MTR

GROWTH
IN MOTION

ANNUAL REPORT 2011

Our theme this year is "growth in motion". As a provider of transport services in Hong Kong, the Mainland of China and overseas, motion is our business, moving millions of people every day in comfort and safety. We as a Company are also constantly in motion, actively seeking ways to grow our businesses in order to achieve sustainable growth for our shareholders. Our energy, professionalism and commitment to working closely with the communities we serve has made the Company one of the most successful and respected in its field.

GROWTH *IN MOTION*

CONTENTS

MTR CORPORATION IN NUMBERS – 2011

CONSOLIDATED FINANCIALS

Total Revenue
HK$ 33.4 billion

Underlying Profit
HK$ 10.47 billion

Total Assets
HK$ 197.9 billion

Net Debt-to-Equity Ratio
11.9 %

HONG KONG TRANSPORT OPERATIONS

Share of Franchised Public Transport Market
45.4 %

Domestic Service Fare Revenue Per Passenger
HK$ 6.81

Total Route Length
218 km

Passenger Journeys on Time
99.9 %

Total Patronage
1.7 billion

HONG KONG NETWORK EXPANSION

5 New Rail Projects are progressing well

which will add 56 km to our network in Hong Kong

PROPERTY AND OTHER BUSINESSES

Investment Property Portfolio in Hong Kong Includes

12 Shopping Malls

18 Floors of Two ifc

Property Development Profit

HK$ **4.9** billion

HONG KONG STATION COMMERCIAL BUSINESS

Station Commercial Revenue

10.2 %

of Total Revenue

MAINLAND AND OVERSEAS GROWTH

1.1 billion

Passengers Carried by Our Rail Operations in

5 Cities

Outside of Hong Kong

HUMAN RESOURCES

21,295

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

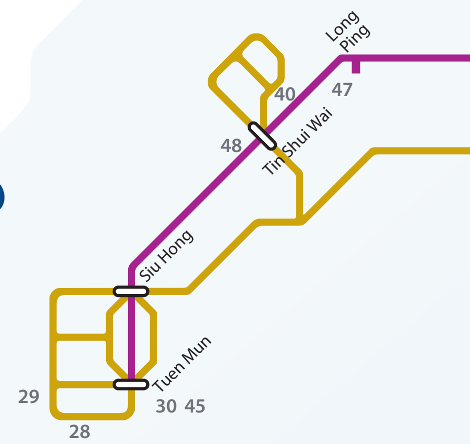
- Guangzhou-Shenzhen-Hong Kong Express Rail Link
- Kwun Tong Line Extension
- South Island Line (East)
- West Island Line

EXTENSIONS UNDER STUDY

- Shatin to Central Link

POTENTIAL FUTURE EXTENSIONS

- North Island Link
- Northern Link
- South Island Line (West)



PROPERTIES OWNED / DEVELOPED / MANAGED BY THE CORPORATION

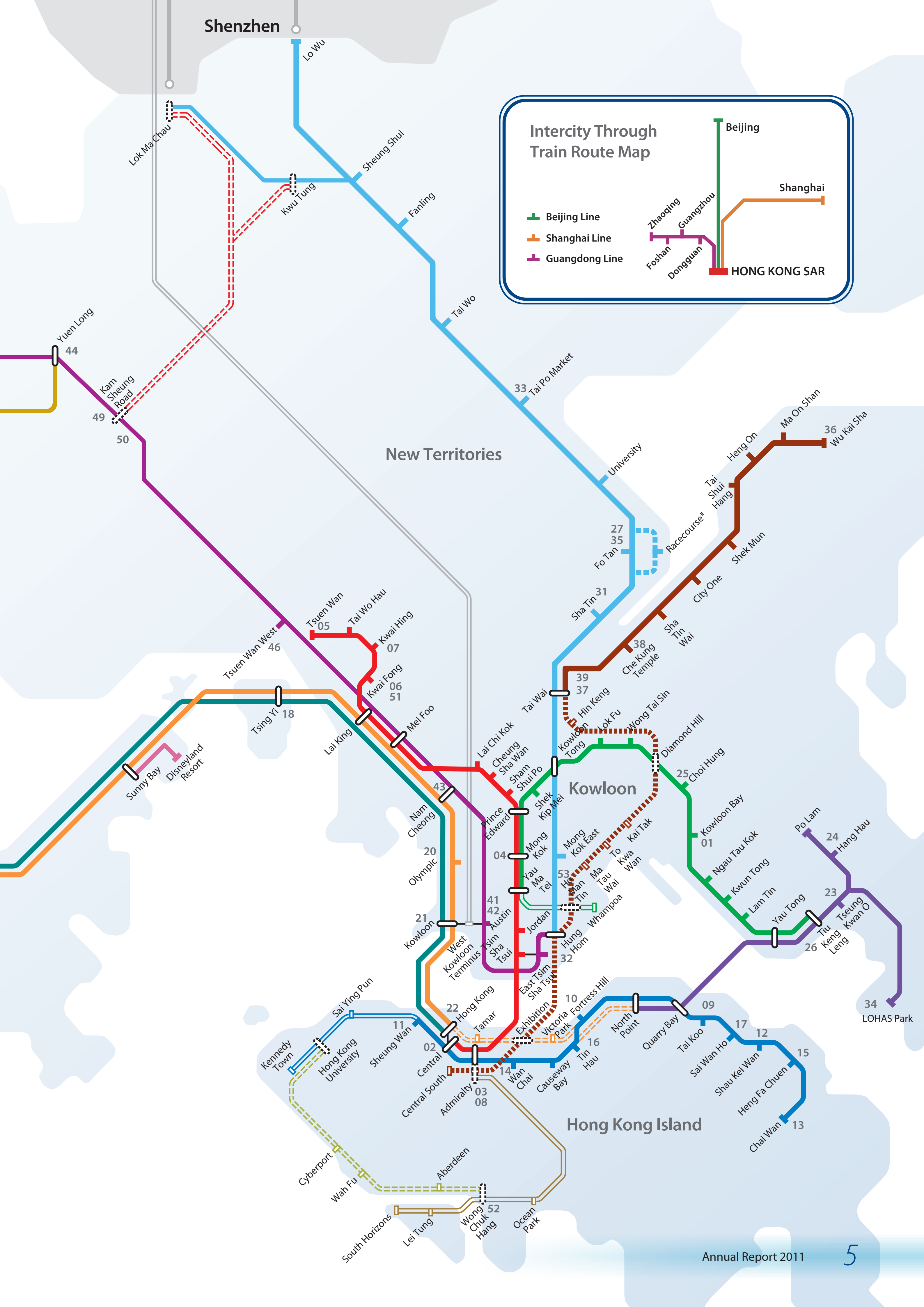
01 Telford Gardens / Telford Plaza I and II
02 World-wide House
03 Admiralty Centre
04 Argyle Centre
05 Luk Yeung Sun Chuen / Luk Yeung Galleria
06 New Kwai Fong Gardens
07 Sun Kwai Hing Gardens
08 Fairmont House
09 Kornhill / Kornhill Gardens
10 Fortress Metro Towers
11 Hongway Garden / Infinitus Plaza
12 Perfect Mount Gardens
13 New Jade Garden
14 Southorn Garden
15 Heng Fa Chuen / Heng Fa Villa / Paradise Mall
16 Park Towers
17 Felicity Garden
18 Tierra Verde / Maritime Square
19 Tung Chung Crescent / Citygate / Novotel Citygate / Seaview Crescent / Coastal Skyline / Caribbean Coast
20 Central Park / Island Harbourview / Park Avenue / Harbour Green / Bank of China Centre / HSBC Centre / Olympian City One / Olympian City Two
21 The Waterfront / Sorrento / The Harbourside / The Arch / Elements / The Cullinan / The Harbourview Place / W Hong Kong / International Commerce Centre / The Ritz-Carlton, Hong Kong
22 One International Finance Centre / Two International Finance Centre / IFC Mall / Four Seasons Hotel / Four Seasons Place
23 Central Heights / The Grandiose / The Edge / The Wings
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 Pierhead Garden / 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
35 The Palazzo
36 Lake Silver
37 Festival City

PROPERTY DEVELOPMENTS UNDER CONSTRUCTION / PLANNING

23 Tseung Kwan O Station Area 56
34 LOHAS Park Package 2-10
38 Che Kung Temple Station
39 Tai Wai Station
40 Tin Shui Wai Light Rail (Tin Wing Road)
41 Austin Station Site C
42 Austin Station Site D
52 Wong Chuk Hang Station
53 Ho Man Tin Station

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

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


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

MTR CORPORATION AT A GLANCE

The Company is regarded 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. We opened our first railway line in Hong Kong over 30 years ago, since when our activities have increased in size, scale, geographic coverage and diversity. Our strategy for future growth is firmly on track. We are actively engaged in a significant expansion of our network in Hong Kong, while building a growing portfolio of rail-related operations in the Mainland of China and overseas.

HONG KONG TRANSPORT OPERATIONS

BUSINESS DESCRIPTION

We operate a predominantly rail based transportation system in Hong Kong, comprising Domestic and Cross-boundary services, a dedicated high-speed Airport Express railway and a light rail system. The entire system stretches 218.2 km and has 84 stations and 68 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.

2011 HIGHLIGHTS

- Passenger numbers and overall market share increased
- High levels of service performance again earned accolades
- Construction works for the West Island Line and Express Rail Link have progressed on programme
- Project Agreements were signed with Government in May 2011 for the South Island Line (East) and the Kwun Tong Line Extension, with construction works well underway
- Entrustment Agreement for the Shatin to Central Link Advance Works was signed with Government in May 2011 and construction is in hand

HONG KONG STATION COMMERCIAL BUSINESS

BUSINESS DESCRIPTION

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

2011 HIGHLIGHTS

- Positive rental reversions and increased floor space have boosted revenues
- Advertising revenue picked up on the back of a buoyant economy and innovative offerings
- Telecommunications benefitted from 3G capacity upgrading

PROPERTY AND OTHER BUSINESSES

BUSINESS DESCRIPTION

We develop mainly residential properties in conjunction with property developers. We own investment properties, principally shopping malls and offices, and manage our properties and those of others. Our investment portfolio primarily includes 12 shopping malls in Hong Kong, one shopping mall in Beijing and 18 floors of the Two International Finance Centre (Two ifc) office tower in Hong Kong. We also engage in other businesses, including cable car operations, the Octopus card payments system, consulting and project management.

2011 HIGHLIGHTS

- Good results from pre-sales of Festival City in Tai Wai
- Pre-sale of La Splendeur in LOHAS Park and The Wings in Tseung Kwan O
- Tenders for the Nam Cheong Station and Tsuen Wan West (TW5) Cityside sites awarded on behalf of the relevant subsidiaries of Kowloon-Canton Railway Corporation
- The Company’s shopping malls and its 18 floors of Two ifc in Hong Kong were close to 100% let
- Good contributions from Ngong Ping cable car and Octopus

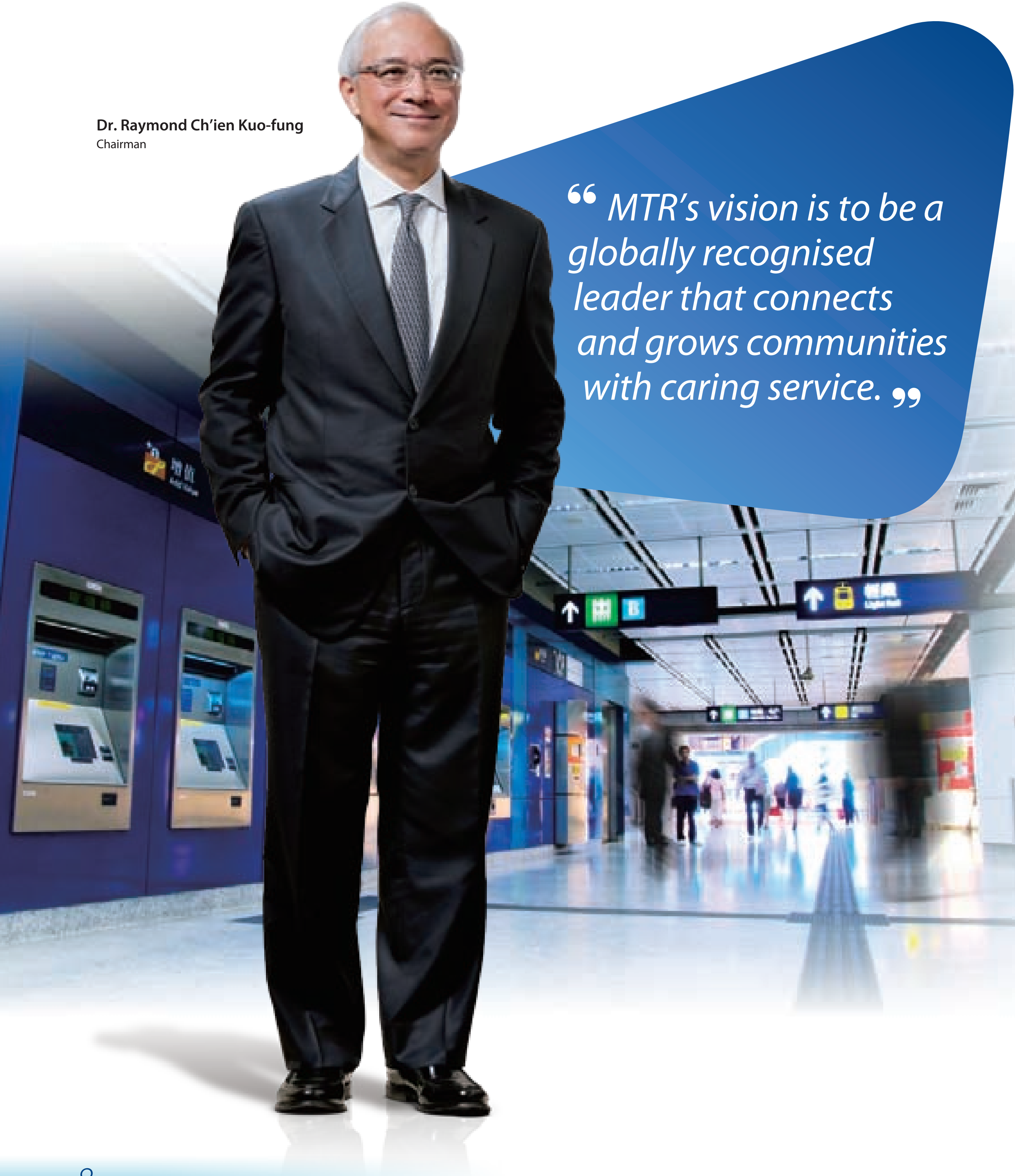
MAINLAND AND OVERSEAS GROWTH

BUSINESS DESCRIPTION

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

2011 HIGHLIGHTS

- First full year contribution from the Daxing Line, an extension of Beijing Metro Line 4
- Full line operation of Shenzhen Metro Longhua Line commenced in June
- Won a development site at the Shenzhen Metro Longhua Line depot, our first property development project in the Mainland of China
- London Overground Rail Operations Limited awarded ‘Public Transport Operator of the Year’ for London operators
- Operating performance of the Stockholm and Melbourne franchises improved further



Dr. Raymond Ch'ien Kuo-fung
Chairman

"MTR's vision is to be a globally recognised leader that connects and grows communities with caring service."

Dear Shareholders and other Stakeholders,

I am pleased to welcome Jay Walder who joined MTR as CEO on 1 January 2012. Jay joins MTR after a distinguished career working in and leading transport operators in both England and the United States. I would also like to thank CK Chow who retired as CEO of MTR on 31 December 2011. CK contributed greatly to the Company and under his leadership MTR made significant progress, including the merger with KCRC and the growth of our business in Hong Kong, particularly with the five new rail lines, as well as outside of Hong Kong.

Our results for 2011 show good performance from all our businesses. In our Hong Kong transport operations we achieved a further rise in patronage and increased our overall market share. Despite the higher patronage in our network, I am pleased to report that we were still able to maintain a very high level of operational and safety performance in our rail operations. The robust economy, together with the influx of Mainland visitors, helped to increase revenue from our station commercial and property rental businesses. Our property development profits included our share of profits from Festival City as well as our share of a shopping mall in Tseung Kwan O Area 56. Underlying profits before investment property revaluation increased by 20.9% to HK$10,468 million, with underlying earnings per share increasing by 19.9% to HK$1.81. Including investment property revaluation, our net profit attributable to equity shareholders increased to HK$14,716 million. In line with our progressive dividend policy, your Board has proposed a final dividend of HK$0.51 giving a full year dividend of HK$0.76, an increase of 28.8%.

The increase in fares implemented under the agreed annual Fare Adjustment Mechanism also supported our results. The application of the mechanism in June 2011 led to a weighted average increase of 2.2% to applicable fares, only our second fare increase since 1997. This fair and transparent mechanism has allowed us to sustain and enhance the quality of our Hong Kong transport service on which we spend in excess of HK$4 billion in maintenance, renewal and service improvements annually. As a responsible corporate citizen, we continue to offer fare concessions to a number of segments of Hong Kong society including the elderly, persons with disabilities, children and students. This is in addition to our various fare promotions. Together, concessions and fare promotions amounted to over HK$1.7 billion in 2011.

CREATION OF LONG TERM VALUE

MTR's vision is to be a globally recognised leader that connects and grows communities with caring service. This goal is supported by our values of excellent service, mutual respect, value creation and enterprising spirit. To achieve our vision we have embarked on a growth strategy encompassing developments in Hong Kong as well as expansion outside of Hong Kong.

Growth in Hong Kong is focused on our five railway extension projects, all of which moved up a gear in 2011. Construction of the West Island Line and the Hong Kong section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link continues to make steady progress, with tunnelling works for both projects now well advanced. We entered into Project Agreements with Government for the South Island Line (East) and the Kwun Tong Line Extension, as well as the Advance Works for the Shatin to Central Link, all in May 2011. The South Island Line (East) and the Kwun Tong Line Extension follow our proven and successful "Rail plus Property" model to achieve financial viability. As such, upon signing the Project Agreements, property development rights above the Wong Chuk Hang Depot and the Ho Man Tin Station were granted to us. Construction works for the South Island Line (East) and the Kwun Tong Line Extension, as well as the Advance Works for the Shatin to Central Link, have likewise been proceeding according to plan since commencing progressively from May 2011.

We are also taking our expertise to markets outside of Hong Kong in pursuit of growth, through investments in rail infrastructure and operating franchises. Our activities in the Mainland of China made considerable progress during the year. Beijing Metro Line 4 (BJL4) and the Daxing Line have provided a reliable service to passengers in Beijing, exceeding their operating performance and patronage targets. BJL4 celebrated its second anniversary on 28 September 2011, having carried some 530 million people and completed 80 million car kilometres of service. In Shenzhen, full line operation of Shenzhen Metro Longhua Line (SZL4) commenced on 16 June 2011 upon opening of the Phase 2 extension. Operational performance has been good and exceeded targets. We also won a tender for a property development above the depot of SZL4, which will allow us to bring our rail and property expertise to the Mainland of China.

We are honoured by the Central Government's support and encouragement of our further development of metro systems in the Mainland of China, as mentioned in the 36 measures for supporting Hong Kong's social and economic development announced by the Vice-Premier of the State Council, Mr Li Keqiang, on 17 August 2011. To this end, we will continue to push forward our railway project in Hangzhou as well as pursue additional lines in Shenzhen and Beijing.

In Europe and Australia, our franchises further improved their performance during 2011.

SUSTAINABILITY AND CORPORATE RESPONSIBILITY

The Company plays a key role in the continued development of Hong Kong, improving mobility within the city and enhancing the quality of life in the communities that we serve.

A major element in sustaining this development is our integrated "Rail plus Property" business model which allows for a financially self-sustaining urban transport system whilst integrating transit-oriented property developments. This model, which has served Hong Kong well, is being examined for use by many cities worldwide, particularly those in the Mainland of China. We are proud that we will be able to pioneer a version of this model in Shenzhen, following the recent acquisition of a development site above the depot of SZL4. In the meantime, in Hong Kong, both the South Island Line (East) and the Kwun Tong Line Extension use this model.

The HKSAR Government has signed on to the APEC (Asia-Pacific Economic Cooperation) agreement to reduce greenhouse gas intensity by 20% by 2020 and we will do our part to meet this standard. During 2011, a new section of our Design Standards Manual focusing on energy efficient railway design has been implemented. It specifies that all new railway projects will consider carbon assessments and will facilitate carbon emissions reduction throughout the project life cycle. An initial assessment of carbon emissions to predict and track emissions has been completed. Tools are now being developed to compare the embodied carbon in our railway infrastructure with our operations, thus allowing a life cycle assessment of carbon emissions. This is a world's first for a railway company.

On a more immediate note, we continue to make considerable investments in ensuring our railway network is accessible to all, including the disabled. We have installed appropriate station facilities and adopted relevant designs for our train compartments, including the installation of external lifts, additional wide gates, associated facilities and aids for the provision of wheelchairs, priority seating and multi-purpose areas in compartments. At the same time, we continue to enhance services through the addition of new trains, installation of automatic platform gates, extra seats at platforms, and the employment of more staff at stations including Elderly Ambassadors and Student Ambassadors.

An important element of corporate responsibility is stakeholder engagement. The four new rail lines now under construction in Hong Kong are being implemented after significant public engagement. In 2011 such engagements included community liaison group meetings with the public and concerned stakeholders, regular updates to the local community and residential groups on site progress, and roving exhibitions in our stations providing details regarding the new rail lines. For the proposed Shatin to Central Link, extensive stakeholder engagement is likewise taking place, with presentations and discussions with local district councils as well as local communities and residents.

More information about our progress as a responsible corporate citizen is presented in our annual Sustainability Report, which is based on the internationally recognised GRI G3 Sustainability Reporting Guidelines.

COMMUNITY CARE ACTION

Our Community Care Action programme that focuses on Youth Development, Community Outreach, Art & Culture and Green & Healthy Living continued its good work during 2011.

As part of our Youth Development scheme, the 100 Senior Secondary Two students selected for our "'Train' for life's journeys" programme in July have benefitted from the multi-dimensional training offered, while the "'Friend' for life's journeys" programme attracted more than 120 secondary school students during the year. In addition, more than 350 students have benefitted from the learning experience through participating in the Customer Service Ambassadors programme since 2006.

Staff members have again been enthusiastic supporters of the "More Time Reaching Community" scheme, participating in a total of 206 volunteering projects held during 2011 involving over 5,600 volunteers. We also lent our support to the Community Chest, raising donations of more than HK$250,000 this year. The "MTR – Part of our Lives" initiative brought life to Tseung Kwan O in June, with young rappers and actors displaying their talent while an exhibition of art by young people looking at past, present and future also caught the attention of the community.

"To achieve our vision we have embarked on a growth strategy encompassing developments in Hong Kong as well as expansion outside of Hong Kong."

Our "art in mtr" programme, which brings artworks into our network, attracted high levels of participation by young people during the year, as children from Hong Kong and other countries exhibited art on the theme of promoting harmonious society and local youngsters exhibited works of traditional Chinese art. Continuing our promotion of Green & Healthy Living, this year's MTR HONG KONG Race Walking event in April 2011 raised a record of more than HK$1.33 million for the Hospital Authority's Health InfoWorld. Since 2005, we have raised over HK$8 million from our race walking events.

RECOGNITION

External recognition for our efforts to excel in many areas of corporate life grows year by year.

These include our development of a professional and motivated workforce. In 2011, the Company was honoured with the prestigious HKMA Gold Quality Award from the Hong Kong Management Association (HKMA), the Hong Kong Most Admired Knowledge Enterprise Award from Hong Kong Polytechnic University and the Excellence in Practice Award and the Excellence in Practice Citation from the American Society for Training and Development.

In September 2011, we were selected as a New Sustainability Champion by the World Economic Forum. This is in addition to our continued inclusion in the Dow Jones Sustainability Indexes, FTSE4Good Index and the Hang Seng Corporate Sustainability Index, as well as being the only Hong Kong company in the 2011 Corporate Knights Global 100 Most Sustainable Corporations in the World (the Global 100).

Many of our marketing efforts have also been given accolades for their flair and innovation, while we also regularly gain recognition for our high levels of service not only in our transport operations worldwide, but in our station commercial and property businesses.

MANAGEMENT TRANSITIONS

During the year, we made a number of changes at the senior management level in order to ensure that the Company continues to have the people and skills it needs to pursue our expansion. This is never an easy task, but I am pleased to report that extensive preparation, together with the in-depth nature of our succession management process, has ensured a smooth transition.

In addition to Jay's appointment, four new Executive Directors have been appointed. Gillian Meller was appointed as Legal Director and Secretary on 1 September 2011, following the retirement of Leonard Turk. David Tang was appointed Property Director on 1 October 2011 upon the retirement of Thomas Ho. Jeny Yeung was promoted to the position of Commercial Director effective 1 September 2011. We also announced that Morris Cheung will be appointed Human Resources Director with effect from 17 July 2012, taking over from William Chan when he retires on 16 July 2012. To facilitate a smooth transition to his new role, Morris became Human Resources Director-Designate on 17 October 2011. I welcome the new directors to the senior management team and express my thanks to Leonard and Thomas for their contributions over their many years at the Company.

CONCLUSION

2011 was a good year for MTR, during which we furthered our vision of connecting and growing communities based on excellent service. I would like to take this opportunity to thank my fellow directors and our staff for their hard work and dedication, as well as our other stakeholders for their valuable contributions.

Dr. Raymond Ch'ien Kuo-fung, *Chairman*
Hong Kong, 8 March 2012

CEO'S REVIEW OF OPERATIONS AND OUTLOOK

Dear Shareholders and other Stakeholders,

It is with great pride that I take up the position of Chief Executive Officer of MTR Corporation. Hong Kong is a world-class city and the MTR is a world-class railway held in the highest regard around the world. This is due to the dedicated efforts of the professional and talented MTR team in seeking continuous improvements and enhancing service levels. While we are expanding Hong Kong's rail network with five new lines to support sustainable growth for the city, our focus on service delivery and meeting the community's needs is more important than ever. And with our wide portfolio of in-house expertise, we will, at the same time, continue to grow our businesses in and outside of Hong Kong.

In 2011, our rail and bus passenger services in Hong Kong (excluding Intercity) carried a record-breaking patronage of 1,687.5 million. I am also pleased to report that despite the record numbers, we maintained very high operational and safety performance. Our train service delivery and passenger journeys on time were again exceptionally high, and exceeded the targets set out in the Operating Agreement. The safety of our passengers is an absolute priority. Our railway operation remains as the safest mode of public transport in Hong Kong, with the lowest casualties per million passengers. According to international benchmarking, our Hong Kong railway operation is among the very best globally in terms of safety.

Financially, we leveraged off the good business conditions prevailing during the year. Revenue from our recurrent businesses in Hong Kong increased as the Hong Kong economy remained buoyant. This, combined with strong visitor arrivals, benefitted passenger numbers as well as our station commercial and property rental businesses. Revenue from our Hong Kong transport operations was also supported by a further upward adjustment of fares under the Fare Adjustment Mechanism in June 2011. In our property development business, profits were booked relating to Festival City and a shopping mall at Area 56 in Tseung Kwan O. The Company's businesses outside of Hong Kong also contributed meaningfully, with particularly good results coming from Beijing and Melbourne.

Total revenue for 2011 increased by 13.2% to HK$33,423 million. Operating profit before property development, depreciation, amortisation and variable annual payment was 11.1% higher at HK$12,124 million. Excluding our railway subsidiaries outside of Hong Kong, revenue increased by 9.1% and operating profit by 9.7%, with operating margin improving by 0.3 percentage point to 55.2%. Property development profit for the year was HK$4,934 million compared to HK$4,034 million in 2010, due mainly to profit bookings from Festival City. Excluding investment properties revaluation and the related deferred tax, net profit from underlying businesses attributable to equity shareholders increased by 20.9% to HK$10,468 million, representing earnings per share of HK$1.81. Gain in revaluation of investment properties was HK$5,088 million pre-tax (HK$4,248 million post-tax) as compared with HK$4,074 million pre-tax for 2010. Therefore net profit attributable to equity shareholders was HK$14,716 million, equivalent to earnings per share of HK$2.55 after such revaluation. Your Board has proposed a final dividend of HK$0.51 per share, giving a full year dividend of HK$0.76 per share, which is an increase of 28.8% compared to the previous year.

Our growth strategy at home and overseas achieved significant milestones. In Hong Kong, construction works began in May 2011 on the important South Island Line (East) and Kwun Tong Line Extension projects, following the signing of Project Agreements with Government for the design, construction, operation and financing of these lines. Meanwhile, throughout the year, construction of the West Island Line and the Hong Kong section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link (Express Rail Link) proceeded according to schedule.

Outside of Hong Kong, we began operations of Phase 2 of Shenzhen Metro Longhua Line (SZL4) in June 2011. Also in Shenzhen, we won a tender for a development site at the SZL4 Depot, which will be our first property development project in the Mainland of China. The Company has also been working jointly with the Hangzhou Metro Group Company Limited on the preparatory works for the Hangzhou Metro Line 1. We continue to await for approval of the project by the National Development and Reform Commission.

"In 2011, our rail and bus passenger services in Hong Kong (excluding Intercity) carried a record-breaking patronage of 1,687.5 million. I am also pleased to report that despite the record numbers, we maintained very high operational and safety performance."

C K Chow
Former CEO
(retired on
31 December 2011)

Jay H Walder
Current CEO
(joined on
1 January 2012)

HONG KONG TRANSPORT OPERATIONS

Total revenue from our Hong Kong transport operations, which comprises rail, bus and other rail related businesses was HK$13,509 million in 2011, an increase of 6.9% over 2010.

Patronage

Total patronage from all of our rail and bus passenger services in Hong Kong (excluding Intercity) for 2011 rose by 5.1% to 1,687.5 million.

Economic growth and buoyant tourist arrivals supported our Domestic Service, which comprises the Kwun Tong, Tsuen Wan, Island, Tung Chung, Tseung Kwan O, Disneyland Resort, East Rail (excluding Cross-boundary Service), West Rail and Ma On Shan lines. Total patronage reached 1,366.6 million, a 5.2% increase over 2010.

The Cross-boundary Service to Lo Wu and Lok Ma Chau reported patronage of 103.9 million in 2011, 3.9% more than in 2010.

Passenger traffic on the Airport Express in 2011 increased by 5.9% over 2010 to 11.8 million, as air travel to and from Hong Kong continued to expand.

Passenger volume on Light Rail, Bus and Intercity was 209.0 million in 2011, a rise of 5.2 %.

Average weekday patronage for all of our rail and bus passenger services in Hong Kong (excluding Intercity) rose by 5.1% in 2011 to 4.8 million, with the majority coming from the Domestic Service at 4.0 million which was 5.2% higher than 2010.

Market Share

The Company's overall share of the franchised public transport market in Hong Kong increased to 45.4% in 2011 as compared to 44.3% in 2010. Within this total, our share of cross-harbour traffic rose to 66.2% from 65.3%. Our market share of Cross-boundary business slightly decreased from 55.0% to 54.5%. The Company's market share to and from the airport rose to 21.8% from 21.6%.

Fare Revenue

Total Hong Kong fare revenue in 2011 was HK$13,357 million, a rise of 7.2% over 2010, with Domestic Service revenue accounting for HK$9,300 million or 69.6% of the total. Average fare per passenger on our Domestic Service increased by 2.0% to HK$6.81, mainly due to changes in fares and travel patterns.

Fare revenue of the Cross-boundary Service in 2011 was HK$2,633 million, a rise of 5.9% when compared with 2010. Fare revenue of the Airport Express was HK$751 million, an increase of 8.2%. Light Rail, Bus and Intercity fare revenue in 2011 was HK$673 million, 10.3% higher than in 2010.

Service and Performance

Our financial results were once again underpinned by good operational performance, as we exceeded the targets set out in the Operating Agreement and our own more demanding Customer Service Pledges.

This high standard of service achieved wide recognition, gaining numerous awards in Hong Kong, not only for our overall performance, but for many specific aspects of our operations such as the Intercity Through Train and our Ktt services to Guangzhou. Recognition beyond Hong Kong included the Customer Satisfaction Quality System of the Year 2010 (Public Transport) award from the Asia Pacific Customer Service Consortium.

Our level of service reflects our continuous spending and investment in maintenance, renewals and improvements to the existing network, which total in excess of HK$4 billion annually.

During 2011, we made a number of service enhancements to the network including more trains, station renovations and better access for the disabled. To increase capacity, ten new trains were procured in 2008, with delivery starting in April 2011. The first such train was put into passenger service in December 2011, having undergone stringent testing and commissioning procedures. Installation of automatic platform gates at eight above ground stations on the Island, Kwun Tong and Tsuen Wan lines was completed in November. We have also hired more people at stations to assist passengers, especially the disabled and elderly.

In addition, during 2011, major renovations were completed in two stations, and such work continues at two other stations. New entrances were completed or are underway at eight stations and more seating added at a number of stations. Numerous enhancements have also been made to wireless and internet connectivity within the MTR system for passengers' convenience, such as increasing 3G data handling capacity.

To make our network more accessible to the disabled, we have continued to modify our train compartments, and we have installed external lifts in many of our stations supplemented by ramp access and wide gates, as well as provided Braille signage in stations.

> *...net profit from underlying businesses attributable to equity shareholders increased by 20.9% to HK$10,468 million, representing earnings per share of HK$1.81.*

To address safety, during 2011 we refined our safety and health governance framework to ensure that high standards are maintained across the Company, including at our subsidiaries and associates world-wide. We also engaged the American Public Transportation Association (APTA) to conduct a review of the safety management system for our Hong Kong railway operations. The review commended MTR for having already implemented a large number of the industry leading safety practices.

HONG KONG STATION COMMERCIAL BUSINESS

Revenue from our Hong Kong station commercial business increased by 19.9% over 2010 to HK$3,422 million, with a marked improvement in station shop rental and advertising revenues.

Station retail revenue rose 11.0% to HK$1,905 million as we increased the number of shops and rental rates. The number of station shops increased from 1,254 at the end of 2010 to 1,294 at the end of 2011, while total area of station retail space increased to 54,932 square metres from 53,880 square metres.

Advertising revenue in 2011 increased by 21.7% over 2010 to HK$893 million, as the better economy drove higher advertising spending, a trend we leveraged off by offering timely and innovative advertising packages.

Revenue from our telecommunications business in 2011 rose 72.4% over 2010 to HK$500 million. The increase was mainly due to one-off receivables arising from the termination of the previous 2G telecommunication contracts. Excluding such one-off receivables, revenue would have increased by 13.1% to HK$328 million, reflecting the increase in administration fees collected from projects including equipment upgrades and capacity enhancements.

PROPERTY AND OTHER BUSINESSES

Central prime office and retail leasing performed well during the year. Retail was supported by the increasing numbers of Mainland visitors, while offices benefitted from the expansion in Hong Kong by Mainland companies and international financial institutions.

Property Development

Profit from property development in 2011 was HK$4,934 million, which mainly comprised our share of profits from Festival City and the shopping mall at Tseung Kwan O Area 56. Good results were achieved in the sale of flats of Phases 1 and 2 of Festival City, whilst pre-sale of Phase 3 was launched in November. As of 31 December 2011, approximately 73% of the 4,264 units in all three phases of Festival City have been sold. We also sold from inventory 42 units in the Palazzo in Fo Tan and 34 units in Lake Silver at Wu Kai Sha.

In our property tendering activities, the Nam Cheong Station tender, where we act as agent for the relevant subsidiaries of Kowloon-Canton Railway Corporation (KCRC), was awarded to Joinyield Limited, a subsidiary of Sun Hung Kai Properties Limited in October 2011. The Tsuen Wan West (TW5) Cityside site, where again we act as agent, was awarded to Denny Investment Limited, a member company of the Chinachem Group in January 2012. We also, on behalf of the relevant subsidiaries of KCRC, obtained approval from the Town Planning Board for the revised Master Layout Plan for the West Rail Line site at Long Ping (North) in July 2011.

Two important additions were made to our property development rights portfolio in 2011. Both the Wong Chuk Hang Depot site and the Ho Man Tin site, with developable gross floor area of 404,500 square metres and 128,400 square metres respectively, were obtained by the Company in May 2011 in order to allow the South Island Line (East) and the Kwun Tong Line Extension to achieve financial viability. The planning brief setting out the development parameters for the Wong Chuk Hang Depot site, which is zoned as a Comprehensive Development Area, was endorsed by the Town Planning Board in November 2011.

Property Rental and Management Businesses

Revenue from our property rental and property management businesses in 2011 was HK$3,215 million, an 8.6% increase over 2010.

Total property rental income in Hong Kong and the Mainland of China rose by 9.4% over 2010 to HK$3,016 million. In Hong Kong, our shopping mall portfolio achieved an average 16% increase in rental reversion for the year. At the end of 2011, the occupancy level of our 12 shopping malls in Hong Kong remained close to 100%, while the Company's 18 floors at Two International Finance Centre were fully leased out.

As at 31 December 2011, the Company's portfolio of investment properties in Hong Kong was broadly unchanged at 226,622 square metres of lettable floor area of retail properties, 41,000 square metres of lettable floor area of offices, and 11,202 square metres of property for other use. The new shopping mall in Tseung Kwan O Area 56, "PopCorn" will open later this year.

As part of our ongoing investment in our retail properties, repartitioning works for the retail floors of Citylink Plaza in Shatin were completed in October 2011.

Ginza Mall in Beijing enjoyed an occupancy rate of 98% at the end of 2011 and achieved an average 5% increase in rental reversion for the year.

Property management revenue in 2011 decreased by 2.0% to HK$199 million, as we adjusted our remuneration rate in light of a competitive market. As at year end 2011, the number of residential units under our management in Hong Kong had risen by 4,200 to 86,162, mainly from the addition of units at Festival City Phases 1 and 2 as well as units from Le Prime of LOHAS Park.

Other Businesses

The Ngong Ping cable car and associated theme village achieved a 13.0% rise in revenue in 2011 to HK$270 million. Visitor numbers for the year were 1.7 million and premium Crystal Cabin rides accounted for some 32% of total rides. The cable car system maintained its reliability rate at over 99% during the year. The cable car service is currently suspended, and is targeted to reopen before Easter for bearing replacement and annual servicing inspection, after a service disruption incident in late January 2012. Preliminary findings indicated that the disruption was caused by irregular wear on the surface of a bearing's inner ring, but this would not have affected the safety of the cable car operations.

Revenue from consultancy business in 2011 was HK$105 million, a decrease of 7.1% from 2010 due to the substantial completion of the Delhi Airport Metro Express Line project.

Octopus continues to expand its reach in the retail sector. By year end 2011, over 4,500 service providers in Hong Kong had adopted the Octopus service. Active cards in circulation were 19.8 million. Average daily transaction volume and value were 12.0 million and HK$117.2 million respectively. The Company's share of Octopus' net profit for 2011 was HK$182 million, 44.4% increase over 2010.

Project management income from KCRC and Government in 2011 was HK$588 million, an 8.9% increase compared to 2010, mainly due to project management fees relating to the Entrustment Agreement for the Express Rail Link.

MAINLAND OF CHINA AND OVERSEAS BUSINESSES

Revenue for the year from our railway subsidiaries outside of Hong Kong, Metro Trains Melbourne Pty. Ltd. (MTM), MTR Stockholm AB (MTRS) and MTR Corporation (Shenzhen) Limited (SZMTR), was HK$12,279 million, an increase of 21.0% over 2010 mainly due to favourable currency movements, additional project revenue generated from MTM and the opening of Phase 2 of SZL4. Operating costs were HK$11,830 million, resulting in a 60.9% increase in operating profit to HK$449 million and an operating profit margin of 3.7%. SZMTR and MTM both recorded financial performances in line with expectations, while MTRS was somewhat below expectation.

Beijing MTR Corporation Limited (BJMTR), which is accounted for as an associate, produced a better than forecast performance, with its financial contribution rising significantly. Among our other associates, the results from

"While we are expanding Hong Kong's rail network with five new lines to support sustainable growth for the city, our focus on service delivery and meeting the community's needs is more important than ever."

London Overground Rail Operations Limited (LOROL) and Tunnelbanan Teknik Stockholm AB (TBT) were in line with expectations. As a result, contribution from these three associates rose by HK$94 million to HK$116 million compared with 2010.

Total passengers carried by our rail subsidiaries and associates outside of Hong Kong was approximately 1,065 million in 2011, against some 850 million in 2010.

Mainland of China

In the Mainland of China, Beijing Metro Line 4 (BJL4) and the Daxing Line operations continued to exceed concession requirements. Ridership in 2011 for the combined line was 377.4 million passenger trips with average daily patronage of over 1 million.

SZL4 Phase 2, the extension to the Shenzhen Metro Longhua Line, opened for service in June 2011. Operational performance has been good, again exceeding concession requirements. Ridership for 2011 was 60.5 million passenger trips, with a daily average of 255,300 after Phase 2 opening.

Our wholly owned subsidiaries, SZMTR and MTR Property (Shenzhen) Co Ltd, won the bid for Phase 1 of the Longhua Depot Site in August 2011 at a base tender price of approximately RMB2,000 million. The total developable gross floor area of the site is approximately 206,167 square metres.

Overseas

In London, the operations of LOROL benefitted from the opening of Phase 1a of the East London Line in February 2011, further improving passenger connectivity. LOROL retained its position as one of the UK's top performing train operating companies and won the Special Judges Award in the National Rail Awards.

In Stockholm, MTRS operations have continued to show improvements in train availability and punctuality.

In Melbourne, operational issues, in particular the unusual and adverse wet weather, severely impacted performance delivery. However, the implementation of the first phase of the revised timetable and the lifting of certain speed restrictions have delivered improvements in train reliability and service delivery.

FUTURE GROWTH

Good progress was made on the five major projects which, when completed, will add 56 km of new railway to our network in Hong Kong.

Growth in Hong Kong

Three of our Hong Kong railway extension projects, namely the West Island Line, South Island Line (East) and Kwun Tong Line Extension, will be financed and owned by the Company. The remaining two, namely the Express Rail Link and the Shatin to Central Link, will be financed and owned by Government and the Company will be invited to operate and maintain these lines under the "Service Concession" model.

The 3-km West Island Line, which is an extension of the Island Line, is targeted to open in 2014. Construction activities for this line are progressing well. In April 2011, the new David Trench Rehabilitation Centre and Phase 1 of the Kennedy Town Swimming Pool were handed over to their respective operators. The challenging 54-hour shutdown of Sheung Wan Station to enable the track re-configuration works at the station was successfully completed in August 2011. Tunnel boring connecting Sheung Wan to Sai Ying Pun has commenced, and the first section of railway tunnel between Sai Ying Pun and Hong Kong University was broken through. All Electrical and Mechanical (E&M) contracts have now been awarded.

In May 2011, the Company entered into Project Agreements with Government for the construction and operation of the South Island Line (East) and the Kwun Tong Line Extension. Construction activities for both projects commenced immediately thereafter, and we continue to engage with the public and concerned stakeholders as these projects progress through the construction phase. As noted, these lines use the "Rail plus Property" model.

The 7-km South Island Line (East) will extend MTR services from Admiralty to the Southern District of Hong Kong Island, with a train depot located in Wong Chuk Hang. Most major civil construction contracts have been awarded and works are progressing well. Procurement for the E&M contracts is also progressing well, while the critical advance works to relocate the Admiralty Distribution Substation were substantially completed by January 2012.

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. Construction works started in May 2011 and all civil and E&M contracts were awarded by January 2012.

The 26-km Express Rail Link, which is being funded by Government, will provide high speed cross-boundary rail services connecting Hong Kong to Shenzhen, Guangzhou and the high speed intercity passenger rail network in the Mainland of China. Services are expected to start in 2015. The Government has entrusted the design and construction of the line to the Company and has agreed to invite the Company to operate the railway service on a concession basis upon completion.

Tunnelling works for the Express Rail Link have made substantial progress this year. The first tunnel boring machine commenced operations at Mai Po in September 2011. Some of the E&M contracts and the final major civil works contract for the West Kowloon Terminus were awarded during the year.

As with operations, safety is a top priority for all of our construction projects, which generally lead the Hong Kong construction industry in safety performance. With four major railway projects under way and over 7,000 workers on our sites, the imperative for safety is even greater than ever. In 2011 we were saddened to lose two workers to fatal accidents on our sites, even though we were able to maintain a very low accident rate. We will continue to strive for zero fatalities and work in close partnership with our contractors in order to achieve this. As a result, we rolled out five new initiatives to increase safety awareness and enhance safe working practices at our sites during the year.

In February 2011, the Finance Committee of the Legislative Council (LegCo) approved the advance funding for the construction of the 17-km Shatin to Central Link's share of enhancements to Admiralty Station as well as the new Ho Man Tin Station, and the non-railway works for the re-provisioning of the New International Mail Centre. This was followed in May by the signing of the Entrustment Agreement with Government for the design and construction of the advance railway works and the non-railway works.

Two scheme amendments were gazetted under the Railways Ordinance on 15 July and 11 November 2011 to amend the scheme in order to suit the design development. We continue our discussions with Government on the entrustment agreement to implement the Shatin to Central Link.

The Company is also supporting and responding to Government's Review and Update of the Second Railway Development Study (RDS-2U). The study will determine which future railway projects would best support economic prosperity in Hong Kong and the Mainland of China.

Growth in the Mainland of China

We reached an agreement with Hangzhou Metro Group Limited in 2010 to establish a joint venture, in which MTR Corporation holds 49% and Hangzhou Metro Group Limited holds 51%, to operate Hangzhou Metro Line 1. We continue to await approval of the project by the National Development and Reform Commission. Pre-operational activities, including recruitment and training, have been underway since the second half of 2011 and the line is expected to open towards the end of 2012.

FINANCIAL REVIEW

Revenues increased by 13.2% to HK$33,423 million with increases of 21.0% in revenues from our railway subsidiaries outside of Hong Kong and 9.1% from our predominately Hong Kong businesses. Excluding our railway subsidiaries outside of Hong Kong, revenues from transport operations increased by 6.9%, station commercial by 19.9%, property rental and management by 8.6%, and other businesses by 7.9%. Total operating costs were higher by 14.5%, at HK$21,299 million, of which HK$11,830 million relate to railway subsidiaries outside of Hong Kong where currency movements impact such costs. Excluding these Mainland and overseas subsidiaries, operating costs increased by 8.4% as cost increases beyond those required to support revenue growth were incurred for service enhancement and compliance with the Minimum Wage Ordinance. The resulting operating profit before property developments, depreciation, amortisation and variable annual payment (VAP) increased by 11.1% to HK$12,124 million. Operating margin decreased by 0.7 percentage point to 36.3% due to the increased contribution from lower margin railway businesses outside of Hong Kong. Excluding railway subsidiaries outside of Hong Kong, operating margin improved by 0.3 percentage point to 55.2%. Property development profits in 2011, coming mainly from Festival City and the Tseung Kwan O Area 56 shopping mall, were HK$4,934 million. The VAP charge, on a full year basis, was HK$647 million for 2011. After accounting for depreciation and amortisation of HK$3,206 million, interest and finance charges of HK$921 million, investment property revaluation gains of HK$5,088 million, share of profits of non-controlled subsidiaries and associates of HK$297 million and income tax of HK$2,821 million, net profit attributable to equity shareholders of the Company in 2011 increased by 22.0% to HK$14,716 million, or HK$2.55 per share. Excluding investment property revaluation, underlying profit increased by 20.9% to HK$10,468 million, or HK$1.81 per share.

As at 31 December 2011, the Group's net assets increased by 10.0%, to HK$129,045 million, with total assets and total liabilities increasing by 8.9% and 6.9% respectively. The increase in total assets was mainly due to investment property revaluation gains, intake of the shopping mall at Tseung Kwan O Area 56, capitalisation of further construction costs of SZL4, South Island Line (East) and Kwun Tong Line Extension and land premium for the SZL4 Depot site, as well as additional residential properties held in inventory and accounts receivables from our property development business. The increase in total liabilities was mainly due to increase in debt and a higher tax provision on profits earned in 2011. The construction cost of the West Island Line continued to be set off against the Government grant previously received which has been carried on the balance sheet as a liability. The Group's net debt-to-equity ratio decreased from 12.8% to 11.9%.

