway are being modified to allow interface with the new railway extensions that will enhance the capacity of the Operating Railway in the near future. The Company is working closely with contractors and other key stakeholders to plan and implement these improvement works in a prudent manner, to ensure that safety will not be compromised and that the works will progress as planned, with minimum impact on passenger service, in all parts of the busy system.
- The construction of the five major railway expansion projects in Hong Kong is in full swing, with some of them having progressed to a fairly advanced stage. The West Island Line, which is an underground extension of the existing Island Line and connects Sheung Wan to Kennedy Town, has reached the final construction stage and is scheduled to open for revenue service in 2014. Colleagues in the Projects team and Operations team are working hand in hand to ensure that this new extension line will continue to progress safely through the remaining construction phase and open on time, within budget and delivering a reliable and high quality service to passengers.
- The Company continues to invest in building up a resources pool 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. With the growing businesses outside of Hong Kong, the Company has engaged a local university to run a management development programme for talented managers from across the organisation, with the aim of sharpening their management knowledge, aligning the strategic focus of the teams, as well as reinforcing connections and a cross-learning culture among colleagues. 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 reinforce and enhance staff safety awareness. A comprehensive safety management training programme has been rolled out to all managers of the Company.

Continuous Improvement of the Risk Management Process

We maintain a strong desire to improve our systems and tools through annual reviews with users, cross-industry benchmarking and experience sharing. The Executive, senior managers and members of the ERC participated in an Enterprise Risk Workshop facilitated by two experienced independent consultants in 2013. The aims of the workshop were to review how other international companies have failed and to explore how the Company can gain better assurance that its corporate objectives will be achieved more reliably.

Key activities undertaken during 2013 included:

- Sharing and learning from the sixth UK ERM roundtable, the fifth HK ERM roundtable and the first Beijing ERM roundtable on best practice for enhancement of ERM process
- Cross-learning among the Company's Enterprise Risk Managers, subsidiaries and affiliates through a webinar
- Engaging two experienced ERM consultants to facilitate an Enterprise Risk Workshop to review and identify pragmatic improvement initiatives to further enhance the management of high consequence enterprise risks
- Conducting an internal review with ERC members and key internal stakeholders on the project risk management process and investment governance process
- Conducting regular meetings with our insurance broker for risk analysis

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 and will continuously make efforts to identify and formalise best practices for adoption by the Company.

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 and achievements in this regard were recognised by the Hong Kong Institute of Certified Public Accountants, who honoured the Company's 2012 Annual Report the Platinum Award (Hang Seng Index Category) in the Best Corporate Governance Disclosure Awards 2013, after having awarded the Company Gold Awards for the previous two years.

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 Provisions set out in the Corporate Governance Code (the "Code"), contained in Appendix 14 of the Listing Rules .

Corporate Governance Code Compliance

During the year ended 31 December 2013, the Company has complied with the Code.

The Board recognises that corporate governance should be the collective responsibility of all Members of the Board. In light of the Code provision on corporate governance functions, the Board confirmed at the January 2012 Board Meeting that a separate corporate governance board committee would not be established by the Company. During the year, the Board has performed its corporate governance duties pursuant to the relevant Terms of Reference (available on the websites of the Company (www.mtr.com.hk) and the Stock Exchange) through the work done as described in this Report.

The Board held 14 Meetings in 2013 (including seven regular Board Meetings), well exceeding the requirement of the Code which requires every listed issuer to hold board meetings at least four times a year.

The composition of the Board, with 14 non-executive Directors out of the 15-member Board, of whom 10 are independent non-executive Directors (the "INED(s)"), well exceeds the requirements of the Code which requires listed issuers to have INEDs representing at least one-third of the board.

To ensure full compliance with the new Companies Ordinance (the "New CO") which came into operation on 3 March 2014, the Company started reviewing its impact on different aspects of the Company's internal policies and practices as well as on the company's shareholders in 2012, in order to get prepared for the necessary changes well beforehand.

Given Members of the Board and the Executive Directorate are in the driving seat of the Company's business, a briefing on the broad picture of the New CO, followed by another briefing with more insight, were given to them by the Company's external legal advisor jointly with the Legal Director and Secretary ("LD&S") at the Board Meetings in January 2013 and January 2014 respectively. Briefing materials were also copied to all Alternate Directors as part of the Company's continuous training programme.

Separate briefings on the New CO were also given to relevant departments of the Company by the Company's external legal advisor, to keep them abreast of those statutory changes which may have direct or indirect implication on their daily work.

The Directors' Manual, which sets out amongst other things the nature of Directors' duties and the relevant requirements they have to comply with, has been updated to reflect the New CO and distributed to the Directors in January 2014.

Shareholders are the Company's key stakeholders. Therefore, actions have already been taken in reviewing areas where the New CO may affect the shareholders, such as re-designing share certificates to take out the par value of the Company's shares, and any change to shareholders' rights in attending the Company's general meetings.

The Board will also propose certain amendments to the Company's Articles of Association for aligning with the New CO. The proposed amendments will be subject to shareholders' approval by way of a special resolution at the Annual General Meeting (the"AGM") to be held on 8 May 2014. Details will be set out in a circular to the shareholders to be despatched together with the 2013 Annual Report.

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 was published in June 2013 and is available on the Company's website (www.mtr.com.hk), followed the internationally-recognised Global Reporting Initiative framework and, for the first time, included key performance indicators from the ESG Guide.

Corporate Strategy Review

The Board has continued to monitor the Company's program in complying with the strategic direction set as a result of the corporate strategy review held in 2012. Regular updates are provided to the Board on the various aspects of the strategy so that achievements can be tracked and direction provided to the Company's Executive team.

Board Diversity

The Company adopted a new Board Diversity Policy (the "Policy") in March 2013, before the relevant Code provision became effective six months later and has posted the Policy on the Company's website (www.mtr.com.hk).

The Policy sets out a clear objective and provides that the Company should endeavour to ensure that its Board members has the appropriate balance of skills, experience and diversity of perspectives that are required to support the execution of its business strategy and in order for the Board to be effective.

The Nominations Committee is required to 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. The Committee, which already has an obligation to review the size, structure and composition of the Board on annual basis (the "Annual Review"), was delegated by the Board to be responsible for compliance with this new Code provision, and the Board will review the Policy on a regular basis to ensure its continued effectiveness.

In February 2013, the Committee conducted the Annual Review and also reviewed a list of desirable skills/experience/perspectives which was developed in 2012 based on responses to a board performance evaluation questionnaire sent to all Members of the Board. At the meeting, it was noted that the Board was well composed from a diversity perspective and operated ahead of or in line with best practice from a structure perspective. The list of desirable skills/experience/perspectives was also updated in light of the Company's business strategy and development.

The Policy was taken into account by the Committee and the Board in the appointments of Professor Frederick Ma Si-hang, Mrs. Pamela Chan Wong Shui and Dr. Dorothy Chan Yuen Tak-fai as three new Independent Non-executive Directors of the Company ("INEDs") in July 2013. The diversity of the Board was further enhanced in terms of balance of skills and experience, genders, range of ages and professional background.

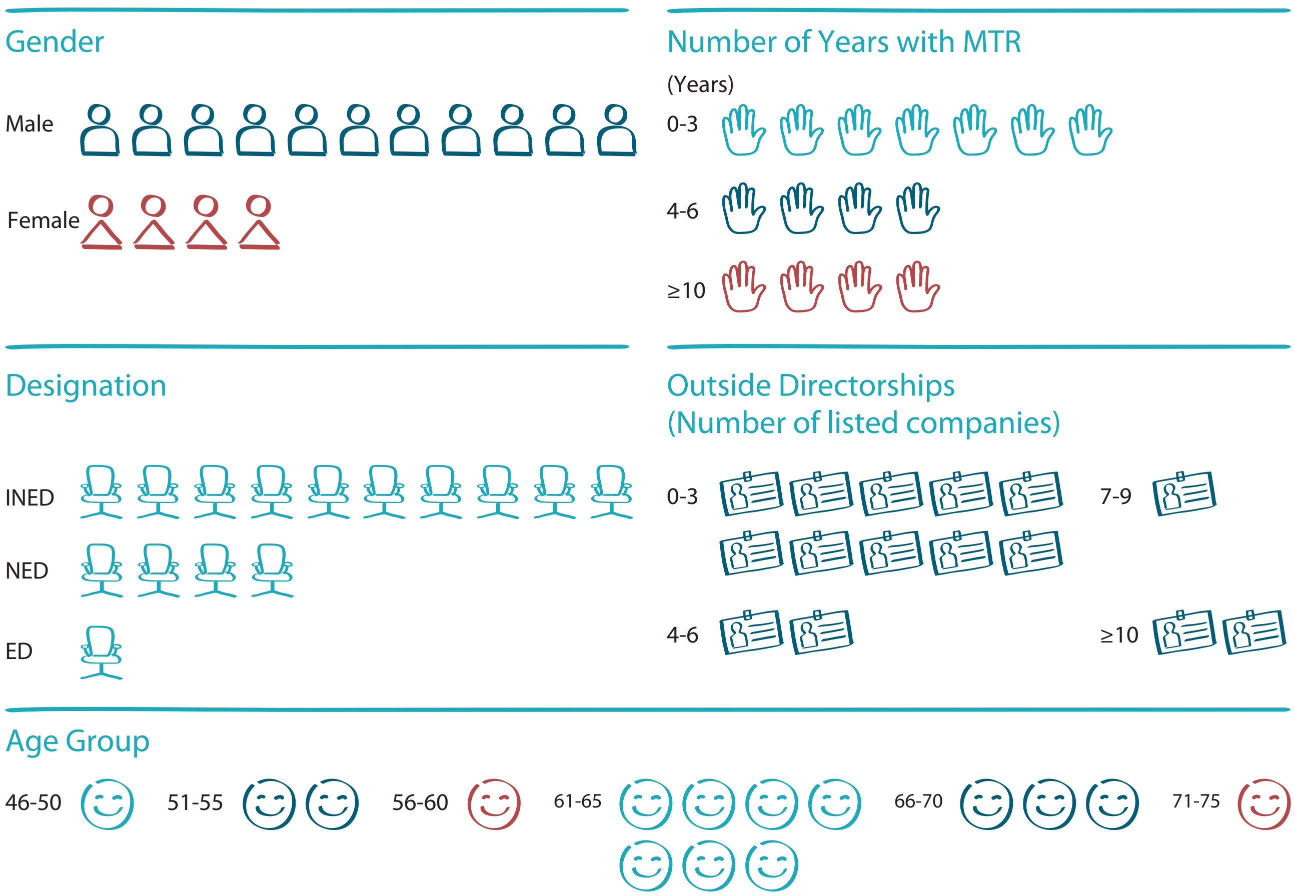
Following the appointments of the three new INEDs, the number of INEDs has increased from seven to 10 and INEDs now comprise two-thirds of the Company's Board. This ratio exceeds the Listing Rules requirement to have independent non-executive directors representing at least one-third of the board. The number of female Board Members has also increased from two to four, representing approximately 27% of the Board. The Company was ranked in second place, in terms of women on board, amongst 50 leading companies listed on the Hang Seng Index, in a study conducted in 2014 by Community Business, a Hong Kong non-profit organisation.

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 composition of the Board, on which both genders are represented, together with a broad range of ages, experiences and professional backgrounds.

Biographical details (including roles, functions, education, skills and experience) of each of the Members of the Board and the Executive Directorate are set out in the "Board and Executive Directorate" section on pages 124 to 131 of this Annual Report, and are also available on the Company's website (www.mtr.com.hk).

Board Diversity



The Board of Directors

Overall Management

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

Board Composition

As outlined earlier, the Company has 10 INEDs on the 15-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. Jay Herbert Walder was appointed as the 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. In August 2013, Mr. Walder was reappointed as the CEO until 31 August 2015.

Professor Frederick Ma Si-hang, Mrs. Pamela Chan Wong Shui and Dr. Dorothy Chan Yuen Tak-fai were appointed as additional INEDs effective from 4 July 2013.

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 "Two Additional Directors"). During the year, Professor Anthony Cheung Bing-leung held the post of the S for T&H and Mrs. Ingrid Yeung Ho Poi-yan was the C for T. 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 76.48% of the issued share capital of the Company.

Statutory Confirmations

For the year ended 31 December 2013, 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 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 and make contribution to the development of the Company's strategy and policies through independent, constructive and informed comments. In light of the 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 2013 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 agreed to disclose their Commitments to the Company in a timely manner. As one of the enhancements in corporate governance, the Company, starting from mid 2013, proactively forwards to each Board Member a set of "Declaration of Other Directorships, Major Appointments and Interests" (the "Declaration") for review before each regular Board Meeting to facilitate them in declaring any possible conflict of interest at the Meetings. The Declaration of each Alternate Director will also be sent to him/her for update on a quarterly basis. In addition, each Member of the Board and Alternate Director has confirmed his/her other directorships, major appointments and interests to the Company twice a year.

During a regular internal review, it was found that there was a late reporting to HKSE on a derivative interest granted by the Company to an Executive Director in the year. The relevant statutory form together with explanation on the late reporting was then immediately filed with the HKSE. There are established processes and channels for capturing matters of such nature for reporting purposes. To prevent reoccurrence of similar incidents, the Company has introduced new measures to strengthen the internal processes and will keep under review from time to time.

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 Mrs. Pamela Chan Wong Shui, Dr. Dorothy Chan Yuen Tak-fai, Ms. Christine Fang Meng-sang, Mr. Vincent Cheng Hoi-chuen, Mr. Edward Ho 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 (www.mtr.com.hk) 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 124 to 131 of this Annual Report.

Directors' Insurance

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 undertakes an annual review of the Company's D&O insurance policy in light of recent trends in the insurance market and other relevant factors. The review will benchmark the amount of cover against other similar companies and will consider whether separate cover will be required for Members of the Executive Directorate or Members of the Board. The conclusion of the review in year 2013 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.

Corporate Governance Functions Review

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.

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

Chairman and Chief Executive Officer

The posts of Chairman and CEO are distinct and separate (please also refer to their appointments on page 102 of this Annual Report). 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 eight 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 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 which focuses on the overall strategies, principal issues and key events of the Company, to the Board on a monthly basis. 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.

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. 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 the nature and extent of 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.

(Please also refer to the "Material Interests and Voting" section on page 107 of this Annual Report.)

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 2013. At each of these regular Meetings, the Board reviewed and discussed reports on the Company's different businesses and financial performance. In addition, other key matters discussed at these Board Meetings included:

- Principles for revising MTR fares under the Fare Adjustment Mechanism ("FAM") in 2013;
- Hong Kong Train Service Performance Highlights and Systems Upgrade;
- Annual Review of Corporate Governance Functions;
- Board Diversity Policy;

- Report on Internal Control System for the year ended 31 December 2012;
- Corporate Safety Governance Annual Report;
- Enterprise Risk Management Annual Report;
- 2012 Annual Report and Accounts;
- 2013 Interim Report and Accounts;
- 2012 Sustainability Report;
- 2013 Annual General Meeting;
- New Railway Projects – Half Yearly Update;
- International and China Businesses Update;
- Manpower Resourcing for China and International Business Growth;
- Tender Submission for Overseas Projects;
- Property Development Tenders;
- Contracts Awards relating to Railway Projects (such as Shatin to Central Link);
- US$4 Billion Debt Issuance Programme – Supplemental Prospectus;
- 2012 Staff Attitude Survey Results;
- 2013 Annual Pay Review;
- Nomination of Three New Board Members, Renewal of CEO's contract, Appointment of Additional Board Committee Members and Appointment of Finance Director;
- Proceedings of Corporate Responsibility Committee Meetings and Audit Committee Meetings; and
- 2014 Budget and Longer Term Forecast.

The minutes of 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 are open for inspection by all Members of the Board at the Company's registered office.

Members of the Board approved by circulation an investment in an overseas project, 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 this project, and briefings on the project were provided to all Members of the Board.

Special and Private Board Meetings

In addition to the above regular Board Meetings, the Chairman held four special and three private Board Meetings and two Board Committee Meetings during the year for the following matters/business:

Special Board Meetings

Review of FAM

The subject matter was discussed at the following three special Board Meetings:

1. A special Board Meeting on 7 March 2013;
2. Part of a special Board Meeting on 26 March 2013; and
3. A special Board Meeting on 15 April 2013.

At these three Meetings, the three Government nominated Directors (Professor Chan Ka-keung, Ceajer (S for FS&T), S for T&H (Professor Anthony Cheung Bing-leung) and C for T (Mrs. Ingrid Yeung Ho Poi-yan)) were not present, and they did not receive any papers.

At the special Board Meeting on 26 March 2013, a property development project outside Hong Kong was also discussed. All Board Members including the Government nominated Directors were invited to attend. C for T and the Alternate Director to S for T&H attended this part of the Meeting.

Other Business

4. A special Board Meeting on 18 November 2013 – to discuss a tender submission for an overseas project.

Private Board Meetings

In addition, the Chairman held three private Board Meetings during the year:

5. On 25 April 2013, all non-Executive Directors reviewed (i) the contributions of each non-Executive Director, (ii) the size, structure and composition of the Board, and (iii) the performance of Members of the Executive Directorate;
6. On 22 August 2013, all non-Executive Directors discussed the extension of Mr. Jay Herbert Walder's appointment as CEO of the Company; and
7. On 10 December 2013, all non-Executive Directors were invited to discuss the performance of Members of the Executive Directorate and succession issues.

The attendance record of each Member of the Board (and relevant Members of the Executive Directorate) is set out on page 106 of this Annual Report. References in the notes to Board Meetings numbers 1 to 7 refer to the number allocated to the particular Meetings in this section above.

Meetings Held in 2013

	Board	Special Board	Private Board	Audit Committee	Remuneration Committee	Nominations Committee	Corporate Responsibility Committee	Annual General Meeting
Number of Meetings	7	4	3	4	7	3	1	1
MEMBERS OF THE BOARD								
Non-executive Directors								
Dr. Raymond Ch'ien Kuo-fung (Chairman)	7/7	4/4	3/3			3/3	1/1	1/1
Professor Chan Ka-keung, Ceajer	4/7 (Note 1)	1/4	1/3 (Note 1)		6/7 (Note 1)	2/3		1/1
Secretary for Transport and Housing (Professor Anthony Cheung Bing-leung)	6/7 (Note 2)	0/4 (Note 2)	1/3 (Note 2)			2/3 (Note 2)	1/1	0/1
Commissioner for Transport (Ingrid Yeung Ho Poi-yan)	6/7 (Note 3)	2/4	2/3 (Note 3)	4/4 (Note 3)				0/1
Independent Non-executive Directors								
Pamela Chan Wong Shui (since 4 July 2013)	3/3	1/1	2/2				(Note 4)	
Dr. Dorothy Chan Yuen Tak-fai (since 4 July 2013)	3/3	1/1	2/2		2/2 (Note 5)			
Vincent Cheng Hoi-chuen	7/7 (Note 6)	4/4	3/3 (Note 6)		6/7 (Note 6)		0/1	1/1
Christine Fang Meng-sang	7/7	4/4	3/3			3/3	1/1	1/1
Edward Ho Sing-tin	7/7	3/4	3/3		7/7	3/3		1/1
Professor Frederick Ma Si-hang (since 4 July 2013)	3/3	1/1	2/2	1/1 (Note 7)		(Note 7)		
Alasdair George Morrison	6/7	3/4	3/3	4/4 (Note 8)	5/7 (Note 8)			1/1
Ng Leung-sing	6/7	3/4	3/3	4/4 (Note 9)		3/3		1/1
Abraham Shek Lai-him	7/7 (Note 10)	4/4	3/3			3/3 (Note 10)	1/1	1/1
T. Brian Stevenson	7/7	3/4	3/3	4/4 (Note 11)	6/7			1/1
Executive Director								
Jay Herbert Walder (CEO)	7/7	4/4	(Note 12)				1/1	1/1
MEMBERS OF THE EXECUTIVE DIRECTORATE								
Gillian Elizabeth Meller (LD&S)							1/1	
Morris Cheung Siu-wa (Human Resources Director, "HRD")							1/1	

Notes

1 *The alternate director of Professor Chan Ka-keung, Ceajer attended two Board Meetings, private Board Meeting no. 5, and one Remuneration Committee Meeting.*

2 *The alternate directors of Professor Anthony Cheung Bing-leung attended one Board Meeting, special Board Meeting no. 2 (as to part) and 4, private Board Meeting no. 6 and a Nominations Committee Meeting.*

3 *The alternate director of Mrs. Ingrid Yeung Ho Poi-yan attended one Board Meeting and private Board Meeting no. 6. Mrs. Yeung attended one Board Meeting and one Audit Committee Meeting by teleconference.*

4 *Mrs. Pamela Chan Wong Shui was appointed as a member of the Corporate Responsibility Committee on 17 September 2013.*

5 *Dr. Dorothy Chan Yuen Tak-fai was appointed as a member of the Remuneration Committee on 17 September 2013.*

6 *Mr. Vincent Cheng Hoi-chuen attended one Board Meeting, one private Board Meeting and one Remuneration Committee Meeting by teleconference.*

7 *Professor Frederick Ma Si-hang was appointed as a member of the Audit Committee and the Nominations Committee on 17 September 2013.*

8 *Mr. Alasdair George Morrison attended two Audit Committee Meetings and one Remuneration Committee Meeting by teleconference.*

9 *Mr. Ng Leung-sing attended one Audit Committee Meeting by teleconference.*

10 *Mr. Abraham Shek Lai-him attended one Board Meeting and one Nominations Committee Meeting by teleconference.*

11 *Mr. T. Brian Stevenson attended one Audit Committee Meeting by teleconference.*

12 *The three private Board Meetings that Mr. Jay Herbert Walder did not attend were held by the Chairman with non-executive Directors only.*

Board Committee Meetings

Two meetings of the Board Committee (comprising the Chairman, the CEO, Professor Chan Ka-keung, Ceajer and the Chairman of the Audit Committee (Mr. T. Brian Stevenson)), with a quorum of two, were also held on 11 March and 26 August 2013 respectively to:

- consider the final dividend for the year ended 31 December 2012 and the 2012 Annual Report and Accounts and recommend the same for shareholders' approval at the 2013 Annual General Meeting, and approve the Preliminary Announcement of Results; and
- approve the interim dividend for the half year ended 30 June 2013, the 2013 Interim Report and the Preliminary Announcement of Unaudited Results.

Material Interests and Voting

Please refer to the "Board Proceedings" section on page 104 of this Annual Report 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 Government, each Government-nominated Director is not included in the quorum for that part of the Meeting which relates to the transaction, arrangement or other proposal being considered by the Board and in relation to which the conflict exists and is not allowed to vote on the related resolution.

There are a number of contractual arrangements that have been entered into between the Company and 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 sections headed "Connected Transaction" and "Continuing Connected Transactions" on pages 143 to 160 of this Annual Report explains how, in accordance with the Listing Rules, these transactions are treated.

(Please also refer to the "Board Proceedings" section on page 104 of this Annual Report 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 websites of the Company (www.mtr.com.hk) and the Stock Exchange. 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.

The Company has 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 Committee(s), for a period not exceeding three years.

At the 2013 Annual General Meeting held on 9 May 2013 (the "2013 AGM"), Mr. Vincent Cheng Hoi-chuen, Ms. Christine Fang Meng-sang and Mr. Edward Ho Sing-tin retired from office by rotation pursuant to Articles 87 and 88, and were re-elected as Members of the Board at the 2013 AGM.

For details of the Members of the Board who will retire from office at the 2014 AGM pursuant to the relevant Articles of Association, please refer to the Circular dated 3 April 2014 to shareholders – Proposed General Mandates to Issue and Repurchase Shares, Proposed Scrip Dividend Scheme, Proposed Amendments to the Articles of Association, Proposed Re-election/election of Directors and Notice of AGM.

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 Frederick Ma Si-hang, Mrs. Pamela Chan Wong Shui and Dr. Dorothy Chan Yuen Tak-fai), new Alternate Director (Miss Cinderella Law Fung-ping) and Mr. Stephen Law Cheuk-kin (Finance Director), all of whom were appointed in 2013. Relevant training material was also provided to those who were not able to attend all parts of the programme.

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

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 2014, with most of the amendments being made to reflect the New CO coming into operation on 3 March 2014.

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 light of recent developments in the Listing Rules (including in relation to board diversity, the new ESG Guide and trading halts), the New CO and the Competition Ordinance, a briefing on these developments was given in January 2013 to Members of the Board and the Executive Directorate by the Company's external legal advisor jointly with LD&S.

A briefing in greater depth on the New CO was given at the January 2014 Board Meeting by the Company's external legal advisor. The briefing materials were also provided to all Alternate Directors to keep them abreast of latest developments on this front.

In 2013, Members of the Board and Alternate Directors were arranged to visit (i) various construction sites (including that of the West Island Line and the West Kowloon Terminus) to enable better understanding of the progress of the Company's major construction projects in Hong Kong, and (ii) the Super Operations Control Centre to get a deeper understanding of its operations and enhanced facilities.

In October 2013, Members of the Board and the Executive Directorate visited the Headquarters office of Beijing MTR Corporation Limited, in which the Company has a 49% interest, Beijing South Railway Station, Beijing Metro Line 4 and its depot to understand more about the Company's business in Beijing.

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

In 2013, the 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)	N/A	√	√
Commissioner for Transport (Ingrid Yeung Ho Poi-yan)	N/A	√	√
Independent Non-executive Directors			
Pamela Chan Wong Shui	√	√	√
Dr. Dorothy Chan Yuen Tak-fai	√	√	√
Vincent Cheng Hoi-chuen	N/A	√	√
Christine Fang Meng-sang	N/A	√	√
Edward Ho Sing-tin	N/A	√	√
Professor Frederick Ma Si-hang	√	√	√
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)	N/A	√	√
Other Members of the Executive Directorate			
Lincoln Leong Kwok-kuen (Deputy Chief Executive Officer)	N/A	√	√
Morris Cheung Siu-wa (Human Resources Director)	N/A	√	√
Chew Tai Chong (Projects Director)	N/A	√	√
Jacob Kam Chak-pui (Operations Director)	N/A	√	√
Stephen Law Cheuk-kin (Finance Director)	√	√	√
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 2013.*

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, senior executives from leading companies in different industries are invited to share their success stories, management practices, personal wisdom and insights in in-house seminars. Besides, the Executive Excellence Consortium, that was established with five other founding organisations, provides Senior Executives with 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. Briefings by the Company's external legal advisor were also 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 and regular reminders are sent to them with a copy of the relevant Guidelines and the web link for the briefing video.

The Company's Officers also receive, from time to time, reminders on the Company's continuing obligations under the Listing Rules in relation to connected/continuing connected transactions and/or notifiable transaction.

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 2013, and of the Group's profit and cash flow for the year then ended. In preparing the accounts for the year ended 31 December 2013, 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 2013, 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 116 of this Annual Report.

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 (www.mtr.com.hk) 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

Details of the Audit Committee, including its duties and work performed during the year are set out in the Audit Committee Report (pages 118 to 119) of this Annual Report.

Remuneration Committee

Members of the Remuneration Committee:

INEDs
Mr. Edward Ho Sing-tin (Chairman)
Dr. Dorothy Chan Yuen Tak-fai (since 17 September 2013)
Mr. Vincent Cheng Hoi-chuen
Mr. Alasdair George Morrison
Mr. T. Brian Stevenson
Non-executive Director ("NED")
Professor Chan Ka-keung, Ceajer

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 Code.

Work Performed by Remuneration Committee

In 2013, the Remuneration Committee held seven Meetings. In accordance with its Terms of Reference, the Committee performed the following work during the year:

- Approved the 2012 Remuneration Report as incorporated in the 2012 Annual Report;
- Reviewed and approved payouts under the Company's performance-based variable incentive scheme for the 2012 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 2013;
- Conducted a thorough review of the Company's long-term incentive scheme and approved the framework of a new long-term incentive scheme to take effect following the expiry of the 2007 Share Option Scheme, subject to approval by the Board; and
- Determined and approved the remuneration packages for the following Members of the Executive Directorate:
  - Mr. Stephen Law Cheuk-kin as Finance Director (from 2 July 2013); and
  - Mr. Jay Herbert Walder as CEO on his contract renewal for the period from 1 July 2014 to 31 August 2015.

The Remuneration Committee also met on 3 March 2014 to approve the 2013 Remuneration Report, which is set out on pages 120 to 123 of this Annual Report and includes a description of the remuneration policy of the Company.

The attendance record of each Committee Member is shown on page 106 of this Annual Report.

Nominations Committee

Members of the Nominations Committee:

INEDs
Mr. Edward Ho Sing-tin (Chairman)
Ms. Christine Fang Meng-sang
Professor Frederick Ma Si-hang (since 17 September 2013)
Mr. Ng Leung-sing
Mr. Abraham Shek Lai-him
NEDs
Dr. Raymond Ch'ien Kuo-fung
Professor Chan Ka-keung, Ceajer
S for T&H (being Professor Anthony Cheung Bing-leung)

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).

The Committee will give consideration to the Board Diversity Policy when identifying suitably qualified candidates to become Members of the Board, although Board appointments will continue to be made on a merit basis.

As mandated by the Board, the Committee reviews the size, structure, and composition of the Board on an annual basis.