During the year, the Group generated pre-tax cash inflow from operating activities of HK$12,489 million, an increase of 4.8%. Taking into account the Shenzhen government subsidy received relating to SZL4 operations and the cash tax paid, net cash inflow from operating activities was HK$11,024 million. Cash receipts from property developments were HK$3,593 million, of which HK$2,000 million related to the final repayment of the interest free loan extended to the developer for Tseung Kwan O Area 86 Package 2. Including other cash receipts of HK$348 million, total cash inflow in 2011 amounted to HK$14,965 million. Total cash outflow in the same period was HK$15,162 million, comprising mainly HK$10,043 million of capital expenditures, HK$795 million of fixed and variable annual payments, HK$421 million of net interest payment and HK$3,842 million of dividend payments. As a result, the Group's net cash outflow was HK$197 million. Including the HK$1,000 million received from maturing security investments and a net loan drawdown of HK$1,979 million, the Group's cash balance increased by HK$2,782 million to HK$16,100 million at 2011 year-end.

In line with our progressive dividend policy, the Board has recommended a final dividend of HK$0.51 per share, which, when added to the interim dividend of HK$0.25 per share, gives a total dividend of HK$0.76 per share for the year, an increase of HK$0.17 per share or 28.8% from last year.

HUMAN RESOURCES

Together with our controlled subsidiaries, we employed 14,444 people in Hong Kong and 6,851 outside of Hong Kong as at 31 December 2011. During 2011, we continued to recruit and train people in support of our business expansion. A total of 1,525 new hires, including Graduate Engineers, Graduate Trainees and Functional Associates, joined the Company during the year and the apprenticeship scheme has been expanded. Our competitive remuneration package, career opportunities, harmonious staff relations and supportive work environment have contributed to our low staff turnover rate of 3.3%, despite a keen employment market. Our success in maintaining a motivated workforce was recognised in numerous awards locally and overseas.

Engaging staff is the key to maintaining our high standards of operation, and various motivational schemes have been put in place, including the MTR Grand Awards for Outstanding Contribution and Living the MTR Values Awards to recognise staff's outstanding contributions and their commitment to the MTR values. These have been supported by our new digital display system, and a series of short motivational

“Our level of service reflects our continuous spending and investment in maintenance, renewals and improvements to the existing network, which total in excess of HK$4 billion annually.”

videos named "MTR People Making a Difference" to strengthen connection with our staff. Staff engagement is further strengthened by the Enhanced Staff Communication Programme under which over 5,100 sessions were organised involving more than 50,000 participating headcount, effectively enhancing direct communication between line managers and staff.

To stimulate innovation, two years ago we embarked on a programme to enhance MTR as a learning organisation. The IT platforms to facilitate knowledge transfer are now well-established, and corporate-wide learning and development events help equip staff with necessary competencies and sustain learning momentum. The idea of "Teamnovation" is used to highlight the need for collaboration and innovation. Our strategy focuses on self, team and global perspectives, using innovative communication and creative activities, such as drama-based innovative thinking learning videos.

We also have a strong work improvement culture that ensures continuous improvement in the way we operate. This is formalised in our Work Improvement Team (WIT) "You have a Say" Programme. The Company benefits from cost saving and the streamlining of work processes resulting from WIT projects. At the same time, the WIT culture encourages staff members to improve themselves personally and professionally, helping the Company to meet business challenges.

Individualised people development programmes have continued to identify and develop talent at different levels, both in Hong Kong and our operations outside of Hong Kong. Training and development courses during 2011 provided employees with the skills they need, with a total of 5,892 courses held.

COMMUNITY ENGAGEMENT

MTR is committed to enhancing the quality of life through a process of engagement with the communities we serve. The views and needs of our passengers are very important, and to serve the communities along our existing network better, we have regularly held open meetings and communications with our customer such as the "MTR Opinion Zone" held in various stations, regular customer surveys, as well as live phone-in radio programmes. As for the new railway projects under construction in Hong Kong, we have held various community liaison meetings to take into consideration the opinions and requirements of local communities in our new railway alignments and station designs as well as to minimise disruption to communities caused by the construction activities.

OUTLOOK

Global economic conditions remain challenging, with global growth likely to be weak thereby also impacting growth in Hong Kong. In this environment we may see a slow-down in the rate of patronage growth in our Hong Kong railway business. With generally a 3-year rent cycle, our station commercial and property rental are stable businesses and rental reversions in 2012 will be dependent on prevailing market rates. Our advertising business is more economically sensitive and growth rates may be tempered if economic growth weakens.

In our property development business, profit booking at the Che Kung Temple development will be dependent on the progress of pre-sales as well as the issuance of the Occupation Permit. It is currently expected that the Occupation Permit will be issued in late 2012.

For our property tendering activity from now until the end of 2012, subject to market conditions, we may tender out the Tai Wai Station and the smaller Tin Shui Wai sites. For West Rail development sites, where we act as agent for the relevant subsidiaries of KCRC, we may tender out the Long Ping (North), Long Ping (South) and re-tender Tsuen Wan West Station (TW5) Bayside sites.

Finally I would like to say again what a great honour it is to lead MTR into the future. I also take this opportunity to thank my predecessor, C K Chow, my fellow directors and all my colleagues at MTR for their support.

Jay H Walder, *Chief Executive Officer*
Hong Kong, 8 March 2012

KEY FIGURES

	2011	2010	% Increase/ (Decrease)
Financial highlights *(HK$ million)*			
Revenue			
– Hong Kong transport operations	**13,509**	12,635	6.9
– Hong Kong station commercial business	**3,422**	2,853	19.9
– Property rental and management businesses	**3,215**	2,961	8.6
– Railway subsidiaries outside of Hong Kong	**12,279**	10,144	21.0
– Other businesses	**998**	925	7.9
Operating profit before property developments, depreciation, amortisation and variable annual payment	**12,124**	10,917	11.1
Profit on property developments	**4,934**	4,034	22.3
Operating profit before depreciation, amortisation and variable annual payment	**17,058**	14,951	14.1
Profit attributable to equity shareholders	**14,716**	12,059	22.0
Profit attributable to equity shareholders arising from underlying businesses	**10,468**	8,657	20.9
Total assets	**197,873**	181,665	8.9
Loans, other obligations and bank overdrafts	**23,168**	21,057	10.0
Obligations under service concession	**10,724**	10,749	(0.2)
Total equity attributable to equity shareholders	**128,859**	117,150	10.0
Financial ratios			
Operating margin *(%)*	**36.3**	37.0	(0.7%) pt.
Operating margin (excluding railway subsidiaries outside of Hong Kong) *(%)*	**55.2**	54.9	0.3% pt.
Net debt-to-equity ratio* *(%)*	**11.9**	12.8	(0.9%) pt.
Return on average equity attributable to equity shareholders *(%)*	**12.0**	10.8	1.2% pts.
Return on average equity attributable to equity shareholders arising from underlying businesses *(%)*	**8.5**	7.7	0.8% pt.
Interest cover *(times)*	**16.4**	10.5	5.9 times
Share information			
Basic earnings per share *(HK$)*	**2.55**	2.10	21.4
Basic earnings per share arising from underlying businesses *(HK$)*	**1.81**	1.51	19.9
Dividend per share *(HK$)*	**0.76**	0.59	28.8
Share price at 31 December *(HK$)*	**25.15**	28.30	(11.1)
Market capitalisation at 31 December *(HK$ million)*	**145,490**	163,364	(10.9)
Operations highlights			
Total passenger boardings in Hong Kong			
– Domestic Service *(million)*	**1,366.6**	1,298.7	5.2
– Cross-boundary Service *(thousand)*	**103,881**	99,954	3.9
– Airport Express *(thousand)*	**11,799**	11,145	5.9
– Light Rail *(thousand)*	**161,289**	154,522	4.4
Average number of passengers *(thousand)*			
– Domestic Service *(weekday)*	**3,968**	3,770	5.2
– Cross-boundary Service *(daily)*	**284.6**	273.8	3.9
– Airport Express *(daily)*	**32.3**	30.5	5.9
– Light Rail *(weekday)*	**450.7**	433.0	4.1
Fare revenue per passenger *(HK$)*			
– Domestic Service	**6.81**	6.67	2.0
– Cross-boundary Service	**25.35**	24.89	1.8
– Airport Express	**63.62**	62.28	2.1
– Light Rail	**2.73**	2.65	3.0
Proportion of franchised public transport boardings *(%)*	**45.4**	44.3	1.1% pts.

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

KEY EVENTS IN 2011

JANUARY

Three-colour recycle bins were introduced in all stations, making it easier for passengers to contribute to the protection of the environment and so taking a step closer to a low carbon lifestyle.

The first modernised Light Rail vehicle re-entered passenger service in the Northwest New Territories sporting a smart new look in bright green, purple and white, following its major upgrade.

FEBRUARY

The Company introduced a series of new measures to improve communication with passengers in the event of train service suspension.

The Company launched a job fair for the construction industry, offering over 2,000 construction related jobs. The event aimed to promote the construction industry to the public and to promote its sustainable development by attracting more young people into the industry.

The Finance Committee of the Legislative Council approved the advance funding for the construction of the Shatin to Central Link portion of Admiralty and Ho Man Tin stations.

MARCH

The Company was awarded two "Corporate Caring Awards" in "The 18th Outstanding Volunteers Award Scheme" organised by the Hong Kong Sheng Kung Hui Welfare Council. The awards are designed to recognise organisations for their generous contributions to social and volunteer services for the community.

APRIL

A record 1,600 race walkers took part in the MTR HONG KONG Race Walking 2011 to promote good health. The event raised more than HK$1.33 million for the Hospital Authority's Health InfoWorld to support its work on disease prevention and health education, the highest amount raised yet.

Two eye-catching trains dressed in the top 16 designs selected from more than 19,700 entries in the Company's "DIY Train Car Design Contest" debuted on the Tsuen Wan and Island lines.

MTR Mobile Applications scooped the Best Lifestyle Grand Award and Best Ubiquitous Networking (Mobile Infotainment Application) Gold Award in the Hong Kong Information and Communications Technology (HKICT) Awards 2011.

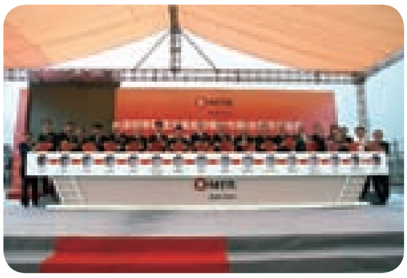
MAY

The Company entered into Project Agreements with Government for the design, construction, operation and financing of the South Island Line (East) and the Kwun Tong Line Extension. At the same time, an Entrustment Agreement for the design and construction for the Advance Works of the Shatin to Central Link was also signed.

London Overground Rail Operation Limited became one of the best-performing UK franchise operators according to the national performance charts for the year ending April 2011.

JUNE

The Company commenced full line operation of the Shenzhen Metro Longhua Line.



The Group issued its debut 2-year RMB 1 billion Dim Sum Bond with a historical low coupon rate of 0.625% per annum.

The Company's fine training practices were honoured in the US, reaping the Excellence in Practice Award and the Excellence in Practice Citation from the prestigious American Society for Training and Development.

The Company adjusted fares in accordance with the Fare Adjustment Mechanism.

JULY

The Company appointed Mr Jay Walder as Chief Executive Officer with effect from 1 January 2012.

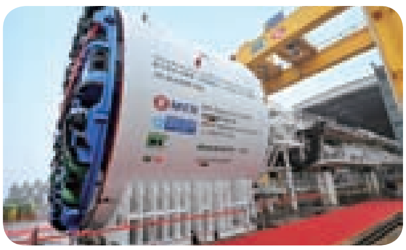
The Company held a ground-breaking ceremony for the Kwun Tong Line Extension construction works.

Rainbow-coloured platform seats were introduced on the Tsuen Wan, Kwun Tong and Island lines.

AUGUST

Major track re-configuration works were successfully completed at Sheung Wan Station, following a 54-hour station closure, to enable the West Island Line extension.

The first tunnel boring machine for the Express Rail Link was launched. Its name "Zhao-jun" signifies enhanced connectivity between Hong Kong and the Mainland of China. The machine will be used to build the section between Mai Po and Ngau Tam Mei in Yuen Long.



The Company's wholly-owned subsidiaries, MTR Corporation (Shenzhen) Limited and MTR Property (Shenzhen) Company Limited, won the land use rights for a site at the Shenzhen Metro Longhua Line depot, which will be developed for residential and commercial use.

SEPTEMBER

The Company's Information Security Enhancement Programme scooped the Best Security Strategy Award in the ninth annual MIS Asia IT Excellence Awards, held in Singapore.

Pre-sale of La Splendeur in LOHAS Park was launched.

OCTOBER

The Company enlisted the Hong Kong Repertory Theatre to produce the original drama MTR x Hong Kong Repertory Theatre: Master of Railway Safety School Tour 2011-12. This is the first collaboration of its kind to integrate performance art with railway safety education. During the current academic year, the interactive play is being presented for free to 20,000 primary school students in a tour of 50 schools.

The Company organised a second job fair for the construction industry offering over 1,500 job vacancies.

Pre-sale of The Wings in Tseung Kwan O was launched.

NOVEMBER

All 84 stations plus the Ktt Intercity Through Train became equipped with Automated External Defibrillators. These are used to administer electric shocks to patients suffering from cardiac arrest and will improve the Company's ability to respond to passengers who require such medical attention.

A new-look more spacious East Concourse was introduced at Sheung Wan Station, with a new Customer Service Centre of an open and welcoming design.

Installation works for the Automatic Platform Gate Retrofit Project at eight above-ground and at-grade MTR stations were completed.

Pre-sale of Phase 3 of Festival City was launched.

DECEMBER

New trains entered service on the Kwun Tong Line. They feature curved grab rails at the end of seats to make compartments more spacious, as well as improved lighting and ventilation systems. Sound dampening floors and rubber seals around door frames reduce noise coming in from the outside.

SERVICE
IN MOTION

HONG KONG TRANSPORT OPERATIONS

Over
$4 billion
annual spending and investment in maintenance, renewals and improvements to the network

31
Fare Saver Machines
offer discounts to passengers

1,348
Useful Customer Comments
collected by MTR Opinion Zone

Total revenue from Hong Kong transport operations in 2011 was HK$13,509 million, an increase of 6.9% over 2010. The revenue increase reflects a strong economy, and the application of the Fare Adjustment Mechanism in June 2010 and June 2011.

PATRONAGE

Total patronage from all of our rail and bus passenger services in Hong Kong (excluding Intercity) in 2011 rose by 5.1% compared to last year to 1,687.5 million.

Economic growth and buoyant tourism supported our Domestic Service, which comprises the Kwun Tong, Tsuen Wan, Island, Tung Chung, Tseung Kwan O, Disneyland Resort, East Rail (excluding Cross-boundary Service), West Rail and Ma On Shan lines. Total patronage reached 1,366.6 million, a 5.2% increase over 2010.

The Cross-boundary Service to Lo Wu and Lok Ma Chau reported patronage of 103.9 million in 2011, 3.9% more than in 2010, as the flow of travellers from the Mainland of China continued to rise.

The Airport Express saw passenger numbers in 2011 increase by 5.9% over 2010 to 11.8 million, as air travel to and from Hong Kong continued to expand.

Passenger volume on Light Rail, Bus and Intercity was 209.0 million in 2011, a rise of 5.2 % over last year.

AVERAGE WEEKDAY PATRONAGE

Average weekday patronage for all of our rail and bus passenger services in Hong Kong (excluding Intercity) rose by 5.1% in 2011 to 4.8 million, with the majority coming from the Domestic Service at 4.0 million, 5.2% higher than 2010.

MARKET SHARE

The Company's overall share of the franchised public transport market in Hong Kong increased to 45.4% in 2011 as compared to 44.3% in 2010. Within this total, our share of cross-harbour traffic rose to 66.2% from 65.3%. Our market share of Cross-boundary business slightly decreased from 55.0% to 54.5%. The Company's market share to and from the airport rose to 21.8% from 21.6%.

FARE REVENUE

Total Hong Kong fare revenue in 2011 was HK$13,357 million, a rise of 7.2% over 2010, with Domestic Service revenue accounting for HK$9,300 million or 69.6% of the total. Average fare per passenger on our Domestic Service increased by 2.0% to HK$6.81, mainly due to changes in fares and travel patterns.

Extensive training ensures a diligent and helpful attitude from frontline staff

Fare revenue of the Cross-boundary Service in 2011 was HK$2,633 million, a rise of 5.9% when compared with 2010. Fare revenue of the Airport Express was HK$751 million, an increase of 8.2%. Light Rail, Bus and Intercity fare revenue in 2011 was HK$673 million, 10.3% higher than in 2010.

Other rail-related revenue in 2011 was HK$152 million, 13.6% lower than 2010. Other rail-related revenue includes income from Intercity ancillary works, works on behalf of third parties, Octopus service fees and by-law infringement surcharges.

FARE ADJUSTMENT

An increase in fares was implemented under the annual Fare Adjustment Mechanism on 19 June 2011. This resulted in a weighted average increase of 2.2% to applicable fares.

SERVICE PROMOTIONS

Effective promotions throughout the year supported patronage. These included "Ride $100 for Free Ticket" and Outlying Island interchange discounts for passengers interchanging at Central or Hong Kong stations. New Fare Saver machines were installed at two shopping centres, bringing the number in service to 31 at the end of 2011.

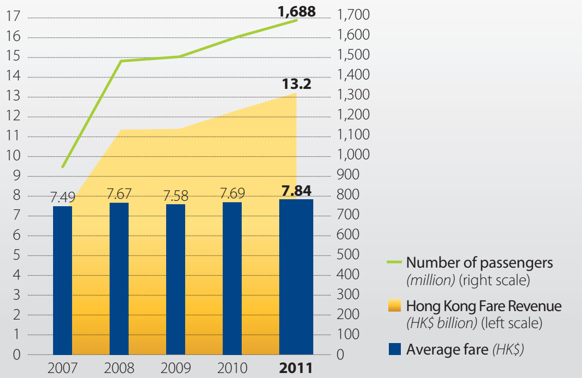
New station entrances add to convenience and to the urban architecture

A year-round Tourist Value Pack Promotion bundled with discount coupons for key tourist attractions was offered. To stimulate cross-boundary journeys, travel passes for tourists taking day-trips to Hong Kong, as well as Through Train weekend packages for Intercity travellers and various other promotions were introduced. A special edition of the Disneyland Resort Line Day Pass was launched to support the celebration of the attraction's fifth anniversary. Promotions on the Airport Express were launched, including a double bonus offer for Airport Express "Ride to Rewards" programme members, and an extended joint promotion with Asia Miles.

The revamped MTR web site and marketing campaigns drew more people to the MTR Club, with membership rising to over 1.2 million at the end of 2011. MTR Mobile was extended to serve Google Android users, and enhanced Apple iOS versions were launched to provide more information about journeys and stations facilities. Since its launch in 2010, MTR Mobile has received 11 awards, including the Best Lifestyle Grand Award

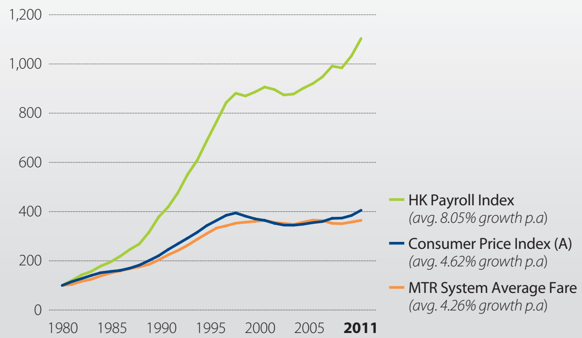
PASSENGERS AND FARES (HONG KONG TRANSPORT OPERATIONS EXCLUDING INTERCITY)

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



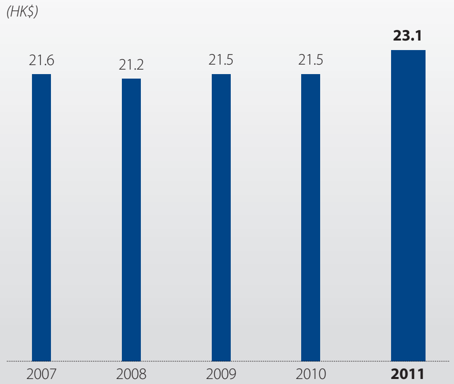
FARE TREND

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



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.



CORPORATE RESPONSIBILITY HIGHLIGHT

PROTECTING THE ENVIRONMENT

The Lok Ma Chau wetland enhancement project was designed to compensate for the ecological habitat loss due to the Lok Ma Chau Spur Line Project.

Over the years we have managed this wetland successfully, providing a suitable habitat for seasonal water birds to breed, including the rare White-shouldered Starling and Black-faced Spoonbill. In 2011, a total of 84 artificial nest boxes were provided within the Lok Ma Chau and West Rail wetlands during the breeding season, from which a total of 137 broods were hatched resulting in 544 chicks.

and the Best Ubiquitous Networking (Mobile Infotainment Application) Gold Award in the Hong Kong Information and Communications Technology (HKICT) Awards 2011.

SERVICE PERFORMANCE AND MARKET RECOGNITION

The Company's performance standards exceeded those set out in the Operating Agreement and our own more demanding Customer Service Pledges. Train service delivery, passenger journeys on time and train punctuality were all at a level of 99.7% or above.

Our high standard of service again achieved wide recognition, gaining numerous awards in Hong Kong. Awards received for our overall good service performance included the Sing Tao Excellent Services Brand Award 2010 in the Public Transportation Category from Sing Tao Daily, as well as the Hong Kong Service Awards 2011 in the Public Transportation Category and Corporate Responsibility Award, both given by East Week Magazine. Recognition beyond Hong Kong included the Customer Satisfaction Quality System of the Year 2010 (Public Transport) award from the Asia Pacific Customer Service Consortium. The Intercity Through Train and Ktt also won important awards.

Customer satisfaction as recorded by our regular surveys remained high during 2011. The Service Quality Index for Domestic and Cross-Boundary services and for the Airport Express rose to 74 and 84 respectively, from 73 and 83 in 2010. The Fare Index for the two segments, which measures the level of customer satisfaction with fares, changed to 64 and 70 from 65 and 67 over the past year.

Besides operations on normal days, MTR has also kept Hong Kong moving on special days, such as maintaining train services during tropical cyclones as well as operating enhanced or overnight train services during festive periods such as Christmas, New Year and Chinese New Year. With the increasing patronage in our network, the weekday patronage record was broken three times over the year and achieved a record high of 5.47 million rail and bus passenger journeys on 30 September 2011.

SERVICE IMPROVEMENTS

Our level of service reflects our continuous spending and investment in maintenance, renewals and improvements to the existing network, which total in excess of HK$4 billion annually. During 2011 we maintained our programme of investment in the upgrading of our stations and rolling stock. Such investments included more trains, station enhancements and better access for the disabled.

In 2011, renovations were completed at Mong Kok East and Shatin stations and work continues at two other stations. Hung Hom Station Through Train Departure Hall was improved with new seating, and installation of 12 large screen displays to broadcast infotainment, advertisements and train service information. The VIP Rooms at Hung Hom, Lok Ma Chau and Lo Wu stations were also renovated.

HONG KONG TRANSPORT OPERATIONS

Installation of automatic platform gates at eight above ground stations on the Island, Kwun Tong and Tsuen Wan lines was completed in November. Numerous enhancements have been made to wireless and internet connectivity for passengers' convenience, including free Wi-Fi coverage at iCentre at 14 stations. The public toilets in Hong Kong Station were refurbished and new toilet facilities were installed in Quarry Bay and Ngau Tau Kok stations.

Delivery of the first of ten new trains, which were procured in 2008 to enhance service, started in April 2011 and the trains began undergoing test runs on the Kwun Tong Line in October 2011, as part of the final stage of commissioning prior to entering service. By year end 2011, seven of the new trains had been delivered, with the remaining units due to arrive in 2012. The first such train was put into passenger service in December 2011. The trains come with new features such as 22-inch colour LCD panels, CCTV, enhanced air-conditioning and lighting. The first modernised Phase I Light Rail vehicle re-entered passenger service in January 2011, as part of a programme to upgrade these cars in phases over the next five years.

Well designed interiors allow for a smooth flow of passengers, despite the millions using the network

The MTR network provides a model for sustainable transport

Track maintenance is managed with minimal disruption to train services

SERVICE CONNECTIVITY

An important aspect of service connectivity is to ensure minimum disruption to services as we carry out our extension projects. In this regard, the 54-hour change-over works at Sheung Wan Station in August 2011 to enable future connection of the West Island Line were very successful. The station was closed from night-time on Friday 5 August to early morning on Monday 8 August. A replacement bus service was provided throughout the closure period.

Our programme of works to add and enhance station entrances and connections continued. A new footbridge connection was opened at Kwai Hing Station and a new entrance at Lai Chi Kok Station. Works are in progress on a new entrance at Tseung Kwan O Station, a connection to Hysan Place at Causeway Bay Station, footbridges connecting new entrances at Che Kung Temple Station, and a new entrance at University Station. These projects are scheduled for completion during 2012. The connection of Club Street Subway to Central Station is also progressing with a target for completion in 2013. Projects at Tuen Mun, Yuen Long, Tsim Sha Tsui and Wan Chai stations are also at various stages of planning and approval for target completion between 2013 and 2015.

ACCESS TO THE NETWORK FOR THE DISABLED

An important goal is to ensure that our service is available to all potential travellers, including the disabled and elderly.

The installation of external passenger lifts to improve access was completed at Wong Tai Sin Station and approval has been obtained for installation at Shek Kip Mei Station. Design work for additional wide gates at eight stations was completed, ready for installation in 2012. Associated facilities for the provision of Wheelchair Aids at entrances to Diamond Hill and Quarry Bay stations were installed. New public toilets, including toilets for the disabled, were added to the concourses of Ngau Tau Kok and Quarry Bay stations.

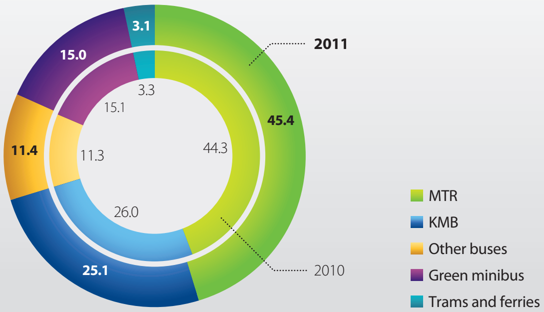
The introduction of priority seating in trains commenced in 2011 and all trains on the MTR network will have these by the end of 2012. Passenger information campaigns designed to encourage passengers to give up their seats have accompanied the installation programme.

In addition, to facilitate wheelchair users, our train compartments have now been fitted with multi-purpose areas. Work for the provision of safety belts and back rests within the multi-purpose and wheelchair space in all Light Rail vehicles started in the final quarter of 2011 and will be completed by the end of 2012.

MARKET SHARES OF MAJOR TRANSPORT OPERATORS IN HONG KONG

The Company's overall market share increased from 44.3% in 2010 to 45.4% in 2011.

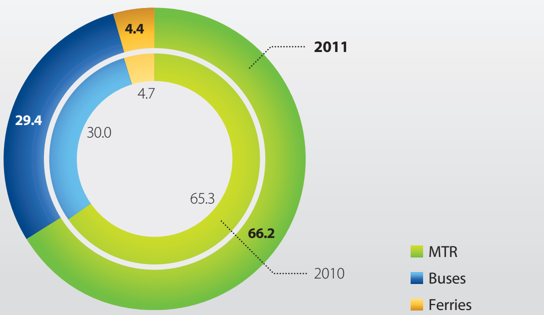
(Percentage)



MARKET SHARES OF MAJOR TRANSPORT OPERATORS CROSSING THE HARBOUR

The Company's market share of cross-harbour traffic rose to 66.2%.

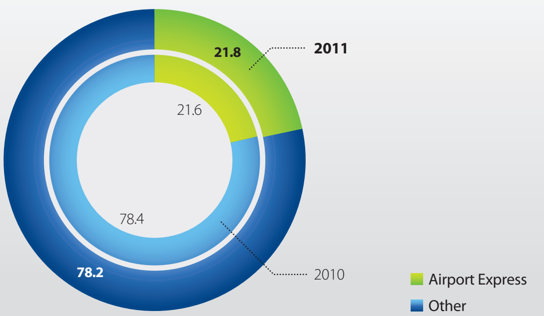
(Percentage)



MARKET SHARE OF AIRPORT EXPRESS

The proportion of air passengers using the Airport Express increased.

(Percentage)



Passenger information has also been made easier for the visually impaired. A train arrival public address system announcing train arrivals was introduced at all Light Rail stops during the year, and work has continued on extending tactile guide paths to cover the full platform length of East Rail Line stations. Braille maps and Braille plates on stair handrails were installed during 2011 at 13 stations.

HEALTH AND SAFETY ON THE NETWORK

As in previous years, safety campaigns such as the Train Door Safety Campaign, Escalator Safety Campaign and Light Rail and Bus Road Safety Campaign helped enhance safety awareness among MTR passengers. In addition, a number of joint exercises and smoke tests were conducted in different lines and depots.

New automatic platform gates to improve platform conditions

To improve our response to medical emergencies, automated external defibrillators have been introduced to all MTR stations and Ktt Intercity Through Train since November 2011. All station supervisors have been trained on applying cardiopulmonary resuscitation and in the use of the equipment.

To address safety, during 2011 we refined our safety and health governance framework to ensure that high standards are maintained across the Company, including at our subsidiaries and associates world-wide. We also engaged the American Public Transportation Association (APTA) to conduct a review of our safety management system. The review commended MTR for having already implemented a large number of the industry leading safety practices.

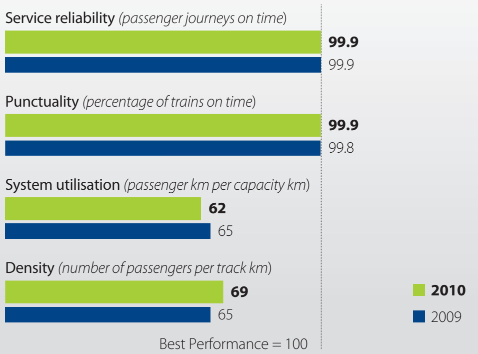
PRODUCTIVITY

To enhance our productivity and reduce impact to the environment, we are implementing a series of energy conservation programmes. Conventional fluorescent lighting is being replaced by more energy-efficient and longer life Light Emitting Diode (LED) lights on the 136 MTR trains running on the Disneyland Resort, Urban and Tung Chung lines and the

BENCHMARKING COMPARISONS

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

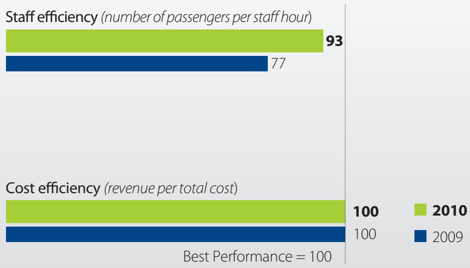
MTR performance vs. Best Performance



STAFF EFFICIENCY AND COST EFFICIENCY

New initiatives continue to be introduced to enhance operating efficiency.

MTR performance vs. Best Performance



Airport Express. This is projected to produce annual savings of more than 3GWh of electricity and 2,100 tonnes of carbon emission upon completion in 2014. Replacement of 129 advertising panels at Choi Hung and Hung Hom stations with LED lighting, together with energy optimisation of lighting on the Ma On Shan Line stations, will yield further savings.

Our three office buildings in Kowloon Bay, Fo Tan and Kam Tin completed installation of 39 units of "sun-savers" during the year to help reduce energy consumption. Further savings were realised in 2011 from the adjustment of tunnel ventilation between Tseung Kwan O Station and the depot.

One of our key measures of productivity is cost per car-km. For 2011, this was HK$23.1, an increase of HK$1.6 over last year, due to the increase in expenditure on enhancing our service and system. The operating margin for our Hong Kong transport business therefore decreased by 0.5 percentage point to 45.6%.

Rising air travel boosted passengers on the Airport Express

SYSTEM AND MARKET INFORMATION

Railway operation data	2011		2010	
Total route length *(km)*	**218.2**		218.2	
Number of rail cars	**1,965**		1,941	
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**		44	
Number of station kiosks and mini-banks in stations	**1,294**		1,254	
Number of advertising points in stations	**21,064**		21,021	
Number of advertising points in trains	**23,669**		23,817	
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	**128**	**130**	128	130
– Kwun Tong Line	**128**	**144**	128	144
– Island Line	**120**	**150**	120	150
– East Rail Line				
Hung Hom to Sheung Shui	**212**	**212**	212	212
Hung Hom to Lo Wu	**327**	**327**	327	327
Hung Hom to Lok Ma Chau	**600**	**600**	600	600
– Ma On Shan Line	**180**	**240**	180	240
– Tseung Kwan O Line	**150**	**150**	150	150
– Tung Chung Line				
Hong Kong to Tung Chung	**360**	**480**	360	480
Hong Kong to Tsing Yi	**240**	**240**	240	240
– Airport Express	**720**	**720**	720	720
– West Rail Line	**180**	**240**	180	270
– Disneyland Resort Line	**270**	**270**	270	270
– Light Rail	**270**	**300**	270	300

INTERNATIONAL PERFORMANCE COMPARISONS: THE 14-MEMBER COMMUNITY OF METROS (CoMET)

Metro system network data (2010)	MTR *	Metro A	Metro B	Metro C	Metro D	Metro E	Metro F	Metro G	Metro H	Metro I	Metro J	Metro K	Metro L	Metro M
Passenger journeys *(million)*	**1,399**	909	706	1,119	1,410	632	2,348	1,634	1,585	470	622	1,214	754	505
Car kilometres *(million)*	**253**	180	138	469	350	199	724	565	243	101	119	275	119	84
Route length *(km)*	**175**	200	229	439	201	277	301	480	215	115	94	425	65	101
Number of stations	**82**	106	132	270	147	242	166	424	300	66	93	244	58	89

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

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

OPERATIONS PERFORMANCE IN 2011

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%	**99.7%**
– Airport Express	98.0%	99.0%	**99.9%**
– East Rail Line (including Ma On Shan Line)	98.0%	99.0%	**99.8%**
– West Rail Line	98.0%	99.0%	**99.8%**
– Light Rail	98.0%	99.0%	**99.9%**
Train reliability: train car-km per train failure causing delays ≥ 5 minutes			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, Tung Chung Line, Disneyland Resort Line and Airport Express	N/A	500,000	**1,841,882**
– East Rail Line (including Ma On Shan Line) and West Rail Line	N/A	500,000	**3,292,956**
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	**14,076**
Add value machine reliability			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, Tung Chung Line, Disneyland Resort Line and Airport Express	98.0%	99.0%	**99.5%**
– East Rail Line (including Ma On Shan Line)	98.0%	99.0%	**99.8%**
– West Rail Line	98.0%	99.0%	**99.6%**
– 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%	**99.6%**
– East Rail Line (including Ma On Shan Line)	97.0%	99.0%	**99.7%**
– West Rail Line	97.0%	99.0%	**99.6%**
– Light Rail	N/A	99.0%	**99.9%**

OPERATIONS PERFORMANCE IN 2011 *(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%	**99.7%**
– East Rail Line (including Ma On Shan Line)	98.5%	99.5%	**99.9%**
– West Rail Line	98.5%	99.5%	**99.9%**
Temperature and ventilation			
– Trains, except Light Rail: to maintain a cool, pleasant and comfortable train environment generally at or below 26°C	N/A	97.0%	**99.9%**
– Light Rail: on-train air-conditioning failures per month	N/A	<3	**0**
– Stations: to maintain a cool, pleasant and comfortable environment generally at or below 27°C for platforms and 29°C for station concourses, except on very hot days	N/A	90.0%	**99.9%**
Cleanliness			
– Train compartment: cleaned daily	N/A	98.5%	**99.9%**
– Train exterior: washed every 2 days (on average)	N/A	99.0%	**100.0%**
Northwest Transit Service Area Bus Service			
– Service Delivery	N/A	99.0%	**99.8%**
– Cleanliness: washed daily	N/A	99.0%	**100.0%**
Passenger enquiry response time within 6 working days	N/A	99.0%	**100.0%**

COMMERCE
IN MOTION

HONG KONG STATION COMMERCIAL BUSINESS

3G
data access anywhere along the journey

Over 200 Brands
offering shopping convenience to passengers

Feature Advertising
helps drive sales during major promotion campaigns by clients

Revenue from our Hong Kong station commercial business increased by 19.9% over 2010 to HK$3,422 million. There was a marked improvement in station shop rental and advertising revenues on the back of a robust economy, as well as one-off receivables from telecom operators.

STATION RETAIL

Station retail revenue rose 11.0% to HK$1,905 million as we increased the number of shops, while rental rates moved higher as we continued to refine our trade mix. Higher turnover rent also supported growth, boosted by increased visitor arrivals to Hong Kong, especially from the Mainland of China.

The total number of station shops, including duty free outlets, increased from 1,254 at the end of 2010 to 1,294 at the end of 2011, mainly due to renovation of shops at eight stations. In addition, a total of 29 new trades or brands were introduced.

The total area of station retail space also increased to 54,932 square metres at the end of 2011 from 53,880 square metres at the end of 2010. The bulk of this additional space came from Shatin and Tin Shui Wai stations, where new shops are now providing greater convenience and a wider array of trades to passengers.

To reinforce the "stylish convenience" positioning of MTR shops in the minds of tenants and passengers, several branding and promotional campaigns were launched. There was a thematic advertising campaign and a series of poster campaigns to introduce new shops. An "MTR Shops' Top Chic Products Poll" increased shoppers' awareness of the wide range of trades in our stations. Other promotional campaigns during the year that aimed to stimulate or reinforce the shopping habits of passengers included the "Lok Ma Chau Group Travel Promotion" schemes, MTR Club "Bonus Points Scheme" using Bonus Points Cards and the popular "MTR Shops Unwrap Your Prize!" campaign.

Hong Kong Station takes advertising to new heights

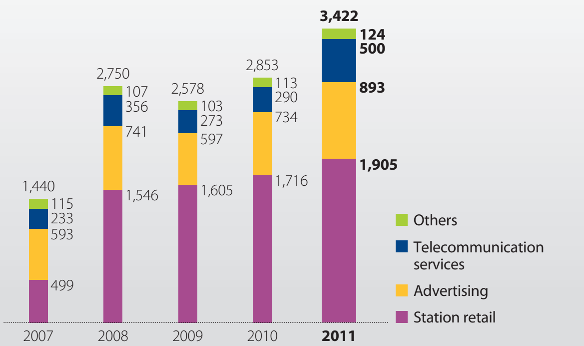
HONG KONG STATION COMMERCIAL BUSINESS

Our iCentres provide free Internet and Wi-Fi service to passengers

REVENUE FROM HONG KONG STATION COMMERCIAL BUSINESS

Revenue increased in 2011 due to a marked improvement in station shop rental and advertising revenues.

(HK$ million)



ADVERTISING

Advertising revenue in 2011 increased by 21.7% over 2010 to HK$893 million, as the better economy encouraged advertisers to spend more, and we offered timely and innovative packages and formats. During the year, we provided a total of 44,733 advertising outlets for advertisers, with 21,064 in stations and 23,669 on trains.

One of the most innovative formats launched was the "Power Station" at Tsim Sha Tsui Station in May 2011, in which all advertising spaces and formats were offered to a single client for a period. The station has also revamped and upgraded its more than 200 advertising panels, giving the 170 4-sheet panels and 32 12-sheet panels a much more modern and brighter appearance.

CORPORATE RESPONSIBILITY HIGHLIGHT

PROVIDING REASONABLE RETURNS TO INVESTORS

Increasing the yield on our rail assets takes many forms. In May 2011, taking advantage of its strategic location and high passenger flow, Tsim Sha Tsui Station was chosen as our first ever "Power Station".

All advertising formats and spaces were booked by a single advertiser, Galaxy. The package gained overwhelmingly positive market feedback, enhancing MTR advertising's reputation as the most creative and high impact outdoor medium in Hong Kong.

This giant billboard adds to the excitement at Kowloon Station

TELECOMMUNICATIONS

Revenue from our telecommunications business in 2011 rose 72.4% over 2010 to HK$500 million. The higher revenue was mainly due to one-off receivables arising from the termination of the previous 2G telecommunication contracts. Excluding such one-off receivables, revenue would have increased by 13.1% to HK$328 million, reflecting the increase in project administration fees collected from various 3G data capacity enhancement projects.

In order to meet passengers' increasing demand for mobile data, we facilitated two telecommunication operators to improve their 3G mobile data handling capacity at 15 key stations, and assisted two more operators to enhance their mobile phone reception on the MTR network.

Shops in MTR stations provide passengers with a varied shopping experience

DEVELOPMENT *IN MOTION*

PROPERTY AND OTHER BUSINESSES

86,162

households enjoy **Quality Living** in our managed properties

226,622 sq.m.

Lettable Floor Area of **MTR Shopping Malls** to enhance customers' shopping experience

Development Rights for **2 Sites** with

532,900 sq.m.

Gross Floor Area obtained in **May 2011**

The Hong Kong residential property market remained active during the early months of 2011. As the year progressed, however, a number of factors began to affect sentiment and transaction volumes diminished considerably in the second half of the year.

During the year, banks began to tighten the mortgage credit available to new buyers. This development came on top of measures enacted in November 2010 by Government to raise stamp duty on properties resold within a short term, and to increase the down payments required for larger properties and for investment purposes. Government also introduced various measures to increase land supply and announced the revitalisation of the Home Ownership Scheme in a new form and the new My Home Purchase Plan. Volatility in financial markets also affected the property market. Nonetheless, low interest rates in both nominal and real terms continued to lend some support to the market.

Central prime office and retail leasing performed well for much of the year, as Hong Kong continued to benefit from the relatively strong growth in Asia. Retail premises were supported by the increasing numbers of Mainland shoppers visiting Hong Kong, while offices benefitted from expansion in Hong Kong by Mainland companies and international financial institutions. The office market turned quieter towards the end of 2011 owing to increasing uncertainty about European sovereign risk. Office take-up slowed and some office expansion plans have been postponed.

PROPERTY DEVELOPMENT

Profit from property development in 2011 was HK$4,934 million, which comprised our share of profits from Festival City at Tai Wai and the shopping mall at Tseung Kwan O Area 56. Good results were achieved in the sale of flats of Festival City. As of 31 December 2011, approximately 73% of the 4,264 units in all three phases of Festival City had been sold. We also sold from inventory 42 units in the Palazzo in Fo Tan and 34 units in Lake Silver at Wu Kai Sha. The Palazzo in Fo Tan and Lake Silver in Wu Kai Sha had sold approximately 98% and 99% of units respectively by 31 December 2011.

A number of new developments were launched later in the year, beginning in September 2011. These included La Splendeur, Phase C of Package Two of LOHAS Park, which commenced pre-sales in September 2011. This development met with a good response, and about 93% of the 1,168 units had been sold by year end 2011. The Wings, a property development in Tseung Kwan O Area 56, launched pre-sales in October 2011, with about 92% of the 1,028 units sold by year end 2011. We have no financial interest in either The Wings or La Splendeur. Pre-sales of Phase 3 of Festival City, which were launched in November 2011, met with a satisfactory response from the market resulting in about 27.5% of units sold by year end 2011.

Occupation Permits for the shopping mall at Tseung Kwan O Area 56, 'PopCorn', and Phase 3 of Festival City were issued in January and December 2011 respectively.

For development sites along the West Rail Line, where the Company acts as agent for the relevant subsidiaries of Kowloon-Canton Railway Corporation (KCRC), the Nam Cheong Station tender was awarded to Joinyield Limited, a subsidiary of Sun Hung Kai Properties Limited, in October 2011. The Tsuen Wan

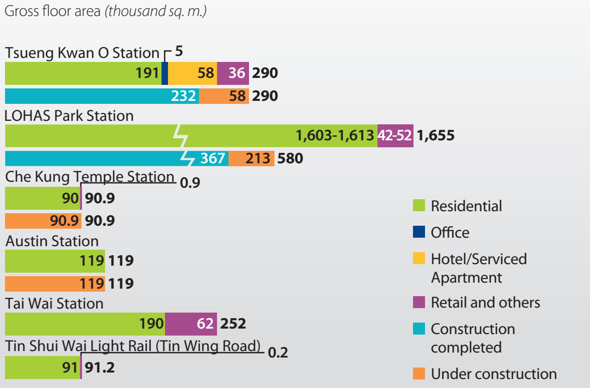
WEST RAIL LINE PROPERTY DEVELOPMENT PLAN

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

Station	Site Area *(hectares)*	Actual/ (Expected) Period of package tenders	Expected completion date
Tuen Mun	2.65	Aug 2006	By phases from 2012 – 2013
Nam Cheong	6.20	Oct 2011	By phases from 2017 – 2019
Tsuen Wan West (TW5) Bayside	4.29	(2012)	Under review
Tsuen Wan West (TW5) Cityside	1.34	Jan 2012	2018
Tsuen Wan West (TW6)	1.39	Under review	Under review
Tsuen Wan West (TW7)	2.37	Sep 2008	2013
Yuen Long	3.47	Under review	Under review
Long Ping (North)	0.97	(2012)	Under review
Long Ping (South)	0.84	(2012)	Under review
Tin Shui Wai	3.48	Under review	Under review
Kam Sheung Road	9.36	Under review	Under review
Pat Heung Maintenance Centre	23.56	Under review	Under review
Kwai Fong	1.92	Under review	Under review
Total	**61.84**		

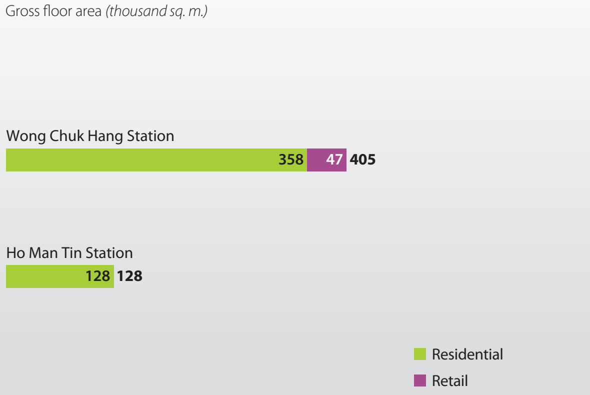
PROPERTY DEVELOPMENT PACKAGES FOR OPERATING NETWORK – PLAN AND PROGRESS

Occupation Permit for the shopping mall at Tseung Kwan O Area 56 was issued in January 2011.



PROPERTY DEVELOPMENT PACKAGES FOR FUTURE EXTENSIONS

The property development rights at Wong Chuk Hang Depot and Ho Man Tin were obtained by the Company in May 2011.



West (TW5) Cityside site was awarded to Denny Investment Limited, a member company of the Chinachem Group, in January 2012. We also obtained approval for the revised Master Layout Plan for the West Rail site at Long Ping (North) from the Town Planning Board in July 2011.

Two important additions were made to our property development rights portfolio in 2011. Both the Wong Chuk Hang Depot site and the Ho Man Tin site, with a developable gross floor area of 404,500 square metres and 128,400 square metres respectively, were obtained by to the Company in May 2011 in order to allow the South Island Line (East) and the Kwun Tong Line Extension to achieve financial viability. The planning brief that sets out the development parameters for the Wong Chuk Hang Depot site, which is zoned as a Comprehensive Development Area, was endorsed by the Town Planning Board in November 2011.

PROPERTY RENTAL AND PROPERTY MANAGEMENT BUSINESSES

Revenue of our property rental and property management businesses in 2011 was HK$3,215 million, which represents a 8.6% increase over 2010.

Total property rental income from Hong Kong and the Mainland of China rose by 9.4% over 2010 to HK$3,016 million. In Hong Kong, our extensive portfolio of shopping malls achieved an average 16% increase in rental reversion for the year. As at 31 December 2011, the occupancy of our 12 shopping malls in Hong Kong remained close to 100%, while the Company's 18 floors at Two International Finance Centre were fully leased out.

As at 31 December 2011, the Company's portfolio of investment properties in Hong Kong was broadly unchanged at 226,622 square metres of lettable floor area of retail properties, 41,000 square metres of lettable floor area of offices, and 11,202 square metres of property for other use. The new shopping mall in Tseung Kwan O area 56, "PopCorn" will open later this year.

We continue to invest in the fabric of our commercial space and support our tenants through a variety of effective marketing activities, which again won several awards during the year. Repartitioning works for the retail floors of Citylink Plaza were completed in October 2011. Elements won The Best Creative Buy Award (Elements/Christmas POPUP) and The Best Floral Decoration Award for Luxury Shopping Malls. Among other accolades, Telford Plaza secured the Hong Kong Service Award from East Week magazine, while MTR Malls won the Gold Prime Award for Eco-Business 2011 given by Prime Magazine and the Business Environment Council, and the Best Creative Ad Award in the METRO Creative Awards 2011. The MTR Malls i-Catch iPhone App secured a large number of awards, including HK ICT Awards 2011: Best Ubiquitous Networking (Digital Media Marketing Campaign) Silver Award 2011 from the Hong Kong Wireless Technology Industry Association and Best Digital Entertainment (Entertainment Software) Silver Award from the Hong Kong Digital Entertainment Association.

In the Mainland of China, the Company has one shopping mall in Beijing, Ginza Mall, which has a lettable floor area of 18,398 square meters at the end of December 2011. The mall enjoyed an occupancy rate of 98% as at 31 December 2011, up from 97% at the end of 2010, and achieved an average 5% increase in rental reversion for the year.

Property management revenue in 2011 decreased by 2.0% to HK$199 million. The decrease came as we adjusted our remuneration rate to meet the needs of an increasingly competitive market. As at the end of December 2011, the number of residential units under our management in Hong Kong had risen by 4,200 to 86,162. This increase mainly came from the addition of units from Festival City Phases 1 and 2, as well as units from Le Prime of LOHAS Park.

Our property management services continued to win recognition for their commitment to high quality standards and also to sustainability, in which LOHAS Park is a market leader. During the year, many of our managed properties obtained certification in areas such as air and water quality, as well as waste separation, from Government departments including the Environmental Protection Department and Water Services Department.

We have also actively assisted the owners' committees at our managed residential properties to apply for funding from the Government Environmental Conservation Fund for environmental and conservation projects. In total, 31 such applications had been approved by the end of 2011. During the year, a grey water treatment system entered full operation in The Park of LOHAS Park. Incremental enhancements to energy efficiency include the expanding use of LED lighting in public common areas of the estates, more efficient fluorescent tubes, induction lamps, photo sensors to control lighting operations, variable voltage and frequency drives for lift operation and variable frequency control for air-conditioning systems.

OTHER BUSINESSES

Ngong Ping 360

The Ngong Ping cable car and associated theme village achieved a 13.0% rise in revenue in 2011 to HK$270 million, helped by extensive marketing. Visitor numbers for the period were 1.7 million and premium Crystal Cabin rides accounted for some 32% of total rides. The cable car system maintained its reliability rate at over 99% during the year.

CORPORATE RESPONSIBILITY HIGHLIGHT

ENSURING SERVICES OF VALUE TO CUSTOMERS

Fresh water is a precious and scarce natural resource. Using water wisely can help ensure the future of our water supply, limit the effects of climate change and protect the natural environment. It can also help owners to save money in the long run.

So we take the initiative to promote water saving ideas in our managed residential properties. The Palazzo and The Grandiose both launched successful water management programmes for owners, winning the Champion and 2nd runner up prizes in the Water Conservation Design Competition (Property Management Group) organised by the Water Supplies Department.

Extensive marketing, including special promotions to celebrate the Year of the Rabbit and festivals such as mid-Autumn and Christmas helped to attract visitors. Joint promotions were launched with a number of organisations, including Hong Kong International Airport, airlines and credit card companies. As in previous years, the attraction secured awards in a variety of areas, especially for customer service. These included the Certificate of Quality Tourism Service Scheme in the Retail Shops Category from the Hong Kong Tourism Board.

The cable car service is currently suspended and is targeted to reopen before Easter for bearing replacement and annual servicing inspection, following a service disruption incident in late January 2012. Preliminary findings indicated that the disruption was caused by irregular wear on the surface of a bearing's inner ring, but that would not have affected the safety of the cable car operations.

Consultancy Business

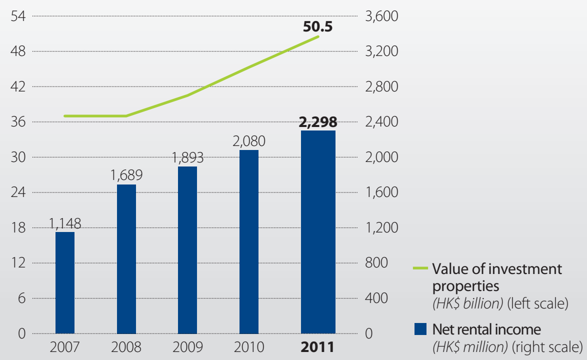
Revenue from consultancy business in 2011 was HK$105 million, a decrease of 7.1% from 2010. The decline was due to the substantial completion of the Delhi Airport Metro Express Line project. In September 2011 we won the subcontract for the Automated People Mover Midfield Concourse Extension Project at Hong Kong International Airport. We will be responsible for the design, procurement, installation, testing and commissioning of several railway systems.

In Australia, we are finalising a subcontract with United Group Limited to support its rolling stock maintenance works in New South Wales. In October 2011, a Memorandum of Understanding (MOU) was signed with the Roads and Transport Authority of Dubai to assist it to develop a mass urban transport system, providing high quality public transport services in the Emirate. Another MOU was signed with the Macau Government in December 2011 for rail consultancy on the territory's light rail project.

Elements provides a total customer shopping experience

INVESTMENT PROPERTIES

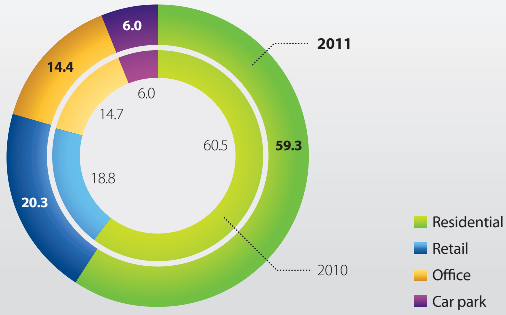
Rental income continued to grow with good rental reversion in our shopping malls.



DISTRIBUTION OF PROPERTY MANAGEMENT INCOME

At the end of the year, the Company had 86,162 residential units and 744,725 sq.m. of commercial and office space under management in Hong Kong.

(Percentage)



Octopus

Octopus continues to expand its reach in the retail sector to bring Hong Kong people greater convenience in their everyday lives. By the end of 2011, over 4,500 service providers in Hong Kong had adopted the Octopus service. Active cards in circulation were 19.8 million. Average daily transaction volume and value were 12.0 million and HK$117.2 million respectively. The Company's share of Octopus' net profit for 2011 was HK$182 million, a 44.4% increase over 2010.

Project Management and Others

Project management income from KCRC and Government in 2011 was HK$588 million, representing an 8.9% increase compared to 2010. The income was mainly from project management fees relating to the Entrustment Agreement for the Express Rail Link.

The number of properties under management continued to rise

PROPERTY DEVELOPMENT PACKAGES AWARDED AND TO BE COMPLETED

Location	Developers	Type	Gross floor area *(sq. m.)*	Period of package tenders	Expected completion date
Tseung Kwan O Station					
Area 56 (The Wings)	Sun Hung Kai Properties Ltd.	Residential Hotel Retail Office	80,000 58,130 20,000 5,000	Awarded in February 2007	By phases from 2011-2012
LOHAS Park Station					
Package Two (Le Prestige, Le Prime, La Splendeur)	Cheung Kong (Holdings) Ltd.	Residential Kindergarten	309,696 800	Awarded in January 2006	By phases from 2010-2012
Package Three	Cheung Kong (Holdings) Ltd.	Residential Kindergarten	128,544 1,000	Awarded in November 2007	2013
Che Kung Temple Station	New World Development Co. Ltd.	Residential Retail Kindergarten	89,792 193 670	Awarded in April 2008	2012
Austin Station					
Sites C and D	New World Development Co. Ltd. and Wheelock Properties Limited	Residential	119,116	Awarded in March 2010	2014
Tuen Mun Station#	Sun Hung Kai Properties Ltd.	Residential Retail	119,512 25,000	Awarded in August 2006	By phases from 2012-2013
Tsuen Wan West Station (TW7)#	Cheung Kong (Holdings) Ltd.	Residential	113,064	Awarded in September 2008	2013
Nam Cheong Station#	Sun Hung Kai Properties Ltd.	Residential Retail Kindergarten	214,700 26,660 1,000	Awarded in October 2011	By phases from 2017-2019
Tsuen Wan West Station (TW5) Cityside#	Chinachem Group	Residential Retail	66,114 11,210	Awarded in January 2012	2018

as a development agent for the relevant subsidiaries of KCRC

PROPERTY DEVELOPMENT PACKAGES TO BE AWARDED NOTES 1 AND 2

Location	No. of packages envisaged	Type	Gross floor area *(sq. m.)*	Period of package tenders	Expected completion date
LOHAS Park Station	6 – 10	Residential Retail	1,025,220 – 1,035,220 39,500 – 49,500	2013-2017	2020
Tai Wai Station	1	Residential Retail	190,480 62,000	2012	2017
Tin Shui Wai Light Rail (Tin Wing Road)	1	Residential Retail	91,051 205	2012	2017
Wong Chuk Hang Station	3	Residential Retail	357,500 47,000	2015-2020	2024
Ho Man Tin Station	2	Residential	128,400	2015-2018	2021

Notes:

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

A vibrant tenant mix ensures satisfied customers and good rental levels

INVESTMENT PROPERTY PORTFOLIO IN HONG KONG (AS AT 31 DECEMBER 2011)

Location	Type	Lettable floor area *(sq. m)*	No. of parking spaces	Company's ownership interest
Telford Plaza I, Kowloon Bay, Kowloon	Shopping centre Car park	39,462 –	– 993	100% 100%
Telford Plaza II, Kowloon Bay, Kowloon	Shopping centre Car park	19,329 –	– 136	50% 50%
Luk Yeung Galleria, Tsuen Wan, New Territories	Shopping centre Car park	11,224 –	– 651	100% 100%
Paradise Mall, Heng Fa Chuen, Hong Kong	Shopping centre Wet market Car park	18,772 1,216 –	– – 415	100% 100% 100%
Maritime Square, Tsing Yi	Shopping centre Kindergarten Car park Motorcycle park	29,069 920 – –	– – 220 50	100% 100% 100% 100%
The Lane, Hang Hau	Shopping centre Car park Motorcycle park	2,629 – –	– 16 1	100% 100% 100%
The Edge, Tseung Kwan O	Shopping centre Car park	7,636 –	– 50	70% 70%
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 Car park	540 –	– 126	100% 100%
International Finance Centre (IFC), Central, Hong Kong – Two IFC – One and Two IFC	 Office Car park	 39,404 –	 – 1,308	 100% 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 Motorcycle park Park & ride	– – –	54 10 450	51% 51% 51%
Elements, No. 1 Austin Road West, Kowloon	Shopping centre Car park	45,344 –	– 898	81% 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	7,596	–	100%
Royal Ascot, Fo Tan	Residential Car park	2,784 –	– 20	100% 100%
Ocean Walk, Tuen Mun	Shopping centre Car park	6,111 –	– 32	100% 100%
Sun Tuen Mun Shopping Centre, Tuen Mun	Shopping centre Car park	8,985 –	– 421	100% 100%
Hanford Plaza, Tuen Mun	Shopping centre Car park	1,950 –	– 22	100% 100%
Retail Floor and 1-6/F., Citylink Plaza, Sha Tin	Shopping centre	12,045	–	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%
Le Prestige, LOHAS Park	Kindergarten	800	2	100%

* At The Capitol, there is also a Residential Care Home for the Elderly having a gross floor area of 3,100 square metres.

INVESTMENT PROPERTY PORTFOLIO IN HONG KONG (AS AT 31 DECEMBER 2011) *(CONTINUED)*

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

- Telford Plaza I and II, Luk Yeung Galleria, Maritime Square, New Kwai Fong Gardens, IFC, Olympian City, Elements, Cross Border Coach Terminus and Kindergarten at No. 1 Austin Road West, Plaza Ascot, Royal Ascot, Ocean Walk, Sun Tuen Mun Shopping Centre and Hanford Plaza where the Government Leases expire on 30 June 2047
- Choi Hung Park & Ride where the Government Lease expires on 11 November 2051
- The Lane where the Government Lease expires on 21 October 2052
- The Edge where the Government Lease expires on 27 March 2052
- Citylink Plaza and MTR Hung Hom Building where the Government Leases exprie on 1 December 2057
- LOHAS Park where the Government Lease expires on 16 May 2052

PROPERTIES HELD FOR SALE (AS AT 31 DECEMBER 2011)

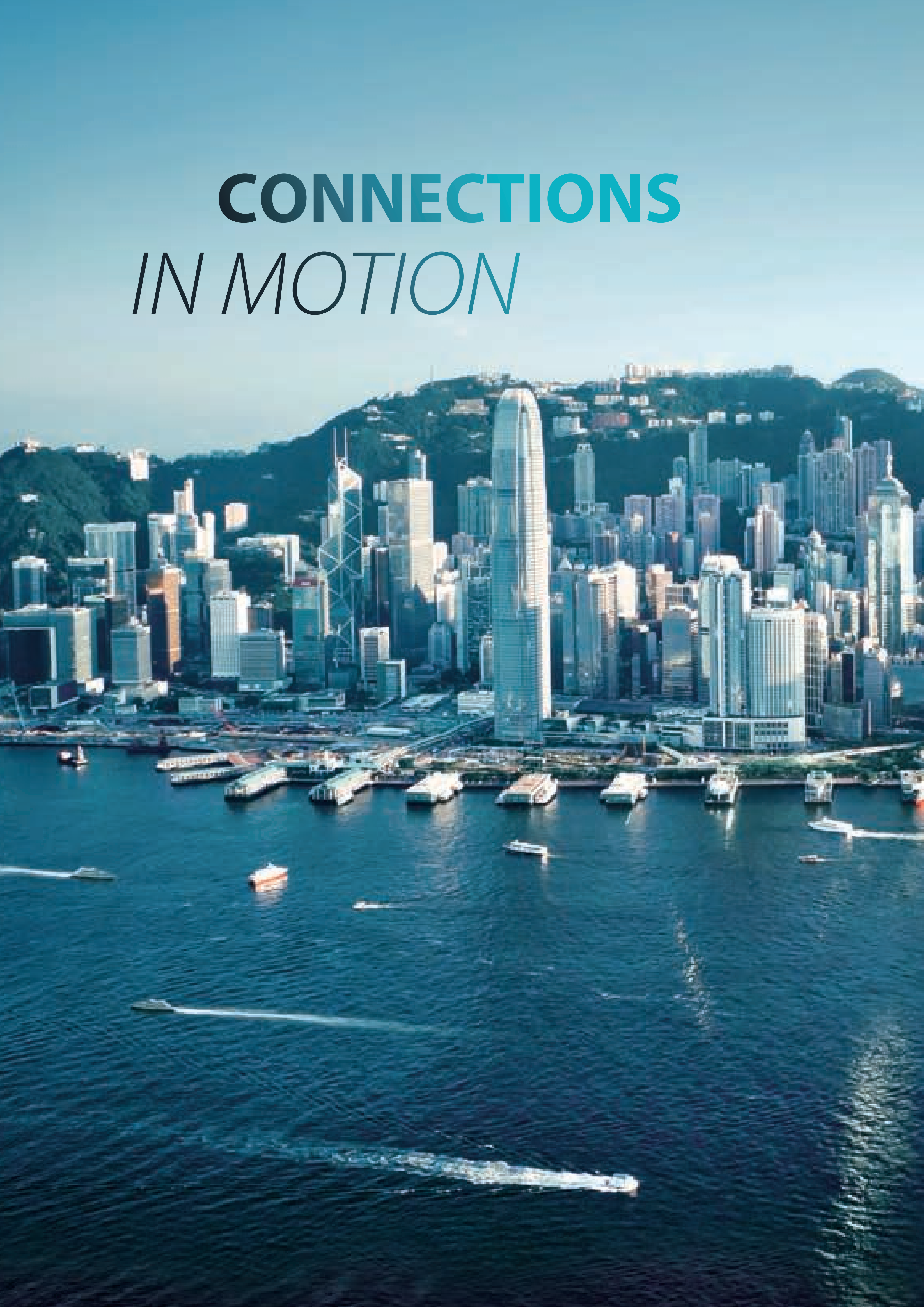
Location	Type	Gross floor area *(sq.m.)*	No.of parking spaces	Company's ownership interest
Island Harbourview, No. 11 Hoi Fai Road, Kowloon	Car park	–	380	40%
Olympian City One, No. 11 Hoi Fai Road, Kowloon	Shopping centre	6,042*	–	40%
	Car park	–	330	40%
Bank of China Centre, No. 11 Hoi Fai Road, Kowloon	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	–	37	35%
	Kindergarten	1,299	–	50%
Coastal Skyline, No. 12 Tung Chung Waterfront Road, Tung Chung	Car park	–	146	20%
The Palazzo, No. 28 Lok King Street, Shatin	Residential	4,539	–	55%
	Retail	2,000	–	55%
	Car park	–	239	55%
	Motorcycle park	–	15	55%
Lake Silver, No. 599, Sai Sha Road, Shatin	Residential	4,295	–	93%
	Retail	3,000	–	93%
	Kindergarten	1,000	–	93%
	Car park	–	309	93%
	Motorcycle park	–	36	93%
Festival City, No. 1 Mei Tin Road, Shatin	Residential	114,515	–	31%
	Car park	–	745	31%
	Motorcycle park	–	81	31%
Le Prestige, LOHAS Park, Tseung Kwan O	Car park	–	337	52.93%

* Lettable floor area

MANAGED PROPERTIES IN HONG KONG (AS AT 31 DECEMBER 2011)

Number of managed residential flats	86,162 units
Area of managed commercial and office space	744,725 sq.m.

CONNECTIONS
IN MOTION



Shatin to Central Link will

Strengthen the Linkage

between the New Territories and Hong Kong Island

South Island Line (East) will

Cut Travel Time

and **Traffic Congestion**

Express Rail Link will

Enhance Connectivity

with the

Mainland

Good progress was made on the five major projects we are undertaking to expand our railway network in Hong Kong. Construction works pressed ahead on the West Island Line and Express Rail Link, and construction works began on the South Island Line (East), Kwun Tong Line Extension and the Advance Works of the Shatin to Central Link.

We currently have over 7,000 workers on our project sites and safety remains our number one priority. Despite the efforts of our staff and contractors, we had two contractor fatal accidents in 2011, whilst our Reportable Accident Frequency Rate was better than the rate for the Hong Kong construction industry. We are working in close partnership with our contractors to keep accidents to an absolute minimum. To this end, we recently rolled out five new initiatives to raise safety awareness and improve safe working behaviour on our sites.

WEST ISLAND LINE

The 3-km extension of the Island Line is targeted to open in 2014. In April 2011, the re-provisioned facilities for the new David Trench Rehabilitation Centre and the Kennedy Town Swimming Pool (Phase 1) were handed over to their operators. Both facilities have therefore started providing services to the community after being re-provisioned to make way for the railway extension. The challenging 54-hour shutdown of Sheung Wan Station to enable the track re-configuration works at the station was successfully completed in August 2011, with minimal disruption to railway travellers and to the flow of road and pedestrian traffic in the area.

In the same month, permanent structure works commenced with a concrete slab pour for Kennedy Town Station. Tunnelling work saw major milestones passed with the commencement of the tunnel boring to connect Sheung Wan to Sai Ying Pun, and breakthrough of the first section of railway tunnel between Sai Ying Pun and Hong Kong University using drill and blast excavation. Detailed design works have been substantially completed by December 2011, and all of the final Electrical and Mechanical (E&M) contracts have now been awarded.

SOUTH ISLAND LINE (EAST)

In May 2011, the Company entered into the Project Agreement with Government for the construction and operation of the South Island Line (East). The 7-km South Island Line (East) will extend MTR services from Admiralty to the Southern District of Hong Kong Island, with a train depot located in Wong Chuk Hang. Most of the major civil construction contracts have been awarded and construction activities are proceeding. Procurement for E&M contracts is progressing well and critical advance works to relocate the Admiralty Distribution Substation were substantially completed by January 2012.

We have conducted extensive consultation with the public and concerned stakeholders, including three rounds of community liaison group meetings during 2011.

KWUN TONG LINE EXTENSION

In May 2011, the Company also entered into the Project Agreement with Government for the Kwun Tong Line Extension. The 2.6-km extension will run from Yau Ma Tei Station on the Kwun Tong Line to the new Whampoa Station via the new Ho Man Tin Station. It is targeted to open in 2015.

Construction works started in May 2011 and all civil and E&M contracts were awarded by January 2012. In July 2011, we signed an agreement with Hutchison Whampoa Limited to include entrances to connect the planned Whampoa Station with the adjoining developments. A ground-breaking ceremony was held at the Ho Man Tin Station site in the same month.

Stakeholder liaison has continued throughout 2011, with the Company providing quarterly updates to the local community and resident groups on site progress and planned activities.

The South Island Line (East) will provide railway services to the Southern District of Hong Kong Island

EXPRESS RAIL LINK

The 26-km Express Rail Link will provide high speed cross-boundary rail services connecting Hong Kong to Shenzhen, Guangzhou and the high speed intercity passenger rail network in the Mainland of China. Services are expected to start in 2015.

Tunnelling works for the Express Rail Link have made substantial progress this year. Blasting at the Pat Heung tunnel adit commenced in May 2011, and at the Tai Kong Po second shaft in November. The first Tunnel Boring Machine (TBM) commenced operations at Mai Po in September 2011. Blasting at the Kwai Chung tunnel adit was completed in October 2011, and excavation of the main tunnel commenced. By year end 2011, 15% of drill and blast tunnelling excavation had been completed.

For the West Kowloon Terminus construction, foundation works were completed during the year and 14% of all bulk excavation works were completed by year end.

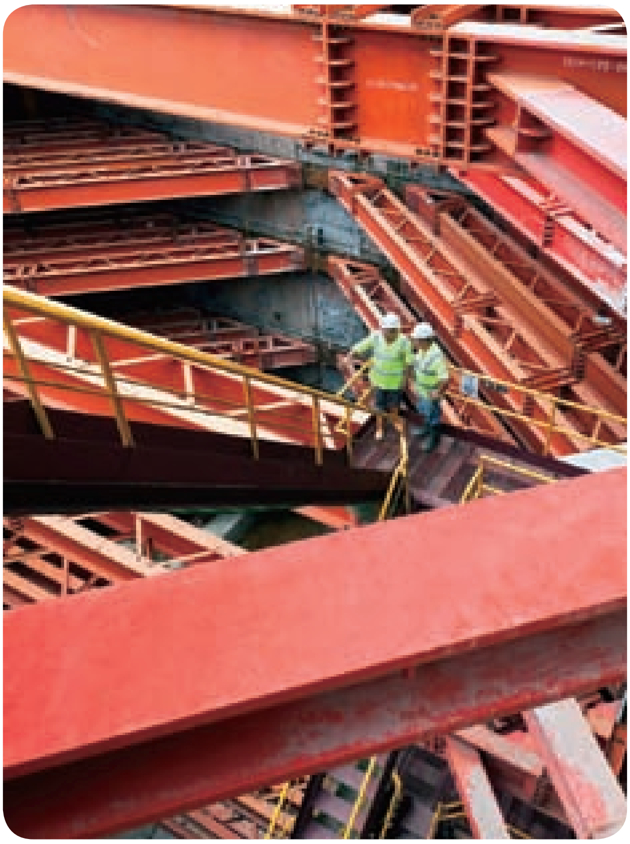
Award of E&M contracts for the Express Rail Link commenced in January 2011, and the final major civil works contract for the West Kowloon Terminus was awarded in October 2011.

A joint design taskforce has been formed by the West Kowloon Cultural District Authority and the Company to coordinate the design interface between the West Kowloon Terminus and the West Kowloon Cultural District.

SHATIN TO CENTRAL LINK

The Shatin to Central Link comprises two sections. An 11-km extension of the Ma On Shan Line will run from Tai Wai to Hung Hom, where it will connect with the West Rail Line to form an East West Corridor. A 6-km extension of the East Rail Line from Hung Hom to Hong Kong Island will become Hong Kong's fourth rail harbour crossing and form a North South Corridor. The link will comprise a total of ten stations and create six new interchanges linking existing and future railway lines for added passenger convenience and reduced travel times. The detailed design of the Tai Wai to Hung Hom section was substantially completed by year end 2011.

Massive tunnel drilling jumbos are working underground in the "drill and blast" sections for the Express Rail Link



Project management requires collaboration among many parties

The Entrustment Agreement for the advance railway works for the Shatin to Central Link's share of enhancements to Admiralty Station as well as the new Ho Man Tin Station, together with the non-railway works for the re-provisioning of the New International Mail Centre, was signed on 17 May 2011 with Government. Construction contracts for the re-provisioning of the New International Mail Centre and the contract for procurement of new mail sorting equipment and services have been awarded. Procurement for the first major contract for the railway works commenced in December 2011.

Two scheme amendments were gazetted under the Railways Ordinance on 15 July and 11 November 2011. The proposed amendments were mainly to accommodate changes resulting from design development and to facilitate the Company in achieving the target of completing the statutory consultation process within the first half of 2012.

CORPORATE RESPONSIBILITY HIGHLIGHT

PROMOTING SAFE AND ETHICAL BUSINESS PRACTICES

We always go the extra mile to ensure the safety of the public. Every arrangement for our construction projects is therefore planned with the mindset of safeguarding the safety of those around us. For instance, our contractors assist pedestrians, particularly the young, elderly and disabled and guide them through the altered traffic conditions. We partner with our contractors to implement international best practice wherever possible. Regarding environmental protection, we are committed to controlling noise, air and water pollutants so as to reduce the environmental impacts of our projects as much as is reasonably achievable.

The Environmental Impact Assessment (EIA) reports we had submitted were withdrawn in April 2011 following the judicial review of the EIA process for the Hong Kong-Zhuhai-Macau Bridge project. Subsequently, the final reports were re-submitted on 12 October 2011 after the judgement in favour of the Government for the bridge project was handed down by the Court of Appeal in September 2011. We continue our discussions with Government on the entrustment agreement to implement the Shatin to Central Link.

OTHER DEVELOPMENTS

We have made progress on a number of subways and pedestrian links to improve the connectivity of our existing railway network. Government has granted policy support for the Carnarvon Road Subway. Design of the Lee Tung Street Subway project is in progress, and we are preparing to tender the Tsim Sha Tsui Station Entrance A1 enhancement works.

The Company is also supporting and responding to Government's Review and Update of the Second Railway Development Study (RDS-2U), which will determine the updated strategy for future railway projects.

PROJECT FUNDING MODEL

The funding for our five new Hong Kong rail projects takes different forms, according to the nature of each project. Three of the new lines, namely the West Island Line, the South Island Line (East) and the Kwun Tong Line Extension, are being financed and will be owned by the Company. The remaining two, namely the Express Rail Link and the Shatin to Central Link, are being financed and will be owned by Government and the Company will be invited to operate and maintain these lines under the "Service Concession" model.

The West Island Line uses the capital grant model and the total grant amount of HK$12,652 million has already been received from Government. The South Island Line (East) and the Kwun Tong Line Extension are financed under the "Rail plus Property" model. Property development rights for sites at Wong Chuk Hang and Ho Man Tin have been granted to the Company for these two lines respectively.

For the Express Rail Link, the Finance Committee of the Legislative Council (LegCo) approved the funding of HK$66.9 billion (in money-of-the-day prices) for construction of both the railway and non-railway works on 16 January 2010. Out of this total, the Company will be paid a project management fee of HK$4,590 million and will be invited to operate the railway service on a concession basis upon completion. The Shatin to Central Link will be funded by Government. The Finance Committee of LegCo approved funding for the advance railway works for the Shatin to Central Link's share of enhancements to Admiralty Station as well as the new Ho Man Tin Station and the non-railway works for the re-provisioning of the New International Mail Centre on 18 February 2011.

HONG KONG NETWORK EXPANSION AT A GLANCE

Network Extensions	Estimated Route Length	Project Funding
West Island Line	3 km	Capital Grant
South Island Line (East)	7 km	Rail plus Property
Kwun Tong Line Extension	2.6 km	Rail plus Property
Express Rail Link	26 km	Service Concession
Shatin to Central Link – Tai Wai to Hung Hom – Hung Hom to Hong Kong Island	 11 km 6 km	Service Concession

EXPANSION
IN MOTION

MAINLAND AND OVERSEAS GROWTH

664.5 km

total route length of railway operations outside of Hong Kong

Shenzhen Longhua

full line operation from 16 June 2011

Turnaround in LOROL leads to

Top Punctuality

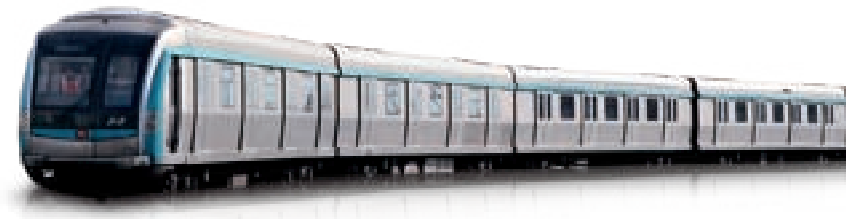
of all UK train operators

In recent years, the Company has been developing operational franchises in other markets in order to open up new paths for growth by leveraging the expertise it has gained over the decades in Hong Kong. These businesses are now beginning to contribute meaningfully to the Company's results, and our reputation is increasing in both the Mainland of China and overseas.

The Company's operating railway franchises in the Mainland of China comprise our 49% interest in Beijing MTR Corporation Limited (BJMTR), which operates Beijing Metro Line 4 (BJL4) and Daxing Line extension as an integrated service, and our wholly owned subsidiary MTR Corporation (Shenzhen) Limited (SZMTR), which operates the Shenzhen Metro Longhua Line (SZL4). Overseas, they consist of our 60% interest in Metro Trains Melbourne Pty. Ltd. (MTM) in Australia, our wholly owned subsidiary MTR Stockholm AB (MTRS) in Sweden, our 50% interest in Tunnelbanan Teknik Stockholm AB (TBT), which maintains rolling stock for MTRS, and our 50% interest in London Overground Rail Operations Limited (LOROL) in the UK.

Revenue for the year from our railway subsidiaries outside of Hong Kong, namely MTM, MTRS and SZMTR, was HK$12,279 million, an increase of 21.0% over 2010 mainly due to favourable currency movements, additional project revenue generated from MTM and the opening of Phase 2 of SZL4. Operating costs were HK$11,830 million, resulting in an 60.9% increase in operating profit to HK$449 million and an operating profit margin of 3.7%. SZMTR and MTM both recorded financial performances in line with expectations, while MTRS was somewhat below expectation. As operation and maintenance franchises, MTM and MTRS require modest capital investment and hence operating margins will typically be much lower than for more capital intensive projects. SZMTR made a small operating loss. The operating profits of MTM and MTRS were HK$400 million and HK$55 million respectively. BJMTR, which is accounted for as an associate, produced a better than forecast performance, with its contribution rising significantly. Among our other associates, the results from LOROL and TBT were in line with expectations. These three associates contributed a total of HK$116 million in post-tax profit in 2011, an increase of HK$94 million over 2010.

The total of passengers carried by our rail subsidiaries and associates outside of Hong Kong was approximately 1,065 million in 2011, against some 850 million in 2010.



In Beijing, BJL4 and the Daxing Line continued to exceed concession requirements

MAINLAND OF CHINA

Our operations in the Mainland of China made good progress during the year, with a new extension to our existing lines and the prospect of more projects being agreed in the near future.

In Beijing, BJL4 was joined by the Daxing Line extension on 30 December 2010, resulting in full year operation of the entire route for 2011. Both lines exceeded their performance and reliability targets. Total ridership for 2011 for the combined line was 377.4 million passenger trips, with average daily patronage of over 1 million.

BJL4 celebrated two years of operation on 28 September 2011. Over the period, total patronage has exceeded 530 million users, and the highest daily patronage recorded was 1.14 million. During the two years, the line has delivered a total of over 380,000 train trips, and the total mileage of train operations is over 80 million car kilometres. Throughout, the performance level has been good.

We continue actively to pursue further rail opportunities in the Chinese capital. During the Beijing Hong Kong Trade Fair, which was held in October 2011, a Memorandum of Understanding (MOU) was signed with Beijing Infrastructure Investment Co Ltd and Beijing Capital Group regarding further investment in and operation of new Beijing metro lines that are scheduled to become operational before 2015.

In Shenzhen, Phase 2 of SZL4 opened for service on 16 June 2011, bringing full line operation to our franchise in the southern Chinese city. Operational performance has been good, with average train service delivery and punctuality

The mayor of Shenzhen, Mr. Xu Qin (middle), attended the opening ceremony of SZL4 Phase 2 rates of 99.92% and 99.66%, continuing to exceed concession requirements. Total ridership for 2011 was 60.5 million passenger trips, with a daily average of 255,300 after Phase 2 opening.

Our co-operation with the Shenzhen Municipality continues to bear fruit. On 18 August 2011, the Company's two wholly owned subsidiaries, SZMTR and MTR Property (Shenzhen) Co Ltd, won the bid for Phase 1 of the SZL4 Depot Site at a base tender price of approximately RMB2,000 million. The total developable gross floor area of the site is approximately 206,167 square metres. The two subsidiaries will incorporate a project company in the Mainland to undertake residential and commercial development on the site, being responsible for all development and construction costs. Part of the net profits generated from this property development will be shared with the Shenzhen Municipality to support metro development in Shenzhen. In addition, the investment feasibility study for Shenzhen Metro Line 6 continues in accordance with the MOU signed in July 2010.

We reached an agreement with Hangzhou Metro Group Limited in 2010 to establish a joint venture, whereby MTR Corporation holds 49% and Hangzhou Metro Group Limited holds 51%, to operate Hangzhou Metro Line 1. We continue to await approval of the project by the National Development and Reform Commission. Pre-operational activities including recruitment and training have been underway since the second half of 2011 and the line is expected to open towards the end of 2012.

OVERSEAS

In our overseas markets, our investment in upgrading equipment and improving management has resulted in further gains in operating performance.

In the UK, the operations of LOROL benefitted from the opening in February 2011 of Phase 1a of the East London Line, a short link connecting East and North London Lines. LOROL's excellent delivery meant that in April 2011 it became one of the UK's top performing franchise train operating companies on an annualised basis. LOROL achieved a public performance measure of 97.0% in the period between 21 August and 17 September 2011, while for the year, moving annual average was 95.85%, exceeding the 12-month target from 1 April 2011 to 31 March 2012 of 94.0%. The operation also improved its scores significantly in the UK's 2011 Autumn National Passenger Survey, achieving an overall satisfaction score of 92%, 7% higher than the previous survey in Autumn 2010, and 9% higher than average scores recorded for London and the South East of England.

At the UK's National Rail Awards 2011, the joint achievements of Transport for London and LOROL in successfully transforming the London Overground service were recognised with the prestigious Special Judges Award.

In Stockholm, MTRS operations have continued to show improvements in a number of areas. The year 2011 experienced extreme weather conditions, with exceptionally heavy snowfalls. Despite this, punctuality figures improved from 93.5% in 2010 to 94.4%, with an overall all-time high in

CORPORATE RESPONSIBILITY HIGHLIGHT

ENGAGING AND BUILDING COMMUNITIES

Our aim is not just to care about the journeys of our passengers, but to enhance their life's journey as they travel on our network through bringing life and culture into our stations.

In 2011, we brought this concept to the Shenzhen Metro Longhua Line with live performances, and displays of artwork by professional artists and young children, many of which were integrated into the station architecture at the design stage.

In Stockholm, MTRS operations have shown improved train availability and punctuality

June of 98%. Train availability also improved from 94% in 2010 to 99.8% in 2011, and customers experienced both a much cleaner metro environment than ever before and improved traffic information.

In Melbourne, operational issues and challenges, combined with adverse wet weather during February 2011, severely impacted operational performance. Introduction of the first phase of a new timetable and the lifting of speed restrictions on certain trains have resulted in improvements in train punctuality whilst maintaining service delivery from May 2011 onward, with full year figures of 87.13% and 98.60% respectively.

MAINLAND OF CHINA AND OVERSEAS RAILWAY BUSINESSES AT A GLANCE

	In Operation						Pending Finalisation of Agreement
	Beijing Metro Line 4 (BJL4), Mainland of China	Daxing Line of BJL4, Mainland of China	Shenzhen Metro Longhua Line, Mainland of China	London Overground, United Kingdom	Stockholm Metro, Sweden	Melbourne Metro, Australia	Hangzhou Metro Line 1, Mainland# of China
MTR Corporation Shareholding	49%	49%	100%	50%	100%	60%	49%
Business Model	Public-Private-Partnership (PPP)	O&M Concession	Build-Operate-Transfer (BOT)^	Operations and Maintenance (O&M) Concession	O&M Concession*	O&M Concession	PPP
Commencement of Franchise/Expected date of commencement of operation	Sep 2009	Dec 2010	Phase 1: Jul 2010 Phase 2: Jun 2011	Nov 2007	Nov 2009	Nov 2009	2012
Franchise/Concession Period	30 Years	10 Years	30 Years	7 Years	8 Years	8 Years	25 Years
Number of Stations	24	11	Phase 1: 5 Phase 2: 10	55	100	212	31
Routh length *(km)*	28	22	Phase 1: 4.5 Phase 2: 16	112	110	372	48

The Concession Agreement with Hangzhou Municipal Government is subject to approval by relevant authorities in the Mainland of China.

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

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

TEAMWORK *IN MOTION*

HUMAN RESOURCES

5,100

Enhanced Staff Communication Sessions

involved over 50,000 participating headcount

6 Training Days

per employee, **2.4 times** the market average

Low Voluntary Staff turnover rate

3.3%

The Company has done well in meeting the human resource needs of its growing business, including the extension projects in Hong Kong and our growing franchises in the Mainland of China and overseas. As at 31 December 2011, 21,295 people were employed by the Company and our controlled subsidiaries.

Our efforts in this area secured a large number of awards in 2011, including the prestigious HKMA Gold Quality Award from the Hong Kong Management Association, and the Hong Kong Most Admired Knowledge Enterprise (MAKE) Award from Hong Kong Polytechnic University.

RECRUITMENT AND RETENTION

The Company's strategic manpower planning and resourcing mechanism helps maximise resource utilisation and meet new manpower requirements in a structured manner, ensuring timely project delivery.

During the year, our advance recruitment programmes in Hong Kong resulted in a total of 1,525 new hires. We continued our recruitment of Graduate Engineers, Graduate Trainees and Functional Associates in Hong Kong and Mainland of China to support our business expansion. To meet the manpower demand peaks of the Company's Hong Kong extension projects, the apprentice intake was doubled from 60 in 2010 to 121 in 2011 and a total of 15 graduates from technical institutions were recruited to join our "Inspectorate Staff Training Scheme".

Our competitive salary and benefits provision, coupled with career growth opportunities, underlie our strong track record in staff retention. The staff turnover rate was maintained at a low level of 3.3% in 2011 despite the sustained rebound in the employment market. Over 800 staff were promoted internally during the year.

STAFF MOTIVATION AND ENGAGEMENT

In addition to competitive pay and benefits, staff are motivated through recognition via various awards. The MTR Grand Awards for Outstanding Contribution are the Corporation's highest form of recognition and starting from 2011, nominations were opened to employees of subsidiaries, helping to integrate our global workforce more closely with the Company.

LEADERSHIP DEVELOPMENT

In addition to providing general and competency based operations, technical and safety training for core and growth businesses, the Company also takes initiatives to identify and develop talented individuals for future leadership roles. One of our people development programmes is the Executive Associate Programme. The second and third batches of Executive Associates have been progressing well and have given very positive feedback. The assessment process for the fourth batch of Executive Associates was completed in October 2011.

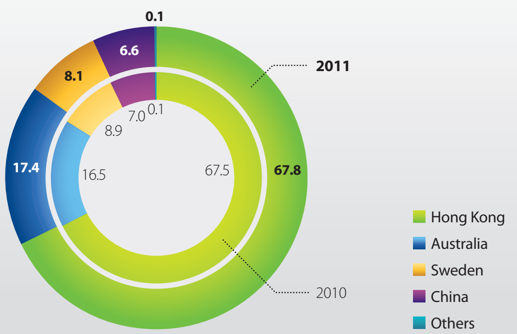
Various activities were launched to promote the Company's Vision, Mission and Values

For new Graduate Trainees from Hong Kong and the Mainland of China, the Company organised job rotations, familiarisation, mentoring and training programmes, study trips and various other activities designed to prepare them for the workplace. During the year, members of the second batch of Graduate Trainees, recruited in 2008, were appointed to senior supervisory level positions.

A new round of development and assessment was conducted in 2011 to provide development insight to another batch of high performing staff at senior managerial level with strong potential for further progression and pursuit of a broader management path. All participants were arranged with tailored developments to strengthen their general management capability. In addition, 22 earlier participants moved up to more senior positions in 2011.

STAFF DISTRIBUTION BY GEOGRAPHICAL LOCATION

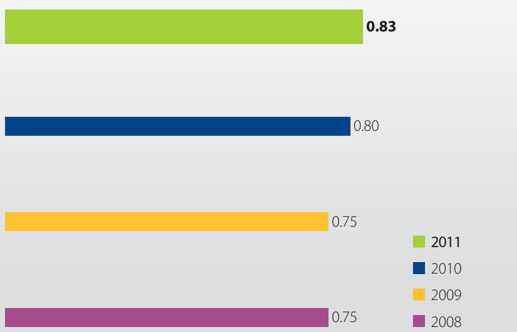
(Percentage)



STAFF PRODUCTIVITY – EARNINGS PER EMPLOYEE*

** Hong Kong businesses excluding property development*

(HK$ million)



A LEARNING CULTURE

To help realise our vision of becoming a learning organisation, we have in place IT platforms to facilitate knowledge transfer, supported by corporate-wide learning and development events designed to sustain learning momentum. We use the idea of "Teamnovation" to stress the need for collaboration and innovation. Our strategy focuses on self, team and global perspectives, using innovative communication and creative activities, such as drama-based innovative thinking learning video.

Our efforts involve not only various initiatives in Hong Kong, but those in the Mainland of China and our overseas operations. During 2011, more than 5,892 training courses were delivered across the Company covering approximately 6 training days per employee.

To reinforce understanding of the Company's mission, a number of initiatives were launched during 2011. These included a dedicated revamped website, a photography competition, a refresher programme and a "Welcome to My Home" campaign in which participants visited other departments.

Various other campaigns during the year helped to foster a caring service culture and learning culture across the Company. Executive and senior level management were kept up to date with the latest business best practices and management insights.

The Company also cares about the health and well-being of staff. We organised a Corporate-wide "Healthy Living Programme" to promote healthy living practices.

WORK IMPROVEMENT CULTURE

We have a strong work improvement culture that ensures continuous improvement in how we operate. This is formalised in our Work Improvement Team (WIT) "You have a Say" Programme. The Company benefits from the cost saving initiatives and the streamlining of work processes that result from WIT projects. At the same time, the WIT culture encourages staff members to improve themselves personally and professionally, helping the Company to meet business challenges.

To promote the work improvement culture during 2011, training was offered to encourage collective innovation and continuous improvement using problem solving tools. This was reinforced by joint-company events to share best practices in quality improvement.

CORPORATE RESPONSIBILITY HIGHLIGHT

DEVELOPING PEOPLE

Teamwork can be built in many ways, and volunteer activity is one we cultivate. In September, around 100 of our "More Time Reaching Community" volunteers joined the "Painting in Dance – The Art of Dance by the Happy Rainbow Fishes" organised by Tung Wah Group of Hospitals Community Services/Rehabilitation Services.

By means of handling the costumes, stage coordination, photography and assisting the participants, our volunteers helped people suffering from physical, mental and social disabilities to express themselves through drawing and dance.

The picture of "Painting in Dance – The Art of Dance by the Happy Rainbow Fishes" is published here with the courtesy of the Tung Wah Group of Hospitals

EMPLOYEE COMMUNICATION

Our well-established staff consultation mechanism involving elected staff representatives continues to serve as an effective channel for management to listen to and address staff concerns. Over 5,100 sessions of the Enhanced Staff Communication Programme were organised in 2011 with more than 50,000 participating headcount, successfully reinforcing two-way communication between line managers and staff on the shop floor. This programme helps the Corporation to identify and address staff concerns at an early stage.

Communication with offshore assignees in the Mainland of China and overseas is of increasing importance to the Company's smooth operation outside of Hong Kong and efficient and convenient channels are in place to ensure issues of interest to staff working outside of Hong Kong are communicated.

Increasing numbers of electronic platforms have been deployed to keep staff abreast of the Company's latest business developments and corporate strategies. As part of this development, video highlights of management communication meetings are uploaded regularly to the Company intranet. An internal digital broadcast system designed to strengthen the corporate brand was installed at the Hong Kong Headquarters Building. Called M-Board, it gives staff and visitors exposure to key corporate messages and news throughout the day.

To build pride in the day-to-day work of our staff and to help them contribute to the Company's success, five short motivational videos, "MTR People Making a Difference" were released throughout 2011.

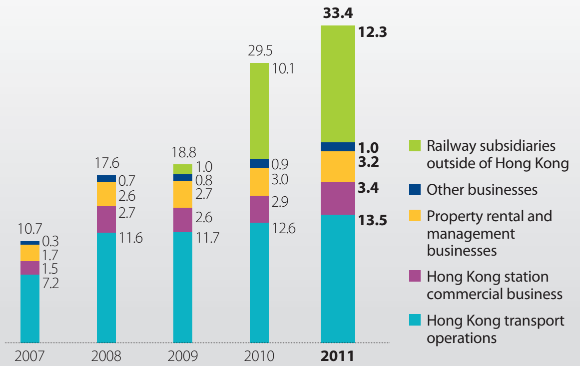
To engage staff family members and encourage education in Hong Kong, the Company offers a corporate scholarship scheme that grants bursaries for children of employees, and gives recognition to their outstanding academic achievements and active participation in volunteering activities.

FINANCIAL REVIEW

TURNOVER

With the continued economic growth in Hong Kong and improved performance of railway subsidiaries outside of Hong Kong, turnover in 2011 reported a record peak of HK$33.4 billion.

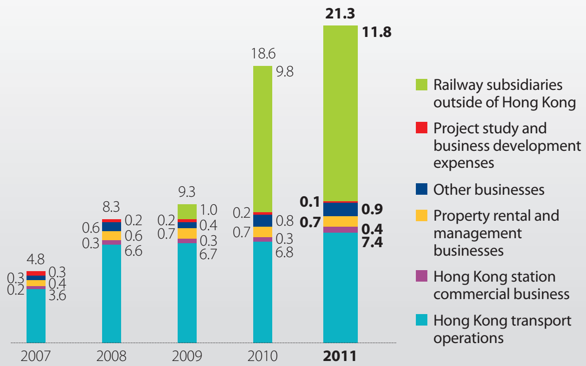
(HK$ billion)



OPERATING EXPENSES

Besides supporting the revenue growth, more operating expenses were incurred in 2011 for service enhancement and compliance with the Minimum Wage Ordinance.

(HK$ billion)



REVIEW OF 2011 FINANCIAL RESULTS

Profit and Loss

In 2011, the Group leveraged off continued economic growth in Hong Kong to achieve another year of good financial results.