Work Performed by Nominations Committee

In 2013, the Nominations Committee held three Meetings. In accordance with its Terms of Reference, the Committee performed the following work during the year:

- Recommendation to the Board on:
  - Adoption of the Board Diversity Policy;
  - Re-appointment of Board Members retiring at the 2013 AGM and offering themselves for re-election, and endorsement of the independence confirmation of each INED;
  - Nomination of three new INEDs and their appointment as additional Board Committee Members; and
  - Appointment of FD; and
- Annual review of the size, structure and composition of the Board and reporting of the review results to the Board.

The attendance record of each Committee Member is shown on page 106 of this Annual Report.

Corporate Responsibility Committee

Members of the Corporate Responsibility Committee:

NEDs
Dr. Raymond Ch'ien Kuo-fung (Chairman)
S for T&H (being Professor Anthony Cheung Bing-leung)
INEDs
Mrs. Pamela Chan Wong Shui (since 17 September 2013)
Mr. Vincent Cheng Hoi-chuen
Ms. Christine Fang Meng-sang
Mr. Abraham Shek Lai-him
Members of Executive Directorate
Jay Herbert Walder (CEO)
Morris Cheung Siu-wa (HRD)
Gillian Elizabeth Meller (LD&S)

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 94 to 98 of this Annual Report.

Work Performed by Corporate Responsibility Committee

In 2013, one Corporate Responsibility Committee Meeting was held. The major work performed by the Committee in 2013 included:

- Review of the implementation of the Company's community and staff engagement and communication programmes;
- Review of the sustainability development and environmental management approaches of the Company;
- Review of the Company's corporate responsibility activities; and
- Review of and recommendation for the Board to approve the scope of the 2012 Sustainability Report.

The attendance record of each Committee Member is shown on page 106 of this Annual Report.

Company Secretary

Ms. Gillian Elizabeth Meller, LD&S and a Member of the Executive Directorate, 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 2013, 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. An 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
- 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
- Corporate Information Security Management Committee

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 a suitable internal control system which implements the policies adopted by the Board. The Executive Committee is accountable to the Board for monitoring the internal control system 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 in the areas of construction, business operations, finance, treasury, safety and enterprise risks. The Executive Committee also ensures that the Company has appropriate insurance coverage in place to transfer risks, where it is effective and cost efficient to do so.

Risk Assessment and Management

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

More details of the ERM framework and process are given in the section headed Risk Management on page 99 of this Annual Report.

Control Activities and Processes

To ensure the efficient and effective operation of business units and functions, and safety of the 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 compliance with the 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 the relevant statutes/regulations have been complied with. Potential and actual non-compliances are also reported to 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 or unethical acts or non-compliances with laws and the Company's policies that have or could have significant adverse financial, legal or reputational impacts on the Company. The policy applies to all staff, parties who deal with the Company as well as the general public.

The Internal Audit Department plays a major role, independent of the Company's management, in assessing and monitoring the internal control system 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 the effectiveness of the risk management functions of all business and functional units as well as the Company's subsidiaries. Relevant members of the management team are 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 a risk assessment to ensure that business activities with higher 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 Company's internal control system.

On behalf of the Board, the Audit Committee evaluates the effectiveness of the internal control system 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 system, 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 include:

- 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 the 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 papers prepared by the Executive Committee and Internal Audit Department covering:

- Periodic Financial Reports and Accounts;
- Preview of Annual Accounting and Financial Reporting issues;
- Annual Internal Audit Plan;
- Internal Audit Department's Half-yearly Reports;
- Whistle-blowing Reports;
- Report on the Company's Internal Control System;
- Report on Evaluation of Effectiveness of Internal Audit Department;
- Reporting of Outstanding Litigation and Compliance Issues; and
- Enterprise Risk Management Report.

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 the accounting and financial reporting function are critically reviewed during the annual budgeting exercise. Company-wide recruitment processes and staff development programmes are in place to address the competency, qualifications and experience required. Adherence to the process is confirmed on an annual basis by the designated officers to the FD who will conduct a formal annual review and report the review results to the Audit Committee. 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 system for the year ended 31 December 2013, covering all material financial, operational and compliance controls, and the risk management function, and concluded that an adequate and effective internal control system is 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 world's leading railway operators and in order to help ensure that the Company will respond to and recover from crises in an organised and highly effective manner, including timely communication with principal stakeholders such as 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 for the Crisis Management Team was conducted in April 2013. Exercises for the shadow team of the Crisis Management Team were conducted in November 2013. A mechanism and information system to record and disseminate crisis related information has also been put in place.

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 Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) ("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 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. Sending regular reminders to the Company's Officers on the continuing obligation of the Company under the SFO with a copy of the Guidelines and the web link of the training sessions videos;
4. Updating the Company's Code of Conduct to take account of the Legislation; and
5. Conducting an annual review of compliance with the Legislation by the Executive Committee, with a report to the Board.

In addition, every employee is bound by the Code of Conduct issued by the Company, amongst other things, to keep Inside Information in strict confidence.

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 (the "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 the 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 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 Inside Information, have been requested to comply with the provisions of the Model Code.

Business Ethics

Practising integrity and respectable business ethics is paramount to the Company's continued success. The Company's Code of Conduct, Corporate Guidebook for All Staff and Corporate Guidebook for Managers (the "Guidebooks") lay down the requirements of the Company's ethical practices and are basis of efforts to make the Company's business sustainable.

The Code of Conduct and the Guidebooks are reviewed and updated every two years to ensure appropriateness and compliance with the law. The Company requires all staff members to acknowledge their understanding and acceptance of the relevant documents. Staff members are also encouraged to report existing or perceived violations and malpractices. Proper procedures have already been put in place pursuant to the Whistle-blowing policy of the Company, under which staff members can raise their concerns in a safe environment and in complete confidence if they have genuine suspicions about wrongdoings.

To enable new recruits to embrace the Company's values and ethical commitments, they will be briefed on the Code of Conduct and the Guidebooks in staff induction programmes. In addition, the Code of Conduct is also uploaded onto the Company's website (www.mtr.com.hk).

The scope of the Code of Conduct has been expanded to cover subsidiaries in the Mainland of China. For this purpose, 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 relevant local laws and regulations. The Company also promotes a comparable ethical culture in joint venture companies and guidelines on business ethics for staff have 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 183 of this Annual Report.

For maintaining integrity and objectivity as the External Auditor of the Company, KPMG implements policies and procedures to comply with professional ethics and independence policies and requirements applicable to the work it performs. In addition, KPMG requires its audit partner serving the Group to rotate off the audit engagement with the 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 2013 AGM was held on 9 May 2013 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 2014 AGM has been scheduled for 8 May 2014 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 2013 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 nine resolutions were passed at the 2013 AGM (with resolution no. 3 comprising three separate resolutions), each by over 93% 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 9 April 2013. 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 2012;

2013 AGM

(2) Declaration of a final dividend of HK$0.54 per share for the year ended 31 December 2012;

(3) (a) Re-election of Mr. Vincent Cheng Hoi-chuen as a Member of the Board of Directors of the Company;

(b) Re-election of Ms. Christine Fang Meng-sang as a Member of the Board of Directors of the Company; and

(c) Re-election of Mr. Edward Ho Sing-tin 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 2013 AGM.)*

The poll results were posted on the websites of both the Company (www.mtr.com.hk) and the Stock Exchange on the same day after the AGM.

The Company may also communicate with its shareholders through other general meetings if and when appropriate.

Calling General Meetings

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

If shareholders want to call a general meeting of the Company, those shareholders may request the Directors of the Company to do so, provided that the Company has received such requests from shareholders representing at least 5% of the total voting rights of all the shareholders having a right to vote at general meetings. Any such request must state the general nature of the business to be dealt with, and may include the text of a resolution that may properly be moved and is intended to be moved at the general meeting. The requests may consist of several documents in like form; and the requests may be sent to the Company in hard copy form or in electronic form; and must be authenticated by the person or persons making it. The Directors of the Company are required to call the general meeting within 21 days after the date on which the Company receives such requests, and the general meeting must be held on a date not more than 28 days after the date of the notice convening the general meeting. If the requests identify a resolution that may properly be moved and is intended to be moved at the general meeting, the notice of the general meeting must include notice of the resolution. The business that may be dealt with at the general meeting includes a resolution of which notice has been accordingly included in the notice of the general meeting. If the resolution is to be proposed as a special resolution, the Directors of the Company are to be regarded as not having duly called the meeting unless the notice of the general meeting includes the text of the resolution and specifies the intention to propose the resolution as a special resolution.

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

Procedures for Shareholders Putting Forward Proposals

Shareholders may put forward proposals for consideration at a general meeting according to the Companies Ordinance and the 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 (www.mtr.com.hk) 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 (www.mtr.com.hk) 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 92 to 93 of this Annual Report on other means of communication with shareholders.

Constitutional Documents

The Company's Memorandum and Articles of Association ("M&A") (in both English and Chinese) is available on both the websites of the Company (www.mtr.com.hk) and the Stock Exchange. During 2013, there is no change to the M&A.

However, as mentioned above, the Board has proposed, for shareholders' approval at the 2014 AGM, certain amendments to the Articles of Association in light of the New CO which has come into force on 3 March 2014.

For and on behalf of the Board

Gillian Elizabeth Meller
Secretary to the Board
Hong Kong, 11 March 2014

Audit Committee Report

The Audit Committee (the "Committee") consists of five non-executive Directors, four of whom are Independent Non-executive Directors ("INEDs").

Members of the Audit Committee

INEDs
Mr. T. Brian Stevenson (chairman)
Professor Frederick Ma Si-hang (since 17 September 2013)
Mr. Alasdair George Morrison
Mr. Ng Leung-sing
Non-executive Director
Commissioner for Transport (Mrs. Ingrid Yeung Ho Poi-yan)

None of the Committee Members is a partner or former partner of KPMG, the Company's External Auditor. The Finance Director ("FD"), the Head of Internal Audit and representatives of the External Auditor 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 FD may request a Meeting if they consider it necessary.

Duties of Audit Committee

Under its Terms of Reference (available on the websites of the Company (www.mtr.com.hk) and the Stock Exchange), the duties of the Committee include the 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 and ensures that the External Auditor's provision of non-audit services does not impair its independence or objectivity. 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 the 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 FD), 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 Head of Internal Audit or External Auditor 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 2013 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" of the Corporate Governance Report on pages 112 to 115 of this Annual Report. 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.

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 Meetings 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 within a reasonable time after the Meeting. The approval procedure is that the Committee formally adopts the draft minutes at the subsequent Meeting. If Committee Members have any comment on the draft minutes, they will discuss at that Meeting, followed by a report on what has been agreed in the minutes of that Meeting. Minutes of the Committee Meetings are open for inspection by Committee Members at the Company's registered office.

In January each year, the Secretary of the Meetings pre-agrees the Agenda Framework of the year with the chairman of the Committee who makes final determination on the agenda for the regular Committee Meetings. A total of four Meetings have been scheduled to be held in 2014.

Work Performed by Audit Committee in 2013

In 2013, the Committee held four Meetings. The attendance record of each Committee Member is shown on page 106 of this Annual Report under the Corporate Governance Report.

Among the four Meetings, the Committee had two separate Meetings for reviewing the annual results for the year ended 31 December 2012. The first Meeting concentrated on 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 accounting and financial reporting matters.

The major work performed by the Committee in 2013 included:

Financial

- Review of and recommendation for the Board's approval of the draft 2012 Annual Report and Accounts and 2013 Interim Report and Accounts;
- Review of Management Letter, tax issues, compliance and salient features of 2012 Annual Accounts and 2013 Interim Accounts presented by KPMG, the External Auditor;
- Review of KPMG's Audit Plan and Preview of 2013 annual accounting and financial reporting issues; and
- Review of Treasury Strategy.

Auditing/Internal Controls

- Approval of the 2014 Internal Audit Plan;
- Review of two Half-yearly Reports prepared by the Internal Audit Department;
- Review of the Report on the Company's Internal Control system for the year ended 31 December 2012;
- Review of Reports on Whistle-blowing for 2012 and for January to June 2013;
- Review of the Report on Evaluation of Effectiveness of Internal Audit Department for 2012;
- Pre-approval of audit and non-audit services provided by KPMG;
- Review of KPMG's fees proposal for the 2013 audit; and
- Holding of private sessions with Head of Internal Audit and the External Auditor without the presence of Management.

Operations Review and Others

- Review of outstanding litigation, and compliance with statutes and regulations, Operating Agreement and Rail Merger Transaction Agreements;
- Review of the Enterprise Risk Management Annual Report for 2012;
- Review of an Update on the Management Governance Framework which is set out on page 115 of this Annual Report under the Corporate Governance Report;
- Confirmation of the financial figures for the 2012 payout under "2008 Variable Incentive Scheme"; and
- Review of the Audit/Governance Committees Minutes of MTR's wholly owned subsidiaries.

Representatives of the External Auditor, the FD 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 Deputy Chief Executive Officer, the Operations Director, the Commercial Director, the Projects Director, the Property Director and the Legal Director & Secretary (or their representatives) had respectively provided an overview of the Company's business development and expansion outside of Hong Kong, 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.

Re-appointment of External Auditor

The Committee was satisfied with the External Auditor's work, its independence, and objectivity, and therefore recommended the re-appointment of KPMG (which has indicated its willingness to continue in office) as the Group's External Auditor for 2014 for Shareholders' approval at the 2014 Annual General Meeting.

T. Brian Stevenson
Audit Committee Chairman
Hong Kong, 11 March 2014

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.

Throughout the year, the Committee met 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 six non-executive Directors, five 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 2013 is set out in the "Corporate Governance Report" on page 111.

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 Service Pledges. The results of this audit are shared with the Remuneration Committee to determine if adjustments to the payouts under the scheme are appropriate.

Individual performance ratings are part of the thorough annual performance assessment process that is applied throughout the Company. The performance ratings and assessments reflect the full range of factors over which the individual has accountability, including operational, other non-financial and financial factors. 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 2013, 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 2013, 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 2013. 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 2013 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. Under the terms of the 2007 Scheme, no new grants of options can be made thereunder after 5 p.m. on 6 June 2014 ("2007 Scheme Expiry").

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 and 49 to the accounts.

As noted in the Corporate Governance Report at page 111, the Remuneration Committee conducted a thorough review of the Company's long-term incentive arrangements and approved the framework of a new long-term incentive scheme to take effect following the 2007 Scheme Expiry, subject to approval by the Board.

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 is deemed to be earned at 31 October 2013 subject to certain conditions specified in his employment contract).

Mr. Walder's employment contract was renewed with effect from 1 July 2014 until 31 August 2015. He is entitled to receive an equivalent value in cash of 230,000 Shares upon completion of his extended term of office on 31 August 2015.

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 from 1 April 1999 onwards. 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

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	2013	2012
Fees	**4.7**	4.4
Base salaries, allowances and other benefits-in-kind	**43.2**	37.6
Variable remuneration related to performance	**17.5**	17.2
Retirement scheme contributions	**4.6**	3.5
	70.0	62.7

Please refer to note 10 to the accounts for information relating to the five highest paid employees of the Company for the year ended 31 December 2013.

Edward Ho Sing-tin, *Chairman, Remuneration Committee*
Hong Kong, 3 March 2014

Board and Executive Directorate

From Left to Right:

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

Jay Herbert Walder
(Chief Executive Officer)

Pamela Chan Wong Shui

Dr. Dorothy Chan Yuen Tak-fai

Vincent Cheng Hoi-chuen

Christine Fang Meng-sang

Edward Ho Sing-tin

Professor Frederick Ma Si-hang

Alasdair George Morrison

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)*

Members of the Board

Dr. Raymond Ch'ien Kuo-fung 62, was appointed Non-Executive Chairman in July 2003. He has been a Member of the Board since 1998. Dr. Ch'ien is chairman and an independent non-executive director of Hang Seng Bank Limited. He is an independent non-executive director of each of Convenience Retail Asia Limited, The Wharf (Holdings) Limited, Swiss Re Ltd, China Resources Power Holdings Company Limited and UGL Limited, and a member of the board of The Hongkong and Shanghai Banking Corporation Limited. In addition, Dr. Ch'ien is a member of the Economic Development Commission of the Hong Kong SAR Government, 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, and chairman of the Hong Kong/European Union Business Cooperation Committee.

Jay Herbert Walder 55, 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 and is a member of the Visiting Committee for the Department of Civil and Environmental Engineering at the Massachusetts Institute of Technology (MIT). He is also a General Committee member of the Employers' Federation of Hong Kong and a director of The American Chamber of Commerce in Hong Kong (from 1 January 2014). 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).

Pamela Chan Wong Shui 67, joined the Board as an independent non-executive Director on 4 July 2013. Mrs. Chan is chairman of Hong Kong Deposit Protection Board, deputy chairman of the Hong Kong Baptist University Council, a member of the HKSAR Government Scholarship Fund Steering Committee and the executive committee of The Boys' and Girls' Clubs Association of Hong Kong, as well as an independent director of the Travel Industry Council of Hong Kong. She had served on the board of The Community Chest of Hong Kong for many years, and is currently its vice-patron. Mrs. Chan is also currently patron of Consumers International. She was a member of the Law Reform Commission of Hong Kong (until 31 December 2013). Mrs. Chan is a graduate and an Honorary Fellow of the Chinese University of Hong Kong. She holds an LLB degree from Peking University.

Dr. Dorothy Chan Yuen Tak-fai 64, joined the Board as an independent non-executive Director on 4 July 2013. Dr. Chan is currently the Deputy Director (Administration and Resources) of HKU School of Professional and Continuing Education, Head of Centre for Logistics & Transport, and advisor of Centre for Degree Programmes of the University of Hong Kong. She became the International President of the Chartered Institute of Logistics and Transport in January 2013 and is also one of its Fellows. Dr. Chan is a member of the Social Welfare Advisory Committee, and the Advisory Council on Environment of the HKSAR Government. She

Board and Executive Directorate

is also an independent non-executive director of AMS Public Transport Holdings Limited, a board member of the Hong Kong R&D Centre for Logistics and Supply Chain Management Enabling Technologies Limited, an advisor to the Serco Group and its Road Tunnel and Bridge Advisory Board and the Board of Governors of the Hong Kong Institute for Public Administration. Dr. Chan was previously the Deputy Commissioner for Transport of the Government from 1995 to 2002. From 2000 to 2002, she was the Alternate Director to the office of the Commissioner for Transport, a Non-executive Director of the Company. Dr. Chan holds a Bachelor of Social Sciences degree, a Master of Social Sciences degree in Public Administration and a Doctor of Philosophy degree from the University of Hong Kong.

Vincent Cheng Hoi-chuen 65, joined the Board as an independent non-executive Director since 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., Shanghai Industrial Holdings Limited, and Wing Tai Properties Limited. 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 was vice chairman of the China Banking Association, and is a member of the Advisory Committee on Post-service Employment of Civil Servants. He was 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 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 '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 55, is an independent non-executive Director and has been a Member of the Board since 2004. 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, 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 the chief executive of the Hong Kong Council of Social Service (until 30 November 2013).

Edward Ho Sing-tin 75, 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.

Professor Frederick Ma Si-hang 62, joined the Board as an independent non-executive Director on 4 July 2013. Professor Ma has extensive experience in banking and the financial sector. He is currently an independent non-executive director and the chairman of the audit committee of Agricultural Bank of China Limited and Aluminum Corporation of China Limited, and an independent non-executive director of Hutchison Port Holdings Management Pte. Limited and FWD Group (with effect from 10 December 2013). Professor Ma is also a director of Husky Energy Inc., a non-executive director of COFCO Corporation and China Mobile Communications Corporation. He was previously the Secretary for Financial Services and the Treasury of the HKSAR Government and a Non-executive Director of the Company from 2002 to 2007. Professor Ma held the position of the Secretary for Commerce and Economic Development of the HKSAR Government from 2007 to July 2008. He was appointed as a member of the International Advisory Council of China Investment Corporation in July 2009. In January 2013, Professor Ma was appointed as a member of the Global

Advisory Council of the Bank of America. He was appointed as an Honorary Professor of the School of Economics and Finance at the University of Hong Kong in October 2008, a Professor of Finance Practice of the Institute of Advanced Executive Education at The Hong Kong Polytechnic University in July 2012 and an Honorary Professor of Business Administration at The Chinese University of Hong Kong in August 2013. Professor Ma holds a Bachelor of Arts (Honours) degree majoring in economics and history from the University of Hong Kong. He was awarded the Gold Bauhinia Star medal in 2009 and was appointed a Justice of the Peace in 2010.

Alasdair George Morrison 65, joined the Board as an independent non-executive Director since 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, and a member of the Financial Services Development Council of the HKSAR Government. Mr. Morrison was a member of the Board of Grosvenor Group Limited in the United Kingdom (until 29 September 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 64, joined the Board as an independent non-executive Director since 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, and Nine Dragons Paper (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, 11th and 12th National People's Congress, People's Republic of China, and a member of the Legislative Council of the Hong Kong Special Administrative Region. Mr. Ng is a graduate of University of East Asia, Graduate College, Macau and holds a diploma in Chinese Law.

Abraham Shek Lai-him 68, joined the Board as an independent non-executive Director since 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, Eagle Asset Management (CP) Limited, ITC Corporation Limited, Country Garden Holdings Company Limited, SJM Holdings Limited, Dorsett Hospitality International Limited, China Resources Cement Holdings Limited, and Cosmopolitan International Holdings Limited (from 18 December 2013). He is also an independent non-executive director of Hsin Chong Construction Group Ltd., Hop Hing Group Holdings Limited and Lai Fung Holdings Limited. 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 an independent non-executive director and an audit committee member of Titan Petrochemicals Group Limited (until 26 February 2014). He was appointed as Justice of the Peace in 1995 and was awarded the Gold Bauhinia Star in 2013. Mr. Shek is vice chairman of the Independent Police Complaints Council. He is a graduate of the University of Sydney and holds a Bachelor of Arts degree and a Diploma in Education.

Board and Executive Directorate

T. Brian Stevenson 69, is an independent non-executive Director and has been a Member of the Board since October 2002. He is 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. Mr. Stevenson was a non-executive director of The Hongkong and Shanghai Banking Corporation Limited (until 20 May 2013). 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 57, joined the Board as a non-executive Director since 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 Airport Authority Hong Kong, Mandatory Provident Fund Schemes Authority, The Hong Kong Mortgage Corporation Limited and West Kowloon Cultural District Authority, and is the Chairman of the Kowloon-Canton Railway Corporation, and an ex-official member of the Financial Services Development Council 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 61, 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. Professor Cheung is also the Chairman of the Hong Kong Housing Authority, Board Member of Airport Authority Hong Kong and a director of the Hong Kong Mortgage Corporation. 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 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 49, 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.)

From Left to Right:
Chew Tai Chong, Gillian Elizabeth Meller, Wong May-kay, David Tang Chi-fai, Lincoln Leong Kwok-kuen, Jay Herbert Walder, Stephen Law Cheuk-kin, Morris Cheung Siu-wa, Jeny Yeung Mei-chun, Jacob Kam Chak-pui

Members of the Executive Directorate

Jay Herbert Walder Biographical details are set out on page 125.

Lincoln Leong Kwok-kuen 53, 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 an executive committee which reviews and approves 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, President of the Hong Kong Society for the Protection of Children, a member of the Board of Governor of the Chinese International School, and a member of the Quality Assurance Council of the University Grants Committee. He is a non-executive director of Hong Kong Aircraft Engineering Company Limited, and Mandarin Oriental International Limited. Mr. Leong is also a director in some of the members of the Company's group.

Morris Cheung Siu-wa 52, 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 62, 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, The Hong Kong Institute of Directors 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 52, 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.

Stephen Law Cheuk-kin 51, has been the Finance Director and a Member of the Executive Directorate since 2 July 2013. Mr. Law is responsible for the financial management of all of the Company's affairs, including financial planning and control, budgeting, accounting and reporting, and the treasury function. He also leads the Company's information technology, investor relations as well as materials & stores functions. Prior to joining the Company, Mr. Law was the chief financial officer of the Guoco Group Limited, Hong Kong. Prior to that, he also held various senior positions in TPG Growth Capital (Asia) Limited, the Morningside Group and the Wheelock Group. Mr. Law was previously, until 30 September 2012, a non-executive director of China NT Pharma Group Company Limited and an alternate director in MIE Holdings Corporation. He is a council member and a member of the Hong Kong Institute of Certified Public Accountants and a member of the Institute of Chartered Accountants in England and Wales. Mr. Law holds a Bachelor Degree in Science (Civil Engineering) from the University of Birmingham, the United Kingdom and also received a Master Degree in Business Administration from the University of Hull, the United Kingdom. He is also a director in two members of the Company's group.

Gillian Elizabeth Meller 41, 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, the Mainland of China and overseas, 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 49, 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 in Hong Kong from layout planning, scheme design through to project construction completion, as well as asset and leasing management of investment properties (including shopping malls and offices) and property management of office buildings and residential units. 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 after starting his career as a Group Trainee of George Wimpey Plc. 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 a non-executive director of the Urban Renewal Authority of the HKSAR Government, and 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 49, 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 129 to 131), and General Manager – Corporate Relations.

Wong May-kay 51, 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
Deputy Director – Operating

Tony Lee Kar-yun
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 – Asset Engineering

Terry Wong Wing-kin
Acting General Manager – Infrastructure

Richard Keefe
General Manager – Rolling Stock Fleet

Chan Chi-kit
Rolling Stock Workshop Manager

Nelson Ng Wai-hung
General Manager – Safety & Quality

Choi Tak-tsan
General Manager – Planning & Development

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

Victor Chan Hin-fu
General Manager – China Property

Wilfred Lau Cheuk-man
General Manager – Hangzhou (w.e.f. 13 February 2014)

John Woo Shui-wah
General Manager – Shenzhen Line 4
(w.e.f. 13 February 2014)

David Leung Chuen-choi
General Manager – Special Duties

Leung Kwok-yiu
General Manager – Special Projects (C&IB)
(w.e.f. 13 February 2014)

Terry Wong Ping-sau
General Manager – Corporate Finance &
Development

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

Chan Keng-sam
Head of Engineering (Beijing)

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

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

Tommy Lam Choi-fung
Project Manager – XRL E&M

Calum Smith
Project Manager – XRL Terminus (Production)

Mark Lomas
Project Manager – XRL Terminus (Controls)

Bill Clowes
Project Manager – XRL Tunnels South

Mark Cuzner
General Manager – WIL/SIL

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

Stephen Hamill
Project Manager – WIL Civil (w.e.f. 1 February 2014)

Ken Wong Kin-wai
Project Manager – SIL Civil

James Chow So-hung
General Manager – KTE

Philco Wong Nai-keung
General Manager – SCL

Lee Tze-man
General Manager – SCL E&M

David Salisbury
Project Manager – SCL Civil - EWL 1

Aidan Rooney
Project Manager – SCL Civil – NSL 1

Brendan Reilly
Project Manager – SCL Civil – NSL 2

Clement Ngai Yum-keung
Chief Design Manager – SCL

Patrick Lun Tak-wo
General Manager – Projects Management Office

Barry Hill
NRT Design & Delivery Manager

Henry Young
Chief Programming Engineer

Chan Chun-sing
Project Manager – Rolling Stock

Terence Law Che-chung
Project Manager – Signalling

Alan Myers
Chief Civil Construction Engineer

Alan Boden
Deputy Chief Civil Construction Engineer

Stephen Chik Wai-keung
Head of Project Engineering

Andrew Mead
Chief Architect

Leung Chi-lap
Chief E&M Engineer

Peter Leung Man-fat
Chief Civil & Planning Engineer

Jason Wong Chi-chung
Project Manager – Operations Projects

Stephen Howarth
Head of Project Safety

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

Steve Yiu Chin
Head of Town Planning

Sammy Yu Ka-yin
Head of Property Management

Betty Leong Sin-ling
Head of Investment Property

Finance

Stephen Law Cheuk-kin
Finance Director

Ricky Tsang Tin-for
General Manager – Financial Control

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
(up to 31 December 2013)

Stephen Griffin
General Manager – Procurement & Contracts
(w.e.f. 1 January 2014)

Teresa Tang Sui-ching
Procurement & Contracts Manager – Operations &
General (w.e.f. 1 January 2014)

Scott Mackenzie
Procurement & Contracts Manager – Projects
(w.e.f. 1 January 2014)

Cecilia Cheng Yuet-fong
General Manager – Governance & Risk Management

Jeremy Bennett
Legal Manager – General

Linda Li Sau-lin
Legal Manager – Property

Human Resources & Administration

Morris Cheung Siu-wa
Human Resources Director

Alison Wong Yuen-fan
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

May Wong May-kay
General Manager – Corporate Relations

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 2013.

Principal Activities of the Group

The Group is principally engaged in the following core businesses – railway design, construction, operation, maintenance and investment in Hong Kong, the Mainland of China and a number of major overseas cities; project management in relation to railway and property development businesses; station commercial business including leasing of station retail space, leasing of advertising space inside trains and stations, and enabling of telecommunication services on the railway system in Hong Kong; property business including property development and investment, management and leasing management of investment properties (including shopping malls and offices) in Hong Kong and the Mainland of China; and investment in Octopus Holdings Limited.

The principal activities of the Company's subsidiaries and associated companies as at 31 December 2013 are set out in Notes 28 and 29 to the accounts.