During the year, Hong Kong fare revenue increased by 7.2% to HK$13,357 million, attributable to higher patronage brought about by the economic growth and the increase in average fare for eligible services under the Fare Adjustment Mechanism (FAM). Patronage of Domestic Service, Cross-boundary Service and Airport Express rose by 5.2%, 3.9% and 5.9% respectively. Average fares for Domestic Service and Cross-boundary Service, which are subject to FAM, increased by 2.0% and 1.8% respectively, while that for Airport Express, which is not subject to FAM, increased by 2.1% due to a change in passenger mix. Fare revenue from Domestic Service, Cross-boundary Service and Airport Express therefore increased by 7.3%, 5.9% and 8.2% respectively to HK$9,300 million, HK$2,633 million and HK$751 million. Light Rail, Bus and Intercity also recorded increases in fare revenue in total by 10.3% to HK$673 million. Including other rail related income of HK$152 million, revenue from Hong Kong transport operations in 2011 increased by 6.9% to HK$13,509 million. Expenses relating to Hong Kong transport operations increased by 7.8% to HK$7,354 million mainly due to an increase in manpower and maintenance works for service enhancements, extra costs incurred for complying with the Minimum Wage Ordinance as well as higher payments for Government rent and rates. Operating profit from Hong Kong transport operations in 2011 was HK$6,155 million, an increase of 5.9% compared with last year.

Hong Kong station commercial business also benefited from the sustained economic growth. Revenue in 2011, which included certain receivables in relation to the termination of 2G telecommunication contracts, was HK$3,422 million, 19.9% higher than last year. The revenue growth excluding such one-off receivables was 13.9% as a result of the strong advertising market, increases in rental rate and lettable floor area of our station retail business as well as additional telecommunication income from the enhancement of 3G coverage. Expenses relating to Hong Kong station commercial business was HK$358 million, an increase of 21.8%. Operating profit from Hong Kong station commercial business in 2011 increased by 19.7% from last year to HK$3,064 million.

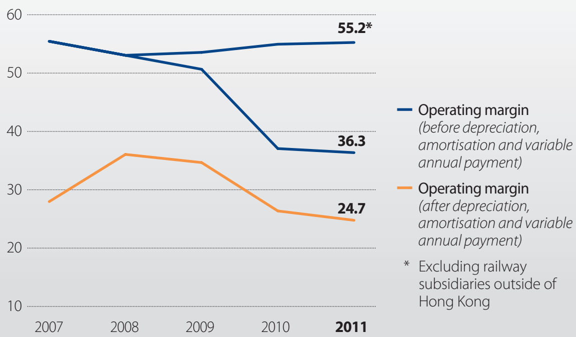
Revenue from property rental and management businesses in 2011 was HK$3,215 million, an increase of 8.6% with rental income increasing by 9.4% but partially offset by the decrease in property management income of 2.0%. The rise in property rental income to HK$3,016 million was mainly due to the favourable rental reversion and higher turnover rent collected from retail tenants. The decrease in property management income to HK$199 million was due to the alignment of the manager's remuneration rate to maintain competitiveness. Expenses relating to property rental and management businesses, including additional costs for complying with the Minimum Wage Ordinance, increased by 10.2% to HK$721 million. Operating profit from property rental and management businesses in 2011 was HK$2,494 million, an increase of 8.1% from last year.

Railway subsidiaries outside of Hong Kong in 2011 reported a 60.9% growth in operating profit to HK$449 million. MTRS made a significant improvement in performance with an operating profit of HK$55 million as compared to an operating loss of HK$6 million in 2010. MTM reported a 22.7% increase in operating profit to HK$400 million mainly due to more project works as well as favourable currency movements. In Shenzhen, Phase 2 of the Longhua Line opened on 16 June 2011. Together with Phase 1, the operation of which was

OPERATING MARGIN

Excluding railway subsidiaries outside of Hong Kong, operating margin improved steadily since the Rail Merger to 55.2% in 2011.

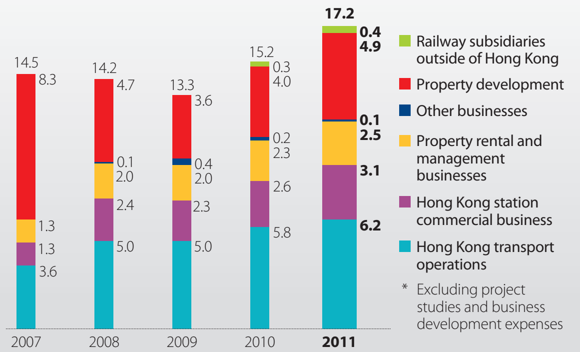
(Percentage)



OPERATING PROFIT CONTRIBUTIONS*

Except for property development and other businesses, all business segments achieved steady growth in operating profit, which accounted for 71% of the Group's total in 2011.

(HK$ billion)



taken over by the Group in July 2010, the SZL4 recorded a better-than-expected operating loss of HK$68 million in 2011. Including the recognition of HK$62 million of compensation subsidy from the Shenzhen Municipal Government, the SZL4 reported a slight operating loss of HK$6 million, as compared with a HK$41 million loss in 2010.

Other businesses, comprising mainly Ngong Ping 360, consultancy business and project management service to the Government for the Express Rail Link construction, generated an operating profit of HK$85 million, a 51.1% decrease from last year. The decrease was mainly due to the completion of the Kowloon Southern Link project in 2010 with the receipt of the last tranche of management incentive fees for that project also in 2010.

Including expenses on project studies and new business development of HK$123 million, which decreased by 43.1% due to reduced Mainland business development expenses in 2011, operating profit before property developments, depreciation, amortisation and variable annual payment increased by 11.1% to HK$12,124 million. Owing to the increased contribution weighting from the asset-light, lower-margin international railway subsidiaries and the initial operating loss of the SZL4, operating profit margin in 2011 reduced slightly from 37.0% in 2010 to 36.3%. Excluding these railway subsidiaries outside of Hong Kong, the margin improved from 54.9% in 2010 to 55.2% in 2011.

Property development profit in 2011, mainly relating to the Festival City development and the shopping mall at Tseung Kwan O Area 56, increased by 22.3% to HK$4,934 million. Depreciation and amortisation increased by 2.8% to HK$3,206 million as a result of additional charges on assets commissioned such as the new trains and additional concession properties. Including the first full-year charge of variable annual payment to KCRC of HK$647 million, compared to the one-month charge of HK$45 million in 2010, operating profit before interest and finance charges increased by 12.0% to HK$13,205 million.

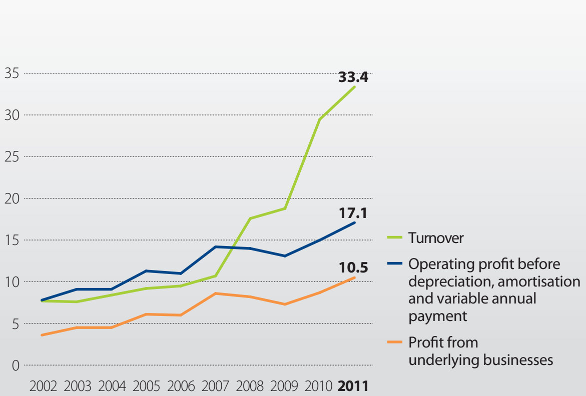
With reductions in the average net debt balance and the amount of fixed rate debts, which carried higher interest rates, interest and finance charges in 2011 decreased by 25.5% to HK$921 million while the weighted average cost of borrowing decreased from 4.3% in 2010 to 3.1%. Investment property revaluation gain recognised in 2011 was HK$5,088 million. Share of profits of non-controlled subsidiaries and associates was HK$297 million, a 113.7% increase from last year mainly due to the improvement in profit of Octopus Holdings Limited and better-than-expected performance of BJMTR, our share of which increased from break-even in 2010 to a profit of HK$84 million in 2011.

Profit before taxation increased by 19.7% to HK$17,669 million. After deducting income tax of HK$2,821 million, profit for 2011 increased by 22.0% to HK$14,848 million, of which HK$14,716 million was attributable to equity shareholders of the Company. Earnings per share therefore increased from HK$2.10 in 2010 to HK$2.55 in 2011. Excluding investment property revaluation and the related deferred tax provision of HK$4,248 million, the underlying profit attributable to equity shareholders was HK$10,468 million, of which HK$4,225 million was derived from property developments and HK$6,243 million from other businesses. Earnings per share based on our underlying profit increased from HK$1.51 in 2010 to HK$1.81 in 2011.

The Board has recommended a final dividend of HK$0.51 per share, which, when added to the interim dividend of HK$0.25 per share, will bring full year dividend to HK$0.76 per share, an increase of HK$0.17 per share or 28.8% from last year.

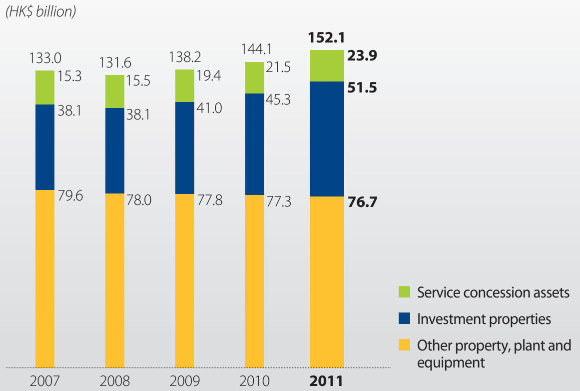
NET RESULTS FROM UNDERLYING BUSINESSES

Underlying business profit in 2011 further increased to a record peak of HK$10.5 billion.



FIXED ASSETS GROWTH

Fixed assets at 2011 year-end further increased to HK$152.1 billion with the revaluation gains in investment properties and asset additions for the railway extensions in Hong Kong and the SZL4 in the Mainland of China.



Balance Sheet

The Group's balance sheet further strengthened during the year. As at 31 December 2011, net assets amounted to HK$129,045 million, an increase of 10.0% from 2010 year-end with total assets increasing by 8.9% to HK$197,873 million and total liabilities increasing by 6.9% to HK$68,828 million.

Total fixed assets increased by HK$8,011 million to HK$152,068 million mainly due to the revaluation gain on investment properties, receipt of our share of the shopping mall at Tseung Kwan O Area 56 as well as further construction and completion of the SZL4. Upon signing of the project agreements for the construction of South Island Line (East) and Kwun Tong Line Extension in 2011, the associated costs of HK$1,057 million incurred in prior years were transferred from deferred expenditure to railway construction in progress and property development in progress. As at 31 December 2011, railway construction in progress was HK$3,566 million, which excluded the cumulative West Island Line construction costs of HK$8,039 million incurred but fully offset by the Government grant of HK$12,652 million previously received. Property development in progress increased by HK$2,836 million to HK$11,964 million, mainly due to the land cost for the SZL4 Depot site and preliminary work done for the Wong Chuk Hang site on the South Island Line (East).

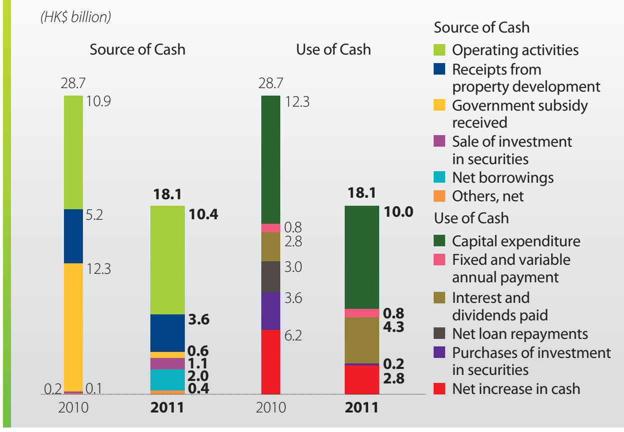
Properties held for sale increased by HK$1,821 million to HK$3,757 million at 2011 year-end mainly due to recognition of units in inventory relating to Festival City at Tai Wai. Debtors, deposits and payments in advance increased by HK$903 million to HK$3,964 million mainly due to the increase in receivables relating to flats sold at Festival City and telecommunication income from the 2G contract termination. During the year, the loan to the developer of Le Prestige at LOHAS Park, amounting to HK$1,975 million at 2010 year-end, was fully repaid while investments in medium term notes of HK$1,000 million were redeemed upon maturity. Cash, bank balances and deposits increased by HK$2,766 million to HK$16,100 million.

On the liability side, the increase in total liabilities of HK$4,456 million was mainly due to the increase in total loan outstanding of HK$2,111 million to HK$23,168 million, the increase in total tax liabilities of HK$830 million to HK$15,702 million, inclusive of HK$15,105 million of deferred tax provision, and the amount of land premium less deposit paid for the SZL4 Depot site of HK$1,950 million. During the year, HK$1,233 million (RMB1 billion) of Renminbi denominated notes were issued in June to finance the SZL4 while HK$1,000 million of five-year medium term notes were issued in December. Creditors and accrued charges increased by HK$911 million to HK$16,402 million due to land cost payable for the SZL4 Depot site, the increase in project accruals for the SZL4, South Island Line (East) and Kwun Tong Line Extension as well as project management fee received in advance for the Express Rail Link partly offset by the utilisation of the West Island Line Government grant.

Share capital, share premium and capital reserve increased by HK$328 million to HK$44,062 million resulting from shares issued for scrip dividends and share options exercised. Together with the increase in retained earnings net of dividends paid of HK$10,677 million and increase in fixed asset revaluation reserve and other reserves of HK$704 million, total equity attributable to shareholders of the Company increased by HK$11,709 million to HK$128,859 million at 31 December 2011. The net debt-to-equity ratio decreased from 12.8% at 2010 year-end to 11.9% at 2011 year-end.

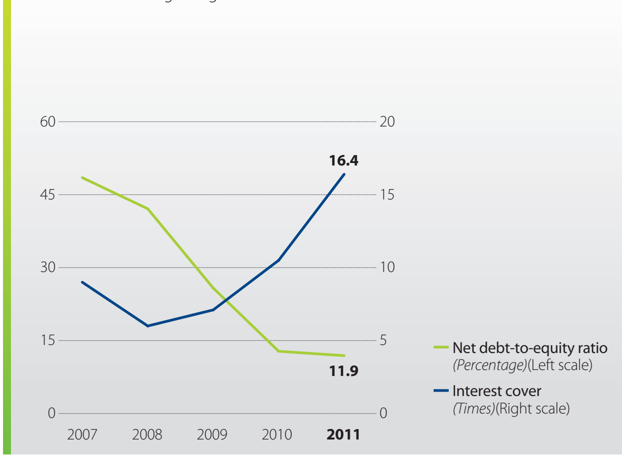
CASH UTILISATION

Cash inflows mainly from operating activities and property developments in 2011 were utilised to pay off mainly capital expenditures, interest expense and dividends.



DEBT SERVICING CAPABILITY

Interest cover and gearing ratio were further enhanced in 2011.



Cash Flow

Cash inflow generated from operating activities of the Group before cash tax payment in 2011 increased by 4.8% to HK$12,489 million. After accounting for the receipt of government subsidy for the SZL4 of HK$638 million (RMB522 million) and cash tax payment of HK$2,103 million, net cash inflow from operating activities was HK$11,024 million, a slight increase of 1.1% from last year. Total cash receipts from property developments was HK$3,593 million, comprising the scheduled final loan repayment of HK$2,000 million from a developer and settlement of receivables mainly on The Palazzo and Lake Silver. Including other cash receipts such as dividend from Octopus Holdings Limited and recovery of Government entrustment works, total cash inflow in 2011 was HK$14,965 million.

Total capital expenditure outflows in 2011 was HK$10,043 million, including HK$2,102 million for the purchase of assets for Hong Kong transport and related operations, HK$5,028 million for the West Island Line, South Island Line (East) and Kwun Tong Line Extension projects, HK$1,385 million for SZL4 Phase 2 construction and HK$1,330 million for property developments, renovation and fitting-out works. After settlement of the fixed and variable annual payments of HK$795 million, net interest payment of HK$421 million, dividend payments of HK$3,842 million and other working capital adjustments, total cash outflow of the Group in 2011 was HK$15,162 million.

As a result, the Group recorded a net cash outflow of HK$197 million, which was covered by the redemption of medium term notes amounting to HK$1,000 million. Including a net loan drawdown of HK$1,979 million, the Group's cash balance increased by HK$2,782 million to HK$16,100 million at 31 December 2011.

Financing Activities

Financings

Despite continued quantitative easing by the Fed, growth in the U.S. and developed economies remained fragile for much of 2011. Anaemic growth, together with increased demand for US treasuries due to the European sovereign debt situation, helped push treasury yields towards historical lows.

Conditions in the financial markets deteriorated significantly in the third quarter as the European sovereign debt situation worsened resulting in perception of higher bank counterparty risks. This helped further decrease banking liquidity and increase bank funding costs.

In the circumstances, the Fed and most central banks continued to pursue extremely loose monetary policies with the Fed indicating its commitment to a 0-0.25% Fed Funds rate for an extended period of time and implementing other measures to keep long-term rates low.

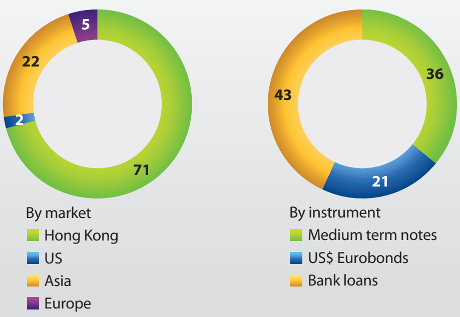
Short-term interest rates in Hong Kong remained soft during the year albeit on a slight uptrend with 3-month Hibor rate rising and closing the year at 0.38% per annum, to partly reflect higher bank funding costs. Long-term rates, however, remained on a downtrend with yield on the 10-year Exchange Fund Notes ending the year at 1.4% per annum.

Loan demand in Hong Kong was strong in 2011 contributed in part by increased Mainland and related borrowers' funding activities in Hong Kong and by local refinancings. Significant loan demand coupled with banks' continual reduction in leverage resulted in a sharp increase in borrowing costs.

SOURCES OF BORROWING

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

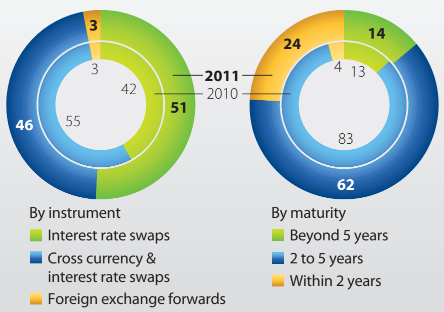
(Percentage) (As at 31 December 2011)



USE OF INTEREST RATE AND CURRENCY RISK HEDGING PRODUCTS

The Company has a strict policy of limiting the use of derivatives financial instruments for hedging purposes only.

(Percentage) (As at 31 December 2011)*



* Calculated based on nominal value

During the year, the Group remained in a very strong liquid position and adopted an opportunistic approach to new financing. New financings were concluded either to capture attractive funding opportunities to reduce overall cost, or to further strengthen liquidity ahead of future funding requirements.

In June, the Group came to the market with a debut 2-year RMB1 billion Dim Sum Bond issue with a historical low coupon rate of 0.625% per annum. Proceeds of the issue were remitted as a shareholder's loan to SZMTR to fund remaining capital expenditure of SZL4 and to lower overall borrowing cost.

This was followed in December by a HK$1 billion 5-year note issued from the Group's debt issuance programme with proceeds added to the Group's liquidity pool for meeting future funding requirements.

Cost of Borrowing

The Group's consolidated debt position increased from HK$21,057 million at 2010 year-end to HK$23,168 million at 2011 year-end. Weighted average borrowing cost declined to 3.1% per annum from 4.3% per annum in 2010 due to continuing low interest rates and reduction in average fixed rate debt level with higher interest rates. Therefore, net interest expense charged to the Profit and Loss Account, after interest capitalised of HK$96 million and off-setting part of SZL4 government subsidy of HK$133 million, declined to HK$921 million from HK$1,237 million in 2010.

Treasury Risk Management

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

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

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

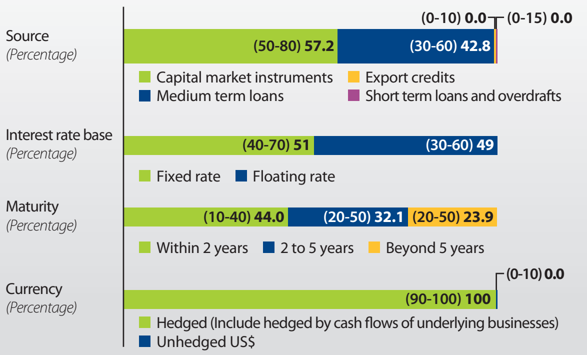
To control and diversify counterparty risks, the Group limits exposure to credit risk by placing deposits and transacting derivative instruments with financial institutions having acceptable investment grade credit ratings.

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

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 2011*



Deposits and short-term investments are also subject to separate counterparty limits based on credit ratings and/or their note issuing bank status in Hong Kong. To further control risk, there is limit on the length of time that a deposit or short-term investment can be maintained with a counterparty.

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

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

Credit Ratings

Throughout the year, the Company maintained strong investment grade ratings on par with the Hong Kong Special Administrative Region Government.

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

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

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

Financing Capacity

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

Capital expenditure for Hong Kong railway projects comprises investment in and expenditures relating to new ownership projects, including the West Island Line, South Island Line (East) and the Kwun Tong Line Extension, as well as outlays for maintaining and upgrading the existing railway lines and station commercial facilities. Concession projects such as the Express Rail Link are generally funded by the Government.

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. Expenditure for Mainland and overseas investments consists primarily of equity contribution for the upcoming Hangzhou Line 1 project, remaining capital expenditure for SZL4, and investment in the SZL4 Depot property development site.

Based on current programme, total net capital expenditure for the next three years from 2012 to 2014 (inclusive) is estimated at HK$32.5 billion for Hong Kong railway projects, HK$5.5 billion for Hong Kong property investment and development, and HK$7.5 billion for Mainland and overseas investments, for a total of HK$45.5 billion. Out of this total, it is estimated that HK$21.0 billion will be incurred in 2012, HK$12.3 billion in 2013, and HK$12.2 billion in 2014.

At the end of 2011, the Group maintained total cash, deposits and investment-grade liquid investments amounting to HK$19,074 million. This, together with future projected cash flow, is expected to be sufficient to cover the Group's projected funding requirement including debt refinancing and net capital expenditure well into 2012.

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

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

TEN-YEAR STATISTICS

	2011	2010	2009	2008	2007#	2006	2005	2004	2003	2002
Financial										
Profit and Loss Account *(HK$ million)*										
Turnover	**33,423**	29,518	18,797	17,628	10,690	9,541	9,153	8,351	7,594	7,686
Operating profit before depreciation, amortisation and variable annual payment	**17,058**	14,951	13,069	14,009	14,229	11,032	11,259	9,110	9,116	7,769
Depreciation and amortisation	**3,206**	3,120	2,992	2,944	2,752	2,688	2,695	2,512	2,402	2,470
Interest and finance charges	**921**	1,237	1,504	1,998	1,316	1,398	1,361	1,450	1,539	1,125
Investment property revaluation (net of deferred tax)	**4,248**	3,402	2,336	99	6,609	1,797	2,310	2,051	–	–
Profit	**14,848**	12,172	9,639	8,280	15,182	7,758	8,463	6,543	4,450	3,579
Profit attributable to equity shareholders arising from underlying businesses	**10,468**	8,657	7,303	8,185	8,571	5,962	6,140	4,492	4,450	3,579
Dividend proposed and declared	**4,396**	3,405	2,977	2,715	2,522	2,328	2,299	2,259	2,215	2,161
Earnings per share *(HK$)*	**2.55**	2.10	1.69	1.47	2.72	1.41	1.55	1.23	0.85	0.70
Balance Sheet *(HK$ million)*										
Total assets	**197,873**	181,665	176,494	159,338	155,668	120,421	113,666	106,674	102,366	101,119
Loans, other obligations and bank overdrafts	**23,168**	21,057	23,868	31,289	34,050	28,152	28,264	30,378	32,025	33,508
Obligations under service concession	**10,724**	10,749	10,625	10,656	10,685	–	–	–	–	–
Deferred income	**403**	605	167	156	515	1,682	3,584	4,638	5,061	6,226
Total equity attributable to equity shareholders	**128,859**	117,150	106,387	97,801	91,014	76,767	69,875	61,892	57,292	53,574
Financial Ratios										
Operating margin *(%)*	**36.3**	37.0	50.6	53.0	55.4	54.7	55.9	54.4	49.3	52.2
Operating margin (excluding railway subsidiaries outside of Hong Kong) *(%)*	**55.2**	54.9	53.5	53.0	55.4	54.7	55.9	54.4	49.3	52.2
Non-fare revenue as a percentage of turnover (excluding railway subsidiaries outside of Hong Kong) *(%)*	**36.8**	35.7	35.2	35.0	33.4	31.6	31.4	29.0	27.7	25.6
Net debt-to-equity ratio *(%)*	**11.9**	12.8	25.8	42.1	48.5	36.3	39.9	48.6	55.2	59.3
Net debt-to-equity ratio (excluding revaluation reserves) *(%)*	**12.1**	13.0	26.1	42.5	49.2	36.7	40.3	48.9	62.6	67.4
Interest cover *(times)*	**16.4**	10.5	7.1	6.0	9.0	6.7	7.6	6.1	5.6	4.5
Employees										
Corporate management and support departments	**1,486**	1,362	1,319	1,235	1,530	823	810	792	793	824
Station commercial businesses	**144**	144	137	125	138	82	82	67	61	62
Operations	**9,244**	9,026	8,789	8,708	8,937	4,521	4,600	4,669	4,730	4,836
Projects	**2,109**	1,794	1,365	995	942	260	242	362	398	546
Property and other businesses	**1,282**	1,291	1,242	1,170	1,141	832	688	660	642	618
China and international businesses	**179**	212	239	197	135	112	83	–	–	–
Offshore employees	**6,851**	6,672	7,059	1,646	1,311	733	486	5	5	5
Total	**21,295**	20,501	20,150	14,076	14,134	7,363	6,991	6,555	6,629	6,891

	2011	2010	2009	2008	2007[#]	2006	2005	2004	2003	2002
Hong Kong Transport Operations										
Revenue car km operated *(thousand)*										
Domestic and Cross-boundary	**254,407**	253,067	247,930	245,856	128,041	115,784	114,449	114,364	112,823	103,318
Airport Express	**19,603**	19,833	19,643	19,891	19,956	20,077	17,122	16,081	15,227	19,467
Light Rail	**10,166**	9,586	8,950	8,984	755	–	–	–	–	–
Total number of passengers *(thousand)*										
Domestic Service	**1,366,587**	1,298,714	1,218,796	1,205,448	915,755	866,754	857,954	833,550	770,419	777,210
Cross-boundary Service	**103,881**	99,954	94,016	93,401	8,243	–	–	–	–	–
Airport Express	**11,799**	11,145	9,869	10,601	10,175	9,576	8,493	8,015	6,849	8,457
Light Rail	**161,289**	154,522	143,489	137,730	11,100	–	–	–	–	–
Bus	**43,956**	40,883	37,522	34,736	2,757	–	–	–	–	–
Intercity	**3,787**	3,244	2,921	3,220	285	–	–	–	–	–
Average number of passengers *(thousand)*										
Domestic Service – weekday average	**3,968**	3,770	3,544	3,514	2,662[§]	2,523	2,497	2,403	2,240	2,261
Cross-boundary Service – daily average	**285**	274	258	255	–[@]	–	–	–	–	–
Airport Express – daily average	**32**	31	27	29	28	26	23	22	19	23
Light Rail – weekday average	**451**	433	402	385	–[@]	–	–	–	–	–
Bus – weekday average	**126**	118	107	99	–[@]	–	–	–	–	–
Intercity – daily average	**10**	9	8	9	–[@]	–	–	–	–	–
Average passenger km travelled										
Domestic and Cross-boundary	**10.9**	10.9	10.7	10.4	7.9	7.7	7.6	7.7	7.7	7.6
Airport Express	**29.4**	29.4	29.5	29.4	29.5	29.7	30.4	30.2	29.7	29.9
Light Rail	**2.8**	2.8	2.9	3.0	3.0	–	–	–	–	–
Bus	**4.5**	4.5	4.6	4.6	4.6	–	–	–	–	–
Average car occupancy *(number of passengers)*										
Domestic and Cross-boundary	**63**	60	57	55	58	58	57	56	53	57
Airport Express	**18**	17	15	16	15	14	15	15	13	13
Light Rail	**45**	45	46	46	45	–	–	–	–	–
Proportion of franchised public transport boardings *(%)*	**45.4**	44.3	42.6	42.0	26.7	25.0	25.2	24.8	24.3	23.5
HK$ per car km operated (Hong Kong Transport Operations)										
Total revenue	**45.9**	43.2	40.8	40.9	47.9	48.3	48.1	45.8	43.2	46.8
Operating costs	**23.1**	21.5	21.5	21.2	21.6	22.1	22.8	22.3	22.5	22.9
Operating profit	**22.8**	21.7	19.3	19.7	26.3	26.2	25.3	23.5	20.7	23.9
HK$ per passenger carried (Hong Kong Transport Operations)										
Total revenue	**7.99**	7.86	7.74	7.83	7.55	7.48	7.31	7.09	7.11	7.31
Operating costs	**4.02**	3.91	4.08	4.07	3.40	3.43	3.47	3.45	3.71	3.57
Operating profit	**3.97**	3.95	3.66	3.76	4.15	4.05	3.84	3.64	3.40	3.74
Safety Performance										
Domestic, Cross-boundary and Airport Express										
Number of reportable events [^]	**1,769**	1,592	1,539	1,514	989	826	748	701	641	690
Reportable events per million passengers carried [^]	**1.19**	1.13	1.16	1.16	1.05	0.94	0.86	0.83	0.82	0.88
Number of staff and contractors' staff accidents	**44**	46	60	42	26	23	31	25	33	24
Light Rail										
Number of reportable events [^]	**164**	165	146	136	6	–	–	–	–	–
Reportable events per million passengers carried [^]	**1.02**	1.07	1.02	0.99	0.54	–	–	–	–	–
Number of staff and contractors' staff accidents	**7**	5	11	5	0	–	–	–	–	–

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

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

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

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

INVESTOR RELATIONS

INVESTORS AND MTR CORPORATION

The Company has been in the international capital markets for over 28 years and its high standard of corporate governance and disclosure has made it a recognised leader in investor relations practices in Asia.

We maintain good relations with our wide base of institutional and retail investors through a 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 existing and potential investors.

COMMUNICATING WITH INSTITUTIONAL INVESTORS

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

Management remains dedicated to maintaining an open dialogue with the investment community to ensure a thorough understanding of the Company and its business strategies. To this end, the Company holds meetings with investors and analysts, and participates in investor conferences and roadshows. In total, over 300 meetings were held with institutional investors and research analysts in 2011, in Hong Kong and internationally.

ACCESS TO INFORMATION

To ensure all shareholders have equal and timely access to important company information, the Company makes extensive use of the company website to deliver up-to-date information. 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 corporate website.

In addition to the shareholder services offered by Computershare, the Company's dedicated hotline answers individual shareholder enquiries, which numbered nearly 50,000 in 2011.

INDEX RECOGNITION

The Company's position in the Hong Kong market as a blue chip stock is affirmed through the continued inclusion of our stock in some of the most important indices. The stock is currently a constituent member of the Hang Seng Index, MSCI Index and FTSE Index Series. Since 2002, our achievements in the areas of sustainability and corporate responsibility have been recognised by the Dow Jones Sustainability Indexes and the FTSE4Good Index Series. MTR has also been included in the Hang Seng Corporate Sustainability Index since its launch in 2010.

MARKET RECOGNITION

The Company's 2010 Annual Report won awards at the 2011 International Annual Reports Competition (ARC) Awards organised by MerComm, Inc. in New York. The ARC Awards attracted more than 2,100 entries from 31 countries. For the 23rd consecutive year, our Annual report also achieved recognition in the Hong Kong Management Association (HKMA) Annual Report Awards, with the 2010 report winning the Silver Award under the "General Category" in the 2010 Best Annual Reports Awards Competition. The Company came second in "Best Investor Relations" in the Asia's Best Companies Poll from FinanceAsia in 2011.

KEY SHAREHOLDER INFORMATION

Financial Calendar 2012

Announcement of 2011 annual results	8 March
Annual General Meeting	3 May
Last day to register for 2011 final dividend	8 May
Book closure period	9 May to 14 May (both dates inclusive)
2011 final dividend payment date	On or about 29 May
Announcement of 2012 interim results	August
2012 interim dividend payment date	September
Financial year end	31December

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.

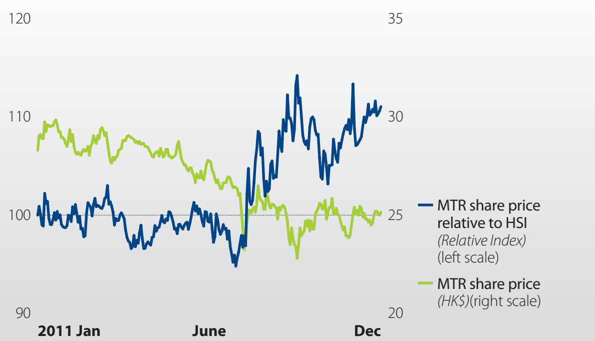
Ordinary Shares *(as at 31 December 2011)*

Shares outstanding	5,784,871,250 shares
Hong Kong SAR Government Shareholding	4,434,552,207 shares (76.7%)
Free float	1,350,319,043 shares (23.3%)

Nominal Value
HK$1 per share

Market Capitalisation *(as at 31 December 2011)*
HK$145,490 million

SHARE PRICE PERFORMANCE



Dividend Policy

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

Dividend per Share

	(in HK$)
2010 Total Dividend	0.59
2011 Interim Dividend	0.25
2011 Final Dividend	0.51

ADR Level 1 Programme

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

Stock Codes

Ordinary Shares

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

ADR Level 1 Programme
MTRJY

Annual Report 2011

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

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

If you are not a shareholder, please write to:

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

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

Shareholder Services

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

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

Telephone: (852) 2862 8555
Facsimile: (852) 2529 6087

Shareholder Enquiries

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

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

Investor Relations

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

Investor Relations Department, MTR Corporation Limited
MTR Headquarters Building, Telford Plaza, Kowloon Bay,
Kowloon, Hong Kong
Email: investor@mtr.com.hk

RISK MANAGEMENT

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

The Enterprise Risk Committee (ERC), which is chaired by the Legal Director & Secretary and comprises management representatives from key business functions, has accountability for the ERM framework. 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 and other risk "hot spots".

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

MANAGEMENT OF KEY RISKS

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

- The Company is undertaking five major railway extension projects, as well as many improvement works on the existing network and property development projects. The Company is fully committed to ensuring that these projects are delivered safely, during both construction and operation, on time, within budget and with the minimum unfavourable impact on society and the environment.
- The Company has a number of operating railway projects in Mainland of China and overseas. The Company is taking a pragmatic approach to enable these businesses outside of Hong Kong to grow sustainably by transferring to them relevant best practices developed in Hong Kong and facilitating amongst them cross-learning of best practices.
- The Company recognises that managing the impacts of climate change is an important component of sustainable growth. Although the potential impact of climate change on the Company's overall business performance is low, the Company has taken a proactive approach by preparing contingency plans to address issues of concern such as super typhoons and tsunamis. The Company also closely monitors the relevant legislation and regulations in order to take proactive steps to ensure compliance.

CONTINUOUS IMPROVEMENT OF THE RISK MANAGEMENT PROCESS

The ERM framework has been in operation since early 2006. We maintain a strong desire to improve our systems and tools through annual reviews with users, cross-industry benchmarking and experience sharing. The key activities undertaken during 2011 included:

- Streamlining the Top 50 Risks to Top 30 Risks, enabling the ERC to focus on key issues.
- Sharing and learning from the fourth UK ERM round table and the third HK ERM round table on best practice for governance of investment projects and enhancement of the ERM process.
- Co-hosting a Strategic Risk Management Workshop with the participation of a number of leading global railway operators to exchange risk management practices.
- Engaging an ERM consultant to conduct focused ERM workshops for relevant staff.
- Conducting regular meetings with our insurance broker for risk analysis.

SUSTAINABILITY

Our Corporate Sustainability Policy commits us to a stewardship of our organisation that seeks to meet the needs of the present without compromising the needs of future generations. Sustainability is thus our overall goal, while corporate responsibility guides how we manage our businesses and achieve competitiveness. Our approach has made the Company a recognised leader in pioneering transit-oriented social development.

RAIL PLUS PROPERTY

The Company's integrated "Rail plus Property" model enables us to be a self-sustaining urban transport system. By owning land assets and air rights, we have advanced new land uses through high-density living centres linked by rail. This enables us to leverage the economic opportunity derived from enhanced residential and commercial properties around rail stations. From an environmental point of view, locating facilities in close proximity means that commuting trips can be made in a more environmentally friendly means through our rail network, reducing traffic and air pollution. The higher living density at rail stations acts to preserve valuable green zones and supports lower density living between stations.

Social aspirations and environmental excellence are incorporated into our property developments, an idea that LOHAS Park brings to life. Here, residents enjoy spacious, green community living supported by environmental initiatives such as road and pedestrian separation and energy efficient buildings. The multi-level rail station serves as the principal transport hub for the community, connecting to Hong Kong's commercial and entertainment centres, and providing interchange facilities to other public transport modes.

Over the next ten years, we will build and operate 56 kilometres of new rail lines in Hong Kong, including the Hong Kong section of the Express Rail Link that will run from West Kowloon to the Hong Kong/Shenzhen boundary. We are thus in a strategic position to shape regional development in the Pearl River Delta. We are also developing businesses overseas, striving to build new communities that increase the use and acceptance of public transport.

CREATING SUSTAINABLE COMPETITIVE ADVANTAGE

Our unique organisational footprint identifies us as a community asset operating on commercial principles. Combining risk management and stakeholder engagement with our corporate strategy creates a resilient sustainable competitive advantage that is unique.

Our enterprise risk management framework identifies, prioritises and manages risks from our existing and growth businesses as well as the external business environment. We focus on managing risks, reducing costs and adding value through taking advantage of opportunities identified.

Stakeholder engagement addresses stakeholder sensitivities and applies cost-effective measures to close the gaps between stakeholder expectations and our delivery. In 2011, we formalised the engagement process to understand and reflect stakeholder's interests on our railway extension.

To ensure the resilience of assets and services we target the continual improvement of our services, assets and supply chain, taking into consideration society's changing aspirations and the need to protect the environment. We accommodate these aspects into our operations by engaging stakeholders and balancing their aspirations with commercial risks.

CARBON MANAGEMENT

The Hong Kong SAR (HKSAR) Government has signed onto the APEC agreement to reduce greenhouse gas (GHG) intensity by 20% by 2020. At the COP15 meeting in Copenhagen, China agreed to a 40-45% reduction in GHG intensity by 2020. The HKSAR Chief Executive has announced that Hong Kong will follow the target of the Mainland of China, which will have significant implications given the relatively low GDP growth Hong Kong is expected to experience in the next decade.

Discussions about climate change may imply future regulatory risk in relation to reducing, monitoring, reporting and verifying carbon emissions. As a proactive step, the Company has reported its carbon emissions since 2002, and continuously participated in the Carbon Disclosure Project since 2006. The Company also issued its Climate Change Policy in 2006, having established the international template with the International Association of Public Transport (UITP) that same year. The Community of Metros (CoMET), of which we are also a member, has also established a carbon emission methodology for benchmarking among its 14 member metropolitan metros.

A new section of our Design Standards Manual has recently been implemented focusing on energy efficient design. All new railway projects will consider carbon assessments and will facilitate carbon emissions reduction throughout the project cycle. Tools are being developed that will allow us to balance the embodied carbon in our railway infrastructure when compared to operations allowing a life cycle assessment of carbon, a first for a railway.

SUSTAINABILITY LEADERSHIP

Since 2000 we have published annual Sustainability Reports using recognised global standards or best practices, including the GRI G3 Sustainability Reporting Guidelines, CoMET benchmarking and the Carbon Disclosure Project.

Our achievements continue to attract international recognition. In September 2011, we were selected as a New Sustainability Champion by the World Economic Forum. The Company remains listed on the Dow Jones Sustainability Indexes, FTSE4Good Index and Hang Seng Corporate Sustainability Index. We are also included as the only Hong Kong company in the 2011 Corporate Knights Global 100 Most Sustainable Corporations in the World (the Global 100).

CARING
IN MOTION

CORPORATE RESPONSIBILITY

Our Corporate Responsibility Policy guides practices in six focus areas of stewardship, which together aim to pursue best sustainable practices in order to achieve balance and resilience in our businesses. The policy is monitored by the Corporate Responsibility Committee of the Board, which is chaired by the Chairman of the Company.

ENVIRONMENTAL PROTECTION

We aim to protect the environment through innovation and continuous improvement.

Building new railway lines to expand our environmentally sound transportation system, while developing high quality living environments, will contribute to reducing Hong Kong's carbon footprint in the longer term. The substantial construction needed to deliver the new infrastructure, however, inevitably places demands on energy and resource use. The Company embraces these challenges as an opportunity to lead the industry in sustainable best practices.

Our new property developments make every effort to achieve a reduced environmental footprint. We identify and introduce green initiatives throughout the entire life cycle of planning, design, construction, operation and maintenance to optimise energy efficiency and reduce resources consumption.

Examples of our pursuit of low energy consumption and solar shading solutions include the adoption of low energy absorbent double glazing and high performance indoor air conditioning at Austin Station. Here, air ventilation for pedestrians is enhanced by the use of windows and light-well spaces.

We also pay close attention to water conservation, in line with increasing global concerns about fresh water as a precious natural resource. Our buildings incorporate features to recycle rainwater and central air-conditioning condensation for irrigation use, alongside other water saving devices, to reduce water consumption. The Grey Water Treatment System in LOHAS Park, now in operation, collects and treats 440,000 litres of grey water from homes every day for use in watering the landscaping and cleaning outdoor public areas. We have also launched water management programmes at our managed residential properties The Palazzo and The Grandiose, winning respectively the Champion and 2nd runner up in the Water Conservation Design Competition organised by the Water Supplies Department.

Our new property developments all adopt best practices for green building design enshrined in the Hong Kong Building Environmental Assessment Method (BEAM). The Park of LOHAS Park, the Tsuen Wan 7 development, as well as the Che Kung Temple, Nam Cheong and Austin station developments all adopt BEAM practices. At Austin Station, we have recycled over 60% of construction waste resulting from the demolition of the former Canton Road Government Offices Building for the manufacture of road paving and other purposes.

Very careful environmental impact assessments are carried out before new railway lines are designed and constructed, significantly reducing their effect on the environment. This can be seen in the efforts we are making to preserve trees during the construction of the West Island Line and South Island Line (East). On the West Island Line project, we have undertaken the preservation of tree walls at Forbes Street, while on the South Island Line (East) project, trees with high ecological value will be retained or transplanted as far as is practicable. It is estimated that about 20% of the trees can be retained, including all trees classified as "old and valuable", while about 8% can be transplanted. New plantings will compensate for the remainder, and we target a net gain in the total number of trees.

Other efforts to preserve the environment are illustrated by our management of the Lok Ma Chau Wetland. In 2011, a total of 84 nest boxes were provided within the Lok Ma Chau and West Rail Wetlands during the breeding season, of which about 94% were used by nesting pairs. In 2011, a total of 137 broods (2010, 128) were hatched, and 544 chicks (2010, 400) bred successfully in our man-made nest sites.

Another globally endangered species we are helping to conserve is the Black-faced Spoonbill. Found only in East Asia, the estimated world population is only around 2,000 individuals and on average, some 20% of the global population, or 400 birds, winter in Hong Kong. The highest count of the Black-faced Spoonbill recorded during the 2010-2011 winter period in the Lok Ma Chau Wetland was 293, a new record.

ENGAGING AND BUILDING COMMUNITIES

Local people have been very active in the Community Liaison Groups we have established for the new railway lines. This has enabled construction of the West Island Line, South Island Line (East) and Kwun Tong Line Extension to commence with the support of local communities. As a "good neighbour" within these communities, we have made tremendous efforts to care for living environments through measures aimed at noise mitigation, dust suppression and temporary traffic management. Hence, despite the vast scale of the projects, it has been business and life as usual for those in the affected areas. Building upon the partnerships established in the Community Liaison Groups, we have continued our outreach programme through events such as school visits that are bringing knowledge about railway and urban development into classrooms.

More widely, our "Community Care Action" programme continues to gain overwhelming support among local communities. During 2011, more than 120 secondary school students joined the mentoring initiative "'Friend' for Life's Journeys" while 100 students were selected for the "'Train' for Life's Journeys" programme that provides multi-dimensional training.

Our "Community Care Action" programme, "'Friend' for Life's Journeys", has received positive feedback from local people

Our staff members have shown their enthusiastic support through their active participation in volunteering work organised under the "More Time Reaching Community" scheme, rising to a total of 206 projects involving over 5,600 volunteers in 2011.

ENSURING SERVICE OF VALUE TO CUSTOMERS

We maintain world leading performance in our rail services and strive to enhance value further. During 2011, we introduced MTR Mobile, as well as iPhone, iPad and Android applications for the benefit of passengers. These user-friendly tools help our customers to plan journeys and access information about stations, MTR Club, MTR shops, as well as landmarks and facilities en route. Our customer service is continually evolving along with technology, with MTR Facebook the latest to join the ranks of our customer engagement services, alongside MTR Opinion Zone, Phone-in Radio programme, MTR Club and the MTR hotline.

Regarding accessibility, the installation of external lifts, additional wide gates, and associated facilities and aids for the provision of wheelchairs reflect our continuing enhancements at stations for the elderly and passengers with disabilities.

DEVELOPING PEOPLE

We need a sustainable human capital pipeline in order to deliver sustainable world class services to the people of Hong Kong and the other cities where we operate.

Our new railway extension projects and overseas expansion create opportunities for our people but at the same time create challenges. To cope with future manpower demand, we conduct proactive manpower and advanced recruitment planning. We have continued to recruit graduate engineers, functional associates and graduate trainees, while increasing the intake of apprentices and introducing a pilot technician associate scheme. We also launched a proactive Career Development Scheme during 2011. In all, our advance recruitment programmes resulted in a total of 1,525 new hires in Hong Kong and promoted over 800 staff during the year.

We also reward and recognise staff initiatives through various motivation schemes, supporting and motivating our people to grow with the Company.

PROVIDING REASONABLE RETURNS TO INVESTORS

2011 was a year of strong growth in our rail and property businesses in Hong Kong, the Mainland of China and overseas. We are also making good progress on our five new rail projects in Hong Kong. Yet we remain prudent in identifying and managing the associated risks, and communicate potential opportunities and risks to our investors. We have established effective channels to disclose clear and up-to-date information, in an equal manner, to all categories of investors.

The Company's listing in the Hang Seng Corporate Sustainability Index, Dow Jones Sustainability Indexes and the FTSE4Good Index, together with the awards for the Annual Report, demonstrate the market's recognition for our achievements in this regard.

PROMOTING SAFE AND ETHICAL BUSINESS PRACTICES

The Company's guidance on Corporate Safety Governance underpins our safety-first culture, while other best Corporate Governance practices support our enterprise risk management framework in facing societal change. Opportunities for expansion in Hong Kong, the Mainland of China and overseas come with various challenges. Shifting public agendas and social aspirations add uncertainties. These risks are identified and examined, and their impacts carefully assessed. Strategies to mitigate the risks are formulated and programmes of engagement and transformation implemented. Key areas of interest are identified in collaboration with stakeholders, focusing on environmental protection, preservation of local heritage, and minimising disruption to the community during construction.

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. Continuous efforts are therefore taken to identify and formalise best practices and to ensure that the Company continues to exceed a number of the requirements of the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 of the Listing Rules. The Company's efforts in this regard were recently recognised by the Hong Kong Institute of Certified Public Accountants, who awarded the 2010 Annual Report the Gold Award (Hang Seng Index Category) in the 2011 Best Corporate Governance Disclosure Awards.

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.

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

The Company has complied with the Code throughout the year ended 31 December 2011, except for Code Provision A.4.2 (which exception was already disclosed in advance in the Company's 2010 Annual Report, and then in the 2011 Interim Results Announcement and the 2011 Interim Report). The reason for such exception is restated below for ease of reference.

In relation to the retirement by rotation of directors, the Company continued to comply with its Articles of Association (available on both the websites of the Company (www.mtr.com.hk.) and the Stock Exchange) which require that one third of the then Directors who are subject to Articles 87 and 88 must retire as Directors (i.e. three out of the nine Directors (excluding two Directors appointed pursuant to Section 8 of the MTR Ordinance)). The re-organisation in the Government and the Rail Merger of the Company with KCRC brought an increase in the number of Directors last elected/re-elected in the 2008 Annual General Meeting. For this reason, the Company, for the first time, did not meet Code Provision A.4.2, which requires every director to be subject to retirement by rotation at least once every three years, in 2011.

The composition of the Board, with 11 non-executive Directors out of the 12-member Board, of whom 7 are independent non-executive Directors (the "INED(s)"), well exceeds both the requirements of the current Listing Rule (every board of directors of a listed issuer has to have at least 3 INEDs), as well as the new Listing Rule (to have INEDs representing at least one-third of the board by not later than 31 December 2012).

Further, and as an integral part of good corporate governance, the Company has, for some time, had a number of Board Committees with written terms of reference to oversee particular aspects of the Company's affairs, and these include the Remuneration Committee (this new Listing Rule requirement will take effect on 1 April 2012) and the Nominations Committee (this new CG Code provision will become effective on 1 April 2012). In advance of the new CG Code implementation, the Board has, at the January 2012 Board Meeting, adopted revised Terms of Reference for the Remuneration Committee, the Nominations Committee and the Audit Committee (the new CG Code provision for audit committees will be effective on 1 April 2012) in order to meet the requirements of the new CG Code. All these Terms of Reference are available on both the MTR and the Stock Exchange websites.

As mentioned earlier, the Board recognises that corporate governance should be the collective responsibility of all Members of the Board. In light of the new CG Code provision on corporate governance functions (to take effect from 1 April 2012) and alongside the adoption of both the relevant Terms of Reference for the Board (available on both the MTR and the

Stock Exchange websites), and the revised "Protocol: Matters Reserved for the Board" (the "Protocol"), the Board confirmed at the January 2012 Board Meeting, that a separate corporate governance board committee would not be established by the Company.

THE BOARD OF DIRECTORS

The overall management of the Company's business is vested in the Board. Pursuant to the Articles of Association and the Protocol adopted by the Board, the Board has delegated the day-to-day management of the Company's business to the Executive Committee, and focuses its attention on matters affecting the Company's overall strategic policies, 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 matters, risk management strategies, treasury policies and fare structures.

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

Dr. Raymond Ch'ien Kuo-fung, a Member of the Board and the non-executive Chairman of the Company since 1998 and 2003 respectively, was re-appointed by the Government in November 2009 as the non-executive Chairman with effect from December 2009 until December 2012.

As announced by the Company in December 2010, Mr. Chow Chung-kong retired from the position of CEO and ceased to be a Member of the Board and a Member of the Executive Directorate on 31 December 2011.

On 22 July 2011 and following a worldwide search for Mr. Chow's replacement, the Company announced the appointment of Mr. Jay Herbert Walder as CEO for an initial term of thirty months with effect from 1 January 2012. He became both a Member of the Executive Directorate and a Member of the Board of Directors with effect from the same date.

The appointment of Mr. Walder was unanimously recommended by the Search Panel (comprising Dr. Raymond Ch'ien Kuo-fung, non-executive Chairman of the Company, Mr. Edward Ho, Chairman of both Nominations Committee and Remuneration Committee, Mr. Alasdair Morrison, an independent non-executive Director, Ms Eva Cheng (the Secretary for Transport and Housing ("S for T&H")) and Professor Chan Ka-keung, Ceajer (the Secretary for Financial Services and the Treasury ("S for FS&T")) and the Nominations Committee, and approved by the Board. In addition, his remuneration and terms of employment were recommended and approved by the Remuneration Committee and further endorsed by the Board.

Before joining the Company, Mr. Walder was Chairman and Chief Executive Officer of the New York Metropolitan Transportation Authority, the largest passenger transportation authority in the United States.

Two of the non-executive Directors (being the office of the "S for T&H" and the office of the Commissioner for Transport ("C for T")) are appointed by the Chief Executive of the HKSAR under Section 8 of the MTR Ordinance. During the year, Ms Eva Cheng held the post of the S for T&H and Mr. Joseph Lai Yee-tak was the C for T. Another non-executive Director, Professor Chan Ka-keung, Ceajer, is the S for FS&T. The Government through The Financial Secretary Incorporated, holds approximately 76.6% of the issued share capital of the Company.

At the 2011 Annual General Meeting on 6 May 2011 (the "2011 AGM"), Mr. Alasdair George Morrison retired from office pursuant to Article 85 of the Articles of Association and was elected as a Member of the Board. In addition, Mr. Edward Ho Sing-tin, Mr. Ng Leung-sing and Mr. Abraham Shek Lai-him retired from office by rotation pursuant to Articles 87 and 88, and were re-elected as Members of the Board at the 2011 AGM. Please refer to page 120 of the Report of the Members of the Board for details of the Members of the Board who will retire from office at the 2012 Annual General Meeting pursuant to the relevant Article(s) of Association.

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 subjected to objective and dispassionate consideration by the Board.

At the January 2012 Board Meeting and as part of the directors' training programme put in place by the Company, the Company's external legal counsel provided a comprehensive update on the corporate governance regime under the Listing Rules to the Board including the requirements of the new CG Code. A discussion then followed during which the Legal Director & Secretary highlighted the implications of the revised Listing Rules and the new CG Code to both the Company and to individual Directors.

Regarding the Listing Rules requirement (effective on 1 January 2012) for directors to obtain a general understanding of an issuer's business and to follow up anything untoward that comes to their attention, it is considered that the current arrangements for keeping the Board informed of the Company's business performance through regular presentations and/or reports by Management at Board Meetings, and timely reports on urgent key events according to the Protocol at ad hoc Board Meetings are effective, and have satisfied the requirement. (Please also refer to page 94.) To improve on the existing practice, a CEO Executive Summary, covering key business issues and the financial performance of the Company will be made available to Members on a monthly basis from April 2012. An off site meeting for the Board to review the Company's corporate strategy is also under planning by the CEO and is scheduled to take place in mid 2012. In addition, a number of site visits to the Company's business operations will be arranged for Directors over the course of the year.

During the year, the Company has received confirmation from each INED about his/her independence under the Listing Rules, and continues to consider each of them to be independent. (Regarding the new CG Code requiring issuers to have formal letters of appointment for directors (this provision will become effective on 1 April 2012), please refer to "Appointment, Re-election and Removal of Members of the Board" section on page 97 reporting service contract of Members).

Each Director ensures that he/she can give sufficient time and attention to the affairs of the Company. In light of the new CG Code Principle on directors' time commitments (to take effect on 1 April 2012), the Chairman has agreed to hold a private Board Meeting (without the presence of the CEO and other Members of Executive Directorate) in April 2012 to review the contribution from each director in performing his/her responsibilities to the Company, and whether he/she is spending sufficient time in performing them.

As regards the new CG Code provision (effective 1 April 2012) requiring directors to disclose the number and nature of offices held in public companies or organisations and other significant commitments as well as their identity and the time involved (the "Commitments") to the issuer, all Directors have, at the Board Meeting in January 2012, agreed to disclose their Commitments to the Company in a timely manner. The Company's current practice of requesting Members of the Board to make a disclosure to the Company twice a year will also continue.

Biographies of the Members of the Board are set out on pages 112 to 115. 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 office of the S for T&H (Ms. Eva Cheng) and the office of the C for T (Mr. Joseph Lai Yee-tak) were both appointed by the Chief Executive of the HKSAR, and Professor Chan Ka-keung, Ceajer is the S for FS&T of the Government, and Ms. Christine Fang Meng-sang sits on various government advisory committees.

As permitted under its Articles of Association, it has been the practice of the Company to arrange Directors' and Officers' Liability Insurance for which Members of the Board and officers of the Company do not have to bear any excess.

In January 2012, a questionnaire was sent to all Members of the Board in order to enable the performance of the Board to be evaluated. The questionnaire sought their views on, for example, the overall performance of the Board, the composition of the Board, conduct of Board Meetings and provision of information to the Board, and the responses are currently being analyzed by the Company with a view to making further improvements in the manner in which the Board operates and in the Company's overall corporate governance regime.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The posts of Chairman and CEO are distinct and separate (please also refer to their appointments on page 91). The non-executive Chairman is responsible for chairing and managing the operations of the Board, as well as monitoring the performance of the CEO and other Members of the Executive Directorate. Apart from making sure that adequate information about the Company's business is provided to the Board on a timely basis, the Chairman provides leadership for the Board, and ensures views on all principal and appropriate issues are exchanged by all Directors (including the non-executive Directors) in a timely manner, by encouraging them to make a full and effective contribution to the discussion. Under the Chairman's guidance, all decisions have reflected the consensus of the Board. As head of the Executive Directorate and chairman of the Executive Committee (which comprises seven other Members of the Executive Directorate, and General Manager – Corporate Relations), the CEO is responsible to the Board for managing the business of the Company. Biographies of the Members of the Executive Directorate and the other Member of the Executive Committee are set out on pages 115 to 117.

BOARD PROCEEDINGS

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

The draft agenda for regular Board Meetings is prepared by the Legal Director & Secretary and approved by the Chairman of the Company. Members of the Board are advised to inform the Chairman or the Legal Director & Secretary not less than one week before the relevant Board Meeting if they wish to include a matter in the agenda of the Meeting.

The Board Meeting dates for the following year are usually fixed by the Legal Director & Secretary 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 and principal issues of the Company, to the Board. These reports, together with the discussions at Board Meetings, provide information to enable all Members of the Board to make informed decisions for the benefit of the Company. Please refer to page 92 for details of the Company's enhanced practice in this regard. The agenda together with Board papers are sent in full at least three days before the intended date of the Board Meeting.

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

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

Unless specifically permitted by the Articles of Association, a Director cannot cast a vote on any contract, transaction, arrangement or any other kind of proposal in which he has an interest and which he knows is material. For this purpose, interests of a person who is connected with a Director (including any of his associates) are treated as the interests of the Director himself. Interests purely as a result of an interest in the Company's shares, debentures or other securities are disregarded. A Director may not be included in the quorum for such part of a meeting that relates to a resolution he is not allowed to vote on but he shall be included in the quorum for all other parts of that Meeting. This reduces potential conflicts which might otherwise arise between the Company's business and an individual Director's other interests or appointments. The removal by the Stock Exchange (effective on 1 January 2012) of the 5% threshold exemption for voting on a resolution in which a director has an interest (as described in paragraph (3) of Note 1 in Appendix 3 to the Listing Rules) and its implications have been brought to the attention of Members of the Board at the January 2012 Board Meeting.

(Please also refer to the "Material Interests and Voting" section on page 96.)

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 2011. In this regard, the Company again well exceeds the requirement of the Code which requires every listed issuer to hold Board Meetings at least four times a year.

During 2011 and in addition to the regular reports on the business and financial performance, examples of other key matters discussed at the Board Meetings included Hong Kong's train service (including additional new trains for the Urban Line Network, the operation of the Fare Adjustment Mechanism and duty free shops), railway projects (such as South Island Line (East), Kwun Tong Line Extension and Shatin-Central Link), contract awards relating to railway projects (e.g. Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link, South Island Line (East), Kwun Tong Line Extension and Shatin-Central Link), Mainland of China's railway projects (e.g. Shenzhen Metro Line 4 and Beijing Metro Line 4's operations), overseas train operations (e.g. London Overground, Stockholm's Metro and Melbourne's Metropolitan train system), shareholders' analysis and investors' feedback, corporate governance, enterprise risk management, safety governance, internal control system, corporate responsibility, sustainability and pay review.

As there was no scheduled Board Meeting in February 2011, a written resolution of the Directors was passed in respect of the re-launch of Phase 2 of 'Festival City' (Tai Wai Maintenance Centre, Sha Tin Town Lot No. 529).

Private/Other Board Meetings

In addition to the above regular Board Meetings which dealt with the business of the Company, the Chairman held four private/other Board Meetings during the year, principally on succession matters. As indicated below, only certain Members of Executive Directorate were invited to attend some of those Meetings for provision of relevant support.

The first Meeting was held on 3 March 2011 with a majority of non-executive Directors and Mr. Chow Chung Kong, the then CEO, without the presence of other Members of Executive Directorate, to discuss Executive Directorate succession matters. At the Meeting, the Board resolved the appointment of Ms. Gillian Elizabeth Meller to become Legal Director & Secretary following the retirement of Mr. Leonard Bryan Turk, the appointment of Ms. Jeny Yeung Mei-chun to become Commercial Director, and the appointment of Mr. David Tang Chi-fai to become Property Director following the retirement of Mr. Thomas Ho Hang-kwong.

The second Meeting on 5 July 2011 was held by the Chairman with a majority of other non-executive Directors without the presence of all Members of Executive Directorate, in accordance with the Recommended Best Practice (A.2.7 of Appendix 14) of the Listing Rules. The Stock Exchange upgraded this Recommended Best Practice to become a Code Provision with effect from 1 April 2012.

A further Meeting was held on the same day with a majority of non-executive Directors, Mr. Chow Chung Kong, the then CEO, Mr. William Chan Fu-keung, Human Resources Director and Mr. Leonard Bryan Turk, the then Legal Director & Secretary, without the presence of other Members of Executive Directorate, to discuss the CEO's succession. It was at that Meeting that the appointment of Mr. Walder and other related matters were approved and endorsed by the Board (please refer to page 91).

Another Meeting was held on 9 August 2011 with all non-executive Directors, Mr. Chow Chung Kong, the then CEO, and Mr. William Chan Fu-keung, Human Resources Director, without the presence of other Members of Executive Directorate, to discuss the executive succession plan for senior managers in the Projects Division. In addition, the Board resolved the appointment of Mr. Cheung Siu Wa (also known as Mr. Morris Cheung) to succeed Mr. William Chan Fu-keung and become Human Resources Director and a Member of Executive Directorate both with effect from 17 July 2012. To facilitate a smooth transition, it was further agreed to appoint Mr. Cheung as Human Resources Director – Designate in the fourth quarter of 2011. At that Meeting, the Board was further advised of the timing of the appointments of Ms. Meller (1 September 2011), Ms. Yeung (1 September 2011) and Mr. Tang (1 October 2011), and that they would become Members of the Executive Directorate on the same respective dates.

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

MEETINGS HELD IN 2011

	Board	Private/ Other Board	Audit Committee	Remuneration Committee	Nominations Committee	Corporate Responsibility Committee	Annual General Meeting
Number of Meetings	7	4	4	5	1	2	1
MEMBERS OF THE BOARD							
Non-executive Directors							
Dr. Raymond Ch'ien Kuo-fung (Chairman)	7/7	4/4			1/1	2/2	1/1
Commissioner for Transport (Joseph Lai Yee-tak)	5/7 (Note 1)	4/4	2/4 (Note 1)				0/1
Secretary for Transport and Housing (Eva Cheng)	7/7	4/4			1/1	2/2	0/1
Professor Chan Ka-keung, Ceajer	3/7 (Note 2)	0/4 (Note 2)		5/5	1/1		0/1 (Note 2)
Independent Non-executive Directors							
Vincent Cheng Hoi-chuen	5/7	1/4		3/5 (Note 3)		1/2	1/1
Christine Fang Meng-sang	7/7	4/4			1/1	2/2	1/1
Edward Ho Sing-tin	7/7	4/4		5/5	1/1		1/1
T. Brian Stevenson	6/7	4/4	4/4	4/5			1/1
Ng Leung-sing	6/7	3/4	4/4		1/1		1/1
Abraham Shek Lai-him	7/7 (Note 4)	4/4			1/1	1/2	1/1
Alasdair George Morrison	7/7	4/4	3/4	4/5			1/1
Executive Director							
Chow Chung-kong (the then CEO and a member of Executive Directorate)	7/7	3/3					1/1
MEMBERS OF THE EXECUTIVE DIRECTORATE							
Leonard Bryan Turk (Legal Director & Secretary up to 31 August 2011)						1/1 (Note 5)	
Gillian Elizabeth Meller (Legal Director & Secretary since 1 September 2011)						1/1 (Note 6)	
Thomas Ho Hang-kwong (Property Director up to 30 September 2011)						1/1 (Note 7)	

Notes

1 The alternate director of Mr. Joseph Lai Yee-tak attended the other 2 Board Meetings and the other 2 Audit Committee Meetings.

2 An alternate director of Professor Chan Ka-keung, Ceajer attended the other Board Meetings (including private Board Meetings), and the Annual General Meeting.

3 Mr. Vincent Cheng Hoi-chuen attended 1 Remuneration Committee Meeting by teleconference.

4 Mr. Abraham Shek Lai-him attended 2 Board Meetings by teleconference.

5 Mr. Leonard Bryan Turk ceased to be a member of the Corporate Responsibility Committee following his retirement as a Member of the Executive Committee of the Company on 1 September 2011.

6 Ms. Gillian Elizabeth Meller was appointed as a member of the Corporate Responsibility Committee at the October 2011 Board Meeting.

7 Mr. Thomas Ho Hang-kwong ceased to be a member of the Corporate Responsibility Committee following his retirement as a Member of the Executive Committee of the Company on 1 October 2011. The Board appointed Mr. Morris Cheung, Human Resources Director – Designate, as a member of the Corporate Responsibility Committee at the October 2011 Board Meeting.

The minutes of regular Board Meetings are prepared by Legal Manager – Company Secretarial, the Secretary of the Meetings with details of the matters considered by the Board and decisions reached, including any concerns raised by the 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 the Legal Director & Secretary and open for inspection by all Members of the Board at the Company's registered office.

MATERIAL INTERESTS AND VOTING

Please refer to the "Board Proceedings" section on page 93 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 the Chief Executive of the HKSAR may, pursuant to Section 8 of the MTR Ordinance, appoint up to three persons as "additional directors". Out of a total of 12 Board Members, three are Government-nominated representatives (being the office of the S for T&H, the office of the C for T (both pursuant to Section 8 of the MTR Ordinance) and Professor Chan Ka-keung, Ceajer) and seven of them (being the majority) are INEDs.

Each Director appointed by the Chief Executive of the HKSAR pursuant to Section 8 of the MTR Ordinance or by the Government through its shareholding must, like any other Director, act in the best interests of the Company.

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

If a conflict arises between the interests of the Company and those of the Government, a Director appointed by the Chief Executive of the HKSAR pursuant to Section 8 of the MTR Ordinance or by the Government through its shareholding, would not be included in the quorum of part of a Meeting that relates to the transaction, arrangement or other proposal being considered by the Board and would not be allowed to vote on the related resolution.

There are a number of contractual arrangements that have been entered into between the Company and the Government (and its related entities), some of which are continuing in nature. As the Government is a substantial shareholder of the Company, such contractual arrangements are connected transactions (and in some cases continuing connected transactions) for the purposes of the Listing Rules. The section headed "Continuing Connected Transactions" on pages 130 to 144 explains how, in accordance with the Listing Rules, these transactions are treated.

(Please also refer to the "Board Proceedings" section on page 93 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 recommendation by the Nominations Committee of the Company. Please refer to "The Board of Directors" section on page 91 regarding the appointment of Mr. Walder, the CEO. For appointment to be made by shareholders, please refer to the procedures available on the Company and the Stock Exchange websites. Directors who are appointed by the Board must retire at the first annual general meeting after their appointment. A Director who retires in this way is eligible for election at that annual general meeting, but is not taken into account when deciding which and how many Directors should retire by rotation. In either case, the Directors so elected and appointed are eligible for re-election and re-appointment.

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

The Chief Executive of the HKSAR may, pursuant to Section 8 of the MTR Ordinance, appoint up to three persons as "additional directors". Directors appointed in this way 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 Interests and Voting" section on page 96.) The Chief Executive of the HKSAR has appointed the office of the S for T&H and the office of the C for T as "additional directors".

Ahead of the new CG Code requiring an issuer to have formal letters of appointment for directors (to take effect from 1 April 2012) and during 2011, the Company had a service contract with each of the non-executive Directors (including Dr. Raymond Ch'ien Kuo-fung (non-executive Chairman) and Professor Chan Ka-keung, Ceajer (S for FS&T)) (save for the "additional directors") specifying the terms of his/her continuous appointment as a non-executive Director and a Member of the relevant Board Committees, for a period not exceeding three years.

At the 2012 Annual General Meeting and in accordance with Articles 87 and 88 of the Articles of Association, Dr. Raymond Ch'ien Kuo-fung, Mr. T. Brian Stevenson and Professor Chan Ka-keung, Ceajer will retire by rotation and will offer themselves for re-election.

Mr. T. Brian Stevenson, an INED, the chairman of the Audit Committee and a Member of the Remuneration Committee has been a Member of the Board since October 2002.

As a chartered accountant, a non-executive director of The Hongkong and Shanghai Banking Corporation Limited, an Advisor to BT Asia Pacific and Chairman of the Hong Kong Jockey Club, Mr. Stevenson brings his valuable business and professional experience to the Board for promoting the best interests of the Company and its shareholders. Under his leadership as the chairman, the Audit Committee has, over the years, developed a comprehensive and well structured framework (e.g. regular interviews with Members of the Executive Directorate, and private sessions with Head of Internal Audit and the Company's external auditors) ensuring all key business operations relating to the financial, efficiency and control aspects of the Company are reported according to the Terms of Reference, for discussion at the Committee's meetings effectively and in a timely manner.

Mr. Stevenson is a Justice of the Peace, and a law degree holder from both Glasgow and Hong Kong Universities. He was awarded the Silver Bauhinia Star medal in 1998. From 1981 to 1999, he was the Senior Partner of Ernst & Young, Hong Kong.

At the 2009 Annual General Meeting, over 99.99% of the votes were in favour of Mr. Stevenson's re-election as a Member of the Board.

The Company entered into a service contract with Mr. Stevenson for three years with effect from 2009, and has continued to receive written confirmation from him annually on his independence in accordance with the Listing Rules.

Accordingly, the Board has resolved that Mr. Stevenson continues to be independent and should be re-elected as a Director at the 2012 Annual General Meeting.

The re-appointment of Mr. Stevenson at the 2012 Annual General Meeting will be in accordance with the relevant new CG Code requirements (to take effect on 1 April 2012).

Mr. Jay Herbert Walder, who was appointed by the Board after the 2011 Annual General Meeting, will retire under Article 85 of the Articles of Association and will offer himself for election at the 2012 Annual General Meeting.

INDUCTION PROGRAMME AND OTHER TRAINING

On appointment to the Board, each of the Directors (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 the directors under general law (common law and legislation) and the Listing Rules. All Directors (including alternate directors) are also given a Directors' Manual on their appointment which sets out, amongst other things, the Directors' duties and the Terms of Reference of the 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 2012 following publication of the new CG Code and the associated Listing Rules by the Stock Exchange in October 2011.

To assist Directors' continuing professional development, the Legal Director & Secretary recommends Directors to attend relevant seminars and courses. The costs for such training are borne by the Company.

In January 2012, a one to one training programme covering the roles of a director from the strategic, planning and management perspective, as well as the legal and practical aspects of corporate governance and the trends in these areas, was arranged for Mr. Jay Herbert Walder, the CEO. A similar training programme was provided to each of Ms. Gillian Elizabeth Meller, Ms. Jeny Yeung Mei-chun and Mr. David Tang Chi-fai shortly after their appointments to the position of Legal Director & Secretary (from 1 September 2011), Commercial Director (from 1 September 2011) and Property Director (from 1 October 2011) respectively and as Members of the Executive Directorate.

Please refer to the "The Board of Directors" section on page 92 highlighting further training arrangements for Members of the Board.

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 2011, and of the Group's profit and cash flow for the year then ended. In preparing the accounts for the year ended 31 December 2011, 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 2011, 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 105.

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

BOARD COMMITTEES

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

The Audit Committee, Remuneration Committee and Nominations Committee comprise only non-executive Directors. The chairman and the majority of Members in each Committee are INEDs.

The majority of Corporate Responsibility Committee Members are non-executive Directors. Ms. Gillian Elizabeth Meller, the Legal Director & Secretary, and Mr. Morris Cheung, the Human Resources Director – Designate are also on that Board Committee to facilitate discussion and implementation of policies. The appointments of Ms. Meller and Mr. Cheung were approved by the Board at the Board Meeting on 18 October 2011, following the retirement of Messrs. Leonard Bryan Turk and Thomas Ho.

All Committees are provided with sufficient resources to discharge their duties.

Audit Committee

The Audit Committee consists of four non-executive Directors, three of whom are INEDs. The Members of the Committee are Mr. T. Brian Stevenson (chairman), Mr. Ng Leung-sing, the C for T (Mr. Joseph Lai Yee-tak), and Mr. Alasdair George Morrison. Mr. Stevenson, Mr. Ng and Mr. Morrison are also INEDs. None of the Committee Members is a partner or former partner of KPMG, the Company's External Auditor. The Finance & Business Development Director, the Head of Internal Audit and representatives of the External Auditor of the Company are expected to attend Meetings of the Committee. At the discretion of the Committee, others may also be invited to attend Meetings. The Committee meets regularly, and the External Auditor or the Finance & Business Development Director may request a Meeting if they consider it necessary. During 2011, the Committee met four times.

Duties of Audit Committee

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

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

The Committee is required to review, at least annually, the effectiveness of the Company's financial controls, internal control and risk management systems and to report to the Board that such a review has been carried out. These controls and systems allow the Board to monitor the Company's overall financial position and to protect its assets. The Committee's review for 2011 also covered its role in overseeing the Management's review of the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget. (Please refer to the section headed "Internal Controls" below.) The Committee reviews and approves the annual Internal Audit Plan which includes audits on the efficiency of chosen activities or operations of the Company. In addition, the Committee reviews periodic reports from the Head of Internal Audit and the follow-up of major action plans recommended, and puts forward recommendations to the Board where appropriate.

As mentioned earlier (see page 90) and in line with the new CG Code (effective 1 April 2012), the Terms of Reference of the Audit Committee have been revised and were approved at the January 2012 Board Meeting.

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

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

Work Performed by Audit Committee

In 2011, the Audit Committee held four Meetings and, based on the Agenda Framework pre-agreed with the chairman of the Committee, a total of four Meetings had been scheduled for 2012. Among the four Meetings held in 2011, the Audit Committee had two separate Meetings for reviewing the annual results for the year ended 31 December 2010. The first Meeting concentrated on the business operations, internal control and internal audit related items, while the second Meeting focused on the accounting and financial reporting matters, as well as outstanding litigation, compliance and enterprise risk management issues.

The major work performed by the Committee in 2011 included:

- Review of and recommendation for the Board's approval the draft 2010 Annual Report and Accounts and 2011 Interim Report and Accounts;
- Review of Management Letter, tax issues, compliance and salient features of 2010 Annual Accounts and 2011 Interim Accounts presented by KPMG, the External Auditor;
- Review of the enhancements to the 2012 Audit Planning Process;
- Review of two Half-yearly Reports prepared by the Internal Audit Department;
- Approval of the 2012 Internal Audit Plan;
- Pre-approval of the audit and non-audit services provided by KPMG, the External Auditor;
- Review of KPMG's fees proposal for the 2011 audit;
- Preview of 2011 annual accounting and financial reporting issues;
- Review of the Report on Internal Control system for the year ended 31 December 2010;
- Review of the Report on Evaluation of Effectiveness of Internal Audit Department for 2010;
- Review of the Report on Staff Complaints for 2010;
- Review of the Enterprise Risk Management Report for 2010;
- Review of the outstanding litigation and compliance issues regarding Operating Agreement and Rail Merger Transaction Agreements, statutes and regulations relevant to the business of the Company;
- Confirmation of the financial figures for the 2010 payout under "2008 Variable Incentive Scheme";
- Review of the governance model adopted for the management by MTR of its subsidiaries and affiliates and the current status of implementation;
- Review key issues from the Audit/Governance Committees Minutes of wholly owned subsidiaries;
- Review management of information security at MTR; and
- Holding of private sessions with Head of Internal Audit and the External Auditor without the presence of Management.

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

The attendance record of each Committee Member is shown on page 95 under the section "Board Proceedings".

Remuneration Committee

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

Duties of Remuneration Committee

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

This model which the Committee has adopted is set out in its Terms of Reference and is consistent with the new CG Code (effective from 1 April 2012).

As mentioned earlier (see page 90), the Terms of Reference were approved at the January 2012 Board Meeting.

Work Performed by Remuneration Committee

In 2011, the Remuneration Committee held five Meetings. In accordance with its Terms of Reference, the Committee performed the following work during the year:

- Approved the 2010 Remuneration Report as incorporated in the 2010 Annual Report;
- Reviewed and approved payouts under the Company's performance-based variable incentive scheme for the 2010 performance period;
- Determined and approved the remuneration package for Mr. Jay Herbert Walder who commenced employment as the Chief Executive Officer – Designate on 1 November 2011 and as the CEO on 1 January 2012;
- Conducted an annual review of the remuneration packages for Members of the Executive Directorate, which took effect in July 2011;
- Determined and approved the remuneration packages for the following new Members of the Executive Directorate:
  - Ms. Gillian Elizabeth Meller as Legal Director & Secretary (from 1 September 2011),
  - Ms. Jeny Yeung Mei-chun as Commercial Director (from 1 September 2011), and
  - Mr. David Tang Chi-fai as Property Director (from 1 October 2011); and
- Reviewed and approved the changes to the framework for determining share option awards.

The Remuneration Committee also met on 5 March 2012 to approve the 2011 Remuneration Report, which is set out on pages 108 to 111 and includes a description of the remuneration policy of the Company.

Attendance record of each Committee Member is shown on page 95 under the section "Board Proceedings".

Nominations Committee

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

Duties of Nominations Committee

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

As mentioned earlier (see page 90) and in line with the new CG Code (effective 1 April 2012), the Terms of Reference have been revised and were approved at the January 2012 Board Meeting.

Amongst other things and following the requirements of the new CG Code, arrangement has been made for the Nominations Committee to meet in April 2012 to review the structure, size and composition of the Board. The discussion will be supported by feedback from Members of the Board, in response to the January 2012 questionnaire on the evaluation of the Board's performance, in relation to which see page 92.

Work Performed by Nominations Committee

In 2011, the Nominations Committee held one Meeting. Attended by all Members of the Committee at the Meeting on 5 July 2011 and after discussion, the Committee agreed to recommend to the Board the appointment of Mr. Jay Herbert Walder (his biography is set out on pages 112 and 113) as the CEO and a Member of the Board both with effect from 1 January 2012.

The attendance record of each Committee Member is shown on page 95 under the section "Board Proceedings".

Corporate Responsibility Committee

The Corporate Responsibility Committee includes two non-executive Directors (i.e. Dr. Raymond Ch'ien Kuo-fung (Chairman) and the S for T&H (Ms. Eva Cheng)) and three independent non-executive Directors (i.e. Ms. Christine Fang Meng-sang, Mr. Abraham Shek Lai-him and Mr. Vincent Cheng Hoi-chuen). In addition and at the October 2011 Board Meeting, the Board appointed Ms. Gillian Elizabeth Meller (Legal Director & Secretary and a Member of Executive Directorate) and Mr. Morris Cheung* (Human Resources Director – Designate) as Members of the Committee. Dr. Ch'ien is the Chairman of the Committee.

* The Company has announced on 7 September 2011 that Mr. Cheung will become Human Resources Director and a Member of Executive Directorate both with effect from 17 July 2012.

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 86 to 89 of this Annual Report.

Work Performed by Corporate Responsibility Committee

In 2011, the Corporate Responsibility Committee held two Meetings. The major work performed by the Committee in 2011 included:

- Review of the implementation of the Company's community and staff engagement and communication programmes;
- Review of the sustainability development and environmental management of the Company;
- Review of corporate responsibility development of the Company; and
- Review of and recommendation for the Board's approval the draft 2010 Sustainability Report.

INTERNAL CONTROLS

The Board is responsible for the system of internal controls of the Company and its subsidiaries, setting appropriate policies and reviewing the effectiveness of such controls. Internal control is defined as a process effected by the Board, Management and other personnel, designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable, and not absolute assurance of the following:

- 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 the 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 day-to-day management and control of the various core businesses and functions of the Company and its subsidiaries. Key committees include:

- Operations Executive Management Committee
- Operations Business Meeting
- Property Executive Management Committee
- Project Control Group

- Railway Development Steering Group
- Consultancy Services Management Committee
- European Business Executive Committee
- China Business Executive Committee
- Information Technology Executive Management Committee
- Financial Planning Committee
- Investment Committee
- Corporate Safety Management Committee
- Enterprise Risk Committee
- Code of Conduct Steering Committee
- Tender Board
- Executive Tender Panel
- Corporate Responsibility Steering Committee
- Crisis 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 system of internal controls which implements the policies adopted by the Board. The Executive Committee is accountable to the Board for monitoring the system of internal controls and providing assurance to the Board that it has done so. Additionally, all employees have responsibility for internal controls within their areas of accountability.

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

Risk Assessment and Management

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

More details of the framework and process are given in the section headed Risk Management on page 84.

Control Activities and Processes

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

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

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

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

On behalf of the Board, the Audit Committee evaluates the effectiveness of the Company's system of internal controls, 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, qualifications and experience of staff 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 system of internal controls, 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 at any time 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 have included: regular interviews with Members of the Executive Committee in relation to key business operations, internal control and compliance issues, both financial and non-financial; review of significant issues arising from internal audit reports and external audit report, private sessions with internal and external auditors, and review of annual assessment and certification of internal controls from Members of the Executive Committee, management of overseas subsidiaries and department heads in their areas of responsibility. The Audit Committee has also reviewed the papers prepared by the Executive Committee and Internal Audit Department covering: 2010 Annual Report and Accounts, Preview of 2011 Annual Accounting issues, 2011 Interim Accounts, 2012 Internal Audit Plan, Internal Audit Department's Half-yearly Reports, Annual Report on Staff Complaints, Report on the Company's Internal Control System, Reporting of Outstanding Litigation and Compliance Issues, Enterprise Risk Management Report and Evaluation of Effectiveness of Internal Audit Department. The chairman of the Committee meets on an ad hoc basis with the Head of Internal Audit, representatives of the External Auditor and Management of the Company as appropriate. He summarizes activities of the Committee and highlights issues arising therefrom by a report to the Board after each Audit Committee Meeting.

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

The Board has, through the Audit Committee, conducted the review of the effectiveness of the Company's system of internal controls for the year ended 31 December 2011, covering all material financial, operational and compliance controls, and risk management function, and concluded that adequate and effective internal controls are maintained to safeguard the shareholders' investment and the Company's assets. There were no significant control failings, weaknesses or significant areas of concern identified during the year which might affect shareholders.

Crisis Management Committee

To uphold the reputation of being one of the best companies in Hong Kong and in order to help ensure that the Company will respond to and recover from crises in an organised and effective manner, including timely communications with principal stakeholders such as shareholders, the Company established a Crisis Management Committee in 1995. The Committee comprises relevant Members of the Executive Directorate and Executive Managers, and its operation is governed by a Crisis Management Manual which, among other things, sets out the duties of respective members. The Manual is kept up-to-date through regular reviews. The Crisis Management Committee conducts regular exercises to validate the crisis management organisation and arrangements and to provide practices for members. An exercise has been planned for the first quarter of 2012.

Continuous Disclosure Obligations regarding Price Sensitive 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. Further, a task force comprising all relevant heads of Department reviewed the system in detail and thoroughly went through the checklist sent by the Stock Exchange to all issuers in late 2008. The recommendation that the Company has an effective system in dealing with the disclosure obligations was reported to the Executive Committee, and then to the Board of Directors in December 2008. The system continues to be effective throughout 2011. Efforts to further enhance the system in the light of the business operations and development of the Company will continue.

Governance of Subsidiaries and Affiliate Companies

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

Pursuant to the Governance Structure, 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 affiliate company is responsible for the adoption of management practices and policies that are appropriate to the business nature and local situation, taking into account the management governance requirements of the Company, and developing a corporate governance manual for the entity which reflects both such management practices and policies as well as management governance requirements for approval by the relevant board of directors. Ongoing compliance with the manual is reported on a regular basis.

The Executive Committee reviews the Governance Structure and compliance by the subsidiaries and affiliate companies with it on an annual basis.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

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

BUSINESS ETHICS

The Company is committed to upholding a high standard of business ethics and integrity, which are critical to our continued success and for maintaining the trust of our stakeholders. The Company's Code of Conduct, Corporate Guidebook for All Staff and Corporate Guidebook for Managers (the "Guidebooks") are important tools to help employees understand and follow requirements on ethical practices. The Code of Conduct and the Guidebooks are reviewed and updated every two years to ensure appropriateness and compliance with legislation. The Company requires all employees to acknowledge their understanding of and agreement to abide by the Code of Conduct and the Guidebooks every two years. All employees are encouraged to report existing or perceived violations and malpractices. Staff who have genuine suspicions about wrongdoings are also provided with proper procedures to follow in a safe environment that encourages speaking up in complete confidence pursuant to the Speaking Up policy of the Company.

In addition, new recruits are briefed on the Code of Conduct and the Guidebooks, and such briefings form an integral part of staff induction and orientation programmes. Soft copy of the Code of Conduct is available on the Company's website.

A simplified Chinese-language version of the Code of Conduct is also issued to the Company's subsidiaries in the Mainland of China. Under the Code of Conduct, all subsidiaries are required to comply with the relevant local laws and regulations. To uphold a comparable ethical culture in other joint venture companies, guidelines on business ethics have also been published for staff's observance and compliance.

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 10D to the accounts on page 167.

On the part of KPMG, for maintaining integrity and objectivity, KPMG implements policies and procedures to comply with professional ethics and independence policies and requirements applicable to the work KPMG performs. During the year, the audit partner from KPMG serving the Group completed his seventh year and a rotation was effected to comply with the KPMG requirement 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 AGM for 2011 was held on 6 May at Rotunda 3 (6/F), Kowloonbay International Trade & Exhibition Centre, Kowloon Bay, Hong Kong. The 2012 AGM has been scheduled for 3 May. This is the third consecutive year of bringing forward the date of AGM in order to facilitate a direct dialogue between shareholders and Directors/Management on annual results and other performance of the Company of the preceding year.

Chairman's Statement

The Chairman started the formal business of the AGM by reporting that riding on the recovery in Hong Kong's economy, the Company achieved in 2010 a strong set of results and all of the local businesses (including rail operation, station retail, shopping malls and property development) performed well. The financial performance of the rail franchises outside of Hong Kong was, as a whole, in line with the Company's expectations.

He then highlighted the key financial performance of the Company for 2010. In proposing the 2010 final dividend, he mentioned that, after a review of the Company's healthy financial condition, the Board had decided not to seek authority to renew the then Scrip Dividend Scheme at the meeting.

The Chairman gave an overview of the Company's business performance including the ridership, train service performance, station commercial and rail related businesses, property development, property rental and management, Ngong Ping Cable Car and associated theme village and Octopus Cards. EBITDA contributions from the rail subsidiaries in Stockholm, Melbourne and Shenzhen as well as the post-tax profit contribution from the rail associated companies in Beijing and London were reported.

Turning to future growth and within Hong Kong, the Chairman reported that the construction of the West Island Line and the Hong Kong section of the Express Rail Link were well underway; the South Island Line (East), the Kwun Tong Line Extension and the Shatin to Central Link had also made good progress in planning, design and approval processes.

The Chairman further gave a brief account of the businesses outside Hong Kong, including the commencement of full passenger services on the refurbished and extended East London Line by London Overground, and the operations of the Daxing Line extension of Beijing Metro Line 4 through the Beijing associated company, as well as the take-over of operations of Phase 1 of Shenzhen Metro Line 4 with full line operation covering Phase 2 expected in the middle of 2011. Regulatory approval of the Public-Private Partnership project for the Hangzhou Metro Line 1 project was awaited.

The important roles of corporate governance, sustainability, corporate responsibility and community involvement, in the continued success of the Company, were recognised by the Chairman.

Looking ahead for the rest of 2011, the Chairman said it was expected that the global economic recovery would continue albeit overshadowed by a number of uncertainties. With continued economic growth, the Hong Kong rail business should see patronage increases. The other recurrent businesses including station commercial, advertising and property rental businesses which were market driven, should also be positive.

For property development, the Chairman expected to make profit booking of the shopping mall at Area 56 of Tseung Kwan O in the first half of 2011 and recognition of profit from Festival City in Tai Wai in 2011. Depending on market conditions, Tai Wai Station site and Tin Shui Wai Light Rail site might be tendered out. As development agent, West Rail Nam Cheong Station site and Tsuen Wan West site no. 5 might also be tendered out.

In light of some discussion in public forums about the Company's 2.2% fare increase under the Fare Adjustment Mechanism for 2011, the Chairman said the Company, as a key transport operator and a listed company in Hong Kong, had the dual obligations of providing quality passenger service as well as reasonable returns to shareholders.

From the train service perspective, the Chairman said the delivery, passenger journeys on time and punctuality all achieved 99.7% or above in 2010. In maintaining and upgrading the railway assets and station facilities, he said more than HK$4 billion per annum had been spent.

On the fares side, the Chairman said there had been a general fare reduction of over HK$600 million a year since 2007 (the time of the Rail Merger with Kowloon-Canton Railway Corporation). Moreover, the 2.2% fare increase would only be the second modest upward adjustment since 1997. Compared with other modes of transport in Hong Kong, he said MTR fares were competitive and remained reasonable. This was also the case internationally.

As a very reasonable citizen, the Chairman said more than HK$1.6 billion of concessions had been offered to the elderly, students and persons with disabilities in 2010. This benefited about 1.2 million passenger trips each day, and was equal to 14% of pre-tax profits.

To make a reasonable return for shareholders through dividends, the Chairman said efforts continued to enhance, amongst others, non-fare revenues and efficiency drives. This model was consistent with prudent and sound public finance. Leaders from around the world who visited the Company all commended the Company on its sustainable business model.

Before closing, the Chairman took the opportunity to thank Mr. C K Chow, the then CEO and a Member of the Board, who retired on 31 December 2011, for his outstanding job leading the Company from strength to strength and his very significant contribution to the Company. He said the Company was proceeding with a worldwide search including internal candidates to identify the right candidate for the post of CEO.

In addition, the Chairman welcomed Mr. Alasdair Morrison who joined the Board as an INED in July 2010. He also thanked Mr. Andrew McCusker who retired in December 2010 as Operations Director for his significant contributions to the Company, and welcomed Dr. Jacob Kam who succeeded Mr. McCusker.

Resolutions passed at the 2011 AGM

After the Chairman's Statement and following the Company's previous practice, 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. Being the first listed company in Hong Kong to conduct electronic poll voting since 2007, the Company conducted electronic poll voting at the AGM.

A total of ten resolutions were passed at the AGM (with resolution no. 3 comprising four separate resolutions), each by over 94% of the votes cast at the Meeting. The full text of the resolutions is set out in the AGM Circular (which comprised Notice of the AGM) to shareholders dated 31 March 2011. 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 2010;

(2) Declaration of a final dividend of HK$0.45 per share for the year ended 31 December 2010;

(3) (a) Election of Mr. Alasdair George Morrison as a Member of the Board of Directors of the Company;

(b) Re-election of Mr. Edward Ho Sing-tin as a Member of the Board of Directors of the Company;

(c) Re-election of Mr. Ng Leung-sing as a Member of the Board of Directors of the Company; and

(d) Re-election of Mr. Abraham Shek Lai-him 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 AGM.)

The poll results were posted on the websites of both the Company and the Stock Exchange on the same day after the AGM. The Minutes of the AGM are also available on the Company's website replacing the webcast (which was posted on the website in the same evening after the AGM).

Extraordinary General Meeting ("EGM")

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

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

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

Procedures for Shareholders Putting Forward Proposals

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

As regards proposing a person for election as a director, please refer to the procedures available on the websites of the Company and the Stock Exchange (This Listing Rule requirement is effective from 1 April 2012).

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 (this new CG Code will be effective on 1 April 2012).

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

Please also refer to the Investor Relations section on pages 82 and 83 on other means of communication with shareholders.

REMUNERATION REPORT

INTRODUCTION

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

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

Throughout the year, the Committee meets regularly to discuss and approve remuneration issues pertaining to the Company's variable incentive scheme, share option scheme, and also the remuneration packages of the non-executive Directors, Chief Executive Officer and other Members of the Executive Directorate in the light of the Company's remuneration policy. In determining the remuneration of the Chief Executive Officer, the Committee consults with the Chairman and in the case of other Members of the Executive Directorate, the Committee consults with both the Chairman and the Chief Executive Officer in respect of their recommendations.

Currently, the Committee has five non-executive Directors, four of whom are independent non-executive Directors. The Chairman of the Remuneration Committee is an independent non-executive Director. As necessary and with the agreement of the Chairman, the Remuneration Committee is authorised to obtain outside independent professional advice to support the Committee on relevant issues. No individual Director or any of his associates is involved in deciding his own remuneration.

A summary of the work performed by the Remuneration Committee during 2011 is set out in the "Corporate Governance Report" on page 100.

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 11 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 regularly 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.

If the Company does not achieve one or more of the Performance Requirements or the Customer Service Pledges, the payouts under the scheme are automatically reduced.

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

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

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

In addition, the Company operates other business-related incentive schemes to motivate the staff concerned to reach specific business targets of the Company.

Discretionary Awards

In 2011, 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 2011, 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 2011. 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 2011 under the two Schemes are set out under the paragraph "Board Members' and Executive Directorate's Interests in Shares" of the Report of the Members of the Board.

Details of the two Schemes and options granted to Members of the Executive Directorate and selected employees of the Company under the Schemes are set out in notes 11 and 53 to the accounts.

Mr. C K Chow, the Company's Chief Executive Officer until 31 December 2011, did not participate in the New Option Scheme. He was entitled to receive an equivalent value in cash of 222,161 Shares on completion of his contract on 31 December 2011. Pursuant to the completion of this contract, HK$5,556,802.01 was paid to him on 4 January 2012.

Retirement Schemes

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

(a) MTR Retirement Scheme

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

The MTR Retirement Scheme has been closed to new employees since 31 March 1999. It provides benefits based on the greater of a multiple of final salary times service and the accumulated contributions with investment returns. Members' contributions to the MTR Retirement Scheme are based on fixed percentages of base salary. The Company's contributions are determined with reference to an 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 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 the Company's contributions and members' own 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. C K Chow, the Company's Chief Executive Officer until 31 December 2011, participated in the MTR MPF Scheme. Both the Company and Mr. Chow each contributed to the MTR MPF Scheme at the mandatory levels as required by the MPF Ordinance.