Dividend

The Board has recommended to (i) pay a final dividend of HK$0.67 per share, and (ii) adopt a Scrip Dividend Scheme (the "Recommendation") subject to approval by the shareholders at the forthcoming Annual General Meeting ("AGM"). Subject to the shareholders' approval for the Recommendation having been obtained, the Company proposes that a scrip dividend option will be offered to all shareholders except for shareholders with registered addresses in the United States of America or any of its territories or possessions. The final dividend, with a scrip dividend option, will be distributed on or about 4 July 2014 to shareholders whose names appear on the Register of Members of the Company as at the close of business on 19 May 2014.

Members of the Board

Members of the Board who served during the year were and up to the date of this Report are:-

Non-executive Directors
Dr. Raymond Ch'ien Kuo-fung (Chairman)
Professor Chan Ka-keung, Ceajer
Secretary for Transport and Housing (Professor Anthony Cheung Bing-leung)
Commissioner for Transport (Mrs. Ingrid Yeung Ho Poi-yan)
Independent Non-executive Directors
Mrs. Pamela Chan Wong Shui (from 4 July 2013)
Dr. Dorothy Chan Yuen Tak-fai (from 4 July 2013)
Mr. Vincent Cheng Hoi-chuen
Ms. Christine Fang Meng-sang
Mr. Edward Ho Sing-tin
Professor Frederick Ma Si-hang (from 4 July 2013)
Mr. Alasdair George Morrison
Mr. Ng Leung-sing
Mr. Abraham Shek Lai-him
Mr. T. Brian Stevenson
Executive Director
Mr. Jay Herbert Walder (Chief Executive Officer)

In August 2013, the Company announced that Mr. Jay Herbert Walder was re-appointed as the Company's Chief Executive Officer until 31 August 2015.

At the AGM on 9 May 2013 and pursuant to the Articles of Association, Mr. Vincent Cheng Hoi-chuen, Ms. Christine Fang Meng-sang and Mr. Edward Ho Sing-tin retired under the Articles of Association and were re-elected as Members of the Board.

At the 2014 AGM and in accordance with the Articles of Association, Mr. Alasdair George Morrison, Mr. Ng Leung-sing and Mr. Abraham Shek Lai-him will retire by rotation and will offer themselves for re-election pursuant to Articles 87 and 88 of the Articles of Association. Mrs. Pamela Chan Wong Shui, Dr. Dorothy Chan Yuen Tak-fai and Professor Frederick Ma Si-hang, who were appointed by the Board after the 2013 AGM, will retire pursuant to Article 85 of the Articles of Association and will offer themselves for election at the 2014 AGM. Please also refer to pages 107 and 108 of the Corporate Governance Report.

Biographical details for Board Members are set out on pages 124 to 128.

Alternate Directors

The Alternate Directors in office during the year were and up to the date of this Report are:

- for Professor Chan Ka-keung, Ceajer: (i) Ms. Mable Chan; and (ii) Ms. Elizabeth Tse Man-yee;
- for the office of the Secretary for Transport and Housing: (i) the Under Secretary for Transport and Housing (Mr. Yau Shing-mu); (ii) the Permanent Secretary for Transport and Housing (Transport) (Mr. Joseph Lai Yee-tak); and (iii) the Deputy Secretaries for Transport and Housing (Transport) (Ms. Rebecca Pun Ting-ting and Mr. Andy Chan Shui-fu); and
- for the Commissioner for Transport: the Deputy Commissioner for Transport/Transport Services and Management (Ms. Carolina Yip Lai-ching (until 23 May 2013) and Miss Cinderella Law Fung-ping (from 24 May 2013)).

Executive Directorate

The Members of the Executive Directorate who served during the year were and up to the date of this Report are:

Mr. Jay Herbert Walder (Chief Executive Officer and a Member of the Board)

Mr. Lincoln Leong Kwok-kuen (Deputy Chief Executive Officer)

Mr. Morris Cheung Siu-wa (Human Resources Director)

Mr. Chew Tai Chong (Projects Director)

Dr. Jacob Kam Chak-pui (Operations Director)

Mr. Stephen Law Cheuk-kin (Finance Director) (from 2 July 2013)

Ms. Gillian Elizabeth Meller (Legal Director & Secretary)

Mr. David Tang Chi-fai (Property Director)

Ms. Jeny Yeung Mei-chun (Commercial Director)

Biographical details for Members of the Executive Directorate are set out on pages 129 to 131.

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; and
- Performing special reviews, investigations, and consulting and advisory services related to corporate governance and controls as commissioned by management or the Audit Committee of the Company.

The Head of Internal Audit reports directly to the Chief Executive Officer and the Audit Committee.

Business Ethics

Please refer to page 115 .

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 101), in addition to the Shareholders' Communication Policy, the Board has adopted a new Board Diversity Policy in March 2013 before the relevant Code provision became effective 6 months later.

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 2013 amounted to HK$24,511 million (2012: HK$23,577 million). Particulars of borrowings are set out in note 37 to the accounts.

Accounts

The state of affairs of the Company and the Group as at 31 December 2013 and of the Group's results, changes in equity and cash flows for the year are set out in the accounts on pages 163 to 250.

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 90 and 91.

Fixed Assets and Railway Construction in Progress

Movements in fixed assets and railway construction in progress during the year are set out in notes 20 to 22 and 24 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 45 and 46 to the accounts.

Share Capital

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.

During the year, the Company issued a total of 5,345,000 Ordinary Shares. Of this number:

A 213,000 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 49A to the accounts). In respect of each Ordinary Share issued, the relevant exercise price per share of options is HK$15.97 to the Company; and

B 5,132,000 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 49A to the accounts). In respect of each Ordinary Share issued, the relevant exercise price per share of options are HK$18.30, HK$26.52, HK$26.85, HK$26.96, HK$27.48, HK$27.60 and HK$28.84 to the Company.

As at 31 December 2013, the authorised share capital of the Company was HK$6.5 billion, divided into 6.5 billion Ordinary Shares, 5,798,541,650 of which were issued and credited as fully paid.

Purchase, Sale or Redemption of Listed Securities

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Group's listed securities during the year ended 31 December 2013.

Properties

Particulars of the principal investment properties and properties held for sale of the Company are shown on pages 58 and 59.

Donations

During the year, the Company donated approximately HK$6.7 million to charitable and other organisations.

In addition, the MTR HONG KONG Race Walking 2013 raised over HK$1.38 million (including over HK$35,000 from MTR staff) for the Hospital Authority Health InfoWorld to promote good health.

The Company raised funds from staff for charitable causes with a total cash donation of over HK$363,000 through different activities:

- Over HK$301,000 was raised for the Community Chest through CARE Scheme, Green Day, Corporate Challenge, Skip Lunch Day, Love Teeth Day and Dress Casual Day;
- Over HK$36,000 was raised for Dress Pink Day for the Hong Kong Cancer Fund; and
- HK$25,000 was raised for "The MTR Challenge" organised by Operation Santa Claus.

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 debt, maturities, interest rate risks, currency exposure and financing horizon. The model is reviewed and refined periodically to reflect changes in the Company's financing requirements and the market environment. Derivative financial instruments such as interest rate swaps and cross currency swaps are used only as hedging tools to manage the Group's exposure to interest rate and currency risks. Prudent guidelines and procedures are in place to control the Company's derivatives activities, including a comprehensive credit risk management system for monitoring counterparty credit exposure using the Value-at-Risk approach. There is also appropriate segregation of duties within the Company's Treasury Department.

Major financing transactions and guidelines for derivatives transactions, including the credit risk management framework, are approved at the Board level.

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$3,285 million equivalent during the year ended 31 December 2013, details of which are set out in note 37C 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. In addition, the Company has been certified with ISO 27001:2005 on the Information Security Management System that complies with the required standard for the comprehensive scope of IT services operation.

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 2013, 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:

Interests in Shares and Underlying Shares of the Company

Member of the Board and/or the Executive Directorate	Number of Ordinary Shares held: Personal* interests	Family† interests	Other interests	Corporate interests	Derivatives – Share Options: Personal* interests	Derivatives – Other: 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	–	–	–	–	888,500 (Note 1)	530,000 (Note 2)	1,418,500	0.02446
Pamela Chan Wong Shui (Note 3)	1,116	1,675	–	–	–	–	2,791	0.00005
Vincent Cheng Hoi-chuen	1,675	1,675	–	–	–	–	3,350	0.00006
Christine Fang Meng-sang	1,712	–	–	–	–	–	1,712	0.00003
Frederick Ma Si-hang (Note 4)	–	70,000 (Note 4)	70,000 (Note 4)	–	–	–	70,000	0.00121
T. Brian Stevenson	5,153	–	–	–	–	–	5,153	0.00009
Ingrid Yeung Ho Poi-yan	1,116	–	–	–	–	–	1,116	0.00002
Lincoln Leong Kwok-kuen	193,000	–	–	23,000 (Note 5)	967,000 (Note 1)	–	1,183,000	0.02040
Morris Cheung Siu-wa	13,290	–	–	–	467,500 (Note 1)	–	480,790	0.00829
Chew Tai Chong	–	–	–	–	835,000 (Note 1)	–	835,000	0.01440
Jacob Kam Chak-pui	2,283	–	–	–	734,500 (Note 1)	–	736,783	0.01271
Stephen Law Cheuk-kin (Note 6)	–	–	–	–	196,000 (Note 1)	–	196,000	0.00338
Gillian Elizabeth Meller	–	–	–	–	515,500 (Note 1)	–	515,500	0.00889
David Tang Chi-fai	600	–	–	–	(i) 584,000 (Note 1) (ii) 22,000 (Note 7)	–	606,600	0.01046
Jeny Yeung Mei-chun	13,400	–	–	–	618,000 (Note 1)	–	631,400	0.01089

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 *On appointment as the Chief Executive Officer of the Company, Mr. Jay Herbert 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).*

On 30 August 2013, Mr. Walder was re-appointed as the Chief Executive Officer until 31 August 2015. He was granted a derivative interest in respect of 230,000 shares in the Company within the meaning of Part XV of the SFO. That derivative interest represents his entitlement to be paid an equivalent value in cash of 230,000 shares in the Company upon completion of his extended term of office on 31 August 2015.

3 *Mrs. Pamela Chan Wong Shui was appointed as an independent non-executive Director of the Company with effect from 4 July 2013.*

4 *Professor Frederick Ma Si-hang was appointed as an independent non-executive Director of the Company with effect from 4 July 2013. The 70,000 shares are indirectly held by The Ma Family Trust established by Professor Ma for himself and his family of which his spouse is also a beneficiary.*

5 *The 23,000 shares are held by Linsan Investment Ltd., a private limited company beneficially wholly owned by Mr. Lincoln Leong Kwok-kuen.*

6 *Mr. Stephen Law Cheuk-kin was appointed as the Finance Director and a Member of the Executive Directorate of the Company with effect from 2 July 2013.*

7 *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.*

* *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 49A(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 2013	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$)	Options outstanding as at 31 December 2013	Weighted average closing price of shares immediately before the date(s) on which options were exercised (HK$)
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	–	–	–	213,000	15.97	–	27.40
	5/10/2006	94,000	29/9/2007 – 29/9/2016	62,500	–	–	–	–	19.732	62,500	–

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 49(A)(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 2013	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$)	Options outstanding as at 31 December 2013	Weighted average closing price of shares immediately before the date(s) on which options were exercised (HK$)
Jay Herbert Walder	30/3/2012	391,500	23/3/2013 – 23/3/2019	391,500	–	130,500	–	–	27.48	391,500	–
	6/5/2013	497,000	26/4/2014 – 26/4/2020	–	497,000	–	–	–	31.40	497,000	–
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	–	–	–	170,000	18.30	–	31.95
	10/12/2009	170,000	8/12/2010 – 8/12/2016	170,000	–	–	–	–	26.85	170,000	–
	17/12/2010	170,000	16/12/2011 – 16/12/2017	170,000	–	56,000	–	–	28.84	170,000	–
	30/3/2012	201,000	23/3/2013 – 23/3/2019	201,000	–	67,000	–	–	27.48	201,000	–
	6/5/2013	256,000	26/4/2014 – 26/4/2020	–	256,000	–	–	–	31.40	256,000	–
Morris Cheung Siu-wa	11/12/2009	65,000	8/12/2010 – 8/12/2016	65,000	–	–	–	–	26.85	65,000	–
	21/7/2010	35,000	28/6/2011 – 28/6/2017	35,000	–	11,000	–	–	27.73	35,000	–
	20/12/2010	65,000	16/12/2011 – 16/12/2017	65,000	–	21,000	–	–	28.84	65,000	–
	30/3/2012	122,000	23/3/2013 – 23/3/2019	122,000	–	41,000	–	–	27.48	122,000	–
	6/5/2013	180,500	26/4/2014 – 26/4/2020	–	180,500	–	–	–	31.40	180,500	–

Options to subscribe for Ordinary Shares granted under the 2007 Share Option Scheme, as referred to in Notes 10B(ii) and 49(A)(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 2013	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$)	Options outstanding as at 31 December 2013	Weighted average closing price of shares immediately before the date(s) on which options were exercised (HK$)
Chew Tai Chong	18/6/2009	85,000	12/6/2010 – 12/6/2016	85,000	–	–	–	–	24.50	85,000	–
	10/12/2009	170,000	8/12/2010 – 8/12/2016	170,000	–	–	–	–	26.85	170,000	–
	17/12/2010	170,000	16/12/2011 – 16/12/2017	170,000	–	56,000	–	–	28.84	170,000	–
	30/3/2012	184,500	23/3/2013 – 23/3/2019	184,500	–	61,500	–	–	27.48	184,500	–
	6/5/2013	225,500	26/4/2014 – 26/4/2020	–	225,500	–	–	–	31.40	225,500	–
Jacob Kam Chak-pui	13/12/2007	75,000	10/12/2008 – 10/12/2014	75,000	–	–	–	–	27.60	75,000	–
	14/12/2009	65,000	8/12/2010 – 8/12/2016	65,000	–	–	–	–	26.85	65,000	–
	21/7/2010	50,000	28/6/2011 – 28/6/2017	50,000	–	16,000	–	–	27.73	50,000	–
	17/12/2010	170,000	16/12/2011 – 16/12/2017	170,000	–	56,000	–	–	28.84	170,000	–
	30/3/2012	172,000	23/3/2013 – 23/3/2019	172,000	–	57,500	–	–	27.48	172,000	–
	6/5/2013	202,500	26/4/2014 – 26/4/2020	–	202,500	–	–	–	31.40	202,500	–
Stephen Law Cheuk-kin (Note 4)	1/11/2013	196,000	25/10/2014 – 25/10/2020	–	196,000	–	–	–	29.87	196,000	–
Gillian Elizabeth Meller	12/12/2007	55,000	10/12/2008 – 10/12/2014	18,000	–	–	–	–	27.60	18,000	–
	10/12/2009	65,000	8/12/2010 – 8/12/2016	65,000	–	–	–	–	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	–	53,000	–	–	27.48	158,500	–
	6/5/2013	184,000	26/4/2014 – 26/4/2020	–	184,000	–	–	–	31.40	184,000	–
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	–	–	–	–	26.85	65,000	–
	17/12/2010	65,000	16/12/2011 – 16/12/2017	65,000	–	21,000	–	–	28.84	65,000	–
	30/3/2012	163,500	23/3/2013 – 23/3/2019	163,500	–	54,500	–	–	27.48	163,500	–
	6/5/2013	182,500	26/4/2014 – 26/4/2020	–	182,500	–	–	–	31.40	182,500	–
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	–	–	–	–	26.85	65,000	–
	17/12/2010	65,000	16/12/2011 – 16/12/2017	65,000	–	21,000	–	–	28.84	65,000	–
	30/3/2012	161,000	23/3/2013 – 23/3/2019	161,000	–	54,000	–	–	27.48	161,000	–
	6/5/2013	187,000	26/4/2014 – 26/4/2020	–	187,000	–	–	–	31.40	187,000	–
Other eligible employees	11/12/2007	45,000	10/12/2008 – 10/12/2014	45,000	–	–	–	45,000	27.60	–	29.95
	12/12/2007	2,365,000	10/12/2008 – 10/12/2014	1,070,000	–	–	–	420,000	27.60	650,000	31.55
	13/12/2007	1,665,000	10/12/2008 – 10/12/2014	1,465,000	–	–	–	289,000	27.60	1,176,000	31.31
	14/12/2007	1,005,000	10/12/2008 – 10/12/2014	550,000	–	–	–	–	27.60	550,000	–
	15/12/2007	435,000	10/12/2008 – 10/12/2014	88,000	–	–	–	–	27.60	88,000	–
	17/12/2007	835,000	10/12/2008 – 10/12/2014	635,000	–	–	–	12,000	27.60	623,000	31.95
	18/12/2007	445,000	10/12/2008 – 10/12/2014	230,000	–	–	–	40,000	27.60	190,000	29.30
	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	–
	22/12/2007	35,000	10/12/2008 – 10/12/2014	35,000	–	–	–	35,000	27.60	–	30.60
	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	–	–	–	80,000	27.60	–	31.12

Options to subscribe for Ordinary Shares granted under the 2007 Share Option Scheme, as referred to in Notes 10B(ii) and 49(A)(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 2013	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$)	Options outstanding as at 31 December 2013	Weighted average closing price of shares immediately before the date(s) on which options were exercised (HK$)
Other eligible employees	28/3/2008	255,000	26/3/2009 – 26/3/2015	180,000	–	–	–	41,000	26.52	139,000	32.44
	31/3/2008	379,000	26/3/2009 – 26/3/2015	230,000	–	–	–	38,000	26.52	192,000	30.18
	1/4/2008	261,000	26/3/2009 – 26/3/2015	204,000	–	–	–	40,000	26.52	164,000	31.06
	2/4/2008	296,000	26/3/2009 – 26/3/2015	236,000	–	–	–	17,000	26.52	219,000	31.60
	3/4/2008	171,000	26/3/2009 – 26/3/2015	100,000	–	–	–	25,000	26.52	75,000	32.71
	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	268,000	–	–	–	32,000	26.52	236,000	31.66
	8/4/2008	174,000	26/3/2009 – 26/3/2015	96,000	–	–	7,000	20,000	26.52	69,000	31.39
	9/4/2008	85,000	26/3/2009 – 26/3/2015	60,000	–	–	–	17,000	26.52	43,000	30.90
	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	94,000	–	–	–	5,000	26.52	89,000	32.15
	12/4/2008	48,000	26/3/2009 – 26/3/2015	48,000	–	–	–	17,000	26.52	31,000	31.95
	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	107,000	–	–	–	–	26.52	107,000	–
	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	–	–	–	25,000	18.30	20,000	28.75
	9/12/2008	1,293,000	8/12/2009 – 8/12/2015	282,000	–	–	–	25,000	18.30	257,000	32.00
	10/12/2008	2,046,400	8/12/2009 – 8/12/2015	921,400	–	–	–	95,000	18.30	826,400	30.21
	11/12/2008	2,394,200	8/12/2009 – 8/12/2015	1,129,000	–	–	–	81,500	18.30	1,047,500	31.41
	12/12/2008	1,416,500	8/12/2009 – 8/12/2015	671,500	–	–	–	13,500	18.30	658,000	30.85
	13/12/2008	84,500	8/12/2009 – 8/12/2015	40,500	–	–	–	–	18.30	40,500	–
	14/12/2008	88,200	8/12/2009 – 8/12/2015	45,000	–	–	–	–	18.30	45,000	–
	15/12/2008	1,084,700	8/12/2009 – 8/12/2015	555,200	–	–	–	87,000	18.30	468,200	30.81
	16/12/2008	581,500	8/12/2009 – 8/12/2015	361,500	–	–	–	72,500	18.30	289,000	30.90
	17/12/2008	513,500	8/12/2009 – 8/12/2015	348,000	–	–	–	87,500	18.30	260,500	32.01
	18/12/2008	611,500	8/12/2009 – 8/12/2015	233,000	–	–	–	106,500	18.30	126,500	30.64
	19/12/2008	198,000	8/12/2009 – 8/12/2015	88,000	–	–	–	25,000	18.30	63,000	31.30
	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	288,500	–	–	–	55,000	18.30	233,500	31.70
	23/12/2008	306,000	8/12/2009 – 8/12/2015	162,000	–	–	–	44,000	18.30	118,000	30.55
	24/12/2008	500,500	8/12/2009 – 8/12/2015	197,000	–	–	–	15,000	18.30	182,000	31.35
	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	59,000	–	–	–	–	18.30	59,000	–
	30/12/2008	19,000	8/12/2009 – 8/12/2015	19,000	–	–	–	19,000	18.30	–	29.60
	18/6/2009	170,000	12/6/2010 – 12/6/2016	45,000	–	–	–	–	24.50	45,000	–
	6/7/2009	45,000	12/6/2010 – 12/6/2016	45,000	–	–	–	–	24.50	45,000	–
	9/12/2009	670,000	8/12/2010 – 8/12/2016	520,000	–	–	–	–	26.85	520,000	–
	10/12/2009	2,381,000	8/12/2010 – 8/12/2016	1,696,500	–	–	15,000	312,500	26.85	1,369,000	31.22
	11/12/2009	2,297,000	8/12/2010 – 8/12/2016	1,886,000	–	–	–	168,000	26.85	1,718,000	31.12
	12/12/2009	610,000	8/12/2010 – 8/12/2016	429,000	–	–	–	44,000	26.85	385,000	30.38
	13/12/2009	19,000	8/12/2010 – 8/12/2016	12,500	–	–	–	–	26.85	12,500	–
	14/12/2009	2,443,000	8/12/2010 – 8/12/2016	2,071,500	–	–	22,000	223,000	26.85	1,826,500	31.43
	15/12/2009	2,773,000	8/12/2010 – 8/12/2016	2,183,500	–	–	23,000	268,000	26.85	1,892,500	31.28
	16/12/2009	1,550,000	8/12/2010 – 8/12/2016	1,170,000	–	–	–	228,500	26.85	941,500	31.30
	17/12/2009	1,000,000	8/12/2010 – 8/12/2016	893,000	–	–	–	278,000	26.85	615,000	30.62
	18/12/2009	389,000	8/12/2010 – 8/12/2016	314,000	–	–	–	34,000	26.85	280,000	31.14
	19/12/2009	70,000	8/12/2010 – 8/12/2016	70,000	–	–	–	–	26.85	70,000	–

Options to subscribe for Ordinary Shares granted under the 2007 Share Option Scheme, as referred to in Notes 10B(ii) and 49(A)(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 2013	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$)	Options outstanding as at 31 December 2013	Weighted average closing price of shares immediately before the date(s) on which options were exercised (HK$)
Other eligible employees	20/12/2009	75,000	8/12/2010 – 8/12/2016	75,000	–	–	–	–	26.85	75,000	–
	21/12/2009	520,000	8/12/2010 – 8/12/2016	367,000	–	–	–	38,000	26.85	329,000	31.50
	22/12/2009	256,000	8/12/2010 – 8/12/2016	172,000	–	–	–	–	26.85	172,000	–
	21/7/2010	270,000	28/6/2011 – 28/6/2017	105,000	–	30,000	15,000	–	27.73	90,000	–
	16/12/2010	194,000	16/12/2011 – 16/12/2017	194,000	–	63,000	–	–	28.84	194,000	–
	17/12/2010	4,737,000	16/12/2011 – 16/12/2017	4,388,500	–	1,435,000	66,000	254,500	28.84	4,068,000	30.91
	18/12/2010	673,000	16/12/2011 – 16/12/2017	673,000	–	218,000	–	–	28.84	673,000	–
	19/12/2010	174,000	16/12/2011 – 16/12/2017	155,000	–	37,000	13,000	44,000	28.84	98,000	31.95
	20/12/2010	4,789,500	16/12/2011 – 16/12/2017	4,292,000	–	1,371,000	78,000	416,000	28.84	3,798,000	30.81
	21/12/2010	3,020,000	16/12/2011 – 16/12/2017	2,757,000	–	921,000	65,500	214,500	28.84	2,477,000	31.29
	22/12/2010	975,000	16/12/2011 – 16/12/2017	934,500	–	312,000	–	21,500	28.84	913,000	31.64
	23/12/2010	189,000	16/12/2011 – 16/12/2017	144,000	–	38,000	8,000	17,000	28.84	119,000	32.20
	7/7/2011	215,000	27/6/2012 – 27/6/2018	215,000	–	72,500	–	52,000	26.96	163,000	31.12
	30/3/2012	15,363,000	23/3/2013 – 23/3/2019	15,118,500	–	5,089,000	298,000	424,000	27.48	14,396,500	31.10
	6/5/2013	19,690,000	26/4/2014 – 26/4/2020	–	19,690,000	10,500	333,000	–	31.40	19,357,000	–
	1/11/2013	188,500	25/10/2014 – 25/10/2020	–	188,500	–	–	–	29.87	188,500	–

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. Stephen Law Cheuk-kin became the Finance Director and a Member of the Executive Directorate on 2 July 2013.*

During the year ended 31 December 2013, 21,989,500 options to subscribe for shares of the Company were granted to 536 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$)	Exercise price (HK$)	Estimated risk-free interest rate (%)	Expected life (Years)	Estimated Volatility	Expected dividend per share (HK$)	Weighted average value per option granted (HK$)
6/5/2013	31.95	31.40	0.21	3.5	0.15	0.79	2.33
1/11/2013	30.05	29.87	0.69	3.5	0.14	0.79	3.04

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 2013, 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 election or re-election at the forthcoming AGM has a service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than statutory compensation.

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 2013 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 ("FSI") (in trust on behalf of the Government)	4,434,552,207	76.48

The Company has been informed by the Government that, as at 31 December 2013, approximately 0.41% of the shares of the Company (not included in the FSI shareholding set out in the above table) were held for the account of the Exchange Fund. The Exchange Fund is a fund established under the Exchange Fund Ordinance (Cap. 66 of the Laws of Hong Kong) under the control of the Financial Secretary.

Other Persons' Interests

Save as disclosed in the sections headed "Board Members' and Executive Directorate's Interests in Shares" and "Substantial Shareholders' Interests", as at 31 December 2013, no other persons had any interests or short positions in the shares or underlying shares of the Company as recorded in the register kept by the Company under section 336 of the SFO or otherwise notified to the Company and the HKSE.

Loan Agreements with Covenant Relating to Specific Performance of the Controlling Shareholder

As at 31 December 2013, the Group had borrowings of HK$19,068 million with maturities ranging from 2014 to 2043 and undrawn committed banking facilities of HK$7,300 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. Failure to satisfy such condition may result in immediate repayment of the borrowings being demanded and cancellation of the undrawn committed banking facilities.

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 2013 was attributable to the Group's five largest suppliers.

Approximately 37.98% in value of the Group's total turnover during the year ended 31 December 2013 was attributable to the Group's five largest customers combined by value. Approximately 18.71% of the Group's total turnover was attributable to the largest customer.

As at 31 December 2013, the Government, being one of the Group's five largest customers, through the FSI, the substantial shareholder of the Company, held approximately 76.48% of the issued share capital of the Company (see the section headed "Substantial Shareholders' Interests" above for further details).

As at 31 December 2013, the following Non-executive Directors*/Alternate Directors# of the Company were officials of the Government:

- Professor Chan Ka-keung, Ceajer* (Secretary for Financial Services and the Treasury)
- Secretary for Transport and Housing* (Professor Anthony Cheung Bing-leung)
- Commissioner for Transport* (Mrs. Ingrid Yeung Ho Poi-yan)
- Ms. Mable Chan#
- Ms. Elizabeth Tse Man-yee#
- Under Secretary for Transport and Housing# (Mr. Yau Shing-mu)
- Permanent Secretary for Transport and Housing (Transport)# (Mr. Joseph Lai Yee-tak)
- Deputy Secretaries for Transport and Housing (Transport)# (Ms. Rebecca Pun Ting-ting and Mr. Andy Chan Shui-fu)
- Deputy Commissioner for Transport/Transport Services and Management# (Miss Cinderella Law Fung-ping)

Save as disclosed above and as at 31 December 2013, no other 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 163 to 250 have been prepared on a going concern basis. The Board has reviewed the Company's budget for 2014, 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.

Connected Transaction

In January 2014, the transaction described below was entered into with the Government (which is a substantial shareholder of the Company as defined in the Listing Rules). The Government is therefore a "connected person" of the Company for the purposes of the Listing Rules, and a transaction described below is the connected transaction for the Company under the Listing Rules.

As disclosed in the announcement of the Company dated 13 January 2005, the Stock Exchange has granted a waiver to the Company from strict compliance with the requirements 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").

Consequently, the Company makes the disclosures below in accordance with Rule 14A.45 of the Listing Rules and in accordance with paragraph B(I) of the Waiver.

Land Agreement

The Company entered into a Modification Letter of New Grant No.7040 dated 27 January 2014 with the Government which allowed the proposed commercial development on Tsing Yi Town Lot No.135 at the premium assessed at HK$1,261,510,000.

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 ("UGL"), Leighton Contractors (Asia) Limited ("LCAL") and John Holland Pty Limited ("JHL"). As noted above under the section headed "Connected Transaction", 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 page 145 to 147 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 159).

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

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. Another Maintenance Agreement was then signed on 21 August 2008 for a period of 5 years, which expired on 5 July 2013 ("Maintenance Agreement").

On 5 July 2013, the Company entered into a new Maintenance Contract with the AA for the renewal of the then expired Maintenance Agreement for the Automated People Mover system for a seven year period (the "New Maintenance Contract"), effective from 6 July 2013. It is expected that the highest amount per year receivable from the AA under the New Maintenance Contract will be HK$50 million.

The New Maintenance Contract 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 Contract shall be seven years from 6 July 2013 up to and including 5 July 2020;
- provisions relating to the performance of scheduled maintenance works and overhaul of the System by the Company;
- provisions relating to monitoring the System for any breakdown and the Company providing repair services where necessary;
- provisions relating to the standards to which the Company must operate the System;
- provisions relating to the carrying out by the Company (as additional services), in certain circumstances, of upgrade work on the System; and
- provisions relating to the operations of and maintenance for the extension of the System to the new Midfield Concourse.

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 Maintenance Agreement, the New Maintenance Contract 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 (as amended by a supplemental agreement on 7 June 2013) ("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 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 page 144) in consideration for the execution of the Property Package Agreements (as described on pages 145 to 147 and in paragraph E below) and the sale of the shares in the KCRC Subsidiaries (as defined on page 145) 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. The first of such reviews was undertaken in 2013. The Company and the Government agreed on 16 April 2013 to amend the fare adjustment mechanism. In addition, the wider terms of the Operating Agreement are subject to review every five years and such a review was also undertaken in 2013. As a result of such reviews, the Company and the Government agreed measures in enhancing communication and liaison on operational arrangements.

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 2014

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 163 to 250, which comprise the consolidated and company balance sheets as at 31 December 2013, 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 2013 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 2014

Consolidated Profit and Loss Account

for the year ended 31 December in HK$ million	Note	2013	2012 (Restated)
Revenue from Hong Kong transport operations	4	**15,166**	14,523
Revenue from Hong Kong station commercial business	5	**4,588**	3,680
Revenue from Hong Kong property rental and management businesses	6	**3,778**	3,401
Revenue from Mainland of China and international subsidiaries	7	**13,246**	12,786
Revenue from other businesses	8	**1,929**	1,349
		38,707	35,739
Expenses relating to Hong Kong transport operations			
– Staff costs and related expenses	9A	**(4,198)**	(4,067)
– Energy and utilities		**(1,293)**	(1,200)
– Operational rent and rates		**(259)**	(234)
– Stores and spares consumed		**(514)**	(477)
– Maintenance and related works	9B	**(1,177)**	(1,112)
– Railway support services		**(246)**	(210)
– General and administration expenses		**(515)**	(479)
– Other expenses		**(247)**	(238)
		(8,449)	(8,017)
Expenses relating to Hong Kong station commercial business		**(464)**	(397)
Expenses relating to Hong Kong property rental and management businesses		**(673)**	(627)
Expenses relating to Mainland of China and international subsidiaries	7	**(12,455)**	(12,184)
Expenses relating to other businesses		**(1,781)**	(1,296)
Project study and business development expenses	9C	**(486)**	(323)
Operating expenses before depreciation, amortisation and variable annual payment	9D,E&F	**(24,308)**	(22,844)
Operating profit before Hong Kong property developments, depreciation, amortisation and variable annual payment		**14,399**	12,895
Profit on Hong Kong property developments	11	**1,396**	3,238
Operating profit before depreciation, amortisation and variable annual payment		**15,795**	16,133
Depreciation and amortisation	12	**(3,372)**	(3,208)
Variable annual payment		**(1,247)**	(883)
Operating profit before interest and finance charges		**11,176**	12,042
Interest and finance charges	13	**(732)**	(879)
Investment property revaluation	20	**4,425**	3,757
Share of profit or loss of associates	29	**158**	456
Profit before taxation		**15,027**	15,376
Income tax	14A	**(1,819)**	(1,862)
Profit for the year		**13,208**	13,514
Attributable to:			
– Equity shareholders of the Company	15	**13,025**	13,375
– Non-controlling interests		**183**	139
Profit for the year		**13,208**	13,514
Profit for the year attributable to equity shareholders of the Company:			
– Arising from underlying businesses before property developments		**7,437**	6,914
– Arising from property developments		**1,163**	2,704
– Arising from underlying businesses		**8,600**	9,618
– Arising from investment property revaluation		**4,425**	3,757
		13,025	13,375
Earnings per share:	17		
– Basic		**HK$2.25**	HK$2.31
– Diluted		**HK$2.24**	HK$2.31

The notes on pages 169 to 250 form part of the accounts.

Consolidated Statement of Comprehensive Income

for the year ended 31 December in HK$ million	Note	2013	2012 (Restated)
Profit for the year		**13,208**	13,514
Other comprehensive income for the year (after taxation and reclassification adjustments):	19		
Items that will not be reclassified to profit or loss:			
– Surplus on revaluation of self-occupied land and buildings		**298**	339
– Remeasurement of net liability of defined benefit plans		**686**	1,344
		984	1,683
Items that may be reclassified subsequently to profit or loss:			
– Exchange differences on translation of:			
– financial statements of overseas subsidiaries and associates		**109**	72
– non-controlling interests		**(35)**	3
– Cash flow hedges: net movement in hedging reserve		**(61)**	23
		13	98
		997	1,781
Total comprehensive income for the year		**14,205**	15,295
Attributable to:			
– Equity shareholders of the Company		**14,057**	15,153
– Non-controlling interests		**148**	142
Total comprehensive income for the year		**14,205**	15,295

The notes on pages 169 to 250 form part of the accounts.

Consolidated Balance Sheet

in HK$ million	Note	At 31 December 2013	At 31 December 2012 (Restated)	At 1 January 2012 (Restated)
Assets				
Fixed assets				
– Investment properties	20	**61,285**	55,314	51,453
– Other property, plant and equipment	21	**76,277**	76,088	76,687
– Service concession assets	22	**25,594**	24,492	23,928
		163,156	155,894	152,068
Property management rights	23	**31**	31	31
Railway construction in progress	24	**11,548**	7,458	3,566
Property development in progress	26A	**11,233**	10,430	11,964
Deferred expenditure	27	**4**	15	14
Interests in associates	29	**5,277**	4,258	1,527
Deferred tax assets	44B	**29**	21	24
Investments in securities	30	**472**	393	2,974
Properties held for sale	31	**1,105**	3,016	3,757
Derivative financial assets	32	**115**	256	344
Stores and spares	33	**1,281**	1,220	1,135
Debtors, deposits and payments in advance	34	**3,621**	4,246	3,778
Amounts due from related parties	35	**654**	785	402
Cash, bank balances and deposits	36	**17,297**	18,664	16,100
		215,823	206,687	197,684
Liabilities				
Bank overdrafts	37A	**47**	55	–
Short-term loans	37A	**–**	300	–
Creditors and accrued charges	38	**13,793**	16,530	19,277
Current taxation	44A	**349**	406	597
Contract retentions	39	**986**	948	643
Amounts due to related parties	40	**1,388**	1,061	1,481
Loans and other obligations	37A	**24,464**	23,222	23,168
Obligations under service concession	41	**10,658**	10,690	10,724
Derivative financial liabilities	32	**389**	132	151
Loan from holders of non-controlling interests	42	**135**	157	154
Deferred income	43	**623**	488	403
Deferred tax liabilities	44B	**10,289**	9,587	8,993
		63,121	63,576	65,591
Net assets		**152,702**	143,111	132,093
Capital and reserves				
Share capital, share premium and capital reserve	45A	**44,442**	44,281	44,062
Other reserves	46	**108,115**	98,623	87,845
Total equity attributable to equity shareholders of the Company		**152,557**	142,904	131,907
Non-controlling interests		**145**	207	186
Total equity		**152,702**	143,111	132,093

Approved and authorised for issue by the Members of the Board on 11 March 2014

Raymond K F Ch'ien
Jay H Walder
Stephen C K Law

The notes on pages 169 to 250 form part of the accounts.

Balance Sheet

in HK$ million	Note	At 31 December 2013	At 31 December 2012 (Restated)	At 1 January 2012 (Restated)
Assets				
Fixed assets				
– Investment properties	20	**59,940**	54,087	50,287
– Other property, plant and equipment	21	**75,705**	75,484	76,086
– Service concession assets	22	**17,384**	16,547	16,169
		153,029	146,118	142,542
Property management rights	23	**31**	31	31
Railway construction in progress	24	**11,548**	7,458	3,566
Property development in progress	26A	**8,335**	7,928	9,521
Deferred expenditure	27	**4**	15	14
Investments in subsidiaries	28	**1,285**	1,260	1,260
Investments in securities	30	**–**	–	2,626
Properties held for sale	31	**1,105**	3,016	3,757
Derivative financial assets	32	**115**	256	344
Stores and spares	33	**1,008**	948	932
Debtors, deposits and payments in advance	34	**2,341**	3,030	2,443
Amounts due from related parties	35	**10,883**	8,155	5,035
Cash, bank balances and deposits	36	**15,678**	16,616	13,971
		205,362	194,831	186,042
Liabilities				
Bank overdrafts	37A	**47**	55	–
Short-term loans	37A	**–**	300	–
Creditors and accrued charges	38	**10,929**	11,871	14,293
Current taxation	44A	**275**	352	582
Contract retentions	39	**834**	739	423
Amounts due to related parties	40	**19,011**	18,761	13,244
Loans and other obligations	37A	**2,993**	1,625	7,502
Obligations under service concession	41	**10,480**	10,520	10,557
Derivative financial liabilities	32	**389**	132	151
Deferred income	43	**50**	60	68
Deferred tax liabilities	44B	**10,218**	9,509	8,917
		55,226	53,924	55,737
Net assets		**150,136**	140,907	130,305
Capital and reserves				
Share capital, share premium and capital reserve	45A	**44,442**	44,281	44,062
Other reserves	46	**105,694**	96,626	86,243
Total equity		**150,136**	140,907	130,305

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Stephen C K Law

The notes on pages 169 to 250 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	Other reserves: Retained profits	Total equity attributable to equity shareholders of the Company	Non-controlling interests	Total equity
2013										
Balance as at 1 January 2013, as previously reported		**44,281**	**2,227**	**(67)**	**219**	**412**	**97,201**	**144,273**	**207**	**144,480**
Effect of adoption of Revised HKAS 19	2A(iii)	**–**	**–**	**–**	**–**	**–**	**(1,369)**	**(1,369)**	**–**	**(1,369)**
Balance as at 1 January 2013, as restated		**44,281**	**2,227**	**(67)**	**219**	**412**	**95,832**	**142,904**	**207**	**143,111**
Changes in equity for the year ended 31 December 2013:										
– Profit for the year		**–**	**–**	**–**	**–**	**–**	**13,025**	**13,025**	**183**	**13,208**
– Other comprehensive income for the year	19	**–**	**298**	**(61)**	**–**	**109**	**686**	**1,032**	**(35)**	**997**
– Total comprehensive income for the year		**–**	**298**	**(61)**	**–**	**109**	**13,711**	**14,057**	**148**	**14,205**
– 2012 final dividend	16	**–**	**–**	**–**	**–**	**–**	**(3,130)**	**(3,130)**	**–**	**(3,130)**
– 2013 interim dividend	16	**–**	**–**	**–**	**–**	**–**	**(1,450)**	**(1,450)**	**–**	**(1,450)**
– Dividends paid to holders of non-controlling interests		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(192)**	**(192)**
– Disposal of a subsidiary		**–**	**–**	**–**	**–**	**(8)**	**–**	**(8)**	**(18)**	**(26)**
– Employee share-based payments		**–**	**–**	**–**	**48**	**–**	**–**	**48**	**–**	**48**
– Employee share options exercised	45A	**161**	**–**	**–**	**(25)**	**–**	**–**	**136**	**–**	**136**
– Employee share options forfeited		**–**	**–**	**–**	**(2)**	**–**	**2**	**–**	**–**	**–**
Balance as at 31 December 2013		**44,442**	**2,525**	**(128)**	**240**	**513**	**104,965**	**152,557**	**145**	**152,702**
2012 (Restated)										
Balance as at 1 January 2012, as previously reported		44,062	1,888	(90)	201	340	88,062	134,463	186	134,649
Effect of adoption of Revised HKAS 19	2A(iii)	–	–	–	–	–	(2,556)	(2,556)	–	(2,556)
Balance as at 1 January 2012, as restated		44,062	1,888	(90)	201	340	85,506	131,907	186	132,093
Changes in equity for the year ended 31 December 2012:										
– Profit for the year, as restated		–	–	–	–	–	13,375	13,375	139	13,514
– Other comprehensive income for the year, as restated	19	–	339	23	–	72	1,344	1,778	3	1,781
– Total comprehensive income for the year, as restated		–	339	23	–	72	14,719	15,153	142	15,295
– 2011 final dividend	16	–	–	–	–	–	(2,951)	(2,951)	–	(2,951)
– 2012 interim dividend	16	–	–	–	–	–	(1,447)	(1,447)	–	(1,447)
– Dividends paid to holders of non-controlling interests		–	–	–	–	–	–	–	(121)	(121)
– Employee share-based payments		–	–	–	56	–	–	56	–	56
– Employee share options exercised		219	–	–	(33)	–	–	186	–	186
– Employee share options forfeited		–	–	–	(5)	–	5	–	–	–
Balance as at 31 December 2012, as restated		44,281	2,227	(67)	219	412	95,832	142,904	207	143,111

The notes on pages 169 to 250 form part of the accounts.

Consolidated Cash Flow Statement

for the year ended 31 December in HK$ million	Note	2013		2012	
Cash flows from operating activities					
Cash generated from operations	47	**15,446**		14,701	
Receipt of government subsidy for Shenzhen Metro Longhua Line operation		**661**		637	
Current tax paid					
– Hong Kong Profits Tax paid		**(1,183)**		(1,699)	
– Mainland of China and overseas tax paid		**(160)**		(100)	
Net cash generated from operating activities			**14,764**		13,539
Cash flows from investing activities					
Capital expenditure					
– Purchase of assets for Hong Kong transport and related operations		**(2,790)**		(2,327)	
– Shenzhen Metro Longhua Line Project and related operations		**(577)**		(852)	
– West Island Line Project		**(2,537)**		(2,897)	
– South Island Line (East) Project		**(3,283)**		(2,480)	
– Kwun Tong Line Extension Project		**(1,029)**		(976)	
– Property development projects		**(2,696)**		(1,440)	
– Property renovation and fitting out works		**(366)**		(104)	
– Other capital projects		**(78)**		(49)	
Net cash receipt/(payment) in respect of entrustment works of Shatin to Central Link		**1**		(148)	
Fixed annual payment		**(750)**		(750)	
Variable annual payment		**(883)**		(647)	
Receipts in respect of property development		**3,937**		5,677	
Decrease/(increase) in bank deposits with more than three months to maturity when placed or pledged		**3,463**		(831)	
Purchase of investments in securities		**(192)**		(260)	
Proceeds from sale or redemption of investments in securities		**109**		2,846	
Proceeds from disposal of fixed assets		**4**		8	
Investment in an associate		**(1,111)**		(2,734)	
Proceeds from disposal of an associate		**62**		–	
Receipt of loan repayment from an associate		**24**		24	
Dividends received from associates		**197**		465	
Net cash used in investing activities			**(8,495)**		(7,475)
Cash flows from financing activities					
Proceeds from shares issued under share option schemes		**136**		186	
Drawdown of loans		**2,229**		808	
Proceeds from issuance of capital market instruments		**3,248**		5,998	
Repayment of loans		**(918)**		(6,319)	
Repayment of capital market instruments		**(3,336)**		(102)	
Interest paid		**(967)**		(727)	
Interest received		**253**		342	
Finance charges paid		**(38)**		(53)	
Dividends paid to equity shareholders of the Company		**(4,580)**		(4,398)	
Dividends paid to holders of non-controlling interests		**(192)**		(121)	
Net cash used in financing activities			**(4,165)**		(4,386)
Net increase in cash and cash equivalents			**2,104**		1,678
Cash and cash equivalents at 1 January			**5,105**		3,427
Cash and cash equivalents at 31 December	36		**7,209**		5,105

The notes on pages 169 to 250 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 first effective for accounting periods beginning on or after 1 January 2013. Changes in accounting policies resulting from the initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these accounts are disclosed in note 2A(iii).

2 Principal Accounting Policies

A Basis of Preparation of the Accounts

(i) The measurement basis used in the preparation of the accounts is the historical cost basis except that the following assets and liabilities are stated at their fair value as explained in the accounting policies set out below:

- investment properties (note 2E(i));
- self-occupied land and buildings (note 2E(ii));
- financial instruments classified as investments in securities other than those intended to be held to maturity (note 2L); and
- derivative financial instruments (note 2S).

(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 55.

(iii) The HKICPA has issued a number of new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's accounts:

- Amendments to HKAS 1, *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*
- HKFRS 10, *Consolidated Financial Statements*
- HKFRS 12, *Disclosure of Interests in Other Entities*
- HKFRS 13, *Fair Value Measurement*
- Revised HKAS 19, *Employee Benefits*

The amendments to HKAS 1 require entities to present the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met separately from those that would never be reclassified to profit or loss. The Group's presentation of other comprehensive income in the consolidated statement of comprehensive income in these accounts has been modified accordingly.

HKFRS 10 introduces a single control model to determine whether an investee should be consolidated, by focusing on whether the entity has power over the investee, exposure or rights to variable returns from its involvement with the investee and the ability to use its power to affect the amount of those returns. The adoption does not change any of the control conclusions reached by the Group in respect of its involvement with other entities as at 1 January 2013, including that with Octopus Holdings Limited ("OHL") and OHL's subsidiaries, which, previously described as the Group's non-controlled subsidiaries, are now changed to be described as the Group's associates in accordance with the definition stated in HKFRS 10 and continue to be accounted for using the equity method.

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 by HKFRS 12 are generally more extensive than those previously required by the respective standards. To the extent that the requirements are applicable to the Group, the Group has provided those disclosures in note 29.

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. To the extent that the requirements are applicable to the Group, the Group has provided those disclosures in note 48.

2 Principal Accounting Policies *(continued)*

A Basis of Preparation of the Accounts *(continued)*

Revised HKAS 19 introduces a number of amendments to the accounting for defined benefit plans. 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. Revised HKAS 19 also changes the basis for determining income from plan assets from expected return to interest income calculated at the liability discount rate, and requires immediate recognition of past service cost, whether vested or not.

As a result of the adoption of Revised HKAS 19, the Group has changed its accounting policy with respect to defined benefit plans, for which the corridor method was previously adopted. This change in accounting policy has been adopted retrospectively by restating the balances as at 1 January and 31 December 2012, with consequential adjustments to comparatives for the year ended 31 December 2012 as follows:

in HK$ million	As previously reported	Effect of adoption of Revised HKAS 19	As restated
Consolidated profit and loss account for the year ended 31 December 2012			
Expenses relating to Hong Kong transport operations – Staff costs and related expenses	(3,879)	(188)	(4,067)
Income tax	(1,893)	31	(1,862)
Profit for the year	13,671	(157)	13,514
Basic and diluted earnings per share	HK$2.34	(HK$0.03)	HK$2.31
Consolidated statement of comprehensive income for the year ended 31 December 2012			
Remeasurement of net liability of defined benefit plans	–	1,344	1,344
Total comprehensive income for the year	14,108	1,187	15,295
Consolidated balance sheet as at 31 December 2012			
Debtors, deposits and payments in advance	4,474	(228)	4,246
Creditors and accrued charges	15,119	1,411	16,530
Deferred tax liabilities	9,857	(270)	9,587
Other reserves – Retained profits	97,201	(1,369)	95,832
Consolidated balance sheet as at 1 January 2012			
Debtors, deposits and payments in advance	3,964	(186)	3,778
Creditors and accrued charges	16,402	2,875	19,277
Deferred tax liabilities	9,498	(505)	8,993
Other reserves – Retained profits	88,062	(2,556)	85,506
Balance sheet as at 31 December 2012			
Debtors, deposits and payments in advance	3,258	(228)	3,030
Creditors and accrued charges	10,460	1,411	11,871
Deferred tax liabilities	9,779	(270)	9,509
Other reserves – Retained profits	95,616	(1,369)	94,247
Balance sheet as at 1 January 2012			
Debtors, deposits and payments in advance	2,629	(186)	2,443
Creditors and accrued charges	11,418	2,875	14,293
Deferred tax liabilities	9,422	(505)	8,917
Other reserves – Retained profits	86,800	(2,556)	84,244

The Group has not applied any new or revised standard or interpretation that is not yet effective for the current accounting period (note 56).

2 Principal Accounting Policies *(continued)*

B Basis of Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates (note 2D) made up to 31 December each year. The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from or to the date of their acquisition or disposal, as appropriate.

C Subsidiaries and Non-controlling Interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group or other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated accounts from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated accounts. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Non-controlling interests 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.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in the profit and loss account. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate (note 2D).

Investments in subsidiaries are carried in the Company's balance sheet at cost less any impairment losses (note 2G (ii)).

D Associates

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.

An investment in an associate is accounted for in the consolidated accounts of the Group using the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the investees' net assets. The Group's share of the post-acquisition results of the investees for the year is recognised in the consolidated profit and loss account, whereas the Group's share of the post-acquisition items of the investees' other comprehensive income is recognised in the consolidated statement of comprehensive income.

When the Group's share of losses equals or exceeds its interest in the associate, 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.

Unrealised profits and losses resulting from transactions between the Group and its associates 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.

When the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in the profit and loss account. Any interest retained in that former investee at the date when significant influence is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset.

In the Company's balance sheet, investments in associates are stated at cost less impairment losses (note 2G(ii)).

2 Principal Accounting Policies *(continued)*

E 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 properties that are being constructed or developed for future use as investment properties.

Investment properties are stated on the balance sheet at fair value as measured semi-annually by independent professionally qualified valuers. Gains or losses arising from changes in the fair value are recognised in the consolidated profit and loss account in the period in which they arise.

(ii) 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 2G(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 2G(ii)).

(iv) Assets under construction are stated at cost less impairment losses (note 2G(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.

(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 2H(iv) and 2G(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 2E(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 2G(ii)). Revenue arising from operating leases is recognised in accordance with the Group's revenue recognition policies as set out in note 2Y(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 revenue are charged to the profit and loss account in the period when incurred.

2 Principal Accounting Policies *(continued)*

E Fixed Assets *(continued)*

Where the Group enters into service concession arrangements under which the Group constructs, uses and operates certain assets for the provision of public services, construction revenue and costs are recognised in the profit and loss account by reference to the stage of completion at the 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 2G(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.

F 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 2G(ii)). Property management rights are amortised to the profit and loss account on a straight-line basis over the terms of the management rights.

G 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; and
- investments in subsidiaries and associates.

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 of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of 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.

2 Principal Accounting Policies *(continued)*

H Depreciation and Amortisation

(i) Investment properties are not depreciated.

(ii) Fixed assets other than investment properties, assets under construction and service concession assets which are amortised over the entire or remaining period of the service concession (note 2E(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

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.

2 Principal Accounting Policies *(continued)*

I 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.

J Property Development

(i) Costs incurred by the Group in respect of site preparation, land costs, acquisition of development rights, aggregate cost of development, borrowing costs capitalised and other direct expenses are dealt with as property development in progress.

(ii) Payments received from developers in respect of property developments are offset against the amounts in property development in progress attributable to that development. 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.

(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 2J(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 as their costs and subsequently carried at the lower of cost and 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.

K Joint Operations

The arrangements entered into by the Group with developers for property developments without establishing separate entities are considered to be joint operations pursuant to HKFRS 11, *Joint Arrangements*. Under the development arrangements, the Group is normally responsible for its own costs, including in-house staff costs and the costs of enabling works, and the developers normally undertake to pay for all other project costs such as land premium (or such remaining portion as not already paid by the Group), construction costs, professional fees, etc. 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 2J(iii) after netting off any related balance in property development in progress at that time.

2 Principal Accounting Policies *(continued)*

L Investments in Securities

The Group's policies for investments in securities (other than investments in its subsidiaries and associates) 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 are recognised/derecognised on the date the Group commits to purchase/sell the investments.

(iii) Interest income in relation to investment in securities is recognised as it accrues using the effective interest method.

(iv) 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.

M 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 2G(ii)). Depreciation is charged at the rates applicable to the relevant fixed assets against which the capital spares are held in reserve.

N Long-term Contracts

The accounting policy for contract revenue is set out in note 2Y(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".

O 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.

P 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 2G(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.

Q Interest-bearing Borrowings

Interest-bearing borrowings are recognised initially at fair value net of transaction costs incurred. The interest-bearing borrowings not subject to fair value hedges are subsequently stated at amortised costs. 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 interest-bearing borrowings subject to fair value hedges is remeasured and the change in fair value attributable to the risk being hedged is recognised in the profit and loss account to offset the effect of the gain or loss on the related hedging instrument.

R 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.

2 Principal Accounting Policies *(continued)*

S 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.

(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.

T Employee Benefits

(i) Salaries, annual leave, other allowances, 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 calculation is performed by a qualified actuary using the Projected Unit Credit Method. When the calculation results in a benefit to the Group, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. Service cost and net interest expense/ income on the net defined benefit liability/asset are recognised either as an expense in the profit and loss account, or capitalised as part of the cost of the relevant construction projects, capital works or property developments, as the case may be. Current service cost is measured as the increase in the present value of the defined benefit obligation resulting from employee service in the current period. When the benefits of a plan are changed, or when a plan is curtailed, the portion of the changed benefit related to past service by employees, or the gain or loss on curtailment, is recognised as an expense in the profit and loss account or capitalised at the earlier of when the plan amendment or curtailment occurs and when related restructuring costs or termination benefits are recognised. Net interest expense/income for the period is determined by applying the discount rate used to measure the defined benefit obligation at the beginning of the reporting period to the net defined benefit liability/asset. The discount rate is the yield at the end of the reporting period on high quality corporate bonds that have maturity dates approximating the terms of the Group's obligations.

Remeasurements arising from defined benefit retirement plans are recognised in other comprehensive income and reflected immediately in retained earnings. Remeasurements comprise actuarial gains and losses, the return on plan assets (excluding amounts included in net interest on the net defined benefit liability/asset) and any change in the effect of the asset ceiling (excluding amounts included in net interest on the net defined benefit liability/asset).

2 Principal Accounting Policies *(continued)*

T Employee Benefits *(continued)*

(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 is lapsed/forfeited (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 at the earlier of when the Group can no longer withdraw the offer of those benefits and when it recognises restructuring costs involving the payment of termination benefits.

U 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 2T(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 2T(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.

V 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 2E(i), the amount of deferred tax recognised is measured using the tax rates that would apply on sale of those assets at their carrying value at the 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.

2 Principal Accounting Policies *(continued)*

V Income Tax *(continued)*

(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.

W Financial Guarantee Contracts

Financial guarantees are contracts that require the issuer to make specified payments to reimburse the holder of the guarantee for a loss it incurs because a specified debtor fails to make payment to the holder when due in accordance with the original or modified terms of a debt instrument.

When the Group issues a financial guarantee, where the effect is material, the fair value of the guarantee, after netting off any consideration received or receivable at inception, is initially debited to the profit and loss account and recognised as deferred income within creditors and accrued charges. The fair value of financial guarantees issued at the time of issuance is determined by reference to fees charged in an arm's length transaction for similar services, when such information is obtainable, or is otherwise estimated by reference to interest rate differentials, by comparing the actual rates charged by lenders when the guarantee is made available with the estimated rates that lenders would have charged, had the guarantees not been available, where reliable estimates of such information can be made.

The amount of the guarantee initially recognised as deferred income is amortised in the profit and loss account over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 2X 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.

X 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.

Y 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.

Z 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.

2 Principal Accounting Policies *(continued)*

AA 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.

BB 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.

CC 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.

DD 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 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.