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

REMUNERATION OF NON-EXECUTIVE AND EXECUTIVE DIRECTORS

(i) The total remuneration of the Members of the Board and the Executive Directorate (excluding share-based payments) is shown below and the remuneration details are set out in note 11 to the accounts.

in HK$ million	**2011**	2010
Fees	**4.4**	4.2
Base salaries, allowances and other benefits-in-kind	**36.9**	34.6
Variable remuneration related to performance	**18.2**	18.3
Retirement scheme contributions	**2.5**	1.6
	62.0	58.7

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

Remuneration	**2011 Number**	2010 Number
HK$0 – HK$500,000	**10**	10
HK$500,001 – HK$1,000,000	**–**	1
HK$1,000,001 – HK$1,500,000	**2**	1
HK$1,500,001 – HK$2,000,000	**2**	–
HK$5,000,001 – HK$5,500,000	**–**	1
HK$5,500,001 – HK$6,000,000	**2**	–
HK$6,000,001 – HK$6,500,000	**2**	1
HK$6,500,001 – HK$7,000,000	**1**	3
HK$7,500,001 – HK$8,000,000	**1**	1
HK$13,500,001 – HK$14,000,000	**–**	1
HK$14,500,001 – HK$15,000,000	**1**	–
	21	19

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

Edward Ho Sing-tin, *Chairman, Remuneration Committee*
MTR Corporation Limited
Hong Kong, 5 March 2012

BOARD AND EXECUTIVE DIRECTORATE

FROM LEFT TO RIGHT:
Ng Leung-sing, Abraham Shek Lai-him, T. Brian Stevenson, Professor Chan Ka-keung, Ceajer *(Secretary for Financial Services and the Treasury)*, Eva Cheng *(Secretary for Transport and Housing)*, Joseph Lai Yee-tak *(Commissioner for Transport)*

MEMBERS OF THE BOARD

Dr. Raymond Ch'ien Kuo-fung 60, was appointed Non-Executive Chairman in July 2003. He has been a member of the Board since 1998. Dr. Ch'ien is chairman of China.com Inc., and chairman and an independent non-executive director of Hang Seng Bank Limited, and Ascendas China Commercial Fund Management Limited (from 15 September 2011). He is an independent non-executive director of each of Convenience Retail Asia Limited, The Wharf (Holdings) Limited, Swiss Reinsurance Company Limited, and China Resources Power Holdings Company Limited. Dr. Ch'ien also serves on the boards of The Hongkong and Shanghai Banking Corporation Limited and Hong Kong Mercantile Exchange Limited. He is a member of the Standing Committee of the Tianjin Municipal Committee of the Chinese People's Political Consultative Conference. In addition, Dr. Ch'ien is the honorary president and past chairman of the Federation of Hong Kong Industries. He was a member of the Executive Council of Hong Kong, then under British Administration, from 1992 to 1997, and a member of the Executive Council of the Hong Kong SAR from 1 July 1997 to June 2002. Dr. Ch'ien was appointed a Justice of the Peace in 1993. He was made a Commander in the Most Excellent Order of the British Empire in 1994 and awarded the Gold Bauhinia Star medal in 1999. In 2008, Dr. Ch'ien was conferred the honour of Chevalier de l'Ordre du Merite Agricole of France. He received a doctoral degree in economics from the University of Pennsylvania in 1978 and became a Trustee of the University in 2006. Dr. Ch'ien was a non-executive director of Inchcape plc., a Hong Kong member of APEC Business Advisory Council, non-executive chairman of HSBC Private Equity (Asia) Limited, chairman of CDC Corporation (until 2 October 2011), a director of CDC Software Corporation (until 22 January 2012), and chairman of the Hong Kong/European Union Business Cooperation Committee (until 31 January 2012).

Chow Chung-kong 61, was the Chief Executive Officer, a Member of the Board and a Member of the Executive Directorate of the Company from 2003 to December 2011. He retired from the Company on 1 January 2012 after cumulatively 8 years of service.

Jay Herbert Walder 53, 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

FROM LEFT TO RIGHT:
Dr. Raymond Ch'ien Kuo-fung *(Chairman)*,
Jay Herbert Walder *(Chief Executive Officer)*,
Vincent Cheng Hoi-chuen,
Christine Fang Meng-sang,
Edward Ho Sing-tin,
Alasdair George Morrison

University of New York at Binghamton, Harpur College, and a Master in Public Policy from the John F. Kennedy School of Government at Harvard University. He also completed the Executive Programme in Strategic Leadership from Templeton College at the University of Oxford. Mr. Walder is on the Board of Advisors of the Taubman Center at the Harvard Kennedy School. He was nominated by the President of the Massachusetts Institute of Technology (MIT) to be a member of the Visiting Committee for the Department of Civil and Environmental Engineering with effect from 1 July 2012. Mr. Walder was on the Executive Committee of the American Public Transit Association (APTA) (until October 2011) and the Executive Board of the International Association of Public Transport (UITP) (until October 2011).

Vincent Cheng Hoi-chuen 63, joined the Board as an independent non-executive Director on 10 July 2009. Mr. Cheng is an independent non-executive director of CLP Holdings Limited (from 17 August 2011), Great Eagle Holdings Limited, and Hui Xian Asset Management Limited (from 4 April 2011). He is also the Adviser to the Group Chief Executive of HSBC Holdings plc (from 28 June 2011) and a non-executive director of Swire Properties Limited. He was an executive director of HSBC Holdings plc (until 27 May 2011). In public service, Mr. Cheng is vice chairman of the China Banking Association, chairman of the Independent Commission on Remuneration for Members of the Executive Council and the Legislature, and Officials under the Political Appointment System of the HKSAR Government, and a member of the Advisory Committee on Post-service Employment of Civil Servants (from 1 September 2011). He was a member of the Exchange Fund Advisory Committee of the Hong Kong Monetary Authority. In 2008, Mr. Cheng was appointed a member of the National Committee of the 11th Chinese People's Political Consultative Conference (the '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 53, is an independent non-executive Director and has been a member of the Board since 2004. Ms. Fang has been the chief executive of the Hong Kong Council of Social Service since 2001. By training, Ms. Fang is a social worker and has a strong background in community service. She sits on various government advisory committees, including the Digital 21 Strategy Advisory Committee, the Charities Sub-committee of The Law Reform Commission of Hong Kong, the Independent Police Complaints Council, and the Steering Committee on the Community Care Fund. She is also a member of the Commission on Strategic Development, and the Hong Kong Housing Authority (from 1 April 2011). Ms. Fang was a member of the Sustainable Development Council (until 28 February 2011).

Edward Ho Sing-tin 73, is an independent non-executive Director and has been a member of the Board since 1991. He is an architect and the Group Chairman of Wong Tung Group of companies. Mr. Ho was an elected member of the Legislative Council of Hong Kong, representing the architectural, surveying and planning functional constituency. He was also president of the Hong Kong Institute of Architects, and chairman of the Hong Kong Industrial Estates Corporation, the Antiquities Advisory Board, and the Hong Kong Philharmonic Society. He was also a member of the Hong Kong Housing Authority, the Town Planning Board, and the Hospital Authority respectively.

Alasdair George Morrison 63, joined the Board as an independent non-executive Director on 9 July 2010. Mr. Morrison is currently Senior Advisor of Citigroup Asia Pacific and a member of Citigroup's Business Development Committee, and an independent non-executive director of Pacific Basin Shipping Limited and Hong Kong Mercantile Exchange Limited. He is also a member of the Board of Grosvenor Group Limited in the United Kingdom. Mr. Morrison was a member of the Operations Review Committee of the Independent Commission Against Corruption, and the Hong Kong/European Union Business Cooperation Committee (until 6 February 2012). 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 62, joined the Board as an independent non-executive Director on 18 December 2007. Mr. Ng is vice chairman of Chiyu Banking Corporation, chairman of Bank of China (Hong Kong) Trustees Limited, a director of the BOCHK Charitable Foundation and an independent non-executive director of SmarTone Telecommunications Holdings Limited. He was a member of the Court of Lingnan University (until 21 October 2011) and general manager, Bank-wide Operation Department of Bank of China (Hong Kong) Limited. Mr. Ng is also a Hong Kong Deputy to the 10th and 11th National People's Congress, People's Republic of China. Mr. Ng is a graduate of University of East Asia, Graduate College, Macau and holds a diploma in Chinese Law.

Abraham Shek Lai-him 66, joined the Board as an independent non-executive Director on 18 December 2007. Mr. Shek is an independent non-executive director and an audit committee member of each of Midas International Holdings Limited, Paliburg Holdings Limited, Lifestyle International Holdings Limited, Chuang's Consortium International Limited, NWS Holdings Limited, Regal Portfolio Management Limited, Titan Petrochemicals Group Limited, Eagle Asset Management (CP) Limited, ITC Corporation Limited, Country Garden Holdings Company Limited, SJM Holdings Limited, Kosmopolito Hotels International Limited and China Resources Cement Holdings Limited (from 1 January 2011). He is also an independent non-executive director of Hsin Chong Construction Group Ltd. and Hop Hing Group 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 appointed as Justice of the Peace in 1995 and was awarded the Silver Bauhinia Star in 2007. He is vice chairman of the Independent Police Complaints Council. Mr. Shek is a graduate of the University of Sydney and holds a Bachelor of Arts degree and a Diploma in Education.

T. Brian Stevenson 67, is an independent non-executive Director and has been a member of the Board since October 2002. He is a non-executive director of The Hongkong and Shanghai Banking Corporation Limited, an Advisor to BT Asia Pacific and Chairman of the Hong Kong Jockey Club. Mr. Stevenson was a member of the Public Service Commission. 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.

Commissioner for Transport (Joseph Lai Yee-tak 51, joined the Board as a non-executive Director appointed as an "additional director" under section 8 of the MTR Ordinance by virtue of his appointment to the post of the Commissioner for Transport of the Government of the Hong Kong SAR on 17 August 2009. Since 1983, Mr. Lai has served in various bureaux and departments of the Government of the Hong Kong SAR. Before joining the Transport Department, he was Director-General of Trade and Industry. As Commissioner for Transport, Mr. Lai 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, The New Hong Kong Tunnel Company Limited, Western Harbour Tunnel Company Limited, Tate's Cairn Tunnel Company Limited and Route 3 (CPS) Company Limited. He is a graduate of the University of Hong Kong and holds a Bachelor's Degree in Social Sciences.)

Secretary for Transport and Housing (Eva Cheng 51, joined the Board as a non-executive Director appointed as an "additional director" under section 8 of the MTR Ordinance on 1 July 2007 upon her appointment as the Secretary for Transport and Housing of the Government of the Hong Kong SAR. Ms. Cheng has served in various bureaux and departments of the Government of the HKSAR since 1983. Before joining the Transport and Housing Bureau, Ms. Cheng was the Permanent Secretary for Economic Development. She is a graduate of the University of Hong Kong and holds a Bachelor of Social Sciences degree.)

Professor Chan Ka-keung, Ceajer 55, joined the Board as a non-executive Director on 10 July 2007 after his appointment as the Secretary for Financial Services and the Treasury of the

Government of the Hong Kong SAR with effect from 1 July 2007. He received his Bachelor's degree in economics from Wesleyan University in the US and both his M.B.A. and Ph.D. in finance from the University of Chicago. Professor Chan sits on the boards of several public bodies including the Mandatory Provident Fund Schemes Authority and The Hong Kong Mortgage Corporation Limited and is the Chairman of the Kowloon-Canton Railway Corporation 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.

MEMBERS OF THE EXECUTIVE DIRECTORATE

Jay Herbert Walder Biographical details are set out on pages 112 to 113.

William Chan Fu-keung 63, has been the Human Resources Director since August 1998. He joined the Company as Human Resources Manager in 1989. He oversees human resource management, people development, organisation development, operations and management training, administration and security management. Prior to joining the Company, Mr. Chan held senior management positions in both the commercial and utility sectors in Hong Kong, including the Government, the Hong Kong Productivity Council, Hutchison Whampoa Limited and Hong Kong Telecommunications Limited. He is a fellow member of the Hong Kong Institute of Human Resource Management since 1985 and is also a council member of the Institute. He is a council member of Employers' Federation of Hong Kong, a member of the Standing Committee on Disciplined Services Salaries and Conditions of Service, the Pensions Appeal Panel and the School of Business Advisory Committee of Hong Kong Baptist University. Mr. Chan received a Bachelor of Social Science degree from The University of Hong Kong in 1971, majoring in economics.

Chew Tai Chong 60, 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 Transit Authority of Singapore. Mr. Chew is a council member of the Hong Kong Construction Industry Council. 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, a fellow of the Royal Academy of Engineering (from 11 July 2011), and a fellow of a number of professional institutions in the United Kingdom and Hong Kong Institution of Engineers as well as Hong Kong Academy of Engineering Sciences. Mr. Chew is also a director in some of the members of the Company's group.

Dr. Jacob Kam Chak-pui 50, 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. Dr. Kam is also a director in some of the members of the Company's group.

Lincoln Leong Kwok-kuen 51, has served as the Finance & Business Development Director since May 2008. Mr. Leong joined the Company in February 2002 as the Finance Director and 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. In addition, he has responsibility for the Company's information technology function and serves as chairman of the board of trustees of the Company's retirement schemes. On 1 May 2008, he was re-titled the Finance & Business Development Director to reflect his additional role in overseeing growth business in the Mainland of China and overseas. 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 a member of the executive committee of the Hong Kong Housing Society and was a non-official member of the Family Council (until 31 March 2011). He also serves on the Board of Governor of the Chinese International School. Mr. Leong is a non-executive director of Hong Kong Aircraft Engineering Company Limited, Tai Ping Carpets International Limited, and Mandarin Oriental International Limited (from 1 March 2012). Mr. Leong is also a director in some of the members of the Company's group.

Leonard Bryan Turk 62, was the Legal Director & Secretary and a Member of the Executive Directorate of the Company from 1988 to August 2011. He retired from the Company on 1 September 2011 after cumulatively 30 years of service.

Gillian Elizabeth Meller 39, has been the Legal Director & Secretary and a Member of the Executive Directorate since 1 September 2011. She joined the Company in August 2004 as Legal Adviser and was appointed Deputy Legal Director in December 2010. Ms. Meller is responsible for the provision of commercial legal support and advice to all aspects of the Company's rail and property operations in Hong Kong and the Mainland of China, the Company's new rail and property projects in Hong Kong and its international growth business. She is also responsible for the strategic management of the Company's insurance programmes and its enterprise risk management, corporate responsibility and company

FROM LEFT TO RIGHT (back):
Jacob Kam Chak-pui, Jeny Yeung Mei-chun, Chew Tai Chong,
David Tang Chi-fai, Lincoln Leong Kwok-kuen, Gillian Elizabeth Meller

FROM LEFT TO RIGHT (front):
Miranda Leung Chan Che-ming, Jay Herbert Walder, William Chan Fu-keung

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.

Thomas Ho Hang-kwong 60, was the Property Director and a Member of the Executive Directorate of the Company from 1991 to September 2011. He retired from the Company on 1 October 2011 after cumulatively 20 years of service.

David Tang Chi-fai 47, has been the Property Director and a Member of the Executive Directorate since 1 October 2011. Mr. Tang joined the Company in August 2004 as Contracts & Commercial Manager – China Business and was appointed Deputy Property Director on 1 July 2011. He is responsible for all of the property development projects of the Company from layout planning, scheme design through to project construction completion. Mr. Tang is also responsible for the Company's new property business development in the Mainland of China from commercial negotiation to completion. During his service with the Company, he held senior management positions in the Legal and Procurement Division, and the China and International Business Division before he was transferred to Property Division in 2009. Before joining the Company, Mr. Tang was Commercial Manager – Hong Kong & China Region, and Deputy General Manager – Hong Kong & China Region for Acciona, S.A. He had almost 20 years' working experience in contract administration, project management and quantity surveying in the United Kingdom and Hong Kong. Mr. Tang graduated from the University of the West of England (formerly Bristol Polytechnic) in the United Kingdom and holds a Bachelor of Science (Honours) degree in Quantity Surveying. He also completed the International Executive Programme at INSEAD (an executive business school), France in 2006. Mr. Tang is a Chartered Surveyor and a member of the Royal Institution of Chartered Surveyors and the Hong Kong Institute of Surveyors. He is also a director in some of the members of the Company's group and an alternate director of two members of the Company's group.

Jeny Yeung Mei-chun 47, 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. She is a fellow of the Chartered Institute of Marketing. Ms. Yeung 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. 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 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 115 to 117), and General Manager – Corporate Relations.

Miranda Leung Chan Che-ming 59, has served the Company since 1976 and was appointed Head of the Corporate Relations Department in 1994. As General Manager – Corporate Relations, she is responsible for formulating and directing the implementation of corporate relations strategy and policies to project, maintain and enhance the public image of the Company. Her responsibilities include corporate communications, community and customer engagement, stakeholder management and political lobbying. In 1985, Mrs. Leung qualified as a chartered member of The Chartered Institute of Transport (renamed as The Chartered Institute of Logistics and Transport) in UK. She is a member of UK's Chartered Institute of Public Relations and a chartered fellow of The Chartered Institute of Logistics & Transport in Hong Kong. Mrs. Leung is a member of the Council for Sustainable Development, the Women's Commission (from 15 January 2012), and the executive committee of the Hong Kong Society for the Protection of Children (from 8 December 2011).

KEY CORPORATE MANAGEMENT

Chow Chung-kong
Chief Executive Officer (up to 31 December 2011)

Jay Walder
Chief Executive Officer (w.e.f. 1 January 2012)

OPERATIONS

Jacob Kam Chak-pui
Operations Director

Adi Lau Tin-shing
Chief of Operating

David Leung Chuen-choi
Chief of Operations Engineering

Choi Tak-tsan
Head of Operating – Control & East Region

William Leung Hon-wai
Head of Operations Strategic Business Management

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

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

Richard Keefe
General Manager – Infrastructure

Terry Wong Wing-kin
Deputy General Manager – Infrastructure Implementation (w.e.f. 1 January 2012)

Tony Lee Kar-yun
General Manager – Rolling Stock Fleet

Chan Chi-kit
Rolling Stock Workshop Manager

George Lee Kai-wing
General Manager – Safety & Quality (up to 31 December 2011)

Nelson Ng Wai-hung
General Manager – Safety & Quality (w.e.f. 1 January 2012)

Ho Chun-wing
Planning & Development Manager

Francis Li Shing-kee
Head of Operations Interface

Carmen Li Wai-ching
General Manager – Intercity

CHINA & INTERNATIONAL BUSINESS

Lincoln Leong Kwok-kuen
Finance and Business Development Director

Richard Wong Shiu-ki
General Manager – Beijing & Tianjin

Wilfred Lau Cheuk-man
General Manager – Shenzhen

Victor Chan Hin-fu
General Manager – Guangdong & Shenzhen Property

Leung Kwok-yiu
General Manager – Hangzhou (w.e.f. 1 January 2012)

Ivan Lai Ching-kai
Head of Operations – China & International Business (w.e.f. 1 March 2012)

Jeremy Long
Chief Executive Officer – European Business

PROJECTS

Chew Tai-chong
Projects Director

Paul Lo Po-hing
General Manager – XRL

Antonio Choi Fung-chung
General Manager – XRL Terminus

David Sorton
General Manager – XRL Tunnels

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

Calum Smith
Project Manager – XRL Terminus

Simon Tang Wai-yung
Project Manager – XRL Tunnels North

Bill Clowes
Project Manager – XRL Tunnels South

Mark Lomas
Deputy Project Manager – XRL Terminus

Roderic Hockin
General Manager – WIL/SIL

Dono Tong Kwok-wai
Project Manager – WIL/SIL E&M (w.e.f. 1 March 2012)

Julian Saunders
Project Manager – WIL Civil

Mark Cuzner
Project Manager – SIL Civil

Henry Lam Hing-cheung
General Manager – SCL/KTE

Philco Wong Nai-keung
General Manager – SCL

James Chow So-hung
General Manager – KTE

Lee Tze-man
Project Manager – SCL/KTE E&M

Brendan Reilly
Project Manager – KTE

Patrick Lun Tak-wo
General Manager – Projects Management Office

Barry Hill
Chief Testing and Commissioning Planning Engineer (w.e.f. 1 March 2012)

Alan Myers
Chief Civil Construction Engineer

Stephen Chik Wai-keung
Head of Project Engineering

Wilfred Yeung Sze-wai
Chief Architect

Leung Chi-lap
Chief E&M Engineer

Henry Young Francis-Patrick
Chief Programming Engineer

Mike Yeoman
Project Manager – Rolling Stock (up to 17 January 2012)

Karl Dodsworth
Project Manager – Signalling (up to 31 March 2012)

Jason Wong Chi-chung
Project Manager – Operations Projects (w.e.f. 1 March 2012)

PROPERTY

Thomas Ho Hang-kwong
Property Director (up to 30 September 2011)

David Tang Chi-fai
Property Director (w.e.f. 1 October 2011)

James Hor Wai-hong
Head of Property Development

Andy Tong Sze-hang
Head of Property Project

Steve Yiu Chin
Head of Town Planning

Mingo Kwan Sze-ming
Head of Property Management

Betty Leong Sin-ling
Head of Investment Property

FINANCE

Lincoln Leong Kwok-kuen
Finance and Business Development Director

Ricky Tsang Tin-for
General Manager – Financial Control

Terry Wong Ping-sau
General Manager – Corporate Finance

Jeff Kwan Wai-hung
Treasurer

Daniel Lai Sik-cheung
Head of Information Technology (up to 31 December 2011)

Ted Suen Yiu-tat
Head of Information Technology (w.e.f. 13 February 2012)

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

LEGAL & PROCUREMENT

Leonard Turk
Legal Director & Secretary (up to 31 August 2011)

Gillian Meller
Legal Director & Secretary (w.e.f. 1 September 2011)

Martin Dunn
General Manager – Procurement & Contracts

Teresa Tang Sui-ching
Procurement & Contracts Manager – Operations

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

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

Lila Fong Man-lee
Legal Manager – Company Secretarial

Linda Li Sau-lin
Legal Manager – Property

HUMAN RESOURCES & ADMINISTRATION

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

Morris Cheung Siu-wa
Human Resources Director – Designate

Vincent Luk Kin-ping
General Manager – Human Resources

Daniel Shim Ming-yi
General Manager – Human Resources Development

COMMERCIAL & MARKETING

Jeny Yeung Mei-chun
Commercial Director

CORPORATE RELATIONS

Miranda Leung Chan Che-ming
General Manager – Corporate Relations

May Wong May-kay
Deputy General Manager – Corporate Relations

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 2011.

PRINCIPAL ACTIVITIES OF THE GROUP

The principal activities of the Company and its subsidiaries are:

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

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

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

D the investment in a 50% equity share in the operation of the 7-year UK's London Overground Concession, consisting of 5 London railway lines measuring a total route length of 112 kilometres;

E the investment in the operation (including rolling stock maintenance which is undertaken by a 50:50 joint venture) of the 8-year Sweden's Stockholm Metro Concession, consisting of three lines measuring a total of 110 kilometres, linking the Swedish capital's central areas with surrounding suburbs;

F the investment in a 60% equity share in Metro Trains Melbourne of an 8-year concession for the operation and maintenance of the Melbourne train system, consisting of 15 lines running on 372 kilometres, linking Melbourne's central business district with surrounding suburbs;

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

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

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

J the planning and design of the Shatin to Central Link as a major railway project for which the Government has confirmed policy support;

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

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

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

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

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

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

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

R the acquisition of the land use right of the land lot above the Shenzhen Metro Line 4 Depot by two wholly-owned subsidiaries of the Company in August 2011. The lot with a total gross floor area of approximately 206,167 square metres will be used for residential and commercial development.

In March 2010, a provisional Concession Agreement for a Public-Private Partnership project for the investment, construction and operation of Hangzhou Metro Line 1, for a term of 25 years, was agreed between MTR Hangzhou Line 1 Investment Company Limited (a wholly-owned subsidiary of the Company) and a subsidiary of Hangzhou Metro Group Company Limited together with Hangzhou Municipal Government. The Concession Agreement is pending for the regulatory Central Government approval.

DIVIDEND

The Directors have recommended a final dividend of HK$0.51 per Ordinary Share to be payable to shareholders whose names appear on the Register of Members of the Company on 14 May 2012. Subject to the passing of the necessary resolutions at the forthcoming Annual General Meeting, such dividend will be payable on or about 29 May 2012, in cash in Hong Kong dollars.

MEMBERS OF THE BOARD

Members of the Board who served during the year were Dr. Raymond Ch'ien Kuo-fung (non-executive Chairman), Mr. Chow Chung-kong (Chief Executive Officer), Mr. Vincent Cheng Hoi-chuen, Ms. Christine Fang Meng-sang, Mr. Edward Ho Sing-tin, Mr. Alasdair George Morrison, Mr. Ng Leung-sing, Mr. Abraham Shek Lai-him, Mr. T. Brian Stevenson, Professor Chan Ka-keung, Ceajer, the Secretary for Transport and Housing (Ms. Eva Cheng) and the Commissioner for Transport (Mr. Joseph Lai Yee-tak).

As announced by the Company in December 2010, Mr. Chow Chung-kong retired from the position of Chief Executive Officer and ceased to be a Member of the Board and a Member of the Executive Directorate on 31 December 2011.

On 22 July 2011 and following a worldwide search for Mr. Chow's replacement, the Company announced the appointment of Mr. Jay Herbert Walder as Chief Executive Officer for an initial term of thirty months with effect from 1 January 2012. He became both a Member of the Executive Directorate and a Member of the Board of Directors with effect from the same date. Before joining the Company, Mr. Walder was Chairman and Chief Executive Officer of the New York Metropolitan Transportation Authority, the largest passenger transportation authority in the United States.

Please refer to the Corporate Governance Report on page 91 for other details.

At the Annual General Meeting on 6 May 2011 and pursuant to the Articles of Association, Mr. Edward Ho Sing-tin, Mr. Ng Leung-sing, Mr. Abraham Shek Lai-him and Mr. Alasdair George Morrison retired under the Articles of Association and were re-elected/elected as Members of the Board.

At the 2012 Annual General Meeting and in accordance with the Articles of Association, Dr. Raymond Ch'ien Kuo-fung, Mr. T. Brian Stevenson and Professor Chan Ka-keung, Ceajer will retire by rotation and will offer themselves for re-election. Mr. Jay Herbert Walder, who was appointed by the Board after the 2011 Annual General Meeting, will retire under Article 85 of the Articles of Association and will offer himself for election at the 2012 Annual General Meeting. Please also refer to page 97 of the Corporate Governance Report.

Biographical details for Board Members are set out on pages 112 to 115.

ALTERNATE DIRECTORS

The Alternate Directors in office during the year were:

- for Professor Chan Ka-keung, Ceajer: Mr. Ying Yiu-hong and Miss Chu Man-ling;
- 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. Ho Suen-wai); and (iii) the Deputy Secretary for Transport and Housing (Transport) (Ms. Maisie Cheng Mei-sze and Ms. Rebecca Pun Ting-ting); and
- for the Commissioner for Transport: the Deputy Commissioner for Transport/Transport Services and Management (Ms. Carolina Yip Lai-ching).

EXECUTIVE DIRECTORATE

The Members of the Executive Directorate who served during the year were Mr. Chow Chung-kong (Chief Executive Officer and a Member of the Board) (until 31 December 2011), Mr. William Chan Fu-keung (retiring on 17 July 2012), Mr. Chew Tai Chong, Mr. Thomas Ho Hang-kwong (until 30 September 2011), Dr. Jacob Kam Chak-pui, Mr. Lincoln Leong Kwok-kuen, Mr. Leonard Bryan Turk (until 31 August 2011), Ms. Gillian Elizabeth Meller (from 1 September 2011), Ms. Jeny Yeung Mei-chun (from 1 September 2011) and Mr. David Tang Chi-fai (from 1 October 2011).

Please refer to the "Members of the Board" section on this page regarding Mr. Jay Herbert Walder's appointment as the Chief Executive Officer, a Member of the Board and a Member of the Executive Directorate with effect from 1 January 2012.

Ms. Meller and Ms. Yeung, and Mr. Tang were appointed as Members of the Executive Directorate in September and October 2011 respectively. Each of Ms. Meller and Mr. Tang has served the Company for over 7 years. Before being appointed as a Member of the Executive Directorate, Ms. Meller had been Legal Adviser, Legal Manager – General and Deputy Legal Director; and Mr. Tang had held senior management positions in the Legal and Procurement Division and the China and International Business Division before he was transferred to the Property Division in 2009. Ms. Yeung has served the Company for over 12 years. She had been the Marketing Manager and General Manager – Marketing & Station Commercial before she became a Member of the Executive Directorate. Ms. Yeung has also been a member of the Executive Committee since 2004.

Mr. Cheung Siu Wa (also known as Mr. Morris Cheung), currently Human Resources Director – Designate, will be appointed as Human Resources Director and will become a Member of the Executive Directorate, both with effect from 17 July 2012. Before being appointed as Human Resources Director – Designate, Mr. Cheung had been Chief of Operations Engineering.

Biographical details for Members of the Executive Directorate during the year are set out on pages 115 to 117.

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:

- Assessment of the adequacy and effectiveness of the Company's system of internal controls over its activities and risk management.
- Identification of opportunities for improving management control, resources utilisation and profitability.
- Special reviews and/or investigations as commissioned by Company management or the Audit Committee.

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

BUSINESS ETHICS

Please refer to pages 104 to 105.

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.

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 2011 amounted to HK$23,168 million (2010: HK$21,057 million). Particulars of borrowings are set out in note 42 to the accounts.

ACCOUNTS

The state of affairs of the Company and the Group as at 31 December 2011 and of the Group's results, changes in equity and cash flows for the year are set out in the accounts on pages 147 to 238.

TEN-YEAR STATISTICS

A summary of the results and of the assets and liabilities of the Group together with some major operational statistics for the last ten years are set out on pages 80 to 81.

FIXED ASSETS AND RAILWAY CONSTRUCTION IN PROGRESS

Movements in fixed assets and railway construction in progress during the year are set out in notes 23 to 25 and 27 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 50 and 51 to the accounts.

SHARE CAPITAL

As at 31 December 2010, the authorised share capital of the Company was HK$6.5 billion, divided into 6.5 billion Ordinary Shares, 5,772,563,031 of which were issued and credited as fully paid.

During the year, the Company issued a total of 12,308,219 Ordinary Shares. Of this number:

A 792,200 Ordinary Shares were issued by the Company pursuant to the exercise of share options which had been granted under the Company's New Joiners Share Option Scheme (as referred in note 50A to the accounts). In respect of each Ordinary Share issued, the relevant exercise price per share of options are HK$9.75 and HK$20.66 to the Company;

B 1,172,500 Ordinary Shares were issued by the Company pursuant to the exercise of share options which had been granted under the Company's 2007 Share Option Scheme (as referred in note 50A to the accounts). In respect of each Ordinary Share issued, the relevant exercise price per share of options are HK$18.30, HK$26.52, HK$26.85, and HK$27.60 to the Company; and

C 10,343,519 Ordinary Shares were issued by the Company in order to satisfy shareholders' scrip dividend elections in respect of the final dividend of the Company for the year ended 31 December 2010 (for which the cash dividend was HK$0.45 per Ordinary Share).

As at 31 December 2011, the authorised share capital of the Company was HK$6.5 billion, divided into 6.5 billion Ordinary Shares, 5,784,871,250 of which were issued and credited as fully paid.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Group's listed securities during the year ended 31 December 2011.

PROPERTIES

Particulars of the principal investment properties and properties held for sale of the Company are shown on pages 54 to 55.

DONATIONS

During the year, the Company donated a total of approximately HK$2.7 million to charitable and other organisations.

In addition, the MTR HONG KONG Race Walking 2011 raised over HK$1.33 million (including over HK$55,000 from MTR staff) for the Hospital Authority Health InfoWorld to promote good health.

The Company helped raise funds for the Community Chest and the Hong Kong Cancer Fund with a total cash donation of over HK$304,000 through different activities such as CARE Scheme, Green Day, Love Teeth Day and Dress Casual Day for the former organisation and Dress Pink Day for the latter.

REPORTING AND MONITORING

There is a comprehensive budgeting system for all operational and business activities, with an annual budget approved by the Board. Monthly results of the Company's operations, businesses and projects are reported against the budget to the Board and updated forecasts for the year are prepared regularly.

TREASURY MANAGEMENT

The Company's Treasury Department operates within approved guidelines from the Board. It manages the Company's debt profile with reference to the Preferred Financing Model which defines the preferred mix of financing instruments, fixed and floating rate debts, maturities, interest rate risks, currency exposure and financing horizon. The model is reviewed and refined periodically to reflect changes in the Company's financing requirements and market environment. Derivative financial instruments such as interest rate swaps and cross currency swaps are used only as hedging tools to manage the Group's exposure to interest rate and currency risks. Prudent guidelines and procedures are in place to control the Company's derivatives activities, including a comprehensive credit risk management system for monitoring counterparty credit exposure using the Value-at-Risk approach. There is also appropriate segregation of duties within the Company's Treasury Department.

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

CAPITAL AND REVENUE EXPENDITURE

There are defined procedures for the appraisal, review and approval of major capital and revenue expenditures. All project expenditure 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$2,206 million equivalent during the year ended 31 December 2011, details of which are set out in note 42C to the accounts. Such notes were issued in order to meet the Group's general corporate funding requirements, including the financing of new capital expenditure and the refinancing of maturing debts.

COMPUTER PROCESSING

There are defined procedures, controls and regular quality reviews on the operation of computer systems to ensure the accuracy and completeness of financial records and efficiency of data processing. The Company's computer centre operation and support, help desk operation and support services, and also software development and maintenance, have been certified under ISO 9001:2008. Disaster recovery rehearsal on critical applications is conducted annually.

INTERESTS IN CONTRACTS OF MEMBERS OF THE BOARD AND THE EXECUTIVE DIRECTORATE

There was no contract of significance, to which the Company or any of its subsidiaries was a party and in which a Member of the Board or a Member of the Executive Directorate had a material interest (whether direct or indirect), which subsisted at the end of the year or at any time during the year.

BOARD MEMBERS' AND EXECUTIVE DIRECTORATE'S INTERESTS IN SHARES

As at 31 December 2011, the interests or short positions of the Members of the Board and the Executive Directorate in the shares, underlying shares and debentures of the Company (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) ("SFO")) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

LONG POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

	Number of Ordinary Shares held			Derivatives: Share Options	Derivatives: Other		
Member of the Board and/or the Executive Directorate	Personal* interests	Family† interests	Corporate interests	Personal* interests	Personal* interests	Total interests	Percentage of aggregate interests to total issued share capital
Raymond Ch'ien Kuo-fung	52,330	–	–	–	–	52,330	0.00090
Chow Chung-kong	–	–	–	2,130,000 (Note 1)	222,161 (Note 2)	2,352,161	0.04066
Vincent Cheng Hoi-chuen	1,675	1,675	–	–	–	3,350	0.00006
Christine Fang Meng-sang	1,712	–	–	–	–	1,712	0.00003
T. Brian Stevenson	5,153	–	–	–	–	5,153	0.00009
William Chan Fu-keung	126,106	–	–	680,000 (Note 1)	–	806,106	0.01393
Chew Tai Chong	–	–	–	425,000 (Note 1)	–	425,000	0.00735
Jacob Kam Chak-pui	2,283	–	–	425,000 (Note 1)	–	427,283	0.00739
Lincoln Leong Kwok-kuen	23,000	–	23,000 (Note 3)	680,000 (Note 1)	–	726,000	0.01255
Jeny Yeung Mei-chun (Note 5)	13,400	–	–	270,000 (Note 1)	–	283,400	0.00490
Gillian Elizabeth Meller (Note 6)	–	–	–	219,500 (Note 1)	–	219,500	0.00379
David Tang Chi-fai (Note 7)	600	–	–	(i) 22,000 (Note 4) (ii) 238,000 (Note 1)	–	260,600	0.00450

LONG POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY *(CONTINUED)*

	Number of Ordinary Shares held			Derivatives: Share Options	Derivatives: Other		
Member of the Board and the Executive Directorate	Personal* interests	Family† interests	Corporate interests	Personal* interests	Personal* interests	Total interests	Percentage of aggregate interests to total issued share capital
Jay Herbert Walder (Note 8)	–	–	–	–	300,000	300,000	0.00519

Notes

1 Further details of the above share options are set out in the table below showing details of the options to subscribe for ordinary shares granted under the 2007 Share Option Scheme.

2 Mr. Chow Chung-kong had a derivative interest in respect of 222,161 shares in the Company within the meaning of Part XV of the SFO. That derivative interest represented Mr. Chow's entitlement to receive an equivalent value in cash of 222,161 shares in the Company on completion of his contract on 31 December 2011. An amount of HK$5,556,802.01 was paid to him on 4 January 2012 (at a price of HK$25.0125 per share derived in accordance with the terms of the grant by reference to the average closing price of the Company's shares on the 20 business days immediately preceding 31 December 2011).

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

4 Further details of the above share options are set out in the table below showing details of the options to subscribe for ordinary shares granted under the New Joiners Share Option Scheme.

5 Ms. Jeny Yeung Mei-chun became the Commercial Director and a Member of the Executive Directorate on 1 September 2011.

6 Ms. Gillian Elizabeth Meller became the Legal Director and Secretary and a Member of the Executive Directorate on 1 September 2011.

7 Mr. David Tang Chi-fai became the Property Director and a Member of the Executive Directorate on 1 October 2011.

8 Mr. Jay Herbert Walder became Chief Executive Officer, a Member of the Board and a Member of the Executive Directorate on 1 January 2012. Mr. Walder was granted a derivative interest in respect of 300,000 shares in the Company within the meaning of Part XV of the SFO. That derivative interest represents Mr. Walder's entitlement to be paid an equivalent value in cash of 300,000 shares in the Company following 30 June 2014, being the date on which his initial term of office is expected to expire (35% of which shall be deemed to be earned at 31 October 2013 subject to certain conditions specified in his employment contract).

* 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 11B(i) AND 53A(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 2011	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$)	Options outstanding as at 31 December 2011	Weighted average closing price of shares immediately before the date(s) on which options were exercised (HK$)
Lincoln Leong Kwok-kuen	1/8/2003	1,066,000	14/7/2004 – 14/7/2013	417,500	–	–	–	417,500	9.75	–	25.55
David Tang Chi-fai	15/5/2006	213,000	25/4/2007 – 25/4/2016	22,000	–	–	–	–	20.66	22,000	–
Other eligible employees	1/8/2003	495,200	14/7/2004 – 14/7/2013	108,200	–	–	–	108,200	9.75	–	29.16
	23/9/2005	213,000	9/9/2006 – 9/9/2015	213,000	–	–	–	–	15.97	213,000	–
	5/10/2006	94,000	29/9/2007 – 29/9/2016	94,000	–	–	–	–	19.732	94,000	–
	12/5/2006	266,500	25/4/2007 – 25/4/2016	266,500	–	–	–	266,500	20.66	–	28.77

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 11B(ii) AND 53A(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 2011	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$)	Options outstanding as at 31 December 2011	Weighted average closing price of shares immediately before the date(s) on which options were exercised (HK$)
Chow Chung-kong	13/12/2007	720,000	10/12/2008 – 10/12/2014	720,000	–	–	–	–	27.60	720,000	–
	9/12/2008	470,000	8/12/2009 – 8/12/2015	470,000	–	156,000	–	–	18.30	470,000	–
	9/12/2009	470,000	8/12/2010 – 8/12/2016	470,000	–	157,000	–	–	26.85	470,000	–
	17/12/2010	470,000	16/12/2011 – 16/12/2017	470,000	–	157,000	–	–	28.84	470,000	–
William Chan Fu-keung	13/12/2007	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	–	56,000	–	–	18.30	170,000	–
	10/12/2009	170,000	8/12/2010 – 8/12/2016	170,000	–	57,000	–	–	26.85	170,000	–
	17/12/2010	170,000	16/12/2011 – 16/12/2017	170,000	–	57,000	–	–	28.84	170,000	–
Chew Tai Chong	18/6/2009	85,000	12/6/2010 – 12/6/2016	85,000	–	28,500	–	–	24.50	85,000	–
	10/12/2009	170,000	8/12/2010 – 8/12/2016	170,000	–	57,000	–	–	26.85	170,000	–
	17/12/2010	170,000	16/12/2011 – 16/12/2017	170,000	–	57,000	–	–	28.84	170,000	–
Jacob Kam Chak-pui	13/12/2007	75,000	10/12/2008 – 10/12/2014	75,000	–	–	–	–	27.60	75,000	–
	8/12/2008	65,000	8/12/2009 – 8/12/2015	65,000	–	21,000	–	–	18.30	65,000	–
	14/12/2009	65,000	8/12/2010 – 8/12/2016	65,000	–	22,000	–	–	26.85	65,000	–
	21/7/2010	50,000	28/6/2011 – 28/6/2017	50,000	–	17,000	–	–	27.73	50,000	–
	17/12/2010	170,000	16/12/2011 – 16/12/2017	170,000	–	57,000	–	–	28.84	170,000	–
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	–	56,000	–	–	18.30	170,000	–
	10/12/2009	170,000	8/12/2010 – 8/12/2016	170,000	–	57,000	–	–	26.85	170,000	–
	17/12/2010	170,000	16/12/2011 – 16/12/2017	170,000	–	57,000	–	–	28.84	170,000	–
Jeny Yeung Mei-chun (Note 4)	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	–	21,000	–	–	18.30	65,000	–
	10/12/2009	65,000	8/12/2010 – 8/12/2016	65,000	–	22,000	–	–	26.85	65,000	–
	17/12/2010	65,000	16/12/2011 – 16/12/2017	65,000	–	22,000	–	–	28.84	65,000	–
Gillian Elizabeth Meller (Note 5)	12/12/2007	55,000	10/12/2008 – 10/12/2014	18,000	–	–	–	–	27.60	18,000	–
	11/12/2008	70,000	8/12/2009 – 8/12/2015	46,500	–	23,000	–	–	18.30	46,500	–
	10/12/2009	65,000	8/12/2010 – 8/12/2016	65,000	–	22,000	–	–	26.85	65,000	–
	17/12/2010	90,000	16/12/2011 – 16/12/2017	90,000	–	30,000	–	–	28.84	90,000	–
David Tang Chi-fai (Note 6)	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	–	21,000	–	–	18.30	43,000	–
	15/12/2009	65,000	8/12/2010 – 8/12/2016	65,000	–	22,000	–	–	26.85	65,000	–
	17/12/2010	65,000	16/12/2011 – 16/12/2017	65,000	–	22,000	–	–	28.84	65,000	–
Other eligible employees	11/12/2007	45,000	10/12/2008 – 10/12/2014	45,000	–	–	–	–	27.60	45,000	–
	12/12/2007	2,430,000	10/12/2008 – 10/12/2014	2,025,000	–	–	320,000	65,000	27.60	1,640,000	28.15
	13/12/2007	775,000	10/12/2008 – 10/12/2014	775,000	–	–	65,000	–	27.60	710,000	–
	14/12/2007	1,005,000	10/12/2008 – 10/12/2014	872,000	–	–	52,000	–	27.60	820,000	–
	15/12/2007	435,000	10/12/2008 – 10/12/2014	343,000	–	–	75,000	40,000	27.60	228,000	29.20
	17/12/2007	835,000	10/12/2008 – 10/12/2014	751,000	–	–	21,000	–	27.60	730,000	–
	18/12/2007	445,000	10/12/2008 – 10/12/2014	288,000	–	–	13,000	–	27.60	275,000	–
	19/12/2007	115,000	10/12/2008 – 10/12/2014	80,000	–	–	–	–	27.60	80,000	–
	20/12/2007	190,000	10/12/2008 – 10/12/2014	190,000	–	–	–	–	27.60	190,000	–
	21/12/2007	45,000	10/12/2008 – 10/12/2014	15,000	–	–	15,000	–	27.60	–	–
	22/12/2007	35,000	10/12/2008 – 10/12/2014	35,000	–	–	–	–	27.60	35,000	–
	24/12/2007	118,000	10/12/2008 – 10/12/2014	118,000	–	–	–	–	27.60	118,000	–
	28/12/2007	35,000	10/12/2008 – 10/12/2014	35,000	–	–	–	–	27.60	35,000	–
	31/12/2007	130,000	10/12/2008 – 10/12/2014	130,000	–	–	–	–	27.60	130,000	–
	2/1/2008	75,000	10/12/2008 – 10/12/2014	48,000	–	–	13,000	–	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	125,000	–	–	15,000	30,000	27.60	80,000	28.90
	28/3/2008	255,000	26/3/2009 – 26/3/2015	204,000	–	75,000	5,000	–	26.52	199,000	–
	31/3/2008	379,000	26/3/2009 – 26/3/2015	349,000	–	117,000	20,000	6,000	26.52	323,000	28.95

OPTIONS TO SUBSCRIBE FOR ORDINARY SHARES GRANTED UNDER THE 2007 SHARE OPTION SCHEME, AS REFERRED TO IN NOTES 11B(ii) AND 53A(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 2011	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$)	Options outstanding as at 31 December 2011	Weighted average closing price of shares immediately before the date(s) on which options were exercised (HK$)
Other eligible employees	1/4/2008	261,000	26/3/2009 – 26/3/2015	249,000	–	79,000	–	–	26.52	249,000	–
	2/4/2008	296,000	26/3/2009 – 26/3/2015	276,000	–	84,000	–	–	26.52	276,000	–
	3/4/2008	171,000	26/3/2009 – 26/3/2015	159,000	–	52,000	–	19,000	26.52	140,000	28.50
	4/4/2008	23,000	26/3/2009 – 26/3/2015	23,000	–	7,000	–	–	26.52	23,000	–
	5/4/2008	17,000	26/3/2009 – 26/3/2015	17,000	–	5,000	–	–	26.52	17,000	–
	7/4/2008	390,000	26/3/2009 – 26/3/2015	342,000	–	110,000	12,000	–	26.52	330,000	–
	8/4/2008	174,000	26/3/2009 – 26/3/2015	116,000	–	40,000	–	6,000	26.52	110,000	29.35
	9/4/2008	85,000	26/3/2009 – 26/3/2015	85,000	–	26,000	–	–	26.52	85,000	–
	10/4/2008	58,000	26/3/2009 – 26/3/2015	58,000	–	18,000	–	–	26.52	58,000	–
	11/4/2008	134,000	26/3/2009 – 26/3/2015	117,000	–	36,000	–	–	26.52	117,000	–
	12/4/2008	48,000	26/3/2009 – 26/3/2015	48,000	–	15,000	–	–	26.52	48,000	–
	14/4/2008	40,000	26/3/2009 – 26/3/2015	40,000	–	12,000	–	–	26.52	40,000	–
	15/4/2008	34,000	26/3/2009 – 26/3/2015	34,000	–	10,000	–	–	26.52	34,000	–
	16/4/2008	57,000	26/3/2009 – 26/3/2015	40,000	–	12,000	–	–	26.52	40,000	–
	17/4/2008	147,000	26/3/2009 – 26/3/2015	124,000	–	38,000	–	–	26.52	124,000	–
	18/4/2008	32,000	26/3/2009 – 26/3/2015	15,000	–	5,000	–	–	26.52	15,000	–
	19/4/2008	25,000	26/3/2009 – 26/3/2015	25,000	–	8,000	–	–	26.52	25,000	–
	21/4/2008	66,000	26/3/2009 – 26/3/2015	66,000	–	20,000	–	–	26.52	66,000	–
	23/4/2008	34,000	26/3/2009 – 26/3/2015	19,000	–	6,000	–	–	26.52	19,000	–
	8/12/2008	90,000	8/12/2009 – 8/12/2015	45,000	–	14,000	–	–	18.30	45,000	–
	9/12/2008	653,000	8/12/2009 – 8/12/2015	623,000	–	184,000	21,000	53,000	18.30	549,000	27.73
	10/12/2008	2,111,400	8/12/2009 – 8/12/2015	1,975,900	–	681,400	50,000	93,000	18.30	1,832,900	27.23
	11/12/2008	2,394,200	8/12/2009 – 8/12/2015	2,244,700	–	768,200	29,000	269,000	18.30	1,946,700	26.03
	12/12/2008	1,416,500	8/12/2009 – 8/12/2015	1,249,000	–	462,500	–	151,000	18.30	1,098,000	25.01
	13/12/2008	84,500	8/12/2009 – 8/12/2015	84,500	–	27,500	–	6,500	18.30	78,000	28.95
	14/12/2008	88,200	8/12/2009 – 8/12/2015	79,700	–	22,200	6,000	21,500	18.30	52,200	25.63
	15/12/2008	1,084,700	8/12/2009 – 8/12/2015	930,200	–	322,700	15,000	42,000	18.30	873,200	29.08
	16/12/2008	581,500	8/12/2009 – 8/12/2015	487,500	–	157,000	14,500	23,000	18.30	450,000	27.52
	17/12/2008	513,500	8/12/2009 – 8/12/2015	485,500	–	167,500	–	15,000	18.30	470,500	27.85
	18/12/2008	611,500	8/12/2009 – 8/12/2015	483,000	–	177,500	–	12,500	18.30	470,500	27.04
	19/12/2008	198,000	8/12/2009 – 8/12/2015	198,000	–	64,000	–	–	18.30	198,000	–
	20/12/2008	19,000	8/12/2009 – 8/12/2015	19,000	–	6,000	–	–	18.30	19,000	–
	22/12/2008	772,500	8/12/2009 – 8/12/2015	689,500	–	253,500	67,000	135,500	18.30	487,000	26.67
	23/12/2008	306,000	8/12/2009 – 8/12/2015	246,500	–	85,000	6,000	22,500	18.30	218,000	28.88
	24/12/2008	500,500	8/12/2009 – 8/12/2015	455,500	–	163,500	–	88,000	18.30	367,500	28.49
	25/12/2008	45,000	8/12/2009 – 8/12/2015	45,000	–	15,000	–	–	18.30	45,000	–
	29/12/2008	148,000	8/12/2009 – 8/12/2015	133,000	–	48,000	15,000	–	18.30	118,000	–
	30/12/2008	19,000	8/12/2009 – 8/12/2015	19,000	–	6,000	–	–	18.30	19,000	–
	18/6/2009	170,000	12/6/2010 – 12/6/2016	90,000	–	30,000	–	–	24.50	90,000	–
	6/7/2009	45,000	12/6/2010 – 12/6/2016	45,000	–	15,000	–	–	24.50	45,000	–
	9/7/2009	45,000	12/6/2010 – 12/6/2016	30,000	–	15,000	–	–	24.50	30,000	–
	9/12/2009	200,000	8/12/2010 – 8/12/2016	115,000	–	39,000	–	–	26.85	115,000	–
	10/12/2009	2,211,000	8/12/2010 – 8/12/2016	2,114,000	–	700,500	108,000	–	26.85	2,006,000	–
	11/12/2009	2,362,000	8/12/2010 – 8/12/2016	2,322,000	–	788,000	87,000	–	26.85	2,235,000	–
	12/12/2009	610,000	8/12/2010 – 8/12/2016	610,000	–	205,500	44,500	–	26.85	565,500	–
	13/12/2009	19,000	8/12/2010 – 8/12/2016	12,500	–	6,500	–	–	26.85	12,500	–
	14/12/2009	2,443,000	8/12/2010 – 8/12/2016	2,379,000	–	802,500	6,500	–	26.85	2,372,500	–
	15/12/2009	2,773,000	8/12/2010 – 8/12/2016	2,739,000	–	869,000	252,500	45,500	26.85	2,441,000	28.24
	16/12/2009	1,550,000	8/12/2010 – 8/12/2016	1,491,000	–	486,000	55,000	22,000	26.85	1,414,000	29.20
	17/12/2009	1,000,000	8/12/2010 – 8/12/2016	975,000	–	329,500	–	–	26.85	975,000	–
	18/12/2009	389,000	8/12/2010 – 8/12/2016	380,500	–	131,500	–	–	26.85	380,500	–

OPTIONS TO SUBSCRIBE FOR ORDINARY SHARES GRANTED UNDER THE 2007 SHARE OPTION SCHEME, AS REFERRED TO IN NOTES 11B(ii) AND 53A(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 2011	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$)	Options outstanding as at 31 December 2011	Weighted average closing price of shares immediately before the date(s) on which options were exercised (HK$)
Other eligible employees	19/12/2009	70,000	8/12/2010 – 8/12/2016	70,000	–	23,500	–	–	26.85	70,000	–
	20/12/2009	75,000	8/12/2010 – 8/12/2016	75,000	–	25,500	–	–	26.85	75,000	–
	21/12/2009	520,000	8/12/2010 – 8/12/2016	520,000	–	169,500	12,500	6,500	26.85	501,000	29.85
	22/12/2009	256,000	8/12/2010 – 8/12/2016	237,000	–	80,500	22,000	–	26.85	215,000	–
	21/7/2010	305,000	28/6/2011 – 28/6/2017	305,000	–	94,000	25,000	–	27.73	280,000	–
	16/12/2010	194,000	16/12/2011 – 16/12/2017	194,000	–	65,500	–	–	28.84	194,000	–
	17/12/2010	4,097,000	16/12/2011 – 16/12/2017	4,097,000	–	1,347,000	140,500	–	28.84	3,956,500	–
	18/12/2010	673,000	16/12/2011 – 16/12/2017	673,000	–	227,500	–	–	28.84	673,000	–
	19/12/2010	174,000	16/12/2011 – 16/12/2017	174,000	–	59,000	–	–	28.84	174,000	–
	20/12/2010	4,854,500	16/12/2011 – 16/12/2017	4,854,500	–	1,627,000	126,500	–	28.84	4,728,000	–
	21/12/2010	3,020,000	16/12/2011 – 16/12/2017	3,020,000	–	1,015,500	19,000	–	28.84	3,001,000	–
	22/12/2010	975,000	16/12/2011 – 16/12/2017	975,000	–	322,000	19,000	–	28.84	956,000	–
	23/12/2010	189,000	16/12/2011 – 16/12/2017	189,000	–	64,000	–	–	28.84	189,000	–
	7/7/2011	215,000	27/6/2012 – 27/6/2018	–	215,000	–	–	–	26.96	215,000	–

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 Ms. Jeny Yeung Mei-chun became the Commercial Director and a Member of the Executive Directorate on 1 September 2011.