EE 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 53C);
- 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 variable annual payments 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;

3 Rail Merger with Kowloon-Canton Railway Corporation *(continued)*

- 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	2013	2012
Fare Revenue:		
– Domestic Service	**10,511**	10,035
– Cross-boundary Service	**2,923**	2,847
– Airport Express	**843**	795
– Light Rail and Bus	**600**	578
– Intercity Service	**144**	134
	15,021	14,389
Other rail-related income	**145**	134
	15,166	14,523

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	2013	2012
Duty free shops and kiosks rental	**2,933**	2,142
Advertising	**1,053**	1,000
Telecommunication income	**447**	396
Other station commercial income	**155**	142
	4,588	3,680

6 Revenue from Hong Kong Property Rental and Management Businesses

Revenue from Hong Kong property rental and management businesses comprises:

in HK$ million	2013	2012
Property rental income from:		
– Elements	**855**	726
– Telford Plaza	**766**	724
– Maritime Square	**477**	427
– Luk Yeung Galleria	**181**	171
– Citylink Plaza	**148**	139
– PopCorn	**142**	106
– Paradise Mall	**136**	129
– International Finance Centre	**442**	418
– Other properties	**400**	358
	3,547	3,198
Property management income	**231**	203
	3,778	3,401

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	Property activities in Mainland of China	Total Mainland of China and international subsidiaries
2013						
Revenue	**3,325**	**9,269**	**506**	**13,100**	**146**	**13,246**
Expenses	**3,187**	**8,717**	**428**	**12,332**	**123**	**12,455**
2012						
Revenue	3,106	9,129	415	12,650	136	12,786
Expenses	3,050	8,662	354	12,066	118	12,184

8 Revenue from Other Businesses

Revenue from other businesses comprises incomes from:

in HK$ million	2013	2012
Ngong Ping 360	**316**	249
Consultancy business	**128**	102
Project management for HKSAR Government	**1,461**	968
Miscellaneous businesses	**24**	30
	1,929	1,349

9 Operating Expenses

A Total staff costs include:

in HK$ million	2013	2012 (Restated)
Amount charged to profit and loss account under:		
– staff costs and related expenses for Hong Kong transport operations	**4,198**	4,067
– maintenance and related works for Hong Kong transport operations	**86**	76
– other expense line items for Hong Kong transport operations	**63**	54
– expenses relating to Hong Kong station commercial business	**70**	59
– expenses relating to Hong Kong property rental and management businesses	**93**	80
– expenses relating to Mainland of China and international subsidiaries	**5,273**	5,200
– expenses relating to other businesses	**1,518**	1,048
– project study and business development expenses	**200**	155
– profit on Hong Kong property developments	**6**	9
Amount capitalised under:		
– railway construction in progress before offset by government grant	**447**	534
– property development in progress	**136**	91
– assets under construction and other projects	**383**	263
– service concession assets	**229**	183
Amounts recoverable	**473**	483
Total staff costs	**13,175**	12,302

Amounts recoverable relate to property management, entrustment works and other agreements.

9 Operating Expenses *(continued)*

The following expenditures are included in total staff costs:

in HK$ million	2013	2012 (Restated)
Share-based payments	**52**	59
Contributions to defined contribution retirement plans and Mandatory Provident Fund	**560**	486
Amounts recognised in respect of defined benefit retirement plans	**388**	384
	1,000	929

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	2013	2012
Business development expenses	**452**	309
Miscellaneous project study expenses	**34**	14
	486	323

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	2013	2012
Audit services	**12**	12
Tax services	**1**	1
Other audit related services	**5**	4
Non-audit services	**7**	–
	25	17

E The following charges/(credits) are included in operating expenses:

in HK$ million	2013	2012
Loss on disposal of fixed assets	**37**	29
Derivative financial instruments – transferred from hedging reserve (note 19B)	**(2)**	3
Unrealised loss/(gain) on revaluation of investments in securities	**2**	(6)

F Operating lease expenses charged to the consolidated profit and loss account comprise:

in HK$ million	2013	2012
Shopping centre, office building, staff quarters and bus depot	**87**	84
Rolling stock, stations, office buildings, depots, depot equipment and other minor assets for subsidiaries	**1,050**	1,002
Amount capitalised	**(3)**	(2)
	1,134	1,084

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
2013					
Members of the Board					
– Raymond Ch'ien Kuo-fung	**1.2**	**–**	**–**	**–**	**1.2**
– Pamela Chan Wong Shui (appointed on 4 July 2013)	**0.1**	**–**	**–**	**–**	**0.1**
– Dorothy Chan Yuen Tak-fai (appointed on 4 July 2013)	**0.1**	**–**	**–**	**–**	**0.1**
– 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**
– Frederick Ma Si-hang (appointed on 4 July 2013)	**0.1**	**–**	**–**	**–**	**0.1**
– 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	**0.3**	**–**	**–**	**–**	**0.3**
– Ingrid Yeung Ho Poi-yan	**0.3**	**–**	**–**	**–**	**0.3**
Members of the Executive Directorate					
– Jay H Walder	**–**	**8.0**	**–***	**5.0**	**13.0**
– Lincoln Leong Kwok-kuen	**–**	**6.3**	**1.0**	**2.4**	**9.7**
– Morris Cheung Siu-wa	**–**	**4.1**	**0.2**	**1.4**	**5.7**
– Chew Tai-chong	**–**	**7.1**	**0.8**	**2.0**	**9.9**
– Jacob Kam Chak-pui	**–**	**4.5**	**0.7**	**1.9**	**7.1**
– Stephen Law Cheuk-kin (appointed on 2 July 2013)**	**–**	**2.3**	**0.3**	**0.6**	**3.2**
– Gillian Elizabeth Meller	**–**	**3.5**	**0.5**	**1.3**	**5.3**
– David Tang Chi-fai	**–**	**3.7**	**0.6**	**1.4**	**5.7**
– Jeny Yeung Mei-chun	**–**	**3.7**	**0.5**	**1.5**	**5.7**
	4.7	**43.2**	**4.6**	**17.5**	**70.0**

* The total contributions paid by the Company attributable to the financial year ended 31 December 2013 for Jay H Walder, who participated in the MTR MPF Scheme, was HK$15,000.

** Stephen C K Law was appointed as a Member of the Executive Directorate on 2 July 2013. The amount of his emoluments shown in the above table covers the period from the date of his appointment to 31 December 2013.

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
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 a 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 a Non-executive Director of the Company during that period. The fees paid to her during her appointment were HK$40,323.

William F K Chan received a lump sum benefit payment of HK$28.8 million from the MTR Retirement Scheme upon his retirement in July 2012. He received a pro-rated discretionary award of HK$35,690 in July 2013 in respect of his service and performance from 1 July 2012 to 16 July 2012.

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 Share 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, 23 March 2012, 26 April 2013 and 25 October 2013. 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 497,000 shares on 6 May 2013, of which 130,500 options were vested in 2013 (2012: nil), and the respective fair value of the share-based payments recognised for the year ended 31 December 2013 was HK$0.9 million (2012: 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, 201,000 shares on 30 March 2012 and 256,000 shares on 6 May 2013, of which 123,000 options were vested in 2013 (2012:113,000), and the respective fair value of the share-based payments recognised for the year ended 31 December 2013 was HK$0.6 million (2012: HK$0.7 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, 122,000 shares on 30 March 2012 and 180,500 shares on 6 May 2013, of which 73,000 options were vested in 2013 (2012: 55,000), and the respective fair value of the share-based payments recognised for the year ended 31 December 2013 was HK$0.4 million (2012: HK$0.3 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, 184,500 shares on 30 March 2012 and 225,500 shares on 6 May 2013, of which 117,500 options were vested in 2013 (2012: 141,000), and the respective fair value of the share-based payments recognised for the year ended 31 December 2013 was HK$0.5 million (2012: HK$0.6 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, 172,000 shares on 30 March 2012 and 202,500 shares on 6 May 2013, of which 129,500 options were vested in 2013 (2012: 95,000), and the respective fair value of the share-based payments recognised for the year ended 31 December 2013 was HK$0.5 million (2012: HK$0.6 million);
- Stephen C K Law was granted options in respect of 196,000 shares on 1 November 2013 and the fair value of the share-based payments recognised for the year ended 31 December 2013 was HK$0.1 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, 158,500 shares on 30 March 2012 and 184,000 shares on 6 May 2013, of which 83,000 options were vested in 2013 (2012: 51,000), and the respective fair value of the share-based payments recognised for the year ended 31 December 2013 was HK$0.4 million (2012: HK$0.4 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, 163,500 shares on 30 March 2012 and 182,500 shares on 6 May 2013, of which 75,500 options were vested in 2013 (2012: 43,000), and the respective fair value of the share-based payments recognised for the year ended 31 December 2013 was HK$0.4 million (2012: HK$0.4 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, 161,000 shares on 30 March 2012 and 187,000 shares on 6 May 2013, of which 75,000 options were vested in 2013 (2012: 43,000), and the respective fair value of the share-based payments recognised for the year ended 31 December 2013 was HK$0.4 million (2012: HK$0.4 million); and
- 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, and the respective fair value of the share-based payments recognised for the year ended 31 December 2012 was HK$0.6 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 49.

For the year ended 31 December 2013, the five individuals whose emoluments were the highest for the year were four directors of the Company (2012: four). The remuneration in respect of the other one individual (2012: one) consisted of base pay, allowance and benefits in kind of HK$5.4 million (2012: HK$5.6 million), retirement scheme contribution of HK$0.1 million (2012: HK$0.1 million) and discretionary bonus of HK$2.4 million (2012: HK$2.0 million).

(ii) On appointment as the Chief Executive Officer of the Company, 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 his 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 was deemed to have been earned at 31 October 2013 subject to certain conditions specified in his employment contract). On 30 August 2013, he was re-appointed as the Chief Executive Officer until 31 August 2015. He was granted a derivative interest in respect of 230,000 shares in the Company within the meaning of Part XV of the Securities and Futures Ordinance. The derivative interest represents his entitlement to be paid an equivalent value in cash of 230,000 shares in the Company upon completion of his extended term of office on 31 August 2015.

(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$74.2 million (2012: HK$67.3 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) The Company has a service contract with each of the non-executive Directors (including Dr. Raymond Ch'ien Kuo-fung and Professor Ceajer Chan Ka-keung but excluding two additional directors appointed pursuant to Section 8 of the Mass Transit Railway Ordinance (Chapter 556 of the Laws of Hong Kong)) specifying the terms of his/her continuous appointments as a non-executive Director and a Member of the relevant Board Committees, for a period not exceeding three years. He/she is also subject to retirement by rotation and re-election at the Company's annual general meetings in accordance with 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.

B Share Options

Options exercised and outstanding in respect of each Member of the Executive Directorate as at 31 December 2013 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 49A(i), David C F Tang, Member of the Executive Directorate, was granted options to acquire 213,000 shares in May 2006.

(ii) 2007 Share Option Scheme

Under the 2007 Share Option Scheme (the "2007 Option Scheme") as described in note 49A(ii), all Members of the Executive Directorate were granted options to acquire shares in each year from 2007 to 2010 and from 2012 to 2013 (note 10A(i)).

Under the vesting terms of the options, options granted will be evenly vested in respect of their underlying shares over a period of three years from the date of offer to grant such options (note 10A(i)).

11 Profit on Hong Kong Property Developments

Profit on Hong Kong property developments comprises:

in HK$ million	2013	2012
Share of surplus from property developments	**1,418**	3,186
Income from receipt of properties for investment purpose	**44**	–
Agency fee on West Rail property developments (note 26D)	**–**	49
Other overhead costs net of miscellaneous income	**(66)**	3
	1,396	3,238

12 Depreciation and Amortisation

Depreciation and amortisation comprise:

in HK$ million	2013	2012
Depreciation charge on assets relating to:		
– Hong Kong transport operations	**2,550**	2,458
– Hong Kong station commercial business	**113**	118
– Hong Kong property rental and management businesses	**10**	8
– Mainland of China and international subsidiaries	**72**	67
– Other businesses	**62**	60
	2,807	2,711
Amortisation charge on service concession assets relating to:		
– Rail Merger with KCRC	**550**	482
– Mainland of China and international subsidiaries	**333**	316
	883	798
– Utilisation of government subsidy for Shenzhen Metro Longhua Line operation	**(318)**	(301)
	565	497
	3,372	3,208

13 Interest and Finance Charges

in HK$ million	2013		2012	
Interest expenses in respect of:				
– Bank loans, overdrafts and capital market instruments wholly repayable within 5 years	**313**		367	
– Bank loans and capital market instruments not wholly repayable within 5 years	**361**		330	
– Obligations under service concession	**719**		721	
– Other obligations (note 21E)	**17**		16	
Finance charges	**38**		61	
Exchange loss	**1**		26	
		1,449		1,521
Utilisation of government subsidy for Shenzhen Metro Longhua Line operation		**(254)**		(254)
Derivative financial instruments:				
– Fair value hedges	**(28)**		(7)	
– Cash flow hedges:				
– transferred from hedging reserve	**143**		64	
– ineffective portion	**(1)**		–	
		114		57
Interest expenses capitalised		**(368)**		(164)
		941		1,160
Interest income in respect of:				
– Deposits with banks and other financial institutions	**(220)**		(322)	
– Investment in bank medium term notes	**–**		(20)	
		(220)		(342)
Interest income capitalised		**11**		61
		732		879

During the year ended 31 December 2013, interest expenses capitalised were calculated on a monthly basis at the pre-determined cost of borrowings and/or the relevant group companies' borrowing cost which varied from 0.9% to 6.5% per annum (2012: 0.9% to 2.5% per annum), while interest income capitalised was calculated on a monthly basis at the average return from deposits which varied from 0.9% to 1.3% per annum (2012: 1.4% to 1.8% per annum).

During the year ended 31 December 2013, interest and finance charges net of interest expenses capitalised in relation to the Shenzhen Metro Longhua Line were HK$254 million (2012: HK$254 million), which was fully offset by the subsidy received from the Shenzhen Municipal Government.

During the year ended 31 December 2013, the gain resulting from fair value changes of the underlying financial assets and liabilities being hedged was HK$265 million (2012: HK$114 million) while the loss resulting from fair value changes of hedging instruments comprising interest rate and cross currency swaps was HK$237 million (2012: HK$107 million), thus resulting in a net gain of HK$28 million (2012: HK$7 million).

14 Income Tax

A Income tax in the consolidated profit and loss account represents:

in HK$ million	2013	2012 (Restated)
Current tax		
– Provision for Hong Kong Profits Tax at 16.5% (2012: 16.5%) for the year	**1,118**	1,469
– Mainland of China and overseas tax for the year	**181**	135
	1,299	1,604
Deferred tax		
– Origination and reversal of temporary differences on:		
– tax losses	**(5)**	4
– depreciation allowances in excess of related depreciation	**506**	350
– provision and others	**19**	(96)
	520	258
	1,819	1,862

The provision for Hong Kong Profits Tax for the year ended 31 December 2013 is calculated at 16.5% (2012: 16.5%) on the estimated assessable profits for the year after deducting accumulated tax losses brought forward, if any. Current taxes for the Mainland of China and overseas subsidiaries are charged at the appropriate current rates of taxation ruling in the relevant countries.

Provision for deferred tax on temporary differences arising in Hong Kong is calculated at the Hong Kong Profits Tax rate at 16.5% (2012: 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.

B Reconciliation between tax expense and accounting profit at applicable tax rates:

	2013		2012 (Restated)	
	HK$ million	%	HK$ million	%
Profit before taxation	**15,027**		15,376	
Notional tax on profit before taxation, calculated at the rates applicable to profits in the tax jurisdictions concerned	**2,506**	**16.7**	2,613	17.0
Tax effect of non-deductible expenses	**232**	**1.5**	131	0.9
Tax effect of non-taxable revenue	**(927)**	**(6.2)**	(874)	(5.7)
Tax effect of unused tax losses not recognised	**8**	**0.1**	(8)	(0.1)
Actual tax expenses	**1,819**	**12.1**	1,862	12.1

15 Profit Attributable to Equity Shareholders

The consolidated profit attributable to equity shareholders includes a profit of HK$12,702 million (2012: HK$13,052 million as restated), which has been dealt with in the accounts of the Company. Details of dividends paid and payable to equity shareholders of the Company are set out in note 16.

16 Dividends

During the year, dividends paid and proposed to equity shareholders of the Company comprise:

in HK$ million	2013	2012
Dividends payable attributable to the year		
– Interim dividend declared after the balance sheet date of HK$0.25 (2012: HK$0.25) per share	**1,450**	1,447
– Final dividend proposed after the balance sheet date of HK$0.67 (2012: HK$0.54) per share	**3,885**	3,128
	5,335	4,575
Dividends paid attributable to the previous year		
– Final dividend of HK$0.54 (2011: HK$0.51) per share approved and paid during the year	**3,130**	2,951

Subject to the shareholders' approval for the Scrip Dividend Scheme having been obtained at the forthcoming Annual General Meeting, the Company proposes that a scrip dividend option will be offered to all shareholders except for shareholders with registered addresses in the United States of America or any of its territories or possessions.

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 53N.

17 Earnings Per Share

A Basic Earnings Per Share

The calculation of basic earnings per share is based on the profit for the year attributable to equity shareholders of HK$13,025 million (2012: HK$13,375 million as restated) and the weighted average number of ordinary shares in issue during the year of 5,796,829,998 (2012: 5,787,351,555), calculated as follows:

	2013	2012
Issued ordinary shares at 1 January	**5,793,196,650**	5,784,871,250
Effect of share options exercised	**3,633,348**	2,480,305
Weighted average number of ordinary shares at 31 December	**5,796,829,998**	5,787,351,555

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$13,025 million (2012: HK$13,375 million as restated) and the weighted average number of ordinary shares in issue during the year of 5,802,790,866 (2012: 5,790,914,436) after adjusting for the number of dilutive potential ordinary shares under the employee share option schemes, calculated as follows:

	2013	2012
Weighted average number of ordinary shares at 31 December	**5,796,829,998**	5,787,351,555
Effect of dilutive potential shares under the Company's share option schemes	**5,960,868**	3,562,881
Weighted average number of ordinary shares (diluted) at 31 December	**5,802,790,866**	5,790,914,436

C Both basic and diluted earnings per share would have been HK$1.48 (2012: HK$1.66 as restated) if the calculation is based on profit attributable to equity shareholders arising from underlying businesses of HK$8,600 million (2012: HK$9,618 million as restated).

18 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) Mainland of China and international affiliates: 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.

(vi) 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.

18 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	Mainland of China and international affiliates	Other businesses	Un-allocated amount	Total
2013								
Revenue	**15,166**	**4,588**	**3,778**	**–**	**13,246**	**1,929**	**–**	**38,707**
Operating expenses	**(8,449)**	**(464)**	**(673)**	**–**	**(12,455)**	**(1,781)**	**–**	**(23,822)**
Project study and business development expenses	**–**	**–**	**–**	**–**	**–**	**–**	**(486)**	**(486)**
Operating profit before Hong Kong property developments, depreciation, amortisation and variable annual payment	**6,717**	**4,124**	**3,105**	**–**	**791**	**148**	**(486)**	**14,399**
Profit on Hong Kong property developments	**–**	**–**	**–**	**1,396**	**–**	**–**	**–**	**1,396**
Operating profit before depreciation, amortisation and variable annual payment	**6,717**	**4,124**	**3,105**	**1,396**	**791**	**148**	**(486)**	**15,795**
Depreciation and amortisation	**(3,078)**	**(135)**	**(10)**	**–**	**(87)**	**(62)**	**–**	**(3,372)**
Variable annual payment	**(923)**	**(321)**	**(3)**	**–**	**–**	**–**	**–**	**(1,247)**
Operating profit before interest and finance charges	**2,716**	**3,668**	**3,092**	**1,396**	**704**	**86**	**(486)**	**11,176**
Interest and finance charges	**–**	**–**	**–**	**–**	**10**	**–**	**(742)**	**(732)**
Investment property revaluation	**–**	**–**	**4,425**	**–**	**–**	**–**	**–**	**4,425**
Share of profit or loss of associates	**–**	**–**	**–**	**–**	**(67)**	**225**	**–**	**158**
Income tax	**–**	**–**	**–**	**(233)**	**(160)**	**–**	**(1,426)**	**(1,819)**
Profit for the year ended 31 December 2013	**2,716**	**3,668**	**7,517**	**1,163**	**487**	**311**	**(2,654)**	**13,208**
Assets								
Fixed assets	**91,017**	**1,450**	**61,336**	**1**	**8,521**	**831**	**–**	**163,156**
Other operational assets *	**1,489**	**281**	**732**	**1,392**	**2,977**	**641**	**15,456**	**22,968**
Property management rights	**–**	**–**	**31**	**–**	**–**	**–**	**–**	**31**
Railway construction in progress	**11,548**	**–**	**–**	**–**	**–**	**–**	**–**	**11,548**
Property development in progress	**–**	**–**	**–**	**8,335**	**2,898**	**–**	**–**	**11,233**
Deferred expenditure	**–**	**–**	**1**	**–**	**–**	**3**	**–**	**4**
Deferred tax assets	**–**	**3**	**–**	**–**	**25**	**1**	**–**	**29**
Investments in securities	**–**	**–**	**–**	**–**	**–**	**472**	**–**	**472**
Properties held for sale	**–**	**–**	**–**	**1,105**	**–**	**–**	**–**	**1,105**
Interests in associates	**–**	**–**	**–**	**–**	**4,790**	**487**	**–**	**5,277**
Total assets	**104,054**	**1,734**	**62,100**	**10,833**	**19,211**	**2,435**	**15,456**	**215,823**
Liabilities								
Segment liabilities	**6,596**	**1,719**	**2,857**	**843**	**6,803**	**1,954**	**31,068**	**51,840**
Obligations under service concession	**10,480**	**–**	**–**	**–**	**178**	**–**	**–**	**10,658**
Deferred income	**–**	**96**	**–**	**50**	**477**	**–**	**–**	**623**
Total liabilities	**17,076**	**1,815**	**2,857**	**893**	**7,458**	**1,954**	**31,068**	**63,121**
Other Information								
Capital expenditure on:								
Fixed assets	**3,970**	**92**	**1,538**	**1**	**400**	**32**	**–**	**6,033**
Railway construction in progress	**5,542**	**–**	**–**	**–**	**–**	**–**	**–**	**5,542**
Property development in progress	**–**	**–**	**–**	**493**	**320**	**–**	**–**	**813**
Non-cash expenses other than depreciation and amortisation	**24**	**4**	**–**	**–**	**6**	**3**	**–**	**37**

* Other operational assets include debtors, stores and spares, cash and cash equivalents and other assets employed in the operations of individual business segments.

18 Segmental Information *(continued)*

in HK$ million	Hong Kong transport operations	Hong Kong station commercial business	Hong Kong property rental and management businesses	Hong Kong property developments	Mainland of China and international affiliates	Other businesses	Un-allocated amount	Total
2012 (Restated)								
Revenue	14,523	3,680	3,401	–	12,786	1,349	–	35,739
Operating expenses	(8,017)	(397)	(627)	–	(12,184)	(1,296)	–	(22,521)
Project study and business development expenses	–	–	–	–	–	–	(323)	(323)
Operating profit before Hong Kong property developments, depreciation, amortisation and variable annual payment	6,506	3,283	2,774	–	602	53	(323)	12,895
Profit on Hong Kong property developments	–	–	–	3,238	–	–	–	3,238
Operating profit before depreciation, amortisation and variable annual payment	6,506	3,283	2,774	3,238	602	53	(323)	16,133
Depreciation and amortisation	(2,919)	(139)	(8)	–	(82)	(60)	–	(3,208)
Variable annual payment	(706)	(175)	(2)	–	–	–	–	(883)
Operating profit before interest and finance charges	2,881	2,969	2,764	3,238	520	(7)	(323)	12,042
Interest and finance charges	–	–	–	–	(6)	–	(873)	(879)
Investment property revaluation	–	–	3,757	–	–	–	–	3,757
Share of profit or loss of associates	–	–	–	–	245	211	–	456
Income tax	–	–	–	(534)	(129)	–	(1,199)	(1,862)
Profit for the year ended 31 December 2012	2,881	2,969	6,521	2,704	630	204	(2,395)	13,514
Assets								
Fixed assets	89,908	1,423	55,363	1	8,336	863	–	155,894
Other operational assets *	1,492	272	574	1,900	3,338	695	16,900	25,171
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	–	–	9	2	–	21
Investments in securities	–	–	–	–	–	393	–	393
Properties held for sale	–	–	–	3,016	–	–	–	3,016
Interests in associates	–	–	–	–	3,825	433	–	4,258
Total assets	98,858	1,705	55,983	12,840	18,015	2,386	16,900	206,687
Liabilities								
Segment liabilities	8,936	1,903	1,545	700	8,938	1,119	29,257	52,398
Obligations under service concession	10,520	–	–	–	170	–	–	10,690
Deferred income	–	49	–	60	379	–	–	488
Total liabilities	19,456	1,952	1,545	760	9,487	1,119	29,257	63,576
Other Information								
Capital expenditure on:								
Fixed assets	2,429	104	124	–	473	20	–	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.

18 Segmental Information *(continued)*

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

For the year ended 31 December 2013, revenue from one customer of the Mainland of China and international affiliates segment has exceeded 10% of the Group's revenue (2012: one). Approximately 18.71% (2012: 22.33%) of the Group's total turnover was attributable to this customer.

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

	Revenue from external customers		Specified non-current assets	
in HK$ million	**2013**	2012	**2013**	2012
Hong Kong (place of domicile)	**25,413**	22,906	**175,037**	163,421
Australia	**9,269**	9,129	**183**	250
Mainland of China	**658**	555	**15,871**	14,244
Sweden	**3,325**	3,106	**156**	163
Other countries	**42**	43	**2**	8
	13,294	12,833	**16,212**	14,665
	38,707	35,739	**191,249**	178,086

19 Other Comprehensive Income

A Tax effects relating to each component of other comprehensive income of the Group are shown below:

	2013			2012 (Restated)		
in HK$ million	Before-tax amount	Tax (expense)/ benefit	Net-of-tax amount	Before-tax amount	Tax expense	Net-of-tax amount
Exchange differences on translation of:						
– Financial statements of overseas subsidiaries and associates	**109**	**–**	**109**	72	–	72
– Non-controlling interests	**(35)**	**–**	**(35)**	3	–	3
	74	**–**	**74**	75	–	75
Surplus on revaluation of self-occupied land and buildings	**356**	**(58)**	**298**	406	(67)	339
Remeasurement of net liability of defined benefit plans	**822**	**(136)**	**686**	1,610	(266)	1,344
Cash flow hedges: net movement in hedging reserve (note 19B)	**(73)**	**12**	**(61)**	28	(5)	23
Other comprehensive income	**1,179**	**(182)**	**997**	2,119	(338)	1,781

19 Other Comprehensive Income *(continued)*

B The components of other comprehensive income of the Group relating to cash flow hedges are as follows:

in HK$ million	**2013**	2012 (Restated)
Cash flow hedges:		
Effective portion of changes in fair value of hedging instruments recognised during the year	**(214)**	(36)
Amounts transferred to initial carrying amount of hedged items	**–**	(3)
Amounts transferred to profit or loss:		
– Interest and finance charges (note 13)	**143**	64
– Other expenses (note 9E)	**(2)**	3
Tax effect resulting from:		
– Changes in fair value of hedging instruments recognised during the year	**35**	6
– Amounts transferred to profit or loss	**(23)**	(11)
	(61)	23

20 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	**2013**	2012	**2013**	2012
Cost or valuation				
At 1 January	**55,314**	51,453	**54,087**	50,287
Additions	**1,531**	104	**1,524**	100
Change in fair value	**4,425**	3,757	**4,314**	3,700
Transfer from deferred expenditure (note 27)	**15**	–	**15**	–
At 31 December	**61,285**	55,314	**59,940**	54,087
Long leases	**94**	90	**94**	90
Medium-term leases	**61,191**	55,224	**59,846**	53,997
	61,285	55,314	**59,940**	54,087

All investment properties of the Group were revalued at 31 December 2013 and 2012. Details of the fair value measurement are disclosed in note 48. The net increase in fair value of HK$4,425 million (2012: HK$3,757 million) arising from the revaluation has been credited to the consolidated profit and loss account. Additions during the year ended 31 December 2013 include investment properties under development of HK$1,285 million (2012: nil).

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 21D.

21 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
2013						
Cost or Valuation						
At 1 January 2013	**732**	**3,216**	**46,681**	**65,197**	**1,367**	**117,193**
Additions	**–**	**–**	**2**	**139**	**2,681**	**2,822**
Disposals	**–**	**–**	**(1)**	**(674)**	**(23)**	**(698)**
Surplus on revaluation	**–**	**258**	**–**	**–**	**–**	**258**
Reclassification within other property, plant and equipment	**–**	**–**	**1**	**(1)**	**–**	**–**
Transfer to additional concession property (note 22)	**–**	**–**	**–**	**(6)**	**(90)**	**(96)**
Other assets commissioned	**–**	**–**	**44**	**2,720**	**(2,764)**	**–**
Exchange differences	**–**	**–**	**–**	**(46)**	**–**	**(46)**
At 31 December 2013	**732**	**3,474**	**46,727**	**67,329**	**1,171**	**119,433**
At Cost	**732**	**–**	**46,727**	**67,329**	**1,171**	**115,959**
At 31 December 2013 Valuation	**–**	**3,474**	**–**	**–**	**–**	**3,474**
Aggregate depreciation						
At 1 January 2013	**218**	**–**	**6,211**	**34,676**	**–**	**41,105**
Charge for the year	**13**	**98**	**401**	**2,295**	**–**	**2,807**
Written back on disposals	**–**	**–**	**(1)**	**(640)**	**–**	**(641)**
Written back on revaluation	**–**	**(98)**	**–**	**–**	**–**	**(98)**
Exchange differences	**–**	**–**	**–**	**(17)**	**–**	**(17)**
At 31 December 2013	**231**	**–**	**6,611**	**36,314**	**–**	**43,156**
Net book value at 31 December 2013	**501**	**3,474**	**40,116**	**31,015**	**1,171**	**76,277**
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	–	–	(2)	(321)	(15)	(338)
Surplus on revaluation	–	322	–	–	–	322
Reclassification within other property, plant and equipment	–	–	1	(1)	–	–
Transfer to additional concession property (note 22)	–	–	–	–	(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 disposals	–	–	(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

21 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
2013						
Cost or Valuation						
At 1 January 2013	**732**	**3,216**	**46,681**	**63,846**	**1,329**	**115,804**
Additions	**–**	**–**	**2**	**116**	**2,592**	**2,710**
Disposals	**–**	**–**	**(1)**	**(593)**	**(22)**	**(616)**
Surplus on revaluation	**–**	**258**	**–**	**–**	**–**	**258**
Reclassification within other property, plant and equipment	**–**	**–**	**1**	**(1)**	**–**	**–**
Transfer to additional concession property (note 22)	**–**	**–**	**–**	**(6)**	**(90)**	**(96)**
Other assets commissioned	**–**	**–**	**44**	**2,647**	**(2,691)**	**–**
At 31 December 2013	**732**	**3,474**	**46,727**	**66,009**	**1,118**	**118,060**
At Cost	**732**	**–**	**46,727**	**66,009**	**1,118**	**114,586**
At 31 December 2013 Valuation	**–**	**3,474**	**–**	**–**	**–**	**3,474**
Aggregate depreciation						
At 1 January 2013	**218**	**–**	**6,211**	**33,891**	**–**	**40,320**
Charge for the year	**13**	**98**	**401**	**2,184**	**–**	**2,696**
Written back on disposals	**–**	**–**	**(1)**	**(562)**	**–**	**(563)**
Written back on revaluation	**–**	**(98)**	**–**	**–**	**–**	**(98)**
At 31 December 2013	**231**	**–**	**6,611**	**35,513**	**–**	**42,355**
Net book value at 31 December 2013	**501**	**3,474**	**40,116**	**30,496**	**1,118**	**75,705**
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	–	–	(2)	(315)	(15)	(332)
Surplus on revaluation	–	322	–	–	–	322
Reclassification within other property, plant and equipment	–	–	1	(1)	–	–
Transfer to additional concession property (note 22)	–	–	–	–	(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 disposals	–	–	(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

21 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	2013	2012
At net book value		
– long leases	137	140
– medium-term leases	364	374
	501	514

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 53A, 53B and 53C).

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. The details of the fair value measurement are disclosed in note 48. The revaluation surplus of HK$356 million (2012: HK$406 million) and the related deferred tax expenses of HK$58 million (2012: HK$67 million) has been recognised in other comprehensive income and accumulated in the fixed assets revaluation reserve (note 46). The carrying amount of the self-occupied land and buildings at 31 December 2013 would have been HK$824 million (2012: HK$849 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 adjusted periodically to reflect market rentals. Certain leases carry additional rental based on turnover, some of which are with reference to thresholds. Lease incentives granted are amortised in the consolidated profit and loss account as an integral part of the net lease payment receivable.

The gross carrying amounts of investment properties of the Group and the Company held for use in operating leases were HK$60,000 million (2012: HK$55,314 million) and HK$58,655 million (2012: HK$54,087 million) respectively. The costs of station kiosks of the Group and the Company held for use in operating leases were HK$648 million (2012: HK$609 million) and the related accumulated depreciation charges were HK$284 million (2012: HK$252 million).

Total future minimum lease receipts under non-cancellable operating leases are receivable as follows:

	The Group		The Company	
in HK$ million	2013	2012	2013	2012
Within 1 year	5,938	5,502	5,631	5,127
After 1 year but within 5 years	10,934	12,145	10,428	11,188
Later than 5 years	222	75	198	68
	17,094	17,722	16,257	16,383

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.

21 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.

22 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
2013					
Cost					
At 1 January 2013	**15,226**	**3,316**	**8,358**	**93**	**26,993**
Net additions during the year	**–**	**1,304**	**376**	**–**	**1,680**
Disposals	**–**	**(23)**	**–**	**(10)**	**(33)**
Transfer from other property, plant and equipment (note 21)	**–**	**96**	**–**	**–**	**96**
Exchange differences	**–**	**–**	**243**	**2**	**245**
At 31 December 2013	**15,226**	**4,693**	**8,977**	**85**	**28,981**
Accumulated amortisation					
At 1 January 2013	**1,548**	**447**	**467**	**39**	**2,501**
Charge for the year	**304**	**246**	**321**	**12**	**883**
Written-off on disposals	**–**	**(10)**	**–**	**(6)**	**(16)**
Exchange differences	**–**	**–**	**18**	**1**	**19**
At 31 December 2013	**1,852**	**683**	**806**	**46**	**3,387**
Net book value at 31 December 2013	**13,374**	**4,010**	**8,171**	**39**	**25,594**
2012					
Cost					
At 1 January 2012	15,226	2,458	7,855	88	25,627
Net additions during the year	–	861	426	–	1,287
Disposals	–	(7)	(3)	–	(10)
Transfer from other property, plant and equipment (note 21)	–	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 disposals	–	(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

22 Service Concession Assets *(continued)*

The Company

in HK$ million	Initial concession property	Additional concession property	Total
2013			
Cost			
At 1 January 2013	**15,226**	**3,316**	**18,542**
Net additions during the year	**–**	**1,304**	**1,304**
Disposals	**–**	**(23)**	**(23)**
Transfer from other property, plant and equipment (note 21)	**–**	**96**	**96**
At 31 December 2013	**15,226**	**4,693**	**19,919**
Accumulated amortisation			
At 1 January 2013	**1,548**	**447**	**1,995**
Charge for the year	**304**	**246**	**550**
Written-off on disposals	**–**	**(10)**	**(10)**
At 31 December 2013	**1,852**	**683**	**2,535**
Net book value at 31 December 2013	**13,374**	**4,010**	**17,384**
2012			
Cost			
At 1 January 2012	15,226	2,458	17,684
Net additions during the year	–	861	861
Disposals	–	(7)	(7)
Transfer from other property, plant and equipment (note 21)	–	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 disposals	–	(2)	(2)
At 31 December 2012	1,548	447	1,995
Net book value at 31 December 2012	13,678	2,869	16,547

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.

23 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	2013	2012
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

24 Railway Construction in Progress

The Group and The Company

in HK$ million	Balance at 1 January	Expenditure	Balance at 31 December
2013			
West Island Line Project			
Construction costs	**9,521**	**1,206**	**10,727**
Consultancy fees	**512**	**31**	**543**
Staff costs and other expenses	**1,354**	**215**	**1,569**
Interest income	**(196)**	**(11)**	**(207)**
Utilisation of government grant	**(11,191)**	**(1,441)**	**(12,632)**
	–	**–**	**–**
South Island Line (East) Project			
Construction costs	**4,166**	**2,923**	**7,089**
Consultancy fees	**472**	**58**	**530**
Staff costs and other expenses	**669**	**226**	**895**
Finance costs	**103**	**204**	**307**
	5,410	**3,411**	**8,821**
Kwun Tong Line Extension Project			
Construction costs	**1,464**	**544**	**2,008**
Consultancy fees	**188**	**10**	**198**
Staff costs and other expenses	**358**	**52**	**410**
Finance costs	**38**	**73**	**111**
	2,048	**679**	**2,727**
Total	**7,458**	**4,090**	**11,548**
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

24 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$17,040 million. As at 31 December 2013, the Company has incurred net cumulative expenditure of HK$12,632 million (2012: HK$11,191 million), which was wholly offset by the government grant, and has authorised outstanding commitments on contracts totalling HK$1,193 million (2012: HK$2,531 million) (note 54).

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$14,327 million. As at 31 December 2013, the Company has incurred cumulative expenditure of HK$8,821 million (2012: HK$5,410 million) and has authorised outstanding commitments on contracts totalling HK$2,093 million (2012: HK$4,298 million) (note 54).

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$6,172 million. As at 31 December 2013, the Company has incurred cumulative expenditure of HK$2,727 million (2012: HK$2,048 million) and has authorised outstanding commitments on contracts totalling HK$1,153 million (2012: HK$1,877 million) (note 54).

25 Other Railway Construction in Progress under Entrustment by Kowloon-Canton Railway Corporation or the HKSAR Government

A Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link ("XRL") Project

On 24 November 2008, the HKSAR Government and the Company entered into an entrustment agreement for the design of and site investigation and procurement activities in relation to the XRL ("XRL Preliminary Entrustment Agreement"). Pursuant to the XRL 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 ("XRL Entrustment Agreement"). Pursuant to the XRL 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 XRL 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 2013, project management fee of HK$800 million (2012: HK$684 million) was recognised in the consolidated profit and loss account.

B Shatin to Central Link ("SCL") Project

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

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

25 Other Railway Construction in Progress under Entrustment by Kowloon-Canton Railway Corporation or the HKSAR Government *(continued)*

B Shatin to Central Link ("SCL") Project *(continued)*

On 29 May 2012, the Company and the HKSAR Government entered into an entrustment agreement for the construction and commissioning of the SCL ("SCL Entrustment Agreement"). Pursuant to the SCL Entrustment Agreement, the Company is responsible to carry out or procure to the carrying out of the works specified in the SCL Entrustment Agreement (and the SCL Preliminary Entrustment Agreement and SCL 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 SCL 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 2013, project management fee of HK$661 million (2012: HK$284 million) was recognised in the consolidated profit and loss account. Additionally, during the year ended 31 December 2013, the reimbursable costs from the HKSAR Government in relation to the project under the SCL Entrustment Agreement were HK$1,472 million (2012: HK$1,277 million). As at 31 December 2013, the amount to be recovered from the HKSAR Government was HK$414 million (2012: HK$429 million).

26 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 2013, the outstanding property developments of the Company include the Tseung Kwan O Extension Property Projects at the depot sites in Tseung 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	Expenditure	Offset against payments received from developers	Transfer out to profit or loss	Exchange differences	Balance at 31 December
2013						
Airport Railway Property Projects	**–**	**4**	**(4)**	**–**	**–**	**–**
Tseung Kwan O Extension Property Projects	**1,150**	**61**	**(6)**	**(60)**	**–**	**1,145**
East Rail Line/Kowloon Southern Link/ Light Rail Property Projects	**5,906**	**81**	**–**	**(11)**	**–**	**5,976**
South Island Line (East) Property Project	**692**	**247**	**–**	**–**	**–**	**939**
Kwun Tong Line Extension Property Project	**175**	**100**	**–**	**–**	**–**	**275**
Shenzhen Property Project	**2,507**	**320**	**–**	**–**	**71**	**2,898**
	10,430	**813**	**(10)**	**(71)**	**71**	**11,233**
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

26 Property Development in Progress *(continued)*

A Property Development in Progress *(continued)*

The Company

in HK$ million	Balance at 1 January	Expenditure	Offset against payments received from developers/ investments in subsidiaries	Transfer out to profit or loss	Balance at 31 December
2013					
Airport Railway Property Projects	**–**	**4**	**(4)**	**–**	**–**
Tseung Kwan O Extension Property Projects	**1,150**	**61**	**(6)**	**(60)**	**1,145**
East Rail Line/Kowloon Southern Link/ Light Rail Property Projects	**5,906**	**81**	**–**	**(11)**	**5,976**
South Island Line (East) Property Project	**692**	**247**	**–**	**–**	**939**
Kwun Tong Line Extension Property Project	**175**	**100**	**–**	**–**	**275**
Shenzhen Property Project	**5**	**7**	**(12)**	**–**	**–**
	7,928	**500**	**(22)**	**(71)**	**8,335**
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

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 2013, outstanding mandatory payments including interest accrued amounted to HK$60 million (2012: HK$60 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$2,532 million).

B Deferred Income on Property Development

The Group and The Company

in HK$ million	Balance at 1 January	Offset against development in progress (note 26A)	Balance at 31 December
2013			
Airport Railway Property Projects	**31**	**(4)**	**27**
Tseung Kwan O Extension Property Projects	**29**	**(6)**	**23**
Total (note 43)	**60**	**(10)**	**50**
2012			
Airport Railway Property Projects	34	(3)	31
Tseung Kwan O Extension Property Projects	34	(5)	29
Total (note 43)	68	(8)	60

26 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	2013	2012
Balance as at 1 January	**7,611**	4,836
Stakeholding funds received	**13,680**	31,069
Add: Interest earned thereon	**20**	25
	21,311	35,930
Disbursements during the year	**(16,127)**	(28,319)
Balance as at 31 December	**5,184**	7,611
Represented by :		
Balances in designated bank accounts as at 31 December	**5,182**	7,609
Retention receivable	**2**	2
	5,184	7,611

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 2013, nil (2012: HK$49 million) agency fee in respect of the Tuen Mun property development was received (note 11). During the year ended 31 December 2013, the reimbursable costs incurred by the Company including on-cost and interest accrued were HK$98 million (2012: HK$94 million).

27 Deferred Expenditure

The Group and The Company

in HK$ million	2013	2012
Balance at 1 January	**15**	14
Expenditure during the year	**4**	1
Transfer to investment properties (note 20)	**(15)**	–
Balance at 31 December	**4**	15

28 Investments in Subsidiaries

The Company

in HK$ million	2013	2012
Unlisted shares, at cost	**1,285**	1,260

28 Investments in Subsidiaries *(continued)*

The following list contains details of subsidiaries as at 31 December 2013 which have been consolidated into the Group's accounts.

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
Subsidiaries held throughout 2013						
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
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

28 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 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
MTR Corporation (Australia) Pty. Limited	AUD2	100%	100%	–	Australia	Railway related consultancies and businesses
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
MTR Finance Lease (001) Limited	US$1	100%	100%	–	Cayman Islands/ Hong Kong	Finance
MTR Nordic AB	SEK50,000	100%	–	100%	Sweden	Railway operations and maintenance, property investment and management
MTR Stockholm AB	SEK40,000,000	100%	–	100%	Sweden	Railway operations and maintenance

28 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 (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	HK$18,200,000	100%	100%	–	The People's Republic of China	Railway consultancy services, marketing and promotion
MTR Consulting (Shenzhen) Co. Ltd.	HK$1,000,000	100%	100%	–	The People's Republic of China	Railway consultancy services
MTR Corporation (Shenzhen) Limited	HK$2,636,000,000	100%	–	100%	The People's Republic of China	Railway construction, operations and management
MTR Corporation (Shenzhen) Training Centre *	RMB2,000,000	100%	–	100%	The People's Republic of China	Provide rail transport training
MTR Property Development (Shenzhen) Company Limited	HK$2,180,000,000	100%	–	100%	The People's Republic of China	Property development, operation, leasing, management and consultancy services
MTR Corporation (Silverlink) Limited	GBP1	100%	–	100%	United Kingdom	Investment holding
MTR Corporation (UK) Limited	GBP29	100%	100%	–	United Kingdom	Investment holding
Subsidiaries established during 2013						
MTR Shenzhen Line 6 Investment Holding (Hong Kong) Limited	HK$10,000	100%	100%	–	Hong Kong	Investment holding
MTR Corporation (Sydney) NRT Pty Limited*	AUD2	100%	–	100%	Australia	Project bidding
Sunstone Resources Pty. Ltd.*	AUD10	60%	–	100%	Australia	Administrative support for railway operations and maintenance
MTR Berlin GmbH*	EUR25,000	100%	–	100%	Germany	Project bidding
MTR Beta AB	SEK50,000	100%	–	100%	Sweden	Railway operations and maintenance, property investment and management
MTR Express AB	SEK20,050,000	100%	–	100%	Sweden	Railway operations and maintenance, property investment and management

28 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 Corporation (Crossrail) Limited*	GBP1	100%	–	100%	United Kingdom	Project bidding
MTR Corporation (Essex Thameside) Limited*	GBP1	100%	–	100%	United Kingdom	Project bidding
MTR Corporation (Scotrail) Limited*	GBP1	100%	–	100%	United Kingdom	Project bidding
MTR Corporation (TSGN) Limited*	GBP1	100%	–	100%	United Kingdom	Project bidding
MTR Corporation (UK) NRT Limited*	GBP1	100%	–	100%	United Kingdom	Project bidding

* Subsidiaries not audited by KPMG

Shanghai Hong Kong Metro Construction Management Co. Ltd. was wound up during the year ended 31 December 2013.

29 Interests in Associates

The Group

in HK$ million	**2013**	2012
Share of net assets	**5,277**	4,258

The Group and the Company had interests in the following major associates as at 31 December 2013:

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
Octopus Holdings Limited (note 55B(ii))	HK$42,000,000	57.4%	57.4%	–	Hong Kong	Investment holding
Beijing MTR Corporation Limited	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 operations and management
Tianjin TJ – Metro MTR Construction Company Limited*	RMB1,800,000,000	49%	–	49%	The People's Republic of China	Property development, rental and management
Tunnelbanan Teknik Stockholm AB	SEK30,000,000	50%	–	50%	Sweden	Railway maintenance
London Overground Rail Operations Ltd *	GBP2	50%	–	50%	United Kingdom	Railway operations and management

* Companies not audited by KPMG

All the associates are accounted for using the equity method in the consolidated accounts and considered to be not individually material.

29 Interests in Associates *(continued)*

The summary financial information of the Group's effective interests in associates is as follows:

in HK$ million	2013	2012
Assets	**11,964**	10,097
Liabilities	**(6,687)**	(5,839)
Net assets	**5,277**	4,258
Income	**2,888**	2,424
Expenses and others	**(2,647)**	(1,950)
Profit before taxation	**241**	474
Income tax	**(83)**	(18)
Net profit and total comprehensive income for the year	**158**	456

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 company, Hangzhou MTR Corporation Limited ("Hangzhou MTR"), to invest in and operate Hangzhou Metro Line 1 for a period of 25 years. Hangzhou 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 other investor 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 in May 2013 and opening of the remaining phases by 2015. The concession agreement is subject to approval by relevant authorities in the Mainland of China as of 31 December 2013. In accordance with a Management Service Agreement, Beijing MTR is assigned the rights to operate Beijing Metro Line 14 before its full-phased operation. During the year ended 31 December 2013, the Group provided staff secondment, information technology and other support services to Beijing MTR at a total amount of HK$33 million (2012: HK$15 million).

In February 2013, London Overground Rail Operations ("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 2013, LOROL distributed GBP2 million (HK$25 million) (2012: GBP9 million or HK$108 million) of dividends to the Group and the Group provided management services to LOROL at a total amount of HK$19 million (2012: nil).

In August 2013, Tianjin TJ – Metro MTR Construction Company Limited ("Tianjin TJ – Metro MTR"), a company formed by the Company's subsidiary, MTR Property (Tianjin) No.1 Company Limited (49%), and Tianjin Metro (Group) Company Limited (51%), won the bidding for the land use right for a site at Beiyunhe Station on Tianjin Metro Line 6 at a price of RMB2,075 million. Tianjin TJ – Metro MTR was set up on 15 July 2013 with a registered capital of RMB1,800 million, of which 49% is borne by the Group. In January 2014, Tianjin TJ – Metro MTR Construction Company Limited increased its registered capital to RMB2,273 million and the Group had made a further equity contribution of RMB232 million (HK$294 million) to the associate.

On 30 September 2013, Shenyang MTR Corporation Limited was wound up.

During the year ended 31 December 2013, Tunnelbanan Teknik Stockholm AB provided rolling stock maintenance and other supporting services to MTR Stockholm AB at an amount of SEK563 million (HK$670 million) (2012: SEK535 million or HK$615 million). MTR Stockholm AB leased depots, depot equipment and provided other supporting services to Tunnelbanan Teknik Stockholm AB at a total amount of SEK111 million (HK$132 million) (2012: SEK106 million or HK$122 million).

During the year ended 31 December 2013, the Group incurred HK$129 million (2012: HK$125 million) of expenses for the central clearing services provided by Octopus Cards Limited ("OCL"), a wholly-owned subsidiary of Octopus Holdings Limited. OCL incurred HK$32 million (2012: HK$31 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 Group. During the year, OHL distributed HK$172 million (2012: HK$358 million) of dividends to the Group.

30 Investments in Securities

Investments in securities, representing trading securities held by the overseas insurance underwriting subsidiary, comprise:

The Group

in HK$ million	2013	2012
Trading securities listed overseas, at fair value		
– maturing within 1 year	**113**	57
– maturing after 1 year	**359**	336
	472	393

31 Properties Held for Sale

The Group and The Company

in HK$ million	2013	2012
Properties held for sale		
– at cost	**1,054**	2,967
– at net realisable value	**51**	49
	1,105	3,016

Properties held for sale at 31 December 2013 comprise 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 2J(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 2013 and 2012 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$6 million (2012: HK$8 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.

32 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	Contractual undiscounted cash flows maturing in: Less than 1 year	1-2 years	2-5 years	Over 5 years	Total
2013							
Derivative Financial Assets							
Gross settled:							
Foreign exchange forwards							
– fair value hedges :	**3,491**	**10**					
– inflow			**–**	**–**	**3,501**	**–**	**3,501**
– outflow			**–**	**–**	**(3,491)**	**–**	**(3,491)**
– cash flow hedges :	**102**	**3**					
– inflow			**59**	**30**	**16**	**–**	**105**
– outflow			**(58)**	**(29)**	**(15)**	**–**	**(102)**
– not qualified for hedge accounting :	**124**	**4**					
– inflow			**126**	**15**	**–**	**–**	**141**
– outflow			**(123)**	**(14)**	**–**	**–**	**(137)**
Cross currency swaps							
– fair value hedges :	**1,629**	**13**					
– inflow			**25**	**25**	**1,281**	**–**	**1,331**
– outflow			**(15)**	**(19)**	**(1,284)**	**–**	**(1,318)**
Net settled:							
Interest rate swaps							
– fair value hedges	**2,563**	**85**	**56**	**25**	**47**	**–**	**128**
	7,909	**115**	**70**	**33**	**55**	**–**	**158**
Derivative Financial Liabilities							
Gross settled:							
Foreign exchange forwards							
– cash flow hedges :	**47**	**3**					
– inflow			**37**	**6**	**1**	**–**	**44**
– outflow			**(40)**	**(6)**	**(1)**	**–**	**(47)**
– not qualified for hedge accounting :	**27**	**–**					
– inflow			**9**	**–**	**–**	**–**	**9**
– outflow			**(9)**	**–**	**–**	**–**	**(9)**
Cross currency swaps							
– fair value hedges :	**5,856**	**75**					
– inflow			**5,850**	**32**	**371**	**–**	**6,253**
– outflow			**(5,845)**	**(19)**	**(459)**	**–**	**(6,323)**
– cash flow hedges :	**1,887**	**227**					
– inflow			**51**	**50**	**148**	**2,403**	**2,652**
– outflow			**(72)**	**(72)**	**(214)**	**(2,534)**	**(2,892)**
Net settled:							
Interest rate swaps							
– fair value hedges	**1,150**	**65**	**8**	**5**	**(27)**	**(60)**	**(74)**
– cash flow hedges	**1,482**	**19**	**(17)**	**(9)**	**(2)**	**–**	**(28)**
	10,449	**389**	**(28)**	**(13)**	**(183)**	**(191)**	**(415)**
Total	**18,358**						

32 Derivative Financial Assets and Liabilities *(continued)*

A Fair Value *(continued)*

The Group and The Company

in HK$ million	Notional amount	Fair value	Contractual undiscounted cash flows maturing in: Less than 1 year	1-2 years	2-5 years	Over 5 years	Total
2012							
Derivative Financial Assets							
Gross settled:							
Foreign exchange forwards							
– cash flow hedges :	147	7					
– inflow			99	34	21	–	154
– outflow			(95)	(32)	(20)	–	(147)
– not qualified for hedge accounting :	157	3					
– inflow			135	10	15	–	160
– outflow			(132)	(11)	(14)	–	(157)
Cross currency swaps							
– fair value hedges :	2,021	33					
– inflow			829	18	816	461	2,124
– outflow			(795)	(10)	(807)	(464)	(2,076)
Net settled:							
Interest rate swaps							
– cash flow hedges	4,063	213	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					
– inflow			–	–	3,473	–	3,473
– outflow			–	–	(3,490)	–	(3,490)
– cash flow hedges :	62	1					
– inflow			60	1	–	–	61
– outflow			(61)	(1)	–	–	(62)
– not qualified for hedge accounting :	40	1					
– inflow			40	–	–	–	40
– outflow			(41)	–	–	–	(41)
Cross currency swaps							
– fair value hedges :	5,080	23					
– 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	(53)	(18)	(25)	(7)	(103)
	10,885	132	(49)	(15)	(68)	(7)	(139)
Total	17,273						

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 2013 and 2012 were used to discount the cash flows of financial instruments. Interest rates used ranged from 0.085% to 2.984% (2012: 0.175% to 1.412%) for Hong Kong dollars, 0.169% to 1.828% (2012: 0.304% to 1.292%) for US dollars, 2.565% to 5.150% (2012: 2.980% to 3.315%) for Australian dollars and 0.111% to 1.429% (2012: nil) for Japanese yen.

32 Derivative Financial Assets and Liabilities *(continued)*

A Fair Value *(continued)*

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. The details of the fair value measurement are disclosed in note 48.

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 policies and authorises changes if necessary based on operating and market conditions and other relevant factors. The Board also reviews on an annual basis as part of the budgeting process and authorises changes if necessary to the Model in accordance with changes in market conditions and practical requirements.

The use of derivative financial instruments to control and hedge against interest rate and foreign exchange risk exposures is an integral part of the Group's risk management strategy. In accordance with Board policy, these instruments shall only be used for controlling or hedging risk exposures, and cannot be used for speculation purposes. All of the derivative instruments used by the 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

	2013				2012			
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	**6,965**	**3,551**	**604**	**11,120**	3,817	3,854	583	8,254
Amounts repayable within a period of between 2 and 5 years	**8,466**	**2,238**	**3**	**10,707**	7,614	650	–	8,264
Amounts repayable within a period of between 1 and 2 years	**905**	**1,082**	**–**	**1,987**	5,588	418	3	6,009
Amounts repayable within 1 year	**5,682**	**844**	**3**	**6,529**	4,028	1,070	4	5,102
	22,018	**7,715**	**610**	**30,343**	21,047	5,992	590	27,629

32 Derivative Financial Assets and Liabilities *(continued)*

B Financial Risks *(continued)*

The Company

in HK$ million	2013 Capital market instruments	2013 Bank loans and overdrafts	2013 Others	2013 Total	2012 Capital market instruments	2012 Bank loans and overdrafts	2012 Others	2012 Total
Loans and other obligations								
Amounts repayable beyond 5 years	**1,605**	**–**	**604**	**2,209**	498	–	583	1,081
Amounts repayable within a period of between 2 and 5 years	**675**	**512**	**3**	**1,190**	116	133	–	249
Amounts repayable within a period of between 1 and 2 years	**70**	**443**	**–**	**513**	39	191	–	230
Amounts repayable within 1 year	**69**	**247**	**–**	**316**	39	848	–	887
	2,419	**1,202**	**607**	**4,228**	692	1,172	583	2,447

Others represent obligations under lease out/lease back transaction (note 21E).

(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 50% and 80% 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 2013, 58% 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 2013, the Group had total cash, bank balances and deposits of HK$16,748 million from which it derived floating rate interest income, compared with total floating rate borrowings of HK$10,168 million.

As at 31 December 2013, it is estimated that a 100 basis points increase / 100 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$136 million/HK$123 million. Other components of consolidated equity would increase/decrease by approximately HK$72 million/HK$76 million.

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 2012, 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$84 million/HK$23 million. Other components of consolidated equity would increase/decrease by approximately HK$41 million/HK$11 million.

(iii) Foreign Exchange Risk

Foreign exchange risk arises when recognised assets and liabilities are denominated in a currency other than the functional currency of the Group's companies to which they relate. For the Group, it arises principally from its borrowing 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.

32 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 21E). 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 34.

33 Stores and Spares

	The Group		The Company	
in HK$ million	**2013**	2012	**2013**	2012
Stores and spares expected to be consumed:				
– within 1 year	**821**	792	**637**	601
– after 1 year	**466**	434	**377**	353
	1,287	1,226	**1,014**	954
Less: Provision for obsolete stock	**(6)**	(6)	**(6)**	(6)
	1,281	1,220	**1,008**	948

Stores and spares expected to be consumed after 1 year comprise mainly contingency spares and stocks kept to meet cyclical maintenance requirements.

34 Debtors, Deposits and Payments in Advance

	The Group		The Company	
in HK$ million	**2013**	2012 (Restated)	**2013**	2012 (Restated)
Debtors, deposits and payments in advance relate to:				
– Property development projects	**1,389**	1,849	**1,389**	1,849
– Railway subsidiaries outside of Hong Kong	**1,106**	1,135	**–**	–
– Hong Kong operations and others	**1,126**	1,262	**952**	1,181
	3,621	4,246	**2,341**	3,030

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 operations 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.

34 Debtors, Deposits and Payments in Advance *(continued)*

(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	**2013**	2012 (Restated)	**2013**	2012 (Restated)
Amounts not yet due	**2,596**	3,374	**1,892**	2,543
Overdue by 30 days	**387**	127	**287**	43
Overdue by 60 days	**50**	15	**20**	4
Overdue by 90 days	**9**	9	**1**	–
Overdue by more than 90 days	**4**	13	**2**	4
Total debtors	**3,046**	3,538	**2,202**	2,594
Deposits and payments in advance	**575**	708	**139**	436
	3,621	4,246	**2,341**	3,030

Included in amounts not yet due as at 31 December 2013 was HK$1,389 million (2012: HK$1,849 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 26C) awaiting finalisation of the respective development accounts as well as other receivables on miscellaneous recoverable expenses.