5 Ms. Gillian Elizabeth Meller became the Legal Director and Secretary and a Member of the Executive Directorate on 1 September 2011.

6 Mr. David Tang Chi-fai became the Property Director and a Member of the Executive Directorate on 1 October 2011.

During the year ended 31 December 2011, 215,000 options to subscribe for shares of the Company were granted to 5 employees under the 2007 Share Option Scheme. Details of the grant are set out in the tables above. The closing price per share immediately before the date of grant of the options is set out below. Pursuant to the terms of the Scheme, each grantee undertakes to pay HK$1.00, on demand, to the Company, in consideration for the grant of the options. The share options granted are recognised on an accrued vesting basis in the accounts. The weighted average value per option granted, estimated at the date of grant using the Black-Scholes pricing model is as follows:

Date granted	Closing price per share immediately before the date of grant (HK$)	Estimated risk-free interest rate (%)	Expected life (Years)	Estimated Volatility	Expected dividend per share (HK$)	Weighted average value per option granted (HK$)
7/7/2011	27.70	0.84	3.5	0.28	0.70	5.01

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 2011, 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 Annual General Meeting has a service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than statutory compensation.

No Director has a service contract with the Company or any of its subsidiaries which is for a duration which may exceed three years or which requires the Company to, in order to terminate such contract, give a notice period in excess of one year or pay or make other payments equivalent to more than one year's emoluments.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

Set out below is the name of the party which was interested in 5% or more of the nominal value of the share capital of the Company and the number of shares in which it was interested as at 31 December 2011 as recorded in the register kept by the Company under section 336 of the SFO:

Name	No. of Ordinary Shares	Percentage of Ordinary Shares to total issued share capital
The Financial Secretary Incorporated (in trust on behalf of the Government)	4,434,552,207	76.66

The Company has been informed by the Government that, as at 31 December 2011, approximately 0.47% of the shares of the Company were held for the account of the Exchange Fund. The Exchange Fund is a fund established under the Exchange Fund Ordinance (Cap. 66 of the Laws of Hong Kong) under the control of the Financial Secretary.

LOAN AGREEMENTS WITH COVENANT RELATING TO SPECIFIC PERFORMANCE OF THE CONTROLLING SHAREHOLDER

As at 31 December 2011, the Group had borrowings of HK$19,543 million with maturities ranging from 2012 to 2020 and available uncommitted banking and other facilities of HK$10,469 million, which were subject to the condition that the Government, being the Company's controlling shareholder, owns more than half in nominal value of the voting share capital of the Company during the lives of the borrowings and the undrawn facilities. Otherwise, immediate repayment of borrowings may be demanded and cancellation of the undrawn facilities may result.

MAJOR SUPPLIERS AND CUSTOMERS

Less than 30% in value of supplies (which were not of a capital nature) purchased during the year ended 31 December 2011 was attributable to the Company's five largest suppliers. Less than 30% in value of the Company's turnover during the year ended 31 December 2011 was attributable to the Company's five largest customers combined by value.

GOING CONCERN

The accounts on pages 147 to 238 have been prepared on a going concern basis. The Board has reviewed the Company's budget for 2012, together with the longer-term forecast for the following five years and is satisfied that the Company has sufficient resources to continue as a going concern for the foreseeable future.

CONTINUING CONNECTED TRANSACTIONS

During the year under review, the following transactions and arrangements described below involved the provision of goods or services on an ongoing basis with the Government and/or KCRC, the Airport Authority (the "AA"), United Group Rail Services Limited ("UGL"), Leighton Contractors (Asia) Limited ("LCAL") and John Holland Pty Limited ("JHL"). The Government is a substantial shareholder of the Company for the purposes of the Listing Rules. KCRC and the AA are both associates of the Company as defined in the Listing Rules. As explained under Section III below, UGL and John Holland Melbourne Rail Franchise Pty Ltd. ("John Holland") are substantial shareholders of a subsidiary of the Company and John Holland, JHL and LCAL are indirect wholly-owned subsidiaries of Leighton Holdings Limited. On this basis, JHL and LCAL are both associates of John Holland for the purposes of the Listing Rules. The Government, KCRC, the AA, UGL, LCAL and JHL are therefore each "connected persons" for the purposes of the Listing Rules and each transaction set out at paragraphs I, II and III below constitutes a continuing connected transaction for the Company under the Listing Rules.

I Merger-related Continuing Connected Transactions

Each of the transactions listed in paragraphs A to D below and which formed part of the Rail Merger, was approved by the independent shareholders of the Company at an Extraordinary General Meeting held on 9 October 2007. These paragraphs should be read in conjunction with the paragraphs contained in the section below headed "Additional Information in respect of the Rail Merger".

As disclosed in the circular issued by the Company on 3 September 2007 in connection with the Rail Merger, the Stock Exchange granted a waiver to the Company from strict compliance with the requirements under Chapter 14A of the Listing Rules which would otherwise apply to continuing connected transactions between the Company, the Government and/or KCRC arising as a result of the Rail Merger, subject to certain conditions (the "Merger-related Waiver").

A Merger Framework Agreement

The Merger Framework Agreement was entered into on 9 August 2007 between the Company, KCRC and the Secretary for Transport and Housing and the Secretary for Financial Services and the Treasury for and on behalf of the Government.

The Merger Framework Agreement contains provisions for the overall structure and certain specific aspects of the Rail Merger, including in relation to:

- a seamless interchange programme;
- corporate governance of the Company Post-Rail Merger;
- payments relating to property enabling works;
- arrangements relating to the establishment of a rolling programme on the level of flat production arising from tenders for railway property development;
- arrangements in relation to the assessment of land premium amounts;
- arrangements in relation to the employees of the Company and KCRC, including provisions preventing the Company from terminating the employment of relevant frontline staff for any reason that relates to the process of integrating the operations of the Company and KCRC;
- the implementation of certain fare reductions;
- arrangements in relation to the proposed Shatin to Central Link;
- KCRC's continuing responsibility for its existing financial arrangements;
- treatment of KCRC's cross border leases;
- the payment of HK$7.79 billion in respect of the Property Package (as described on pages 131 to 133 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 pages 142 to 143).

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 Property, 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 Property and to run a safe and efficient railway. In order to assist the Company in performing its agency functions, KCRC has granted powers of attorney to the Company. The Company may only use the powers of attorney to exercise rights and perform obligations conferred or undertaken by it under the relevant Category 3 Agreement. As well as acting as KCRC's agent, the Company has the right to give KCRC instructions in respect of any action or matter relating to each Category 3 Property (including its related development agreement) which the Company is unable to take by reason of the limitation of the scope of its agency powers. KCRC is required to comply promptly with those instructions provided that it is permitted under law, and under the relevant Government grant, to carry out those instructions.

KCRC is required to account for revenue received in respect of a Category 3 Property by way of balance sheet movement (rather under its profit and loss account), provided that such treatment is permitted under law and accounting principles and practices.

KCRC shall not take any action in respect of a Category 3 Property which is not carried out by the Company (acting as KCRC's agent), or according to the Company's instructions, or otherwise in accordance with the terms of the Category 3 Agreement.

As consideration for acting as KCRC's agent, the Company shall be paid a fee which is expected to be similar in quantum to the profits made by KCRC in respect of the relevant Category 3 Property (after deducting certain initial and upfront payments and consultant contribution costs, in each case paid or to be paid by the relevant developer to KCRC). Generally, the Company's fee shall be payable in instalments promptly following receipt of relevant funds by KCRC (but subject to specified deductions of amounts due from KCRC to the relevant Category 3 Property developer).

The Company has agreed to give certain indemnities to KCRC in respect of each Category 3 Property.

The Company shall be the first manager, or shall ensure that a manager is appointed in respect of, each Category 3 Property (once developed).

The Company's appointment as agent shall terminate when KCRC ceases to have any undivided share in the relevant Category 3 Property, other than concession property, and neither KCRC nor the developer nor the guarantors have any further rights to exercise, or obligations to perform, under the development agreement relating to the relevant Category 3 Property.

In relation to the Merger Framework Agreement, the West Rail Agency Agreement (and related powers of attorney), the US CBL Assumption Agreements, the US CBL Allocation Agreement and the agreements in relation to Category 2A, Category 2B and Category 3 Properties (together the "Merger-related Continuing Connected Transactions") and in accordance with paragraph B(I)(i) of the Merger-related Waiver, the Company confirms that the Independent Non-executive Directors of the Company have reviewed each of the Merger-related Continuing Connected Transactions and confirmed that the Merger-related Continuing Connected Transactions were entered into:

(1) in the ordinary and usual course of business of the Company;

(2) on normal commercial terms or on terms which are no less favourable to the Company than terms available to or from independent third parties; and

(3) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Company has engaged the auditors of the Company to carry out a review of each of the Merger-related Continuing Connected Transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. In accordance with paragraph B(I)(ii) of the Merger-related Waiver, the auditors have provided a letter to the Board confirming that:

(a) nothing has come to their attention that causes them to believe that the Merger-related Continuing Connected Transactions have not been approved by the Board; and

(b) nothing has come to their attention that causes them to believe that the Merger-related Continuing Connected Transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions.

II Non Merger-related Continuing Connected Transactions with Government and/or its Associates

As disclosed in the announcement of the Company dated 13 January 2005, the Stock Exchange has granted a waiver to the Company from strict compliance with the requirements under Chapter 14A of the Listing Rules which would otherwise apply to connected transactions and continuing connected transactions between the Company and the Government, subject to certain conditions (the "Waiver").

The following disclosures are made in accordance with paragraph (B)(I) of the Waiver and Rule 14A.46 of the Listing Rules.

A1 Entrustment Agreement for Design and Site Investigation in Relation to the Shatin to Central Link

The Entrustment Agreement for Design and Site Investigation in Relation to the Shatin to Central Link (the "First SCL Agreement") was entered into on 24 November 2008 between the Company and the Secretary for Transport and Housing for and on behalf of the Government.

The First SCL Agreement contains provisions for the design of and site investigation and procurement activities in relation to the proposed Shatin to Central Link, including in relation to:

- the Government's obligation to pay the Company up to a maximum aggregate amount of HK$1,500 million in respect of certain costs incurred by the Company pursuant to the First SCL Agreement, including the Company's in-house design costs and certain on-costs and preliminary costs;
- the Government's obligation to bear and finance the total cost of the design and site investigation activities under the First SCL Agreement (subject to the limit noted above in respect of payments to the Company) and arrangements for the payment of these costs directly by the Government;
- the Company's obligation to carry out or procure the carrying out of the design and site investigation activities in relation to the proposed Shatin to Central Link;
- the limitation of the Company's liability to the Government under the First SCL Agreement, except in respect of death or personal injury caused by the negligence of the Company, to HK$600 million; and
- should the railway scheme for the Shatin to Central Link be authorised under the Railways Ordinance (Cap. 519 of the Laws of Hong Kong), the execution of a further agreement by the Government and the Company setting out each of their rights, obligations, duties and powers with respect to the financing, construction, completion, testing, commissioning and putting into service the works necessary for the construction and operation of the Shatin to Central Link.

A2 Entrustment Agreement for Advance Works Relating to the Shatin to Central Link

The Entrustment Agreement for Advance Works Relating to the Shatin to Central Link (the "Second SCL Agreement") was entered into on 17 May 2011 between the Company and the Secretary for Transport and Housing for and on behalf of the Government.

The Second SCL Agreement contains the following provisions:

- in consideration of the Company executing or procuring the execution of certain entrustment activities as set out in the Second SCL Agreement and carrying out its other obligations under the Second SCL Agreement, the Government shall pay to the Company the Company's project management cost. The amount of such project management cost is to be agreed between the Company and the Government and prior to such agreement, the project management cost shall be paid by the Government to the Company on a provisional basis calculated in accordance with the Second SCL Agreement;
- the Company and the Government may agree that the Company will carry out (or procure the carrying out of) certain additional works for the Government (such agreed additional works being "miscellaneous works"). Miscellaneous works (if any) are to be carried out by the Company in the same manner as if they had formed part of the activities specified to be carried out under the Second SCL Agreement and in consideration of the Company executing or procuring the execution of such miscellaneous works (if any) and carrying out its other obligations under the Second SCL Agreement in relation to such miscellaneous works (if any), the Government shall pay to the Company an amount to be agreed between the Company and the Government as being the project management fee payable to the Company for designing and constructing such miscellaneous works;
- the Government shall bear all of the "Works Cost" (as defined in the Second SCL Agreement). In this connection, the Government will make payments to the Company in respect of the Works Cost on a provisional basis, subject to adjustments when the final outturn cost of the Works Cost is determined;
- the Government shall bear land acquisition, clearance and related costs and those costs which are incurred by the Lands Department in connection with the Shatin to Central Link project;
- the maximum aggregate amount payable by the Government to the Company under the Second SCL Agreement is limited to approximately HK$3,000 million per annum and a total in aggregate of approximately HK$15,000 million;
- the Company shall carry out or procure the carrying out of certain enabling works on the expanded Admiralty Station and the to be constructed Ho Man Tin Station, the reprovisioning of the International Mail Centre from Hung Hom to Kowloon Bay and other works as described under the Second SCL Agreement;
- the Company's total liability to the Government under the First SCL Agreement and the Second SCL Agreement, except in respect of death or personal injury caused by the negligence of the Company, is limited to the aggregate fees that have been and will be received by the Company from the Government under the First SCL Agreement and the Second SCL Agreement;
- the Company will provide to Government by the end of each calendar month, a progress report on the activities under the Second SCL Agreement that were carried out in the immediately preceding calendar month and, within three months following the completion of the relevant works, a final report on the activities required to be carried out under the Second SCL Agreement;
- the Company shall be responsible for the care of all works constructed under the Shatin to Central Link project from the commencement of construction until the date of handover of those works to the Government and for completing or procuring the completion of any outstanding works and/or defective works identified prior to the handover of the works;
- during the period of twelve years following the issue of a certificate of completion by the Company in respect of work carried out under any contract with any third party, the Company shall be responsible for the repair of any defects in such work that are identified following the expiry of any defects liability period under the relevant contract;
- the Company warrants that:
  - in the case of those activities under the Second SCL Agreement that relate to the provision of project management services, such activities shall be carried out with the skill and care reasonably to be expected of a professional and competent project manager;
  - in the case of those activities under the Second SCL Agreement that relate to the provision of design services, such activities shall be carried out with the skill and care reasonably to be expected of a professional and competent design engineer; and
  - in the case of those activities under the Second SCL Agreement that relate to the carrying out of construction activities, such activities shall be carried

out with the skill and care reasonably to be expected of, and by utilising such plant, goods and materials reasonably to be expected from, a competent and workmanlike construction contractor; and

- the Government further undertakes to use reasonable endeavours to provide the Company with assistance of a non-financial nature, including taking all reasonable steps to procure that all necessary licences and consents, required in connection with the design, construction and operation of the Shatin to Central Link are given or granted.

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 KCRC as compensation for damage arising as a result of the Company and/or a third party contractor carrying out activities under the Second XRL Agreement; and (iv) all land acquisition, clearance and related costs (including all amounts arising as a result of any claim for compensation by any third party) and those costs which are incurred by the Lands Department in connection with the Express Rail Link project; and
- the Government further undertakes to use reasonable endeavours to provide the Company with assistance of a non-financial nature, including taking all reasonable steps to procure that all necessary licences and consents, required in connection with the design, construction and operation of the Express Rail Link are given or granted.

The Government has agreed that the Company has been asked to proceed with the construction, testing and commissioning of the Express Rail Link (pursuant to and on the terms of the Second XRL Agreement) on the understanding that the Company will be invited to undertake the operation of the Express Rail Link under the concession approach.

The Second XRL Agreement remains in full force and effect until the completion of the activities set out in the Second XRL Agreement or until terminated earlier in accordance with the terms of the Second XRL Agreement. The Company expects that the substantial majority of the activities to be carried out under the Second XRL Agreement will be complete by the time of the projected handover of the completed Express Rail Link in mid-2015. However certain activities involve the provision of specified administrative services to the Government, the Company expects to provide these services for a number of years following the completion of the Express Rail Link project. Notwithstanding this, certain provisions will remain in force following completion of the activities set out in the Second XRL Agreement, for example, provisions regarding confidentiality and dispute resolution.

C Renewal of the existing Maintenance Agreement for the Automated People Mover System at the Hong Kong International Airport

The Company has had entered into a Maintenance Agreement with the AA for the maintenance of the Automated People Mover system at the Hong Kong International Airport since 2002. It was signed on 18 March 2002 for a period of three years, which expired on 6 July 2005. A Supplemental Agreement was agreed with the AA, and approved by the Board in June 2005, to extend the Maintenance Agreement for another three years until 6 July 2008, which also included options for the Automated People Mover serving the Sky Plaza and Sky Pier terminal buildings.

On 21 August 2008, the Company entered into a new Maintenance Agreement with the AA, for the renewal of the then expired Maintenance Agreement for the Automated People Mover system for a five year period (the "New Maintenance Agreement"), effective from 6 July 2008. It is expected that the highest amount per year receivable from the AA under the New Maintenance Agreement will be HK$37 million.

The New Maintenance Agreement contains provisions relating to the operation and maintenance by the Company of the automated people mover system installed at Hong Kong International Airport (the "System") and the carrying out by the Company of certain specified services in respect of the System, they including the following:

- provisions stating that the duration of the New Maintenance Agreement shall be five years from 6 July 2008 up to and including 5 July 2013;
- provisions relating to the performance of scheduled maintenance works and overhaul of the System by the Company;
- provisions relating to monitoring the System for any breakdown and the Company providing repair services where necessary;
- provisions relating to the standards to which the Company must operate the System; and
- provisions relating to the carrying out by the Company (as additional services), in certain circumstances, of upgrade work on the System.

D Project Agreement for the Financing, Design, Construction and Operation of the West Island Line

The Project Agreement for the Financing, Design, Construction and Operation of the West Island Line (the "WIL Project Agreement") was entered into on 13 July 2009 between the Company and the Secretary for Transport and Housing for and on behalf of the Government.

The WIL Project Agreement contains provisions for the financing of and the carrying out, or procuring the carrying out, of the design, construction, completion, testing and commissioning by the Company of the railway works required in order to bring the West Island Line into operation in accordance with the MTR Ordinance, the Operating Agreement between the Company and the Secretary for Transport and Housing for and on behalf of the Government dated 9 August 2007 and the WIL Project Agreement. The West Island Line will be owned, operated and maintained by the Company for its own account for the period of the Company's railway franchise. The WIL Project Agreement includes provisions in relation to:

- payment by the Government of HK$12,252 million to the Company in consideration of the Company's obligations under the WIL Project Agreement, such sum constituting funding support from the Government for the Company to implement the West Island Line project;
- within 24 months of commercial operations commencing on the West Island Line on a revenue earning basis and providing scheduled transport for the public, payment by the Company to the Government of any "Repayment Amounts" for any over-estimation of certain capital expenditure, price escalation costs, land costs and the amount of contingency in relation to the railway works and reprovisioning, remedial and improvement works (together with interest);
- the design, construction and completion of the associated reprovisioning, remedial and improvement works (the cost of which shall be the responsibility of the Company) and the associated essential public infrastructure works (the cost of which shall be the responsibility of the Government);
- the Company's responsibility for costs relating to land acquisition, clearance and related costs arising from the implementation of the West Island Line project (save for costs arising from certain claims for compensation by third parties) and all costs, expenses and other amounts incurred or paid by the Lands Department pursuant to the involvement of the Lands Department in connection with the implementation of the West Island Line project; and
- the Company carrying out measures specified in the environmental impact assessment and the environmental permit issued by the Government to the Company in relation to the West Island Line on 12 January 2009.

The construction of the West Island Line is scheduled to take place between the date of the WIL Project Agreement and 2014.

In relation to the First SCL Agreement, the Second SCL Agreement, the First XRL Agreement, the Second XRL Agreement, the New Maintenance Agreement and the WIL Project Agreement (together the "Non Merger-related Continuing Connected Transactions") and in accordance with paragraph B(I)(iii)(a) of the Waiver, the Company confirms that the Independent Non-executive Directors of the Company have reviewed each of the Non Merger-related Continuing Connected Transactions and confirmed that the Non Merger-related Continuing Connected Transactions were entered into:

(1) in the ordinary and usual course of business of the Company;

(2) on normal commercial terms or on terms which are no less favourable to the Company than terms available to or from independent third parties; and

(3) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Company has engaged the auditors of the Company to carry out a review of each of the Non Merger-related Continuing Connected Transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. In accordance with paragraph B(I)(iii)(b) of the Waiver, the auditors have provided a letter to the Board confirming that:

(a) nothing has come to their attention that causes them to believe that the Non Merger-related Continuing Connected Transactions have not been approved by the Board; and

(b) nothing has come to their attention that causes them to believe that the Non Merger-related Continuing Connected Transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions.

III Non Merger-related Continuing Connected Transactions with parties other than Government and/or its Associates

The following disclosures are made in accordance with Rule 14A.46 of the Listing Rules.

A Pre-Existing UGL Contract and Pre-Existing Supplemental UGL Contract for the provision of maintenance and other services for certain trains

Metro Trains Melbourne Pty Ltd ("MTM") is a joint venture company incorporated in Australia. The Company controls 60% of the voting power at any general meeting of MTM and each of UGL and John Holland controls 20% of the voting power at any general meeting of MTM. Accordingly, subsequent to the Company entering into the Pre-Existing UGL Contract as amended by the Pre-Existing Supplemental UGL Contract (each, as defined below), UGL is treated as a substantial shareholder of MTM (a subsidiary of the Company) and therefore a "connected person" of the Company within the meaning of Chapter 14A of the Listing Rules. The Pre-Existing UGL Contract (as amended by the Pre-Existing Supplemental UGL Contract) is therefore a "continuing connected transaction" within the meaning of Rule 14A.14 of the Listing Rules.

On 11 January 2002, the Company entered into a contract with UGL for the provision of maintenance and other services in respect of trains at certain depots for a period of seven years commencing on or around 1 October 2002 to 30 September 2009 (the "Pre-Existing UGL Contract"). The commencement date was subsequently advanced by three months. On 14 April 2009, the Company entered into a supplemental agreement with UGL for the extension of the Pre-Existing UGL Contract for a further period of seven years from 1 August 2009 and for the transfer of the provision of certain services to the Kowloon depot (the "Pre-Existing Supplemental UGL Contract").

The Pre-Existing UGL Contract (as amended by the Pre-Existing Supplemental UGL Contract) provides for the provision of maintenance and other services by UGL in respect of 15 G/H stock trains used by the Company on the Kwun Tong Line, the Island Line, the Tsuen Wan Line and the Tseung Kwan O Line, in each case at the Tseung Kwan O depot and the Kowloon depot, including provisions in relation to:

- payment by the Company of a total sum of approximately HK$171,966,450 to UGL (including for variations and additional works) in consideration of UGL providing certain services between 1 August 2002 and 31 July 2009 and payment by the Company of HK$152,940,000 to UGL for the extended term of seven years pursuant to the Pre-Existing Supplemental UGL Contract (which amount is to be paid on a scheduled basis), subject to certain adjustments, including for the level of performance by the relevant trains;
- indemnification by UGL of the Company against certain losses and expenses sustained by the Company arising out of or in connection with UGL carrying out its obligations under the Pre-Existing UGL Contract (as amended by the Pre-Existing Supplemental UGL Contract);
- maintenance by UGL of insurance in relation to certain liabilities to the Company;
- the Company effecting and maintaining third party insurance covering the legal liability of both UGL and the Company for accidental death or injury to persons or accidental loss of or damage to property, in each case, arising out of the UGL's obligations under the Pre-Existing UGL Contract (as amended by the Pre-Existing Supplemental UGL Contract); and
- the Company maintaining "Contractors All Risks" insurance covering loss or damage to certain goods, equipment and temporary buildings at the Tseung Kwan O depot and the Kowloon depot.

The terms of the Pre-existing UGL Contract were agreed upon subsequent to a tender process that invited submissions from a number of contractors, including UGL. UGL was selected by the Company in accordance with the Company's established procedures for the assessment of tenders.

The Company regularly outsources certain services to third parties that specialise in the type of work outsourced, thereby improving the efficiency of the Company's operations and allowing the Company to concentrate its resources on its core business areas. UGL is a specialist in the provision of construction, refurbishment and maintenance services to the railway industry.

B Supplemental Agreement for the extension of the Original Contract for the Mid-Life Refurbishment of Phase 1 Light Rail Vehicles

The Supplemental Agreement for the extension of the Original Contract (defined below) for the Mid-Life Refurbishment of Phase 1 Light Rail Vehicles ("Phase 1 LRVs"), was entered into on 26 February 2010 between the Company and UGL (the "Supplemental Agreement").

On 30 November 2007, KCRC entered into the Original Contract with UGL (the "Original Contract"), for the refurbishment of the Phase 1 LRVs for a period of 45 months from 30 November 2007 to 31 August 2011. On 2 December 2007, the rights and obligations of KCRC under the Original Contract were vested in the Company pursuant to section 52(B) of the MTR Ordinance. The Supplemental Agreement extends the Original Contract for a further period of 16 months from 31 August 2011 until 31 December 2012. The Original Contract (as amended and supplemented by the Supplemental Agreement) 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 (the "Contract Sum"). The total sum under the Original Contract plus the Contract Sum is to be paid progressively based on materials delivered and on works completed as set out in the Supplemental Agreement, subject to adjustments to take account of variations made by the Company's Chief Electrical and Mechanical Engineer (the "Engineer") to the scope of the Refurbishment Works. The maximum aggregate amount payable annually by the Company under the Original Contract plus the Contract Sum is approximately HK$78,632,000;
- the Company is obliged to effect "Contractor's All Risks" and "Third Party Liability" insurance with a third party liability limit of not less than HK$30 million;
- UGL shall carry out a carbody structure review to assess the mechanical condition of the Phase 1 LRVs; refurbish the drivers' consoles, the operators' seats and the passenger saloons of the Phase 1 LRVs; conduct a brake software upgrade of the Phase 1 LRVs; and carry out further miscellaneous repairs to the Phase 1 LRVs (together the "Refurbishment Works");
- UGL shall indemnify the Company against any certain losses or expenses which may arise out of or in connection with the Refurbishment Works, subject to any proportionate reduction in liability on account of any related negligence by the Company, its employees or agents, the Engineer or those appointed by the Engineer;
- UGL shall indemnify the Company against certain damages, compensation, costs and expenses in respect of any damages or compensation payable at law in respect of or in consequence of any accident, injury or illness to any person in the employment of UGL arising out of and in the course of such employment;
- UGL shall effect and maintain insurance with a limit of not less than HK$100 million in relation to certain of its liabilities for the period commencing on 30 November 2007 until the date of the completion of the Refurbishment Works;
- UGL's liability to indemnify the Company is reduced proportionally to the extent that any act or omission of the Company, its employees or agents, the Engineer or those appointed by the Engineer, caused or contributed to the relevant death, illness, injury, loss or damage and the total liability of UGL shall not exceed 100% of the total sum payable under the Original Contract, save and except for UGL's liability for death, personal injury, wilful misconduct, fraud and infringement of third party intellectual property rights; and
- the total liability of UGL to the Company for liquidated damages arising as a result of delay is limited to 10% of the total sum payable under the Original Contract and, subject to the provisions regarding liquidated damages, UGL is not liable for any kind of economic, financial, indirect or consequential loss or damage, including but not limited to loss of profit, loss of use, loss of production, loss of any contract and the like, suffered by the Company.

Pursuant to the Original Contract, a bank guarantee issued by HSBC Bank Australia Limited has been provided to the Company in respect of the obligations of UGL under the Original Contract.

If UGL fails to complete the Refurbishment Works within the contract period, the Engineer may terminate the contract by notice in writing to UGL.

C Contract 903 between the Company and LCAL relating to certain works on the South Island Line (East)

As mentioned above, MTM is a joint venture company incorporated in Australia. MTM is a non-wholly owned subsidiary of the Company and each of UGL and John Holland controls 20% of the voting power at any general meeting of MTM.

Accordingly, John Holland is treated as a substantial shareholder of MTM. John Holland, JHL and LCAL are indirect wholly-owned subsidiaries of Leighton Holdings Limited. On this basis, JHL and LCAL are both associates of John Holland under the Listing Rules. Therefore, each of John Holland, JHL and LCAL is a "connected person" of the Company within the meaning of Chapter 14A of the Listing Rules. Contract 903 (as defined below) is therefore a "continuing connected transaction" within the meaning of Rule 14A.14 of the Listing Rules.

On 17 May 2011, the Company and LCAL entered into Contract 903 ("Contract 903") for the construction of certain works relating to the Aberdeen Channel Bridge, Wong Chuk Hang Station and Ocean Park Station in respect of the South Island Line (East) (the "Contract 903 Works").

Contract 903 is in substantially the same form as the Company's standard conditions of contract for engineering works and contains the following provisions:

- the principal obligation of LCAL under Contract 903 is the construction of the Contract 903 Works;
- LCAL shall indemnify the Company against any loss or expense sustained by the Company and against all losses and claims in respect of death or injuries or damage to any person or property whatsoever which may arise out of or in consequence of the execution of the Contract 903 Works and against all claims, proceedings, damages, costs, charges and expenses whatsoever in respect of or in relation thereto, except for compensation or damages related to the permanent use or occupation of land by the Contract 903 Works, or the right of the Company to execute the Contract 903 Works on any part of the land, or on account of any negligence by the Company, its agents, servants or other contractors, not being employed by LCAL;
- LCAL shall indemnify the Company against all damages and compensation and against all claims, demands, proceedings, costs, charges and expenses whatsoever in respect of any damages or compensation payable at law in respect of or in consequence of any accident, injury or illness to any workman or other person in the employment of LCAL or its sub-contractors or suppliers arising out of and in the course of such employment;
- LCAL shall effect and maintain insurance with a limit of not less than HK$200 million in relation to certain of its liabilities for the period commencing on 29 April 2011 until 30 June 2016;
- a bond issued by Chartis Insurance Hong Kong Limited will be provided to the Company in respect of the obligations of LCAL under Contract 903;
- LCAL's liability to indemnify the Company is reduced proportionally to the extent that any act or neglect of the Company, the Engineer or any other person employed by the Company in connection with the Contract 903 Works, their respective agents, employees or representatives, may have contributed to the relevant death, illness, or damage. The total liability of LCAL to the Company for all damages (liquidated damages and general) for delay shall not exceed 10% of the target cost plus fees as calculated under Contract 903;
- the total amount payable by the Company to LCAL under Contract 903 is HK$2,513,394,379, which includes the target cost for the Contract 903 Works and fees to LCAL. From time to time the scope of the Contract 903 Works may vary and the Company will be obliged to revise the fees payable to LCAL in accordance with the terms of the Contract;
- the Company is obliged to pay the target cost for the Contract 903 Works to LCAL on a scheduled basis set out in Contract 903. If the final total cost of the Contract 903 Works exceeds or is less than the target cost for the Works, the deficit or, as the case may be, the excess will be borne by or, as the case may be, distributed to the Company and LCAL on a basis calculated in accordance with Contract 903;
- the maximum aggregate amount payable annually by the Company under Contract 903 is approximately HK$1,400 million. As payments by the Company to LCAL are paid on a scheduled basis as set out in Contract 903, the maximum aggregate annual amount is set by reference to the highest amount payable by the Company in any given year under such schedule;
- the Company is obliged to effect "Contractor's All Risks" and "Third Party Liability" insurance with a third party liability limit of not less than HK$700 million; and
- the Company may at any time, by giving 30 days' notice in writing to LCAL, terminate Contract 903 but without prejudice to any claims by the Company for breach of contract.

D Contract 904 between the Company, LCAL and JHL relating to certain works on the South Island Line (East)

On 17 May 2011, the Company, LCAL and JHL (LCAL and JHL being "the Contractors") entered into Contract 904 ("Contract 904") for the construction of certain works relating to Lei Tung Station and South Horizons Station in respect of the South Island Line (East) (the "Contract 904 Works").

As explained above, as the Contractors are "connected persons" under the Listing Rules, Contract 904 is a "continuing connected transaction" within the meaning of Rule 14A.14 of the Listing Rules.

Contract 904 is in substantially the same form as the Company's standard conditions of contract for engineering works and contains the following provisions:

- the principal obligation of the Contractors is the construction of the Contract 904 Works. The obligations of the Contractors under Contract 904 are joint and several;

- the Contractors shall indemnify the Company against any loss or expense sustained by the Company and against all losses and claims in respect of death or injuries or damage to any person or property whatsoever which may arise out of or in consequence of the execution of the Contract 904 Works and against all claims, proceedings, damages, costs, charges and expenses whatsoever in respect of or in relation thereto, except for compensation or damages related to the permanent use or occupation of land by the Contract 904 Works, or the right of the Company to execute the Contract 904 Works on any part of the land, or on account of any negligence by the Company, its agents, servants or other contractors, not being employed by the Contractors;
- the Contractors shall indemnify the Company against all damages and compensation and against all claims, demands, proceedings, costs, charges and expenses whatsoever in respect of any damages or compensation payable at law in respect of or in consequence of any accident, injury or illness to any workman or other person in the employment of the Contractors or their sub-contractors or suppliers arising out of and in the course of such employment;
- the Contractors shall effect and maintain insurance with a limit of not less than HK$200 million in relation to certain of its liabilities for the period commencing on 29 April 2011 until 30 June 2016;
- a bond issued by Chartis Insurance Hong Kong Limited will be provided to the Company in respect of the obligations of the Contractors under Contract 904;
- the Contractors' liability to indemnify the Company is reduced proportionally to the extent that any act or neglect of the Company, the Engineer or any other person employed by the Company in connection with the Contract 904 Works, their respective agents, employees or representatives, may have contributed to the relevant death, illness, or damage;
- the total liability of the Contractors to the Company for all damages (liquidated damages and general) for delay shall not exceed 10% of the contract sum under the Contract (the contract sum being HK$1,755,018,490);
- the total amount payable by the Company to the Contractors under Contract 904 is the Contract Sum. From time to time the scope of Works may vary and the Company will be obliged to revise the Contract Sum in accordance with the terms of Contract 904;
- the maximum aggregate amount payable annually by the Company under Contract 904 is approximately HK$1,400 million. As payments by the Company to the Contractors are paid on a scheduled basis as set out in Contract 904, the maximum aggregate annual amount is set by reference to the highest amount payable by the Company in any given year under such schedule;
- the Company is obliged to effect "Contractor's All Risks" and "Third Party Liability" insurance with a third party liability limit of not less than HK$700 million. In addition, the Contractors have agreed to separately purchase additional cover for "Third Party Liability" insurance in the amount of AU$485 million; and
- the Company may at any time, by giving 30 days' notice in writing to the Contractors, terminate Contract 904 but without prejudice to any claims by the Company for breach of contract.

In relation to the Pre-Existing UGL Contract as amended by the Pre-Existing Supplemental UGL Contract, the Original Contract (as amended), Contract 903 and Contract 904 (together the "Continuing Connected Transactions with Parties other than Government and/or its Associates") and in accordance with Rule 14A.37 of the Listing Rules, the Company confirms that the Independent Non-executive Directors of the Company have reviewed the Continuing Connected Transactions with Parties other than Government and/or its Associates and confirmed that each of the Continuing Connected Transactions with Parties other than Government and/or its Associates was entered into:

(1) in the ordinary and usual course of business of the Company;

(2) on normal commercial terms or on terms which are no less favourable to the Company than terms available to or from independent third parties; and

(3) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Company has engaged the auditors of the Company to carry out a review of the Continuing Connected Transactions with Parties other than Government and/or its Associates in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. In accordance with Rule 14A.38 of the Listing Rules, the auditors have provided a letter to the Board confirming that:

(a) nothing has come to their attention that causes them to believe that the Continuing Connected Transactions with Parties other than Government and/or its Associates have not been approved by the Board;

(b) for transactions involving the provision of goods or services by the Group, nothing has come to their attention that causes them to believe that the Continuing Connected Transactions with Parties other than Government and/or its Associates were not, in all material respects, in accordance with the pricing policies of the Group;

(c) nothing has come to their attention that causes them to believe that the Continuing Connected Transactions with Parties other than Government and/or its Associates were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and

(d) with respect to the aggregate amount of each of the Continuing Connected Transactions with Parties other than Government and/or its Associates, nothing has come to their attention that causes them to believe that the Continuing Connected Transactions with Parties other than Government and/or its Associates have exceeded the maximum aggregate annual value disclosed in the previous announcements dated 1 September 2009, 26 February 2010, 18 May 2011 and 18 May 2011 made by the Company in respect of each of the Continuing Connected Transactions with Parties other than Government and/or its Associates.

Additional Information in respect of the Rail Merger

The Rail Merger consisted of a number of separate agreements, each of which was detailed in the circular issued by the Company on 3 September 2007 in connection with the Rail Merger, and which together formed a complete package deal which was approved by the independent shareholders of the Company at an Extraordinary General Meeting held on 9 October 2007. The information set out at paragraph A below describes the payment framework adopted in respect of the Rail Merger and paragraphs B to H 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 130) in consideration for the execution of the Property Package Agreements (as described on pages 131 to 133 and in paragraph E below) and the sale of the shares in the KCRC Subsidiaries (as defined on page 131) 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.

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 of 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 Liaison Committee Letter

The Liaison Committee Letter was issued on 9 August 2007 by KCRC, the terms of which were acknowledged and agreed to by the Company and the Government.

The letter sets out the agreement between the parties regarding a "Liaison Committee" established for the purposes of governing certain matters of KCRC between 9 August 2007 and the Merger Date. Upon the completion of the Rail Merger, the Liaison Committee was dissolved.

G Outsourcing Agreement

An Outsourcing Agreement was entered into on 9 August 2007 between the Company and KCRC. For the period from 2 December 2007 to 2 December 2009 (subsequently extended to 31 December 2009), KCRC, pursuant to the terms of the Outsourcing Agreement, outsourced certain financial and administrative functions to the Company for an annual fee of not more than HK$20 million from KCRC. On 6 November 2009, a new Outsourcing Agreement was entered into for the period from 2 December 2009 to 1 December 2011.

H KSL Project Management Agreement

The KSL Project Management Agreement was entered into between the Company and KCRC on 9 August 2007.

Pursuant to the terms of the KSL Project Management Agreement (as amended), the Company was appointed, inter alia, to manage the performance of KCRC's principal obligations to the Government in relation to the design and construction of the Kowloon Southern Link (other than obligations relating to payment).

In return for the performance of these services under the KSL Project Management Agreement (as amended), the Company has received a project management fee of approximately HK$710.8 million. In addition, given that the final outturn cost of the KSL was under budget, the Company received an incentive payment (calculated with reference to the amount by which the final outturn cost of the project was under budget) of HK$110 million.

I 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, 8 March 2012

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 147 to 238, which comprise the consolidated and company balance sheets as at 31 December 2011, 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 2011 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
8 March 2012

CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the year ended 31 December in HK$ million	Note	2011	2010
Revenue from Hong Kong transport operations	4	**13,509**	12,635
Revenue from Hong Kong station commercial business	5	**3,422**	2,853
Revenue from property rental and management businesses	6	**3,215**	2,961
Revenue from railway subsidiaries outside of Hong Kong	7	**12,279**	10,144
Revenue from other businesses	8	**998**	925
Other net income	9	**–**	–
		33,423	29,518
Expenses relating to Hong Kong transport operations			
– Staff costs and related expenses	10A	**(3,673)**	(3,398)
– Energy and utilities		**(1,110)**	(1,067)
– Operational rent and rates		**(199)**	(184)
– Stores and spares consumed		**(466)**	(421)
– Maintenance and related works	10B	**(1,048)**	(912)
– Railway support services		**(206)**	(207)
– General and administration expenses		**(429)**	(379)
– Other expenses		**(223)**	(253)
		(7,354)	(6,821)
Expenses relating to Hong Kong station commercial business		**(358)**	(294)
Expenses relating to property rental and management businesses		**(721)**	(654)
Expenses relating to railway subsidiaries outside of Hong Kong	7	**(11,830)**	(9,865)
Expenses relating to other businesses		**(913)**	(751)
Project study and business development expenses	10C	**(123)**	(216)
Operating expenses before depreciation, amortisation and variable annual payment	10D, E&F	**(21,299)**	(18,601)
Operating profit before property developments, depreciation, amortisation and variable annual payment		**12,124**	10,917
Profit on property developments	12	**4,934**	4,034
Operating profit before depreciation, amortisation and variable annual payment		**17,058**	14,951
Depreciation and amortisation	13	**(3,206)**	(3,120)
Variable annual payment	14	**(647)**	(45)
Operating profit before interest and finance charges		**13,205**	11,786
Interest and finance charges	15	**(921)**	(1,237)
Investment property revaluation	23	**5,088**	4,074
Share of profits of non-controlled subsidiaries and associates	16	**297**	139
Profit before taxation		**17,669**	14,762
Income tax	17A	**(2,821)**	(2,590)
Profit for the year		**14,848**	12,172
Attributable to:			
– Equity shareholders of the Company	18A	**14,716**	12,059
– Non-controlling interests		**132**	113
Profit for the year		**14,848**	12,172
Profit for the year attributable to equity shareholders of the Company:			
– Arising from underlying businesses before property developments		**6,243**	5,397
– Arising from property developments		**4,225**	3,260
– Arising from underlying businesses	18B	**10,468**	8,657
– Arising from investment property revaluation		**4,248**	3,402
		14,716	12,059
Earnings per share:	20		
– Basic		**HK$2.55**	HK$2.10
– Diluted		**HK$2.54**	HK$2.10

The notes on pages 153 to 238 form part of the accounts.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December in HK$ million	Note	2011	2010
Profit for the year		**14,848**	12,172
Other comprehensive income for the year (after taxation and reclassification adjustments):			
Exchange differences on translation of:			
– financial statements of overseas subsidiaries		**146**	141
– non-controlling interests		**(1)**	16
	22A	**145**	157
Cash flow hedges: net movement in hedging reserve	22A&B	**(12)**	(26)
Self-occupied land and buildings: net movement in fixed assets revaluation reserve	22A&B	**471**	285
		604	416
Total comprehensive income for the year		**15,452**	12,588
Attributable to:			
– Equity shareholders of the Company		**15,321**	12,459
– Non-controlling interests		**131**	129
Total comprehensive income for the year		**15,452**	12,588

The notes on pages 153 to 238 form part of the accounts.