As at 31 December 2013, 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$279 million (2012: HK$132 million) and of HK$37 million (2012: HK$73 million) respectively in the Group and the Company which were expected to be recovered more than one year. 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	
	2013	2012	**2013**	2012
Pound Sterling (in million)	**1**	2	**1**	2
Swiss Franc (in million)	**19**	–	**–**	–
United States Dollars (in million)	**6**	11	**6**	10

35 Amounts Due from Related Parties

in HK$ million	The Group 2013	The Group 2012	The Company 2013	The Company 2012
Amounts due from:				
– HKSAR Government	**600**	698	**600**	698
– KCRC	**9**	14	**9**	14
– associates	**45**	73	**45**	47
– subsidiaries (net of impairment losses)	**–**	–	**10,229**	7,396
	654	785	**10,883**	8,155

As at 31 December 2013, 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, reimbursable costs in respect of West Rail property developments (note 26D), 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 associates of the Group as at 31 December 2013 included the outstanding balance of loan to Tunnelbanan Teknik Stockholm AB ("TBT") amounting to HK$12 million (SEK11 million) (2012: HK$36 million or SEK30 million). During the year ended 31 December 2013, the Group received HK$24 million (SEK19 million) of loan repayment from TBT. The outstanding balance of loan to TBT of HK$12 million (SEK11 million) as at 31 December 2013 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 the outstanding balance of loan to TBT 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.

36 Cash, Bank Balances and Deposits

in HK$ million	The Group 2013	The Group 2012	The Company 2013	The Company 2012
Deposits with banks and other financial institutions	**15,835**	16,979	**15,392**	16,284
Cash at banks and on hand	**1,462**	1,685	**286**	332
Cash, bank balances and deposits	**17,297**	18,664	**15,678**	16,616
Less: Bank deposits with more than three months to maturity when placed or pledged (note 37D)	**(10,041)**	(13,504)	**(9,673)**	(13,250)
Less: Bank overdrafts (note 37A)	**(47)**	(55)	**(47)**	(55)
Cash and cash equivalents in the cash flow statement	**7,209**	5,105	**5,958**	3,311

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 2013	The Group 2012	The Company 2013	The Company 2012
Australian Dollars (in million)	**14**	7	**14**	7
Euros (in million)	**10**	4	**10**	4
Japanese Yen (in million)	**28**	16	**28**	16
New Taiwan Dollars (in million)	**14**	10	**14**	10
Pound Sterling (in million)	**3**	5	**3**	5
Renminbi (in million)	**538**	72	**534**	71
United States Dollars (in million)	**793**	1,052	**792**	1,047

37 Loans and Other Obligations

A By Type

The Group

in HK$ million	2013 Carrying amount	2013 Fair value	2013 Repayable amount	2012 Carrying amount	2012 Fair value	2012 Repayable amount
Capital market instruments						
Listed or publicly traded:						
Debt issuance programme notes due during 2014 to 2043 (2012: due during 2014 to 2017)	**9,622**	**9,728**	**9,628**	8,986	9,365	8,930
Unlisted:						
Debt issuance programme notes due during 2014 to 2043 (2012: due during 2013 to 2022)	**8,869**	**9,444**	**9,019**	9,982	11,008	9,808
Total capital market instruments	**18,491**	**19,172**	**18,647**	18,968	20,373	18,738
Bank loans	**5,593**	**5,593**	**5,593**	3,887	3,887	3,887
Others	**380**	**439**	**380**	367	493	367
Loans and others	**24,464**	**25,204**	**24,620**	23,222	24,753	22,992
Bank overdrafts	**47**	**47**	**47**	55	55	55
Short-term loans	**–**	**–**	**–**	300	300	300
Total	**24,511**	**25,251**	**24,667**	23,577	25,108	23,347

The Company

in HK$ million	2013 Carrying amount	2013 Fair value	2013 Repayable amount	2012 Carrying amount	2012 Fair value	2012 Repayable amount
Capital market instruments						
Listed or publicly traded:						
Debt issuance programme notes due in 2043	**664**	**663**	**698**	–	–	–
Unlisted:						
Debt issuance programme notes due in 2018 (2012: due in 2018)	**832**	**980**	**857**	456	661	465
Total capital market instruments	**1,496**	**1,643**	**1,555**	456	661	465
Bank loans	**1,120**	**1,120**	**1,120**	810	810	810
Others	**377**	**437**	**377**	359	486	359
Loans and others	**2,993**	**3,200**	**3,052**	1,625	1,957	1,634
Bank overdrafts	**47**	**47**	**47**	55	55	55
Short-term loans	**–**	**–**	**–**	300	300	300
Total	**3,040**	**3,247**	**3,099**	1,980	2,312	1,989

Others include non-defeased obligations under lease out/lease back transaction (note 21E).

As at 31 December 2013, the Group had a number of uncommitted facilities with undrawn amounts totalling HK$16,042 million (2012: HK$7,662 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. Details of the fair value measurement are disclosed in note 48.

37 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	
	2013	2012	**2013**	2012
Australian Dollars (in million)	**150**	50	**–**	–
Japanese Yen (in million)	**15,000**	–	**–**	–
United States Dollars (in million)	**1,300**	1,310	**90**	–
Renminbi (in million)	**–**	1,000	**–**	–

The Company

	Before hedging activities		After hedging activities	
	2013	2012	**2013**	2012
Japanese Yen (in million)	**5,000**	–	**–**	–
United States Dollars (in million)	**150**	60	**90**	–

B By Repayment Terms

The Group

	2013				2012			
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	**5,385**	**3,042**	**377**	**8,804**	3,315	3,001	359	6,675
Amounts repayable within a period of between 2 and 5 years	**7,599**	**1,458**	**–**	**9,057**	6,885	432	–	7,317
Amounts repayable within a period of between 1 and 2 years	**500**	**722**	**–**	**1,222**	5,163	232	4	5,399
Amounts repayable within 1 year	**5,163**	**371**	**3**	**5,537**	3,375	222	4	3,601
	18,647	**5,593**	**380**	**24,620**	18,738	3,887	367	22,992
Bank overdrafts	**–**	**47**	**–**	**47**	–	55	–	55
Short-term loans	**–**	**–**	**–**	**–**	–	300	–	300
	18,647	**5,640**	**380**	**24,667**	18,738	4,242	367	23,347
Less: Unamortised discount/premium/ finance charges outstanding	**(37)**	**–**	**–**	**(37)**	(2)	–	–	(2)
Adjustment due to fair value change of financial instruments	**(119)**	**–**	**–**	**(119)**	232	–	–	232
Total carrying amount of debt	**18,491**	**5,640**	**380**	**24,511**	18,968	4,242	367	23,577

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37 Loans and Other Obligations *(continued)*

B By Repayment Terms *(continued)*

The Company

in HK$ million	2013 Capital market instruments	2013 Bank loans and overdrafts	2013 Others	2013 Total	2012 Capital market instruments	2012 Bank loans and overdrafts	2012 Others	2012 Total
Long-term loans and others								
Amounts repayable beyond 5 years	**1,090**	**–**	**377**	**1,467**	465	–	359	824
Amounts repayable within a period of between 2 and 5 years	**465**	**500**	**–**	**965**	–	432	–	432
Amounts repayable within a period of between 1 and 2 years	**–**	**431**	**–**	**431**	–	189	–	189
Amounts repayable within 1 year	**–**	**189**	**–**	**189**	–	189	–	189
	1,555	**1,120**	**377**	**3,052**	465	810	359	1,634
Bank overdrafts	**–**	**47**	**–**	**47**	–	55	–	55
Short-term loans	**–**	**–**	**–**	**–**	–	300	–	300
	1,555	**1,167**	**377**	**3,099**	465	1,165	359	1,989
Less: Unamortised discount/premium/ finance charges outstanding	**(37)**	**–**	**–**	**(37)**	(4)	–	–	(4)
Adjustment due to fair value change of financial instruments	**(22)**	**–**	**–**	**(22)**	(5)	–	–	(5)
Total carrying amount of debt	**1,496**	**1,167**	**377**	**3,040**	456	1,165	359	1,980

The amounts repayable within 1 year in respect of capital market instruments and bank loans are included in long-term loans as these amounts are intended to be refinanced on a long-term basis.

C Bonds and Notes Issued and Redeemed

Notes issued during the years ended 31 December 2013 and 2012 comprise:

The Group

in HK$ million	2013 Principal amount	2013 Net consideration received	2012 Principal amount	2012 Net consideration received
Debt issuance programme notes	**3,285**	**3,248**	5,985	5,998

The Company

in HK$ million	2013 Principal amount	2013 Net consideration received	2012 Principal amount	2012 Net consideration received
Debt issuance programme notes	**1,091**	**1,057**	–	–

During the year ended 31 December 2013, notes of HK$700 million, AUD100 million (or HK$700 million) and JPY10 billion (or HK$794 million) were issued in Hong Kong by a subsidiary, MTR Corporation (C.I.) Limited while notes of USD90 million (or HK$698 million) and JPY5 billion (HK$393 million) were issued by the Company. The notes issued by the subsidiary 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 2013, the Group redeemed HK$3,336 million of its unlisted debt securities (2012: HK$102 million). During the years ended 31 December 2013 and 2012, the Group did not redeem any of its listed securities.

37 Loans and Other Obligations *(continued)*

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 2013 and 2012.

(ii) As at 31 December 2013, MTR Corporation (Shenzhen) Limited, an indirect wholly owned subsidiary of the Company in the Mainland of China, has pledged the fare and non-fare revenue and the benefits of insurance contracts in relation to Phase 2 of Shenzhen Metro Longhua Line as security for the RMB4,000 million (2012: RMB4,000 million) bank loan facility granted to it.

(iii) As at 31 December 2013, MTR Property Development (Shenzhen) Company Limited, an indirectly wholly owned subsidiary of the Company in the Mainland of China, has mortgaged its land use rights and pledged its accounts receivable in relation to the property development project at Shenzhen Metro Longhua Line Depot Site Phase 1 as security for a RMB1,950 million bank loan facility granted to it.

(iv) As at 31 December 2013, 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 AUD5 million (2012: AUD9 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 2013.

38 Creditors and Accrued Charges

	The Group		The Company	
in HK$ million	**2013**	2012 (Restated)	**2013**	2012 (Restated)
Creditors and accrued charges				
– West Island Line Project	**486**	731	**486**	731
– South Island Line (East) Project	**473**	637	**473**	637
– Kwun Tong Line Extension Project	**260**	244	**260**	244
– Shenzhen Metro Longhua Line Project	**599**	754	**–**	–
– Hong Kong property development projects	**603**	643	**603**	643
– Mainland of China property development project	**144**	1,988	**–**	–
– Railway subsidiaries outside of Hong Kong	**1,424**	1,307	**–**	–
– Hong Kong operations and others	**9,784**	8,750	**9,087**	8,140
Gross amount due to customers for contract works	**–**	15	**–**	15
Government grant on West Island Line Project un-utilised	**20**	1,461	**20**	1,461
	13,793	16,530	**10,929**	11,871

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 2013 was HK$279 million (2012: HK$294 million).

The analysis of creditors by due dates is as follows:

	The Group		The Company	
in HK$ million	**2013**	2012 (Restated)	**2013**	2012 (Restated)
Due within 30 days or on demand	**4,820**	5,418	**2,567**	1,244
Due after 30 days but within 60 days	**2,031**	2,326	**1,973**	2,276
Due after 60 days but within 90 days	**534**	535	**501**	525
Due after 90 days	**2,351**	2,126	**2,048**	1,899
	9,736	10,405	**7,089**	5,944
Rental and other refundable deposits	**2,657**	2,738	**2,580**	2,672
Accrued employee benefits	**1,380**	1,926	**1,240**	1,794
Government grant on West Island Line Project un-utilised	**20**	1,461	**20**	1,461
	13,793	16,530	**10,929**	11,871

Creditors and accrued charges were expected to be settled within one year except for HK$3,896 million (2012: HK$4,301 million (restated)) in the Group and HK$3,657 million (2012: HK$4,153 million (restated)) in the Company 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.

38 Creditors and Accrued Charges *(continued)*

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	
	2013	2012	**2013**	2012
Australian Dollars (in million)	**3**	2	**1**	1
Euros (in million)	**6**	4	**6**	4
Japanese Yen (in million)	**115**	75	**91**	75
Pound Sterling (in million)	**1**	2	**1**	2
Renminbi (in million)	**–**	1,578	**–**	–
United States Dollars (in million)	**18**	19	**2**	1

39 Contract Retentions

The Group

in HK$ million	Due for release within 12 months	Due for release after 12 months	Total
2013			
Hong Kong railway extension projects	**81**	**560**	**641**
Hong Kong businesses	**96**	**97**	**193**
Mainland of China and international subsidiaries	**149**	**3**	**152**
	326	**660**	**986**
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

The Company

in HK$ million	Due for release within 12 months	Due for release after 12 months	Total
2013			
Hong Kong railway extension projects	**81**	**560**	**641**
Hong Kong businesses	**96**	**97**	**193**
	177	**657**	**834**
2012			
Hong Kong railway extension projects	22	573	595
Hong Kong businesses	73	71	144
	95	644	739

The effect of discounting these contract retentions is considered immaterial as these amounts are substantially due to be released within 24 months.

40 Amounts Due to Related Parties

in HK$ million	The Group 2013	The Group 2012	The Company 2013	The Company 2012
Amounts due to:				
– HKSAR Government	**4**	27	**4**	27
– KCRC	**1,371**	1,008	**1,371**	1,008
– an associate	**13**	26	**–**	–
– subsidiaries	**–**	–	**17,636**	17,726
	1,388	1,061	**19,011**	18,761

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 2013 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$17,231 million (2012: HK$17,468 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 37C). 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 2013, HK$11,887 million (2012: HK$15,080 million) is expected to be settled after one year.

41 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 2013	The Group 2012	The Company 2013	The Company 2012
Balance as at 1 January	**10,690**	10,724	**10,520**	10,557
Add: Net increase in interest payable	**3**	2	**–**	–
Less: Amount repaid/payable during the year	**(40)**	(37)	**(40)**	(37)
Exchange difference	**5**	1	**–**	–
Balance as at 31 December	**10,658**	10,690	**10,480**	10,520

The outstanding balances as at 31 December 2013 and 2012 are repayable as follows:

The Group

in HK$ million	2013 Present value of payment obligations	2013 Interest expense relating to future periods	2013 Total payment obligations	2012 Present value of payment obligations	2012 Interest expense relating to future periods	2012 Total payment obligations
Amounts repayable beyond 5 years	**10,415**	**19,127**	**29,542**	10,462	19,825	30,287
Amounts repayable within a period of between 2 and 5 years	**156**	**2,113**	**2,269**	146	2,123	2,269
Amounts repayable within a period of between 1 and 2 years	**45**	**711**	**756**	42	714	756
Amounts repayable within 1 year	**42**	**714**	**756**	40	716	756
	10,658	**22,665**	**33,323**	10,690	23,378	34,068

41 Obligations under Service Concession *(continued)*

The Company

in HK$ million	2013 Present value of payment obligations	2013 Interest expense relating to future periods	2013 Total payment obligations	2012 Present value of payment obligations	2012 Interest expense relating to future periods	2012 Total payment obligations
Amounts repayable beyond 5 years	**10,237**	**18,950**	**29,187**	10,292	19,645	29,937
Amounts repayable within a period of between 2 and 5 years	**156**	**2,094**	**2,250**	146	2,104	2,250
Amounts repayable within a period of between 1 and 2 years	**45**	**705**	**750**	42	708	750
Amounts repayable within 1 year	**42**	**708**	**750**	40	710	750
	10,480	**22,457**	**32,937**	10,520	23,167	33,687

42 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$337 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% (2012: 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.

43 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
2013						
Deferred income on property development (note 26B)	**60**	**–**	**(10)**	**–**	**–**	**50**
Deferred income on transfer of assets from customers	**49**	**64**	**–**	**(17)**	**–**	**96**
Deferred income on government subsidy for Shenzhen Metro Longhua Line operation	**379**	**661**	**–**	**(572)**	**9**	**477**
	488	**725**	**(10)**	**(589)**	**9**	**623**
2012						
Deferred income on property development (note 26B)	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

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
2013						
Deferred income on property development (note 26B)	**60**	**–**	**(10)**	**–**	**–**	**50**
2012						
Deferred income on property development (note 26B)	68	–	(8)	–	–	60

44 Income Tax in the Balance Sheets

A Current taxation in the consolidated balance sheet comprises provision for Hong Kong Profits Tax for the Company and certain subsidiaries for the year ended 31 December 2013, chargeable at Hong Kong Profits Tax Rate at 16.5% (2012: 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	**2013**	2012	**2013**	2012
Provision for Hong Kong Profits Tax for the year (note 14)	**1,118**	1,469	**1,090**	1,452
Hong Kong Provisional Profits Tax paid	**(830)**	(1,113)	**(815)**	(1,100)
	288	356	**275**	352
Balance relating to Mainland of China and overseas tax	**61**	50	**–**	–
	349	406	**275**	352

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
2013						
Balance as at 1 January 2013, as previously reported	**9,332**	**440**	**88**	**(12)**	**(12)**	**9,836**
Effect of adoption of Revised HKAS 19	**–**	**–**	**(270)**	**–**	**–**	**(270)**
Balance as at 1 January 2013, as restated	**9,332**	**440**	**(182)**	**(12)**	**(12)**	**9,566**
Charged/(credited) to consolidated profit and loss account	**506**	**–**	**19**	**–**	**(5)**	**520**
Charged/(credited) to reserves	**–**	**58**	**136**	**(12)**	**–**	**182**
Exchange difference	**(5)**	**–**	**(3)**	**–**	**–**	**(8)**
Balance as at 31 December 2013	**9,833**	**498**	**(30)**	**(24)**	**(17)**	**10,260**
2012 (Restated)						
Balance as at 1 January 2012, as previously reported	8,981	373	153	(17)	(16)	9,474
Effect of adoption of Revised HKAS 19	–	–	(505)	–	–	(505)
Balance as at 1 January 2012, as restated	8,981	373	(352)	(17)	(16)	8,969
Charged/(credited) to consolidated profit and loss account, as restated	350	–	(96)	–	4	258
Charged to reserves	–	67	266	5	–	338
Exchange difference	1	–	–	–	–	1
Balance as at 31 December 2012, as restated	9,332	440	(182)	(12)	(12)	9,566

44 Income Tax in the Balance Sheets *(continued)*

B Deferred Tax Assets and Liabilities Recognised *(continued)*

The Company

in HK$ million	Deferred tax arising from: Depreciation allowances in excess of related depreciation	Revaluation of properties	Provision and other temporary differences	Cash flow hedges	Total
2013					
Balance as at 1 January 2013, as previously reported	**9,270**	**440**	**81**	**(12)**	**9,779**
Effect of adoption of Revised HKAS 19	**–**	**–**	**(270)**	**–**	**(270)**
Balance as at 1 January 2013, as restated	**9,270**	**440**	**(189)**	**(12)**	**9,509**
Charged to profit and loss account	**508**	**–**	**19**	**–**	**527**
Charged/(credited) to reserves	**–**	**58**	**136**	**(12)**	**182**
Balance as at 31 December 2013	**9,778**	**498**	**(34)**	**(24)**	**10,218**
2012 (Restated)					
Balance as at 1 January 2012, as previously reported	8,925	373	141	(17)	9,422
Effect of adoption of Revised HKAS 19	–	–	(505)	–	(505)
Balance as at 1 January 2012, as restated	8,925	373	(364)	(17)	8,917
Charged/(credited) to profit and loss account, as restated	345	–	(91)	–	254
Charged to reserves	–	67	266	5	338
Balance as at 31 December 2012, as restated	9,270	440	(189)	(12)	9,509

in HK$ million	The Group 2013	The Group 2012 (Restated)	The Company 2013	The Company 2012 (Restated)
Net deferred tax assets recognised in the balance sheet	**(29)**	(21)	**–**	–
Net deferred tax liabilities recognised in the balance sheet	**10,289**	9,587	**10,218**	9,509
	10,260	9,566	**10,218**	9,509

C The Group has not recognised deferred tax assets in respect of some of its subsidiaries' cumulative tax losses of HK$227 million (2012: HK$254 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.

45 Share Capital and Capital Management

A Share Capital, Share Premium and Capital Reserve

	2013 Number of shares	2013 HK$ million	2012 Number of shares	2012 HK$ million
Authorised:				
Ordinary shares of HK$1.00 each	**6,500,000,000**	**6,500**	6,500,000,000	6,500
Ordinary shares, issued and fully paid:				
At 1 January	**5,793,196,650**	**5,793**	5,784,871,250	5,785
Shares issued under share option schemes	**5,345,000**	**5**	8,325,400	8
At 31 December	**5,798,541,650**	**5,798**	5,793,196,650	5,793
Share premium		**11,456**		11,300
Capital reserve		**27,188**		27,188
		44,442		44,281

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.

45 Share Capital and Capital Management *(continued)*

A Share Capital, Share Premium and Capital Reserve *(continued)*

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	Weighted average exercise price	Share capital account	Share premium account	Total
		HK$	HK$ million	HK$ million	HK$ million
Employee share options exercised					
– New Joiners Share Option Scheme	**213,000**	**15.97**	**–**	**4**	**4**
– 2007 Share Option Scheme	**5,132,000**	**25.86**	**5**	**152**	**157**
	5,345,000		**5**	**156**	**161**

An analysis of the Company's outstanding share options as at 31 December 2013 are disclosed in note 49.

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 2013, 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, 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 11.0% (restated) at 31 December 2012 and increased slightly to 11.8% at 31 December 2013.

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, MTR Beta AB, MTR Express AB and MTR Nordic AB are required to maintain total shareholders' fund at or above 50% of their respective registered share capital based on the Swedish Companies Act. MTR Travel Limited is required to maintain a certain level of paid-up capital in order to maintain membership of the Travel Industry Council of Hong Kong. As at 31 December 2013, 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.

46 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
2013					
Balance as at 1 January 2013, as previously reported	**2,227**	**(67)**	**219**	**95,616**	**97,995**
Effect of adoption of Revised HKAS 19	**–**	**–**	**–**	**(1,369)**	**(1,369)**
Balance as at 1 January 2013, as restated	**2,227**	**(67)**	**219**	**94,247**	**96,626**
Profit for the year	**–**	**–**	**–**	**12,702**	**12,702**
Other comprehensive income for the year	**298**	**(61)**	**–**	**686**	**923**
Total comprehensive income for the year	**298**	**(61)**	**–**	**13,388**	**13,625**
2012 final dividend	**–**	**–**	**–**	**(3,130)**	**(3,130)**
2013 interim dividend	**–**	**–**	**–**	**(1,450)**	**(1,450)**
Employee share-based payments	**–**	**–**	**48**	**–**	**48**
Employee share options exercised	**–**	**–**	**(25)**	**–**	**(25)**
Employee share options forfeited	**–**	**–**	**(2)**	**2**	**–**
Balance as at 31 December 2013	**2,525**	**(128)**	**240**	**103,057**	**105,694**
2012 (Restated)					
Balance as at 1 January 2012, as previously reported	1,888	(90)	201	86,800	88,799
Effect of adoption of Revised HKAS 19	–	–	–	(2,556)	(2,556)
Balance as at 1 January 2012, as restated	1,888	(90)	201	84,244	86,243
Profit for the year, as restated	–	–	–	13,052	13,052
Other comprehensive income for the year, as restated	339	23	–	1,344	1,706
Total comprehensive income for the year, as restated	339	23	–	14,396	14,758
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	–
Balance as at 31 December 2012, restated	2,227	(67)	219	94,247	96,626

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 2E(ii)).

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges pending subsequent recognition of the hedged cash flow in accordance with the accounting policy adopted for cash flow hedges as explained in note 2S(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 2T(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 lapsed 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 2BB.

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$42,005 million (2012: HK$37,691 million) included in retained profits are non-distributable as they do not constitute realised profits. As at 31 December 2013, the Company considers that the total amount of reserves available for distribution to equity shareholders amounted to HK$60,924 million (2012: HK$56,489 million as restated).

Included in the Group's retained profits as at 31 December 2013 is an amount of HK$617 million (2012: HK$656 million), being the retained profits attributable to the associates.

47 Cash Generated from Operations

Reconciliation of operating profit before Hong Kong property developments, depreciation, amortisation and variable annual payment to cash generated from operations is as follows:

in HK$ million	2013	2012 (Restated)
Operating profit before Hong Kong property developments, depreciation, amortisation and variable annual payment	**14,399**	12,895
Adjustments for:		
– Loss on disposal of fixed assets	**37**	29
– Amortisation of deferred income from transfers of assets from customers	**(17)**	(10)
– Decrease/(increase) in fair value of derivative instruments	**85**	(11)
– Unrealised loss/(gain) on revaluation of investment in securities	**2**	(6)
– Employee share-based payment expenses	**52**	59
– Exchange (gain)/loss	**(7)**	7
Operating profit from recurrent businesses before working capital changes	**14,551**	12,963
Decrease in debtors, deposits and payments in advance	**36**	149
Increase in stores and spares	**(88)**	(81)
Increase in creditors and accrued charges	**947**	1,670
Cash generated from operations	**15,446**	14,701

48 Fair Value Measurement

In accordance with HKFRS 13, *Fair Value Measurement*, the level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

Level 1: Fair value measured using only Level 1 inputs, i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date

Level 2: Fair value measured using Level 2 inputs, i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available

Level 3: Fair value measured using significant unobservable inputs

A Fair Value Measurements of Fixed Assets

During the year ended 31 December 2013, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 in respect of the Group's investment properties and self-occupied land and buildings. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

All the Group's investment properties and self-occupied land and buildings were revalued as at 31 December 2013 and 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 Group's senior management have discussion with the surveyors on the valuation assumptions and valuation results when the valuation is performed at each interim and annual reporting date.

The fair value of all the Group's self-occupied land and buildings is determined using primarily the direct comparison approach assuming sale of properties in their existing state with vacant possession.

The property interests of all the shopping malls and office accommodation held by the Group as investment properties have been valued using the income capitalisation approach. Under this approach, the market value is derived from the capitalisation of the rental revenue to be received under existing tenancies and the estimated full market rental value to be received upon expiry of the existing tenancies with reference to the market rental levels prevailing as at the date of valuation by an appropriate single market yield rate. The range of market yield rate adopted for the valuation of major investment properties as at 31 December 2013 was 4.25% - 7.50% with a weighted average of 5.4%. The fair value measurement is negatively correlated to the market yield rate.

The movements of investment properties during the year ended 31 December 2013 are shown in note 20. All the fair value adjustment related to investment properties held as at 31 December 2013 and was recognised under investment property revaluation in the consolidated profit and loss account.

48 Fair Value Measurement *(continued)*

B Fair Value Measurements of Financial Instruments

(i) Financial Assets and Liabilities Carried at Fair Value

The level of fair value hierarchy within which the fair value measurements are categorised is analysed below:

The Group

in HK$ million	Fair value at 31 December 2013	Fair value measurements as at 31 December 2013 Level 1	Level 2
Financial Assets			
Derivative financial assets			
– Foreign exchange forwards	17	–	17
– Cross currency swaps	13	–	13
– Interest rate swaps	85	–	85
	115	–	115
Investments in securities	472	472	–
	587	472	115
Financial Liabilities			
Derivative financial liabilities			
– Foreign exchange forwards	3	–	3
– Cross currency swaps	302	–	302
– Interest rate swaps	84	–	84
	389	–	389

in HK$ million	Fair value at 31 December 2012	Fair value measurements as at 31 December 2012 Level 1	Level 2
Financial Assets			
Derivative financial assets			
– Foreign exchange forwards	10	–	10
– Cross currency swaps	33	–	33
– Interest rate swaps	213	–	213
	256	–	256
Investments in securities	393	393	–
	649	393	256
Financial Liabilities			
Derivative financial liabilities			
– Foreign exchange forwards	19	–	19
– Cross currency swaps	23	–	23
– Interest rate swaps	90	–	90
	132	–	132

48 Fair Value Measurement *(continued)*

B Fair Value Measurements of Financial Instruments *(continued)*

The Company

in HK$ million	**Fair value at 31 December 2013**	**Fair value measurements as at 31 December 2013**	
		Level 1	Level 2
Financial Assets			
Derivative financial assets			
– Foreign exchange forwards	**17**	**–**	**17**
– Cross currency swaps	**13**	**–**	**13**
– Interest rate swaps	**85**	**–**	**85**
	115	**–**	**115**
Financial Liabilities			
Derivative financial liabilities			
– Foreign exchange forwards	**3**	**–**	**3**
– Cross currency swaps	**302**	**–**	**302**
– Interest rate swaps	**84**	**–**	**84**
	389	**–**	**389**

in HK$ million	Fair value at 31 December 2012	Fair value measurements as at 31 December 2012	
		Level 1	Level 2
Financial Assets			
Derivative financial assets			
– Foreign exchange forwards	10	–	10
– Cross currency swaps	33	–	33
– Interest rate swaps	213	–	213
	256	–	256
Financial Liabilities			
Derivative financial liabilities			
– Foreign exchange forwards	19	–	19
– Cross currency swaps	23	–	23
– Interest rate swaps	90	–	90
	132	–	132

There are no Level 3 measurements of financial instruments. During the year ended 31 December 2013 and 2012, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

The discounted cash flow method, which discounts the future contractual cash flows at the current market interest rates, is the main valuation technique used to determine the fair value of the Group's borrowings and derivative financial instruments. For interest rate swaps, cross currency swaps and foreign exchange forward contracts, the discount rates used were derived from the swap curves of the respective currencies at the balance sheet date. Closing exchange rates at the balance sheet date were used to convert value in foreign currency to local currency.

48 Fair Value Measurement *(continued)*

B Fair Value Measurements of Financial Instruments *(continued)*

(ii) Financial Assets and Liabilities Not Carried at Fair Value

The carrying amounts of the Group's and the Company's financial assets and liabilities not carried at fair value are not materially different from their fair values as at 31 December 2013 and 2012 except for capital market instruments and other obligations, for which their carrying amounts and fair values are disclosed below:

The Group

	At 31 December 2013		At 31 December 2012	
in HK$ million	Carrying amount	Fair value	Carrying amount	Fair value
Capital market instruments	**18,491**	**19,172**	18,968	20,373
Other obligations	**380**	**439**	367	493

The Company

	At 31 December 2013		At 31 December 2012	
in HK$ million	Carrying amount	Fair value	Carrying amount	Fair value
Capital market instruments	**1,496**	**1,643**	456	661
Other obligations	**377**	**437**	359	486

The above fair value measurement is categorised as Level 2. The discount cash flow method, which discounts the future contractual cash flows at the current market interest rates, is the main valuation technique used to determine the fair value of the Group's capital market instruments and other obligations. The discount rates used were derived from the swap curves of the respective currencies at the balance sheet date. Closing exchange rates at the balance sheet date were used to convert value in foreign currency to local currency.

49 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 2013, 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 2013, 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
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

49 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:

	2013		2012	
	Number of share options	Weighted average exercise price HK$	Number of share options	Weighted average exercise price HK$
Outstanding at 1 January	**297,500**	**17.107**	329,000	17.358
Exercised during the year	**(213,000)**	**15.970**	(31,500)	19.732
Outstanding at 31 December	**84,500**	**19.974**	297,500	17.107
Exercisable at 31 December	**84,500**	**19.974**	297,500	17.107

The weighted average closing price in respect of the share options exercised during the year was HK$28.100 (2012: HK$30.050).

Share options outstanding at 31 December 2013 had the following exercise prices and remaining contractual lives:

	2013		2012	
Exercise price	Number of share options	Remaining contractual life years	Number of share options	Remaining contractual life years
HK$15.97	**–**	**–**	213,000	3
HK$20.66	**22,000**	**2**	22,000	3
HK$19.732	**62,500**	**3**	62,500	4
	84,500		297,500	

(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 2013, 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.

49 Share-based Payments *(continued)*

A Equity-settled Share-based Payments *(continued)*

As at 31 December 2013, 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
2013 Award	26 April 2013	21,605,000	6 May 2013
	25 October 2013	384,500	1 November 2013

The following table summarises the outstanding share options as at 31 December 2013 granted under the 2007 Option Scheme since inception:

Date of grant	Number of share options	Exercise price HK$	Exercisable period
2008 Award			
12 December 2007	913,000	27.60	on or prior to 10 December 2014
13 December 2007	1,316,000	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	623,000	27.60	on or prior to 10 December 2014
18 December 2007	190,000	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
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
28 March 2008	139,000	26.52	on or prior to 26 March 2015
31 March 2008	192,000	26.52	on or prior to 26 March 2015
1 April 2008	164,000	26.52	on or prior to 26 March 2015
2 April 2008	219,000	26.52	on or prior to 26 March 2015
3 April 2008	75,000	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	236,000	26.52	on or prior to 26 March 2015
8 April 2008	69,000	26.52	on or prior to 26 March 2015
9 April 2008	43,000	26.52	on or prior to 26 March 2015
10 April 2008	58,000	26.52	on or prior to 26 March 2015
11 April 2008	89,000	26.52	on or prior to 26 March 2015
12 April 2008	31,000	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

49 Share-based Payments *(continued)*

A Equity-settled Share-based Payments *(continued)*

Date of grant	Number of share options	Exercise price HK$	Exercisable period
2009 Award			
8 December 2008	20,000	18.30	on or prior to 8 December 2015
9 December 2008	257,000	18.30	on or prior to 8 December 2015
10 December 2008	891,400	18.30	on or prior to 8 December 2015
11 December 2008	1,047,500	18.30	on or prior to 8 December 2015
12 December 2008	701,000	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	468,200	18.30	on or prior to 8 December 2015
16 December 2008	289,000	18.30	on or prior to 8 December 2015
17 December 2008	260,500	18.30	on or prior to 8 December 2015
18 December 2008	126,500	18.30	on or prior to 8 December 2015
19 December 2008	63,000	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	233,500	18.30	on or prior to 8 December 2015
23 December 2008	118,000	18.30	on or prior to 8 December 2015
24 December 2008	182,000	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
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	1,839,000	26.85	on or prior to 8 December 2016
11 December 2009	1,783,000	26.85	on or prior to 8 December 2016
12 December 2009	385,000	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	1,891,500	26.85	on or prior to 8 December 2016
15 December 2009	1,957,500	26.85	on or prior to 8 December 2016
16 December 2009	941,500	26.85	on or prior to 8 December 2016
17 December 2009	615,000	26.85	on or prior to 8 December 2016
18 December 2009	280,000	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	329,000	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	175,000	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	4,798,000	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	98,000	28.84	on or prior to 16 December 2017
20 December 2010	3,863,000	28.84	on or prior to 16 December 2017
21 December 2010	2,477,000	28.84	on or prior to 16 December 2017
22 December 2010	913,000	28.84	on or prior to 16 December 2017
23 December 2010	119,000	28.84	on or prior to 16 December 2017
7 July 2011	163,000	26.96	on or prior to 27 June 2018
2012 Award			
30 March 2012	15,950,500	27.48	on or prior to 23 March 2019
2013 Award			
6 May 2013	21,272,000	31.40	on or prior to 26 April 2020
1 November 2013	384,500	29.87	on or prior to 25 October 2020

49 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:

	2013		2012	
	Number of share options	Weighted average exercise price HK$	Number of share options	Weighted average exercise price HK$
Outstanding at 1 January	**57,087,100**	**26.720**	49,843,500	25.756
Granted during the year	**21,989,500**	**31.373**	16,917,000	27.480
Exercised during the year	**(5,132,000)**	**25.861**	(8,293,900)	22.366
Forfeited during the year	**(943,500)**	**29.153**	(1,379,500)	27.403
Outstanding at 31 December	**73,001,100**	**28.151**	57,087,100	26.720
Exercisable at 31 December	**40,518,600**	**26.610**	35,425,100	26.074

The weighted average closing price in respect of the share options exercised during the year was HK$31.006 (2012: HK$29.186).

Share options outstanding at 31 December 2013 had the following exercise prices and remaining contractual lives:

	2013		2012	
Exercise price	Number of share options	Remaining contractual life years	Number of share options	Remaining contractual life years
HK$27.60	**4,308,000**	**1**	5,229,000	2
HK$26.52	**1,701,000**	**1**	1,960,000	2
HK$18.30	**4,866,100**	**2**	5,787,600	3
HK$24.50	**175,000**	**2**	175,000	3
HK$26.85	**10,871,000**	**3**	12,525,000	4
HK$27.73	**175,000**	**3**	190,000	4
HK$28.84	**13,135,000**	**4**	14,333,000	5
HK$26.96	**163,000**	**4**	215,000	5
HK$27.48	**15,950,500**	**5**	16,672,500	6
HK$31.40	**21,272,000**	**6**	–	–
HK$29.87	**384,500**	**7**	–	–
	73,001,100		57,087,100	

According to the Black-Scholes pricing model, the fair values of options granted during the year ended 31 December 2013 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$
6 May 2013	**2.33**	**31.95**	**31.40**	**0.15**	**3.5**	**0.21**	**0.79**
1 November 2013	**3.04**	**30.05**	**29.87**	**0.14**	**3.5**	**0.69**	**0.79**

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 2013, the equity-settled share-based payments recognised as an expense amounted to HK$47.5 million (2012: HK$55.9 million), all relating to the 2007 Share Option Scheme.

49 Share-based Payments *(continued)*

B Cash-settled Share-based Payments

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 was deemed to have been earned at 31 October 2013 subject to certain conditions specified in his employment contract). On 30 August 2013, Jay H Walder was re-appointed as the Chief Executive Officer until 31 August 2015. He is entitled to an equivalent value in cash of 230,000 shares in the Company upon completion of his extended term of office on 31 August 2015. For the year ended 31 December 2013, HK$4.3 million (2012: HK$3.5 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 2013, the fair value of these shares was HK$29.35 per share.

50 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 or who are not eligible to join the MTR Provident Fund Scheme.

(i) MTR Retirement Scheme

The MTR Retirement Scheme is a defined benefit scheme registered under the Occupational Retirement Schemes Ordinance (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 from 1 April 1999 onwards. It is administrated in accordance with the Trust Deed and Rules by the Board of Trustees, comprising management, employee representatives and independent non-employer trustees. It provides benefits based on the greater of a multiple of final salary times service and a factor times the accumulated member contributions with investment returns. Members' contributions are based on fixed percentages of base salary. The Company's contributions are determined with reference to an actuarial valuation carried out by an independent actuarial consulting firm. As at 31 December 2013, the total membership was 4,661 (2012: 4,832). In 2013, members contributed HK$73 million (2012: HK$72 million) and the Company contributed HK$125 million (2012: HK$184 million) to the MTR Retirement Scheme. The net asset value of the MTR Retirement Scheme excluding the portion attributable to members' voluntary contribution as at 31 December 2013 was HK$9,031 million (2012: HK$8,709 million).

The actuarial valuations as at 31 December 2012 and 2013 to determine the accounting obligations in accordance with Revised HKAS 19, *Employee benefits*, were 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 51.

The actuarial valuations as at 31 December 2012 and 2013 to determine the cash funding requirements were also carried out by Towers Watson using the Attained Age Method. The principal actuarial assumptions used for the valuation as at 31 December 2013 included a long-term rate of investment return net of salary increases of 1.9% (2012: 1.9%) per annum, together with appropriate allowances for expected rates of mortality, turnover, redundancy and retirement. Towers Watson confirmed that, as at the valuation date of 31 December 2013:

(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 107.6% (2012: 109.1%).

(ii) MTR RBS

The MTR RBS is a defined benefit scheme registered under the ORSO and is administered in accordance with the Trust Deed and Rules by the Board of Trustees, comprising management and an independent non-employer trustee. 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 to the MTR RBS while the Company's contributions are determined with reference to an actuarial valuation carried out by an independent actuarial consulting firm. As at 31 December 2013, MTR RBS had 5 members who were eligible for benefits (2012: 31).

During 2012 and 2013, 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 2013 was HK$0.5 million (2012: HK$0.5 million).

The actuarial valuations as at 31 December 2012 and 2013 to determine the accounting obligations in accordance with Revised HKAS 19, *Employee benefits*, were carried out by Towers Watson using the Projected Unit Credit Method. The results of the valuations are shown in note 51.

50 Retirement Schemes *(continued)*

A Retirement Schemes Operated by the Company in Hong Kong *(continued)*

In accordance with the terms of the Trust Deed and Rules 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.

The actuarial valuations as at 31 December 2012 and 2013 to determine the cash funding requirements were carried out by Towers Watson using the Attained Age Method. The principal actuarial assumptions used for the valuation as at 31 December 2013 included an expected weighted rate of investment return net of salary increases, of approximately -3.5% (2012: -4.0%) per annum, together with appropriate allowance for expected rates of mortality and redundancy. Towers Watson confirmed that, as at the valuation date of 31 December 2013:

(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 2013, the total number of employees participating in the MTR Provident Fund Scheme was 7,569 (2012: 7,075). In 2013, total members' contributions were HK$76 million (2012: HK$64 million) and total contribution from the Company was HK$209 million (2012: HK$181 million). The net asset value as at 31 December 2013 was HK$4,577 million (2012: HK$4,098 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 2013, the total number of employees of the Company participating in the MTR MPF Scheme was 4,993 (2012: 4,253). In 2013, total members' contributions were HK$36 million (2012: HK$26 million) and total contribution from the Company was HK$40 million (2012: HK$30 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 2013, the total number of employees of the Company participating in the KCRC MPF Scheme was 738 (2012: 791). In 2013, total members' contributions were HK$6 million (2012: HK$6 million) and total contribution from the Company was HK$7 million (2012: HK$7 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 2013, total number of the Group's employees participating in this scheme was 763 (2012: 792). In 2013, total members' contributions were HK$36 million (2012: HK$37 million) and total contribution from the Group was HK$46 million (2012: HK$52 million).

(ii) Defined Contribution Plans

Except for the defined benefit plan stated in note 50B(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 2013, the total number of employees of the Group participating in these schemes was 8,116 (2012: 7,968). In 2013, total members' contributions were HK$110 million (2012: HK$114 million) and total contribution from the Group was HK$304 million (2012: HK$268 million).

51 Defined Benefit Retirement Plans

The Company makes contributions to and recognises defined benefit liabilities in respect of two defined benefit plans that provide employees with benefits upon retirement or termination of services for other reasons (note 50). These two defined benefit plans expose the Group to actuarial risks, such as interest rate, salary increase and investment risks. The information about these two plans is summarised as below:

A The amounts recognised in the consolidated balance sheet are as follows:

The Group and The Company

	2013			2012 (Restated)		
in HK$ million	MTR Retirement Scheme	MTR RBS	Total	MTR Retirement Scheme	MTR RBS	Total
Present value of defined benefit obligations	**(9,839)**	**–**	**(9,839)**	(10,122)	–	(10,122)
Fair value of plan assets	**9,031**	**1**	**9,032**	8,709	1	8,710
Net (liabilities)/assets	**(808)**	**1**	**(807)**	(1,413)	1	(1,412)

A portion of the above assets/(liabilities) is expected to be recovered/paid after more than one year. However, it is not practicable to segregate this amount from the amounts to be recovered/paid in the next twelve months, as future contributions will also relate to future services rendered and future changes in actuarial assumptions and market conditions. The Company expects to pay HK$118 million in contribution to the MTR Retirement Scheme in 2014.

B Plan assets consist of the following:

The Group and The Company

	2013			2012		
in HK$ million	MTR Retirement Scheme	MTR RBS	Total	MTR Retirement Scheme	MTR RBS	Total
Equity securities						
– Financial institutions	**803**	**–**	**803**	663	–	663
– Non-financial institutions	**4,025**	**–**	**4,025**	4,169	–	4,169
	4,828	**–**	**4,828**	4,832	–	4,832
Bonds						
– Government	**1,810**	**–**	**1,810**	1,880	–	1,880
– Non-government	**2,248**	**–**	**2,248**	1,702	–	1,702
	4,058	**–**	**4,058**	3,582	–	3,582
Cash	**256**	**1**	**257**	392	1	393
	9,142	**1**	**9,143**	8,806	1	8,807
Voluntary units	**(111)**	**–**	**(111)**	(97)	–	(97)
	9,031	**1**	**9,032**	8,709	1	8,710

The plan assets include no investment in the ordinary shares and the debt securities of the Company in 2012 and 2013. All of the equity securities and bonds have quoted prices in active markets.

An asset-liability modelling review is performed periodically to analyse the strategic investment policies of the MTR Retirement Scheme. Based on the latest study, the strategic asset allocation of the MTR Retirement Scheme is 50% in equities and 50% in bonds.

51 Defined Benefit Retirement Plans *(continued)*

C Movements in the Present Value of the Defined Benefit Obligations

The Group and The Company

in HK$ million	2013 MTR Retirement Scheme	2013 MTR RBS	2013 Total	2012 MTR Retirement Scheme	2012 MTR RBS	2012 Total
At 1 January	**10,122**	**–**	**10,122**	10,669	–	10,669
Remeasurements:						
– Actuarial losses arising from changes in liability experience	**229**	**–**	**229**	102	–	102
– Actuarial losses arising from changes in demographic assumptions	**–**	**–**	**–**	1	–	1
– Actuarial gains arising from changes in financial assumptions	**(641)**	**–**	**(641)**	(895)	–	(895)
	(412)	**–**	**(412)**	(792)	–	(792)
Members' contributions paid to the Schemes	**73**	**–**	**73**	72	–	72
Benefits paid by the Schemes	**(511)**	**–**	**(511)**	(409)	–	(409)
Current service cost	**303**	**–**	**303**	303	–	303
Interest cost	**264**	**–**	**264**	279	–	279
At 31 December	**9,839**	**–**	**9,839**	10,122	–	10,122

The weighted average duration of the present value of the defined benefit obligations is 8.0 years (2012: 8.6 years).

D Movements in Plan Assets

The Group and The Company

in HK$ million	2013 MTR Retirement Scheme	2013 MTR RBS	2013 Total	2012 MTR Retirement Scheme	2012 MTR RBS	2012 Total
At 1 January	**8,709**	**1**	**8,710**	7,794	12	7,806
Company's contributions paid to the Schemes	**125**	**–**	**125**	184	–	184
Members' contributions paid to the Schemes	**73**	**–**	**73**	72	–	72
Benefits paid by the Schemes	**(511)**	**–**	**(511)**	(409)	–	(409)
Surplus refunded to the Company	**–**	**–**	**–**	–	(11)	(11)
Administrative expenses paid from plan assets	**(5)**	**–**	**(5)**	(6)	–	(6)
Interest income	**230**	**–**	**230**	256	–	256
Return on plan assets, excluding interest income	**410**	**–**	**410**	818	–	818
At 31 December	**9,031**	**1**	**9,032**	8,709	1	8,710

51 Defined Benefit Retirement Plans *(continued)*

E Expenses recognised in the profit and loss and other comprehensive income are as follows:

The Group and The Company

in HK$ million	2013 MTR Retirement Scheme	2013 MTR RBS	2013 Total	2012 (Restated) MTR Retirement Scheme	2012 (Restated) MTR RBS	2012 (Restated) Total
Current service cost	**303**	**–**	**303**	303	–	303
Net interest on net defined benefit liability	**34**	**–**	**34**	23	–	23
Administrative expenses paid from plan assets	**5**	**–**	**5**	6	–	6
	342	**–**	**342**	332	–	332
Less: Amount capitalised	**(54)**	**–**	**(54)**	(24)	–	(24)
Net amount recognised in profit or loss	**288**	**–**	**288**	308	–	308
Actuarial gains	**(412)**	**–**	**(412)**	(792)	–	(792)
Return on plan assets, excluding interest income	**(410)**	**–**	**(410)**	(818)	–	(818)
Amount recognised in other comprehensive income	**(822)**	**–**	**(822)**	(1,610)	–	(1,610)

The retirement expense is recognised under staff costs and related expenses in the consolidated profit and loss account.

F The significant actuarial assumptions (expressed as weighted average) and sensitivity analysis are as follows:

	2013 MTR Retirement Scheme	2013 MTR RBS	2012 MTR Retirement Scheme	2012 MTR RBS
Discount rate	**3.5%**	**0.9%**	2.7%	1.0%
Future salary increases	**4.1%**	**5.0%**	4.1%	5.5%
Unit value increase of MTR Retirement Scheme	**6.0%**	**6.0%**	6.0%	6.0%

The below analysis shows how the present value of the defined benefit obligations as at 31 December 2013 would have increased/(decreased) as a result of 0.25% change in the significant actuarial assumptions:

	MTR Retirement Scheme Increase in 0.25% HK$ million	MTR Retirement Scheme Decrease in 0.25% HK$ million	MTR RBS Increase in 0.25% HK$ million	MTR RBS Decrease in 0.25% HK$ million
Discount rate	**(188)**	**194**	**–**	**–**
Future salary increases	**51**	**(41)**	**–**	**–**
Unit value increase of MTR Retirement Scheme	**148**	**(134)**	**–**	**–**

52 Interests in Joint Operations

The Group has the following joint operations in respect of its awarded property development projects in Hong Kong as at 31 December 2013:

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
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 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 26) or deferred income (note 43) as the case may be. As at 31 December 2013, total property development in progress in respect of these joint operations was HK$4,654 million (2012: HK$4,581 million) and total deferred income was HK$50 million (2012: HK$60 million).

During the year ended 31 December 2013, profits attributable to joint operations of HK$1,464 million (2012: HK$3,189 million) were recognised (note 11).

52 Interests in Joint Operations *(continued)*

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.

53 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 53C below.

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 53A 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 periodically. 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.

53 Material Related Party Transactions *(continued)*

D Other than the new OA described in note 53C 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) 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;

(v) 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

(vi) 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 54E.

The above transactions are considered to be related party transactions and also constitute connected transactions as defined under the Listing Rules. A detailed description of each of the above agreements is contained under the paragraph "Continuing Connected Transactions" 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 24A). Such transactions are considered to be related party transactions and also constitute continuing connected transactions as defined under the Listing Rules;

(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 24B); 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 24C).

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 year ended 31 December 2013 include:

(i) The XRL Preliminary Entrustment Agreement, which was signed on 24 November 2008, and the XRL 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 2013 are provided in note 25A; and

(ii) The SCL Preliminary Entrustment Agreement, which was signed on 24 November 2008, the SCL Advance Works Entrustment Agreement, which was signed on 17 May 2011, and the SCL 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 2013 are provided in note 25B.

The above transactions are considered to be related party transactions and also constitute continuing connected transactions as defined under the Listing Rules.

53 Material Related Party Transactions *(continued)*

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 2013 are provided in notes 35 and 40 respectively.

I In connection with certain property developments along the railway system, 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

In addition to the above, the Company paid 10% of the land premium of an investment property development site at Tsing Yi Town Lot No. 135 amounting to HK$126 million on 4 November 2013. The remaining 90% of the land premium of HK$1,136 million had been accrued in 2013 with settlement on 14 January 2014.

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 5 July 2013, 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 upon the expiry of the previous five-year agreement. The renewed agreement covers a period of seven years effective from 6 July 2013. In respect of the service provided, HK$48 million was recognised as consultancy income during the year ended 31 December 2013 (2012: HK$50 million). Such transactions are considered to be related party transactions and also constitute continuing connected transactions as defined under the Listing Rules.

L Other than those stated in notes 53A to 53K, the Company has business transactions with the HKSAR Government, entities related to the HKSAR Government and the Company's associates in the normal course of business operations. Details of the transactions and the amounts involved for the reporting period are disclosed in notes 29, 35 and 40.

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	**2013**	2012
Short-term employee benefits	**65.4**	59.2
Post-employment benefits	**4.6**	3.5
Equity compensation benefits	**8.5**	8.1
	78.5	70.8

The above remuneration is included in staff costs and related expenses disclosed in note 9A.

N During the year, the following dividends were paid to the Financial Secretary Incorporated of the HKSAR Government:

in HK$ million	**2013**	2012
Cash dividends paid	**3,503**	3,370

54 Commitments

A Capital Commitments

(i) Outstanding capital commitments as at 31 December 2013 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
2013					
Authorised but not yet contracted for	**3,017**	**–**	**89**	**3**	**3,109**
Authorised and contracted for	**5,602**	**4,439**	**500**	**2,363**	**12,904**
	8,619	**4,439**	**589**	**2,366**	**16,013**
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

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
2013				
Authorised but not yet contracted for	**2,958**	**–**	**88**	**3,046**
Authorised and contracted for	**5,561**	**4,439**	**500**	**10,500**
	8,519	**4,439**	**588**	**13,546**
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

(ii) The commitments under Hong Kong transport, station commercial and other businesses comprise the following:

The Group

in HK$ million	Improvement and enhancement works	Acquisition of property, plant and equipment	Additional concession property	Total
2013				
Authorised but not yet contracted for	**1,432**	**247**	**1,338**	**3,017**
Authorised and contracted for	**529**	**199**	**4,874**	**5,602**
	1,961	**446**	**6,212**	**8,619**
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

54 Commitments *(continued)*

A Capital Commitments *(continued)*

The Company

in HK$ million	Improvement and enhancement works	Acquisition of property, plant and equipment	Additional concession property	Total
2013				
Authorised but not yet contracted for	**1,373**	**247**	**1,338**	**2,958**
Authorised and contracted for	**488**	**199**	**4,874**	**5,561**
	1,861	**446**	**6,212**	**8,519**
2012				
Authorised but not yet contracted for	1,313	205	1,083	2,601
Authorised and contracted for	475	320	2,928	3,723
	1,788	525	4,011	6,324

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 2013. The total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group		The Company	
in HK$ million	**2013**	2012	**2013**	2012
Payable within one year	**143**	141	**13**	14
Payable after one but within five years	**12**	15	**10**	11
	155	156	**23**	25

The above includes HK$3 million (2012: HK$3 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$3,883 million (2012: HK$4,905 million) in respect of railway subsidiaries outside of Hong Kong over the respective franchise periods, of which HK$1,032 million (2012: HK$1,039 million) is payable within one year, HK$2,848 million (2012: HK$3,842 million) is payable after one but within five years and HK$3 million (2012: HK$24 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 2013, the Group had total outstanding liabilities and contractual commitments of HK$1,859 million (2012: HK$1,611 million) in respect of these works and services. Cash funds totalling HK$1,860 million (2012: HK$1,781 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 37C), the Company has provided guarantees to the investors of approximately HK$16,943 million (in notional amount) as at 31 December 2013. The proceeds from the debts issued are on lent to the Company. 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 21E), 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$116 million (HK$899 million) as at 31 December 2013. 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$43 million (HK$332 million) as at 31 December 2013.

54 Commitments *(continued)*

D Material Financial and Performance Guarantees *(continued)*

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$67 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 Public Transport Victoria a joint and several parent company guarantee of AUD139 million (HK$959 million) and a performance bond of AUD81 million (HK$560 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$12 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$1,208 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, the Group has provided a performance bond of GBP6 million (HK$77 million) to Transport for London (TfL) which may be called by TfL if the franchise is terminated early as a result of default.

In respect of the Shenzhen property development, the Group has provided payment guarantees of RMB71 million (HK$91 million) to the counterparties of the construction contracts.

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.

55 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 2H).

(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 2G(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.

55 Accounting Estimates and Judgements *(continued)*

A Key sources of accounting estimates and estimation uncertainty include the following: *(continued)*

(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 50A(i), 50A(ii) and 51F.

(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.

(v) Properties Held for Sale

The Group values unsold properties at the lower of their costs and net realisable values (note 31) 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 53C). The Group's depreciation policies (note 2H) 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 2013 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 2I(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.

55 Accounting Estimates and Judgements *(continued)*

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 2013, 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) Associates

The Group regards Octopus Holdings Limited and its subsidiaries (the "OHL Group") as associates. In determining whether the Group has control over these associates, 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 2013, 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 associates in the Group's accounts.

56 Possible Impact of Amendments, New Standards and Interpretations Issued but Not Yet Effective for the Annual Accounting Year Ended 31 December 2013

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 2013 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 32, *Offsetting Financial Assets and Financial Liabilities*	1 January 2014
Amendments to HKAS 36, *Impairment of Assets – Recoverable Amount Disclosures for Non-financial Assets*	1 January 2014
Amendments to HKAS 39, *Novation of Derivatives and Continuation of Hedge Accounting*	1 January 2014
HKFRS 9, *Financial Instruments*	To be decided

The Group is in the process of making an assessment of what the impact of these new issues or amendments is expected to be in the period of initial application. So far, the Group considers that the adoption of them is unlikely to have a significant impact on the Group's accounts.

57 Comparative Figures

As a result of the retrospective application (note 2A(iii)) of Revised HKAS 19, *Employees Benefits*, certain comparative figures have been restated or adjusted to conform to current year's presentation.

58 Approval of Accounts

The accounts were approved by the Board on 11 March 2014.

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 Anheqiao North Station and Gongyixiqiao Station, and connected with its extension Daxing line providing service between Gongyixiqiao Station and Tiangongyuan Station
BJL14	Beijing Metro Line 14, which has 37 stations with ten interchange stations, stretching from Zhangguozhuang Station in the southern Fengtai District to Shangezhuang Station in the eastern Chaoyang District. Phase 1 opened on 5 May 2013, has seven stations, running from Zhangguozhuang Station to Xiju Station in the south-western part of Beijing.
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 香港鐵路有限公司, a company which was incorporated under the Companies Ordinance on 26 April 2000
Companies Ordinance	The Companies Ordinance (Chapter 622 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 and Cross-boundary services, Airport Express, Light Rail and Bus based on satisfaction scores for different fare attributes weighted by the corresponding importance rating from the customer research
FSI	The Financial Secretary Incorporated, a corporation solely established under the Financial Secretary Incorporation Ordinance (Chapter 1015 of the Laws of Hong Kong)
Government	The Government of the Hong Kong SAR
Group	The Company and its subsidiaries
HZL1	Hangzhou Metro Line 1, which provided train service between Linping Station and Xianghu Station, and connected with its extension service to Wenze Road Station.
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 six major cities in the Mainland of China such as Beijing, Shanghai and Guangzhou
Interest Cover	Operating profit before depreciation, amortisation and variable annual payment divided by gross interest and finance charges before capitalisation, utilisation of government subsidy for Shenzhen Metro Longhua Line operation and accreted interest on loan to a property developer

Glossary

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 Hong Kong 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 Ordinance	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 and Cross-boundary services, Airport Express, Light Rail and Bus based on satisfaction scores for different service attributes (excluding fares) weighted by the corresponding importance rating from the customer research
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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