CONSOLIDATED BALANCE SHEET

at 31 December in HK$ million	Note	2011	2010
Assets			
Fixed assets			
– Investment properties	23	**51,453**	45,314
– Other property, plant and equipment	24	**76,687**	77,276
– Service concession assets	25	**23,928**	21,467
		152,068	144,057
Property management rights	26	**31**	31
Railway construction in progress	27	**3,566**	–
Property development in progress	29A	**11,964**	9,128
Deferred expenditure	30	**14**	1,079
Interests in non-controlled subsidiaries	31	**579**	541
Interests in associates	33	**948**	836
Deferred tax assets	49B	**27**	9
Investments in securities	34	**2,974**	3,912
Properties held for sale	35	**3,757**	1,936
Derivative financial assets	36	**344**	375
Stores and spares	37	**1,135**	1,061
Debtors, deposits and payments in advance	38	**3,964**	3,061
Loan to a property developer	39	**–**	1,975
Amounts due from related parties	40	**402**	330
Cash, bank balances and deposits	41	**16,100**	13,334
		197,873	181,665
Liabilities			
Bank overdrafts	42A	**–**	16
Short-term loans	42A	**–**	300
Creditors and accrued charges	43	**16,402**	15,491
Current taxation	49A	**597**	1,018
Contract retentions	44	**643**	404
Amounts due to related parties	45	**1,481**	892
Loans and other obligations	42A	**23,168**	20,741
Obligations under service concession	46	**10,724**	10,749
Derivative financial liabilities	36	**151**	148
Loan from holders of non-controlling interests	47	**154**	154
Deferred income	48	**403**	605
Deferred tax liabilities	49B	**15,105**	13,854
		68,828	64,372
Net assets		**129,045**	117,293
Capital and reserves			
Share capital, share premium and capital reserve	50A	**44,062**	43,734
Other reserves	51	**84,797**	73,416
Total equity attributable to equity shareholders of the Company		**128,859**	117,150
Non-controlling interests		**186**	143
Total equity		**129,045**	117,293

Approved and authorised for issue by the Members of the Board on 8 March 2012

Raymond K F Ch'ien
Jay H Walder
Lincoln K K Leong

The notes on pages 153 to 238 form part of the accounts.

BALANCE SHEET

at 31 December in HK$ million	Note	2011	2010
Assets			
Fixed assets			
– Investment properties	23	**50,287**	44,166
– Other property, plant and equipment	24	**76,086**	76,845
– Service concession assets	25	**16,169**	15,963
		142,542	136,974
Property management rights	26	**31**	31
Railway construction in progress	27	**3,566**	–
Property development in progress	29A	**9,521**	9,128
Deferred expenditure	30	**14**	1,079
Investments in subsidiaries	32	**1,260**	1,256
Investments in securities	34	**2,626**	3,627
Properties held for sale	35	**3,757**	1,936
Derivative financial assets	36	**344**	375
Stores and spares	37	**932**	874
Debtors, deposits and payments in advance	38	**2,629**	1,779
Loan to a property developer	39	**–**	1,975
Amounts due from related parties	40	**5,035**	4,365
Cash, bank balances and deposits	41	**13,971**	12,273
		186,228	175,672
Liabilities			
Bank overdrafts	42A	**–**	16
Short-term loans	42A	**–**	300
Creditors and accrued charges	43	**11,418**	13,308
Current taxation	49A	**582**	910
Contract retentions	44	**423**	221
Amounts due to related parties	45	**13,244**	12,079
Loans and other obligations	42A	**7,502**	7,700
Obligations under service concession	46	**10,557**	10,592
Derivative financial liabilities	36	**151**	148
Deferred income	48	**68**	568
Deferred tax liabilities	49B	**15,031**	13,840
		58,976	59,682
Net assets		**127,252**	115,990
Capital and reserves			
Share capital, share premium and capital reserve	50A	**44,062**	43,734
Other reserves	51	**83,190**	72,256
Total equity		**127,252**	115,990

Approved and authorised for issue by the Members of the Board on 8 March 2012

Raymond K F Ch'ien
Jay H Walder
Lincoln K K Leong

The notes on pages 153 to 238 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
2011										
Balance as at 1 January 2011		**43,734**	**1,417**	**(78)**	**102**	**194**	**71,781**	**117,150**	**143**	**117,293**
Changes in equity for the year ended 31 December 2011:										
– Profit for the year		**–**	**–**	**–**	**–**	**–**	**14,716**	**14,716**	**132**	**14,848**
– Other comprehensive income for the year	22	**–**	**471**	**(12)**	**–**	**146**	**–**	**605**	**(1)**	**604**
– Total comprehensive income for the year		**–**	**471**	**(12)**	**–**	**146**	**14,716**	**15,321**	**131**	**15,452**
– 2010 final dividend	19, 51	**288**	**–**	**–**	**–**	**–**	**(2,598)**	**(2,310)**	**–**	**(2,310)**
– 2011 interim dividend	19, 51	**–**	**–**	**–**	**–**	**–**	**(1,446)**	**(1,446)**	**–**	**(1,446)**
– Dividend paid to holders of non-controlling interests		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(88)**	**(88)**
– Employee share-based payments		**–**	**–**	**–**	**110**	**–**	**–**	**110**	**–**	**110**
– Employee share options exercised	50A, 51	**40**	**–**	**–**	**(6)**	**–**	**–**	**34**	**–**	**34**
– Employee share options forfeited		**–**	**–**	**–**	**(5)**	**–**	**5**	**–**	**–**	**–**
Balance as at 31 December 2011		**44,062**	**1,888**	**(90)**	**201**	**340**	**82,458**	**128,859**	**186**	**129,045**
2010										
Balance as at 1 January 2010		42,497	1,132	(52)	52	53	62,705	106,387	66	106,453
Changes in equity for the year ended 31 December 2010:										
– Profit for the year		–	–	–	–	–	12,059	12,059	113	12,172
– Other comprehensive income for the year	22	–	285	(26)	–	141	–	400	16	416
– Total comprehensive income for the year		–	285	(26)	–	141	12,059	12,459	129	12,588
– 2009 final dividend	19, 51	1,087	–	–	–	–	(2,177)	(1,090)	–	(1,090)
– 2010 interim dividend	19, 51	81	–	–	–	–	(807)	(726)	–	(726)
– Dividend paid to holders of non-controlling interests		–	–	–	–	–	–	–	(52)	(52)
– Employee share-based payments		–	–	–	57	–	–	57	–	57
– Employee share options exercised	51	69	–	–	(6)	–	–	63	–	63
– Employee share options forfeited		–	–	–	(1)	–	1	–	–	–
Balance as at 31 December 2010		43,734	1,417	(78)	102	194	71,781	117,150	143	117,293

The notes on pages 153 to 238 form part of the accounts.

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December in HK$ million	Note	2011	2010
Cash flows from operating activities			
Cash generated from operations	52	**12,489**	11,920
Receipt of government subsidy for Shenzhen Metro Longhua Line operation		**638**	–
Current tax paid			
– Hong Kong Profits Tax paid		**(1,949)**	(1,007)
– Overseas tax paid		**(154)**	(4)
Net cash generated from operating activities		**11,024**	10,909
Cash flows from investing activities			
Capital expenditure			
– Purchase of assets for Hong Kong transport and related operations		**(2,102)**	(1,953)
– West Island Line Project		**(3,111)**	(3,218)
– South Island Line (East) Project		**(1,467)**	(347)
– Kwun Tong Line Extension Project		**(450)**	(190)
– Shenzhen Metro Longhua Line Project		**(1,385)**	(1,846)
– Property development projects		**(1,075)**	(4,444)
– Property renovation and fitting out works		**(255)**	(173)
– Other capital projects		**(198)**	(165)
Net cash receipt in respect of entrustment works of Shatin to Central Link and Express Rail Link		**170**	84
Fixed annual payment		**(750)**	(750)
Variable annual payment		**(45)**	–
Receipts in respect of property development		**1,593**	5,249
Receipt of loan repayment from a property developer		**2,000**	–
Receipt of government grant for West Island Line Project		**–**	12,252
Increase in bank deposits with more than three months to maturity when placed		**(3,063)**	(9,610)
Purchase of investments in securities		**(160)**	(3,844)
Proceeds from sale of investments in securities		**1,094**	159
Proceeds from disposal of fixed assets		**5**	7
Receipt of loan repayment from an associate		**29**	–
Settlement of loan repayment to an associate		**(29)**	–
Dividends received from non-controlled subsidiaries		**144**	75
Net cash used in investing activities		**(9,055)**	(8,714)
Cash flows from financing activities			
Proceeds from shares issued under share option schemes		**34**	63
Drawdown of loans		**1,392**	8,153
Proceeds from issuance of capital market instruments		**2,198**	–
Repayment of loans		**(1,111)**	(5,390)
Repayment of capital market instruments		**(500)**	(5,778)
Interest paid		**(603)**	(861)
Interest received		**194**	123
Finance charges paid		**(12)**	(19)
Dividends paid to equity shareholders of the Company		**(3,754)**	(1,814)
Dividends paid to holders of non-controlling interests		**(88)**	(58)
Net cash used in financing activities		**(2,250)**	(5,581)
Net decrease in cash and cash equivalents		**(281)**	(3,386)
Cash and cash equivalents at 1 January		**3,708**	7,094
Cash and cash equivalents at 31 December	41	**3,427**	3,708

The notes on pages 153 to 238 form part of the accounts.

NOTES TO THE ACCOUNTS

1 Statement of Compliance

These accounts have been prepared in compliance with the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). These accounts have also been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), and accounting principles generally accepted in Hong Kong. The HKFRSs are fully converged with International Financial Reporting Standards in all material respects. A summary of the principal accounting policies adopted by the Group is set out in note 2.

The HKICPA has issued certain new and revised HKFRSs that are effective for accounting periods beginning on or after 1 January 2011. Changes in accounting policies resulting from the initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these accounts are disclosed in note 2A(iii).

2 Principal Accounting Policies

A Basis of Preparation of the Accounts

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

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

(ii) The preparation of the accounts in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenditure. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements and estimations about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the accounts and estimates are discussed in note 59.

(iii) The HKICPA has issued a number of amendments to HKFRSs and one new Interpretation that are first effective for the current accounting period of the Group. Of these, only HKAS 24 (revised 2009), *Related party disclosures*, is relevant to the Group's accounts.

HKAS 24 (revised 2009) introduces modified disclosure requirements for government-related entities. As a result, the Group has revised the disclosure on material related party transactions with the Hong Kong Special Administrative Region ("HKSAR") Government and entities related to the HKSAR Government for those transactions that are collectively but not individually significant (note 57). HKAS 24 (revised 2009) also revises the definition of a related party. The Group has re-assessed the identification of related parties and concluded that the revised definition does not have any impact on the Group's related party disclosures in the current and previous period.

The Group has not applied any new and revised standard or interpretation that is not yet effective for the current accounting period (note 60).

B Basis of Consolidation

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

C Subsidiaries and Non-controlling Interests

A subsidiary in accordance with the Hong Kong Companies Ordinance is a company in which the Group, directly or indirectly, holds more than half of the issued share capital, or controls more than half of the voting power, or controls the composition of the board of directors. Subsidiaries are considered to be controlled if the Company has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities.

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

2 Principal Accounting Policies *(continued)*

C Subsidiaries and Non-controlling Interests *(continued)*

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Non-controlling interests are presented in the consolidated balance sheet within equity, separately from equity attributable to equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated profit and loss account and the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated balance sheet depending on the nature of the liability.

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

D Non-controlled Subsidiaries

Non-controlled subsidiaries are not consolidated in the accounts as the Group does not have effective control over their Boards. The investments in non-controlled subsidiaries are accounted for in the consolidated accounts of the Company using the equity method and are initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of their net assets. The consolidated profit and loss account reflects the Group's share of the results of those non-controlled subsidiaries for the year.

Unrealised profits and losses resulting from transactions between the Group and the non-controlled subsidiaries are eliminated to the extent of the Group's interest in those subsidiaries, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in the profit and loss account.

In the Company's balance sheet, its investments in non-controlled subsidiaries are stated at cost less impairment losses (note 2H(ii)).

E Associates and Jointly Controlled Entities

An associate is an entity over which the Group or the Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A jointly controlled entity is an entity which operates under a contractual arrangement between the Group or the Company and other parties, where the contractual arrangement establishes that the Group or the Company and one or more of the other parties share joint control over the economic activity of the entity.

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

When the Group's share of losses equals or exceeds its interest in the associate or the jointly controlled entity, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest in the investee is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate or the jointly controlled entity.

Unrealised profits and losses resulting from transactions between the Group and its associates and jointly controlled entities are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in the profit and loss account.

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

F Fixed Assets

(i) Investment properties are land and/or buildings which are owned or held under a leasehold interest to earn rental income and/or for capital appreciation. These include property that is being constructed or developed for future use as investment property.

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

(ii) Leasehold land registered and located in the HKSAR is accounted for as being held under a finance lease and is stated at cost less accumulated depreciation and impairment losses (note 2H(ii)). Land held for own use under operating leases and buildings thereon, where the fair value of the leasehold interest in the land and buildings cannot be measured separately at inception of the lease are accounted for as being held under a finance lease, unless the buildings are also clearly held under an operating lease. For these purposes, inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee, or at the date of construction of those buildings, if later. The self-occupied land and buildings are stated on the balance sheet at their fair value on the basis of their existing use at the date of revaluation less any subsequent accumulated depreciation. Revaluations are performed by independent qualified valuers semi-annually, with changes in the fair value arising on revaluations recorded as movements in the fixed assets revaluation reserve, except:

2 Principal Accounting Policies *(continued)*

F Fixed Assets *(continued)*

(a) where the balance of the fixed assets revaluation reserve relating to a self-occupied land and building is insufficient to cover a revaluation deficit of that property, the excess of the deficit is charged to the profit and loss account; and

(b) where a revaluation deficit had previously been charged to the profit and loss account and a revaluation surplus subsequently arises, this surplus is firstly credited to the profit and loss account to the extent of the deficit previously charged to the profit and loss account, and thereafter taken to the fixed assets revaluation reserve.

(iii) Civil works and plant and equipment are stated at cost less accumulated depreciation and impairment losses (note 2H(ii)).

(iv) Assets under construction are stated at cost less impairment losses (note 2H(ii)). Cost comprises direct costs of construction, such as materials, staff costs and overheads, together with interest expense capitalised during the period of construction or installation and testing. Capitalisation of these costs ceases and the asset concerned is transferred to the appropriate fixed assets category when substantially all the activities necessary to prepare the asset for its intended use are completed.

(v) Leased Assets

(a) Leases of assets under which the lessee assumes substantially all the risks and rewards of ownership are classified as finance leases. Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments (computed using the rate of interest implicit in the lease), of such assets are included in fixed assets and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation and impairment losses are accounted for in accordance with the accounting policy as set out in notes 2I(iv) and 2H(ii) respectively. Finance charges implicit in the lease payments are charged to the profit and loss account over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

(b) Leases of assets, other than that mentioned in note 2F(ii), under which the lessor has not transferred substantially all the risks and rewards of ownership are classified as operating leases. Where the Group leases out assets under operating leases, the assets are included in the balance sheet according to their nature and, where applicable, are depreciated in accordance with the Group's depreciation policies. Impairment losses are accounted for in accordance with the accounting policies on impairment of assets (note 2H(ii)). Revenue arising from operating leases is recognised in accordance with the Group's revenue recognition policies as set out in note 2Z(ii).

(vi) Subsequent expenditure relating to the replacement of certain parts of an existing fixed asset is recognised in the carrying amount of the asset if it is probable that future economic benefit will flow to the Group and the cost of the item can be measured reliably. The carrying amount of those parts that are replaced is derecognised, with gain or loss arising therefrom dealt with in the profit and loss account.

Expenditure on repairs or maintenance of an existing fixed asset to restore or maintain the originally assessed standard of performance of that asset is charged as an expense when incurred.

Gains or losses arising from the retirement or disposal of a fixed asset or an investment property are determined as the difference between the net disposal proceeds and the carrying amount of the asset. Such gains or losses are recognised as income or expense in the profit and loss account on the date of retirement or disposal. Any related revaluation surplus is transferred from the fixed assets revaluation reserve to retained profits and is not re-classified to profit and loss account.

(vii) Service Concession Assets

Where the Group enters into service concession arrangements under which the Group acquires the right to access, use and operate certain assets for the provision of public services, upfront payments and expenditure directly attributable to the acquisition of the service concession up to inception of the service concession are capitalised as service concession assets and amortised on a straight-line basis over the period of the service concession. Annual payments over the period of the service concession with the amounts fixed at inception are capitalised at their present value, calculated using the incremental long term borrowing rate determined at inception as the discount rate, as service concession assets and amortised on a straight-line basis over the period of the service concession, with a corresponding liability recognised as obligations under service concession. Annual payments for the service concession which are not fixed or determinable at inception and are contingent on future revenues are charged to the profit and loss account in the period when incurred.

Where the Group enters into service concession arrangements under which the Group constructs, uses and operates certain assets for the provision of public services, construction revenues and costs are recognised in the profit and loss account by reference to the stage of completion at the balance sheet date while the fair value of construction service is capitalised initially as service concession assets in the balance sheet and amortised on a straight-line basis over the shorter of the assets' useful lives and the period in which the service concession assets are expected to be available for use by the Group.

Expenditure for the replacement and/or upgrade of the assets subject to service concession is capitalised and amortised on a straight-line basis over the shorter of the assets' useful lives and the remaining period of the service concession.

Service concession assets are carried on the balance sheet as an intangible asset at cost less accumulated amortisation and impairment losses, if any (note 2H(ii)).

Income and expenditure and assets and liabilities in relation to the operation of the service concessions are accounted for in the Group's and the Company's profit and loss accounts and balance sheets.

2 Principal Accounting Policies *(continued)*

G Property Management Rights

Where the Group makes payments for the acquisition of property management rights, the amounts paid are capitalised as intangible assets and stated on the balance sheet at cost less accumulated amortisation and impairment losses (note 2H(ii)). Property management rights are amortised to the profit and loss account on a straight-line basis over the terms of the management rights.

H Impairment of Assets

(i) Impairment of Debtors and Other Receivables

Debtors and other current and non-current receivables are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets) where the effect of discounting is material.

If in a subsequent period the amount of an impairment loss decreases, the impairment loss is reversed through the profit and loss account.

(ii) Impairment of Other Assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

- fixed assets (including service concession assets but other than assets carried at revalued amounts);
- property management rights;
- railway construction in progress;
- property development in progress;
- deferred expenditure;
- investments in held-to-maturity securities; and
- investments in subsidiaries, non-controlled subsidiaries, associates and jointly controlled entities.

If any such indication exists, the asset's recoverable amount is estimated.

The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

An impairment loss is recognised in the profit and loss account whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount.

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount of the asset.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the profit and loss account in the year in which the reversals are recognised.

I Depreciation and Amortisation

(i) Investment properties are not depreciated.

(ii) Fixed assets other than investment properties, assets under construction and service concession assets which are amortised over the entire or remaining period of the service concession (note 2F(vii)) are depreciated or amortised on a straight-line basis at rates sufficient to write off their cost or valuation, less their estimated residual value, if any, over their estimated useful lives as follows:

Land and Buildings

Self-occupied land and buildings .... the shorter of 50 years and the unexpired term of the lease

Leasehold land .... the unexpired term of the lease

2 Principal Accounting Policies *(continued)*

I Depreciation and Amortisation *(continued)*

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 years
Cableway station tower and theme village structures	27 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	20 – 30 years
Fixtures and fittings	10 – 25 years
Maintenance equipment	4 – 25 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 – 5 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 construction is completed and the assets are ready for their intended use.

(iv) Depreciation on assets held under finance leases is provided at rates designed to write off the cost of the asset in equal annual amounts over the shorter of the lease term or the anticipated useful life of the asset as set out above, except in cases where title to the asset will be acquired by the Group at the end of the lease where depreciation is provided at rates designed to write off the cost of the asset in equal amounts over the anticipated useful life of the asset.

J Construction Costs

(i) Costs incurred by the Group in respect of feasibility studies on proposed railway related construction projects (including consultancy fees, in-house staff costs and overheads) are dealt with as follows:

- where the proposed projects are at a preliminary review stage with no certainty of materialising, the costs concerned are charged to the profit and loss account; and
- where the proposed projects are at a detailed study stage, having been agreed in principle by the Members of the Board based on a feasible financial plan, the costs concerned are recorded as deferred expenditure until such time as a project agreement is reached, whereupon the costs are transferred to railway construction in progress.

(ii) After entering into a project agreement, all costs incurred in the construction of the railway are dealt with as railway construction in progress until commissioning of the railway line, whereupon the relevant construction costs are transferred to fixed assets.

2 Principal Accounting Policies *(continued)*

K Property Development

(i) Costs incurred by the Group in respect of site preparation, land costs and acquisition of development rights as well as notional interest in connection with interest-free loans to property developers 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) Where an interest-free loan is provided to a developer as one of the terms of the development contract, such loan is initially stated at fair value which is its face value discounted at the prevailing market rates of interest at inception. When the repayment schedule of the loan is altered, the fair value is re-calculated and the carrying amount of the loan is adjusted. The difference between the fair value and the face value of the loan is dealt with as property development in progress during construction and transferred to the profit and loss account upon completion of the development. Notional interest income is credited to the profit and loss account and debited to the loan over the period of the loan so that the fair value of the loan at maturity equates its face value.

(iv) Profits arising from the development of properties undertaken in conjunction with property developers are recognised in the profit and loss account as follows:

- where the Group receives payments from developers, profits arising from such payments are recognised when the foundation and site enabling works are complete and acceptable for development, and after taking into account the outstanding risks and obligations, if any, retained by the Group in connection with the development;
- where the Group receives a right to a share of the net surplus from sale of the development and interests in any unsold units, income is initially recognised by the Group upon the issue of occupation permits provided the amounts of revenue and costs can be estimated reliably. The interest in any unsold properties is subsequently remeasured on a basis consistent with the policy set out in note 2K(v); 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.

(v) Where properties are received as a profit distribution upon completion of development and are held for sale, those properties are stated at fair value upon receipt and subsequently carried at their estimated net realisable value. Net realisable value represents the estimated selling price less costs to be incurred in selling the properties. When properties are sold, the carrying amount of those properties is recognised as cost of properties sold in the period in which the related revenue is recognised. The amount of any write-down of properties to net realisable value is recognised as an expense in the period the write-down occurs. The amount of any reversal of any write-down of properties arising from an increase in net realisable value is recognised as a reduction in the cost of properties sold in the period in which the reversal occurs.

(vi) 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 are capitalised in investment properties.

L Jointly Controlled Operations

The arrangements entered into by the Group with developers for property developments without establishing separate entities are considered to be jointly controlled operations pursuant to HKAS 31, *Interests in joint ventures*. Under the development arrangements, the Group is normally responsible for its own costs, including in-house staff costs and the costs of enabling works, and the developers normally undertake to pay for all other project costs such as land premium (or such remaining portion as not already paid by the Group), construction costs, professional fees, etc. Such costs are deductible from the proceeds of sale before surplus proceeds are shared. In respect of its interests in such operations, the Group accounts for the purchase consideration of development rights, costs of enabling works (including any interest accrued) and land costs (including any land premiums) paid net of payments received as property development in progress. In cases where payments received from developers exceed the related expenditures incurred by the Group, such excess is recorded as deferred income. Expenses incurred by the Group on staff, overhead and consultancy fees in respect of these developments are also capitalised as property development in progress. The Group's share of income earned from such operations is recognised in the profit and loss account on the basis of note 2K(iv) after netting off any related balance in property development in progress at that time.

2 Principal Accounting Policies *(continued)*

M Investments in Securities

The Group's policies for investments in securities (other than investments in its subsidiaries, non-controlled subsidiaries, associates and jointly controlled entities) are as follows:

(i) Investments in securities held for trading purpose are initially stated at fair value. At each balance sheet date the fair value is remeasured, with any resultant unrealised gain or loss being recognised in the profit and loss account.

(ii) Investments in debt securities and bank medium term notes on which the Group has the ability and intention to hold to maturity are classified as held-to-maturity securities, which are stated at amortised cost less impairment losses (note 2H(ii)).

(iii) Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments.

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

(v) Profit or loss on disposal of investments in securities are determined as the difference between the estimated net disposal proceeds and the carrying amount of the investments and are accounted for in the profit and loss account as they arise.

N Stores and Spares

Stores and spares used for railway and 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 in the year in which the consumption occurred. Provision is made for obsolescence where appropriate. Capital items are included in fixed assets and stated at cost less accumulated depreciation and impairment losses (note 2H(ii)). Depreciation is charged at the rates applicable to the relevant fixed assets against which the capital spares are held in reserve.

O Long-term Contracts

The accounting policy for contract revenue is set out in note 2Z(iii). When the outcome of a fixed-price long-term contract can be estimated reliably, contract costs are recognised as expenses by reference to the stage of completion of the contract activity at the balance sheet date. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately. When the outcome of a long-term contract cannot be estimated reliably, contract costs are recognised as expenses in the period in which they are incurred.

Long-term contracts in progress at the balance sheet date are recorded in the balance sheet at the net amount of costs incurred plus recognised profits less recognised losses and progress billings, and are presented in the balance sheet as the "Gross amount due from customers for contract work" (as an asset) or the "Gross amount due to customers for contract work" (as a liability), as applicable. Progress billings not yet paid by the customer are included in the balance sheet under "Debtors, deposits and payments in advance". Amounts received before the related work is performed are included in the balance sheet as a liability under "Creditors and accrued charges".

P Cash and Cash Equivalents

Cash and cash equivalents comprise cash at banks and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments that are readily convertible into known amounts of cash and subject to an insignificant risk of changes in value with a maturity at acquisition within three months. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

Q Debtors, Deposits and Payments in Advance

Debtors, deposits and payments in advance are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method less impairment losses for bad and doubtful debts (note 2H(i)), except where the effect of discounting would be immaterial or the discount is not measurable as the receivables are interest-free loans made to related parties without any fixed repayment terms. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts.

R Interest-bearing Borrowings

Interest-bearing borrowings are recognised initially at fair value net of transaction costs incurred. The unhedged portion of interest-bearing borrowings is subsequently stated at amortised costs. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the profit and loss account over the period of the borrowings using the effective interest method.

Subsequent to initial recognition, the carrying amount of the hedged portion of interest-bearing borrowings is remeasured and the change in fair value attributable to the risk being hedged is recognised in the profit and loss account to offset the effect of the gain or loss on the related hedging instrument.

S Creditors and Accrued Charges

Creditors and accrued charges are stated at amortised cost if the effect of discounting would be material, otherwise they are stated at cost.

2 Principal Accounting Policies *(continued)*

T Derivative Financial Instruments and Hedging Activities

The Group uses derivative financial instruments such as interest rate swaps and currency swaps to manage its interest rate and foreign exchange exposure. Based on the Group's policies, these instruments are used solely for reducing or eliminating financial risks associated with the Group's investments and liabilities and not for trading or speculation purposes.

Derivatives are initially recognised at fair value and are subsequently remeasured at their fair value at each balance sheet date. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and the nature of the item being hedged.

Where hedge accounting applies, the Group designates derivatives employed as either: (1) a fair value hedge: to hedge the fair value of recognised liabilities; or (2) a cash flow hedge: to hedge the variability in cash flows of a recognised liability or the foreign currency risk of a firm commitment.

(i) Fair Value Hedge

Changes in the fair value of derivatives that are designated and qualified as fair value hedges are recorded in the profit and loss account, together with any changes in the fair value of the hedged assets or liabilities that are attributable to the hedged risk.

(ii) Cash Flow Hedge

The effective portion of changes in the fair value of derivatives that are designated and qualified as cash flow hedges is recognised in other comprehensive income which is accumulated separately in equity in the hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in the profit and loss account.

Amounts previously recognised in other comprehensive income and accumulated in equity are transferred to the profit and loss account in the periods when the hedged item is recognised in the profit and loss account. However, when the transaction in respect of the hedged item results in the recognition of a non-financial asset or liability, the associated gains and losses that were previously recognised in other comprehensive income and accumulated in equity are transferred from equity and included in the initial cost or carrying amount of the non-financial asset or liability.

When a hedging instrument expires or is sold, terminated or exercised, or the Group revokes designation of the hedge relationship but the transaction in respect of the hedged item is still expected to occur, the cumulative gain or loss existing in equity at that time remains in equity until the transaction occurs and it is recognised in accordance with the above policy. However, if the transaction in respect of the hedged item is no longer expected to occur, the gain or loss accumulated in equity is immediately transferred to the profit and loss account.

(iii) Derivatives That Do Not Qualify for Hedge Accounting

Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the profit and loss account.

U Employee Benefits

(i) Salaries, annual leave, leave passage allowance, contributions to defined contribution retirement plans, including contributions to Mandatory Provident Funds ("MPF") as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance, and other costs of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where these benefits are incurred for staff relating to construction projects, capital works and property developments, they are capitalised as part of the cost of the qualifying assets. In other cases, they are recognised as expenses in the profit and loss account as incurred.

(ii) The Group's net obligation in respect of defined benefit retirement plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior years; that benefit is discounted to determine the present value, and the fair value of any plan assets is deducted. The discount rate is the yield at balance sheet date on high quality corporate bonds that have maturity dates approximating the terms of the Group's obligations. If there is no deep market in such bonds, the market yield on government bonds would be used. The calculation is performed annually by a qualified actuary using the Projected Unit Credit Method.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised either as an expense in the profit and loss account, or capitalised as part of the cost of the relevant construction projects, capital works or property developments, as the case may be, on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in a similar manner.

In calculating the Group's obligation in respect of a plan, to the extent that any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the defined benefit obligation and the fair value of plan assets, that portion is recognised in the profit and loss account over the expected average remaining working lives of the employees participating in the plan. Otherwise, the actuarial gain or loss is not recognised.

Where the calculation of the Group's net obligation results in a negative amount, the asset recognised is limited to the net total of any cumulative unrecognised net actuarial losses and past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

2 Principal Accounting Policies *(continued)*

U 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 a staff cost, 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 a 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 for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the 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 capital reserve). The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

For cash-settled share-based payments, a liability equal to the portion of the services received is recognised at the fair value of the shares determined at each balance sheet date.

(iv) Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

V Retirement Schemes

The Group operates both defined contribution and defined benefit retirement schemes.

Employer's contributions to defined contribution retirement schemes including MPF Schemes are recognised in the accounts in accordance with the policy set out in note 2U(i).

Employer's contributions paid and payable in respect of employees of defined benefit retirement schemes as calculated annually by independent actuaries in accordance with the Retirement Scheme Rules and provisions of the Occupational Retirement Schemes Ordinance are used to satisfy the pension expenses recognised in the accounts according to note 2U(ii). Any deficit or surplus thereof will be dealt with in the balance sheet as accrued or prepaid benefit expenses, as the case may be.

W Income Tax

(i) Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Income tax is recognised in the profit and loss account except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case it is recognised in other comprehensive income or directly in equity respectively.

(ii) Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

(iii) Deferred tax assets and liabilities arise from deductible and taxable temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities and deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset 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 back 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 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.

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)*

W 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.

X Financial Guarantee Contracts

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

When the Group issues a financial guarantee, where the effect is material, the fair value of the guarantee (being the transaction price, unless the fair value can otherwise be reliably estimated) after netting off any consideration received or receivable at inception is initially debited to the profit and loss account and recognised as deferred income within creditors and accrued charges.

The amount of the guarantee initially recognised as deferred income is amortised in the profit and loss account over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 2Y if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in creditors and accrued charges in respect of that guarantee, i.e. the amount initially recognised less accumulated amortisation.

Y Provisions and Contingent Liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Company or Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Z Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits associated with the transactions will flow to the Group and the amount of revenue can be measured reliably, revenue is recognised in the profit and loss account as follows:

(i) Fare revenue is recognised when the journey is provided.

(ii) Rental income from investment properties, station kiosks and other railway premises under operating leases is accounted for in accordance with the terms of the leases. Lease incentives granted are recognised in the profit and loss account as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

(iii) Contract revenue is recognised when the outcome of a consultancy, construction or service contract can be estimated reliably. Contract revenue is recognised using the percentage of completion method, measured by reference to the percentage of contract costs incurred to date to the estimated total contract costs for the contract. When the outcome of a consultancy, construction or service contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that it is probable to be recovered.

(iv) Incomes from other station commercial businesses, property management and franchise revenue from service concessions are recognised when the services are provided.

2 Principal Accounting Policies *(continued)*

AA Operating Lease Charges

Rentals payable under operating leases are charged on a straight-line basis over the period of the lease to the profit and loss account, except for rentals payable in respect of railway construction, property development in progress and proposed capital projects which are capitalised as part of railway construction in progress, property development in progress and deferred expenditure respectively.

BB Interest and Finance Charges

Interest income and expense directly attributable to the financing of capital projects prior to their completion or commissioning are capitalised. Exchange differences arising from foreign currency borrowings relating to the acquisition of assets are capitalised to the extent that they are regarded as an adjustment to capitalised interest costs. Interest expense attributable to other purposes is charged to the profit and loss account.

Finance charges implicit in the lease payments on assets held under finance leases are charged to the profit and loss account over the period of the lease so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

CC Foreign Currency Translation

Foreign currency transactions during the year are translated into Hong Kong dollars and recorded at exchange rates ruling at the transaction dates. Foreign currency monetary assets and liabilities are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in the profit and loss account.

The results of foreign enterprises are translated into Hong Kong dollars at the average exchange rates for the year. Balance sheet items are translated into Hong Kong dollars at the closing exchange rates at the balance sheet date. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

DD Segment Reporting

Operating segments, and the amounts of each segment item reported in the financial statements, 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 business and 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.

EE Related Parties

For the purposes of these accounts, a person, or a close member of that person's family, is related to the Group if that person is a member of the key management personnel of the Group. An entity is related to the Group if the entity and the Group are members of the same group, or the entity is an associate or joint venture of the Group, or post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group, or an individual who is a related party of the Group has control, jointly control, significant influence over that entity or is a member of the key management personnel of that entity.

FF Government Grants

Government grants are assistance by governments in the form of transfer of resources in return for the Group's compliance to the conditions attached thereto. Government grants which represent compensation for the cost of an asset are deducted from the cost of the asset in arriving at its carrying value to the extent of the amounts received and receivable as at the date of the balance sheet. Government grants which represent compensation for expenses or losses are deducted from the related expenses. Any excess of the amount of grant received or receivable over the cost of the asset or the expenses or losses at the balance sheet date are carried forward as advance receipts or deferred income to set off against the future cost of the asset or future expenses or losses.

3 Rail Merger with Kowloon-Canton Railway Corporation ("KCRC")

On 2 December 2007 (the "Appointed Day"), the Company's operations merged with those of 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, 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"), which may be extended pursuant to the provisions of the MTR Ordinance (note 57C);
- The Service Concession Agreement ("SCA") pursuant to which KCRC granted the Company the right to access, use and operate the KCRC system for an initial term of 50 years (the "Concession Period"), which will be extended if the Franchise Period (as it relates to the KCRC railway) is extended. The SCA also sets out the basis on which the KCRC system will be returned at the end of the Concession Period. In accordance with the terms of the SCA, the Company paid an upfront lump sum to KCRC on the Appointed Day and is obliged to pay an annual fixed payment to KCRC for the duration of the Concession Period. Additionally, commencing after three years from the Appointed Day, the Company is obliged to pay a variable annual payment to KCRC based on the revenue generated from the KCRC system above certain thresholds;
- Under the SCA, the Company is responsible for the expenditure incurred in relation to the maintenance, repair, replacement and upgrade of the KCRC system (with any new assets acquired being classified as "additional concession property"). To the extent that such expenditure exceeds an agreed threshold ("Capex Threshold"), the Company will be reimbursed for any above threshold expenditure at the end of the Concession Period with such reimbursement to be on the basis of depreciated book value;
- In the event that the Concession Period is extended, the fixed annual payment and the variable annual payment will continue to be payable by the Company. On such extension, the Capex Threshold may also be adjusted; and
- Property Package Agreements and Merger Framework agreement setting out the acquisition of certain properties, property management rights and property development rights by the Company as well as the framework for the Rail Merger including the implementation of the Fare Adjustment Mechanism.

4 Revenue from Hong Kong Transport Operations

Revenue from Hong Kong transport operations comprises:

in HK$ million	**2011**	2010
Fare Revenue:		
– Domestic Service	**9,300**	8,668
– Cross-boundary Service	**2,633**	2,487
– Airport Express	**751**	694
– Light Rail, Bus and Intercity	**673**	610
	13,357	12,459
Other rail-related income	**152**	176
	13,509	12,635

The 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, 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	**2011**	2010
Duty free shops and kiosk rental	**1,905**	1,716
Advertising	**893**	734
Telecommunication income	**500**	290
Other station commercial income	**124**	113
	3,422	2,853

6 Revenue from Property Rental and Management Businesses

Revenue from property rental and management businesses comprises:

in HK$ million	**2011**	2010
Property rental income from:		
– Telford Plaza	**672**	614
– Elements	**634**	509
– Maritime Square	**389**	377
– Luk Yeung Galleria	**161**	153
– Paradise Mall	**124**	118
– Citylink Plaza	**120**	112
– International Finance Centre	**410**	390
– Ginza Mall – Beijing	**123**	105
– Other properties	**383**	380
	3,016	2,758
Property management income	**199**	203
	3,215	2,961

7 Revenue and Expenses of Railway Subsidiaries outside of Hong Kong

On 16 June 2011, Shenzhen Metro Longhua Line ("Shenzhen Longhua Line") Phase 2 commenced revenue operation. Revenue and expenses relating to railway subsidiaries outside of Hong Kong comprise:

in HK$ million	Stockholm Metro	Melbourne Train	Shenzhen Longhua Line	Total
2011				
Revenue				
– Railway operations related	**3,166**	**6,177**	**185**	**9,528**
– Project related	**–**	**2,748**	**3**	**2,751**
	3,166	**8,925**	**188**	**12,279**
Expenses				
– Railway operations related	**3,111**	**5,967**	**254**	**9,332**
– Project related	**–**	**2,558**	**2**	**2,560**
– Utilisation of government grant	**–**	**–**	**(62)**	**(62)**
	3,111	**8,525**	**194**	**11,830**
2010				
Revenue				
– Railway operations related	2,858	5,226	20	8,104
– Project related	–	2,013	27	2,040
	2,858	7,239	47	10,144
Expenses				
– Railway operations related	2,864	5,043	62	7,969
– Project related	–	1,870	26	1,896
	2,864	6,913	88	9,865

8 Revenue from Other Businesses

Revenue from other businesses comprises incomes from:

in HK$ million	**2011**	2010
Ngong Ping 360	**270**	239
Consultancy business	**105**	113
Project management for KCRC and HKSAR Government	**588**	540
Miscellaneous businesses	**35**	33
	998	925

9 Other Net Income

Other net income relates to the construction of Shenzhen Longhua Line Phase 2 and comprises:

in HK$ million	**2011**	2010
Construction revenue	**1,933**	1,719
Construction cost	**(1,933)**	(1,719)
	–	–

Construction revenue is recognised by reference to the total construction cost incurred since signing of the Project Concession Agreement on 18 March 2009 up to the date of operation commencement on 16 June 2011. As of 31 December 2011, such cost amounted to HK$5,541 million (31 December 2010: HK$3,608 million). There was no cumulative net profit or loss recognised in respect of the construction as at 31 December 2011 and 2010.

10 Operating Expenses

A Total staff costs include:

in HK$ million	**2011**	2010
Amount charged to profit and loss account under:		
– staff costs and related expenses for Hong Kong transport operations	**3,673**	3,398
– maintenance and related works for Hong Kong transport operations	**70**	78
– other expense line items for Hong Kong transport operations	**50**	59
– expenses relating to Hong Kong station commercial business	**53**	47
– expenses relating to property rental and management businesses	**88**	73
– expenses relating to railway subsidiaries outside of Hong Kong	**4,837**	3,848
– expenses relating to other businesses	**690**	561
– project study and business development expenses	**96**	142
Amount capitalised under:		
– railway construction in progress before offset by government grant	**452**	183
– property development in progress	**93**	90
– assets under construction and other projects	**242**	399
– service concession assets	**284**	251
Amount recoverable	**591**	542
Total staff costs	**11,219**	9,671

Amount recoverable relates to property management, entrustment works and other agreements.

10 Operating Expenses *(continued)*

A Total staff costs include: *(continued)*

The following expenditures are included in total staff costs:

in HK$ million	2011	2010
Share-based payments	**113**	61
Contributions to defined contribution retirement plans and Mandatory Provident Fund	**409**	362
Expenses recognised in respect of defined benefit retirement plans	**144**	173
	666	596

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	2011	2010
Business development expenses	**114**	192
Miscellaneous project study expenses and project cost written off	**9**	24
	123	216

Business development expenses relate mainly to new business opportunities in the Mainland of China, Europe and Australia.

D Auditors' remuneration charged to the profit and loss account include:

in HK$ million	2011	2010
Audit services	**10**	10
Tax services	**1**	1
Other audit related services	**3**	3
	14	14

E The following charges/(credits) are included in operating expenses:

in HK$ million	2011	2010
Loss on disposal of fixed assets	**32**	50
Derivative financial instruments:		
– foreign exchange contracts – ineffective portion of cash flow hedges	**–**	(1)
– transfer from hedging reserve (note 22B)	**(5)**	(1)
Unrealised loss on revaluation of investments in securities	**4**	2

F Operating lease expenses charged to the profit and loss account comprise:

in HK$ million	2011	2010
Shopping centre, office building, staff quarters and bus depot	**78**	84
Rolling stock, stations, office buildings, depots, depot equipment and other minor assets for railway subsidiaries	**1,066**	935
Amount capitalised	**(4)**	(20)
	1,140	999

11 Remuneration of Members of the Board and the Executive Directorate

A Remuneration of Members of the Board and the Executive Directorate

(i) The emoluments of Members of the Board and the Executive Directorate of the Company were as follows:

in HK$ million	Fees	Base pay, allowances and benefits in kind	Retirement scheme contribution	Variable remuneration related to performance	Total
2011					
Members of the Board					
– Raymond Ch'ien Kuo-fung	**1.2**	**–**	**–**	**–**	**1.2**
– Vincent Cheng Hoi-chuen	**0.3**	**–**	**–**	**–**	**0.3**
– Christine Fang Meng-sang	**0.3**	**–**	**–**	**–**	**0.3**
– Edward Ho Sing-tin	**0.4**	**–**	**–**	**–**	**0.4**
– Alasdair George Morrison	**0.3**	**–**	**–**	**–**	**0.3**
– Ng Leung-sing	**0.3**	**–**	**–**	**–**	**0.3**
– Abraham Shek Lai-him	**0.3**	**–**	**–**	**–**	**0.3**
– T. Brian Stevenson	**0.4**	**–**	**–**	**–**	**0.4**
– Ceajer Chan Ka-keung	**0.3**	**–**	**–**	**–**	**0.3**
– Eva Cheng	**0.3**	**–**	**–**	**–**	**0.3**
– Joseph Lai Yee-tak	**0.3**	**–**	**–**	**–**	**0.3**
Members of the Executive Directorate					
– Chow Chung-kong (retired on 31 December 2011)	**–**	**7.8**	**–***	**7.0**	**14.8**
– William Chan Fu-keung	**–**	**4.6**	**0.2**	**1.9**	**6.7**
– Chew Tai-chong	**–**	**4.3**	**–***	**1.8**	**6.1**
– Thomas Ho Hang-kwong (retired on 30 September 2011)	**–**	**4.5**	**0.2**	**1.5**	**6.2**
– Jacob Kam Chak-pui (appointed on 1 January 2011)	**–**	**3.7**	**0.6**	**1.5**	**5.8**
– Lincoln Leong Kwok-kuen	**–**	**5.1**	**0.8**	**2.1**	**8.0**
– Gillian Elizabeth Meller (appointed on 1 September 2011)**	**–**	**1.1**	**0.2**	**0.3**	**1.6**
– David Tang Chi-fai (appointed on 1 October 2011)**	**–**	**0.8**	**0.2**	**0.3**	**1.3**
– Leonard Bryan Turk (retired on 31 August 2011)	**–**	**3.9**	**0.1**	**1.5**	**5.5**
– Jeny Yeung Mei-chun (appointed on 1 September 2011)**	**–**	**1.1**	**0.2**	**0.3**	**1.6**
	4.4	**36.9**	**2.5**	**18.2**	**62.0**

* During the year ended 31 December 2011, the total contributions paid by the Company for C K Chow and T C Chew, who participated in the MTR MPF Scheme, were HK$12,000 each.

** Gillian E Meller and Jeny M C Yeung were appointed as Members of the Executive Directorate since 1 September 2011 while David C F Tang was appointed as Member of the Executive Directorate since 1 October 2011. The amount of their emoluments shown in the above table covered the period from the date of their appointment to 31 December 2011.

11 Remuneration of Members of the Board and the Executive Directorate *(continued)*

A Remuneration of Members of the Board and the Executive Directorate *(continued)*

in HK$ million	Fees	Base pay, allowances and benefits in kind	Retirement scheme contribution	Variable remuneration related to performance	Total
2010					
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 (appointed on 9 July 2010)	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
– Eva Cheng	0.3	–	–	–	0.3
– Joseph Lai Yee-tak	0.3	–	–	–	0.3
Members of the Executive Directorate					
– Chow Chung-kong	–	6.8	–*	7.1	13.9
– Russell John Black (retired on 31 January 2010)	–	0.8	–*	0.1	0.9
– William Chan Fu-keung	–	4.7	0.2	1.9	6.8
– Chew Tai-chong (appointed on 1 February 2010)**	–	3.8	–*	1.6	5.4
– Thomas Ho Hang-kwong	–	4.5	0.2	1.9	6.6
– Lincoln Leong Kwok-kuen	–	5.0	0.8	2.0	7.8
– Andrew McCusker (retired on 31 December 2010)	–	4.6	0.2	1.8	6.6
– Leonard Bryan Turk	–	4.4	0.2	1.9	6.5
	4.2	34.6	1.6	18.3	58.7

* During the year ended 31 December 2010, the total contributions paid by the Company for C K Chow and T C Chew, who participated in the MTR MPF Scheme, were HK$12,000 and HK$7,000 respectively. The contribution paid by the Company for Russell J Black, who participated in the MTR Retirement Scheme, was HK$17,484.

** T C Chew was appointed as Member of the Executive Directorate since 1 February 2010. The amount of the emoluments shown in the above table covered the period from the date of his appointment to 31 December 2010.

Russell J Black, Andrew McCusker, Thomas H K Ho and Leonard B Turk received a lump sum benefit payment of HK$20.8 million, HK$20.7 million, HK$24.3 million and HK$24.3 million respectively from the MTR Retirement Scheme upon their retirements in January 2010 for Russell J Black, December 2010 for Andrew McCusker, August 2011 for Leonard B Turk and September 2011 for Thomas H K Ho.

Andrew McCusker, who retired on 31 December 2010, received a pro-rated discretionary award of HK$153,510 in July 2011 in respect of his service from 1 July 2010 to 31 December 2010.

On 12 April 2010, Lincoln K K Leong was paid HK$4.6 million, representing the derivative interest granted to him on 12 April 2007 to receive an equivalent value in cash of 160,000 shares (note 53B(iii)). On 4 January 2012, C K Chow was paid HK$5.6 million, representing his entitlement to receive an equivalent value in cash of 222,161 shares on completion of his two-year contract ended on 31 December 2011 (note 53B(i)).

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.

11 Remuneration of Members of the Board and the Executive Directorate *(continued)*

A Remuneration of Members of the Board and the Executive Directorate *(continued)*

Share options were granted to Members of the Executive Directorate under the Company's 2007 Option Scheme, which were offered to them on 10 December 2007, 8 December 2008, 12 June 2009, 8 December 2009, 28 June 2010 and 16 December 2010. The entitlements of each of the Members are as follows:

- C K Chow was granted options in respect of 720,000 shares on 13 December 2007 and 470,000 shares each on 9 December 2008, 9 December 2009 and 17 December 2010, of which 470,000 options were vested in 2011 (2010: 554,000), and the respective fair value of the share-based payments recognised for the year ended 31 December 2011 was HK$3.4 million (2010: HK$2.5 million);
- Russell J Black was granted options in respect of 170,000 shares each on 12 December 2007 and 9 December 2008 and 42,500 shares on 10 December 2009, of which 127,500 options were vested in 2010, and the respective fair value of the share-based payments recognised for the year ended 31 December 2010 was HK$0.5 million;
- William F K Chan was granted options in respect of 170,000 shares each on 13 December 2007, 9 December 2008, 10 December 2009 and 17 December 2010, of which 170,000 options were vested in 2011 (2010: 170,000), and the respective fair value of the share-based payments recognised for the year ended 31 December 2011 was HK$1.2 million (2010: HK$0.8 million);
- T C Chew was granted options in respect of 85,000 shares on 18 June 2009 and 170,000 shares each on 10 December 2009 and 17 December 2010, of which 142,500 options were vested in 2011 (2010: 85,500), and the respective fair value of the share-based payments recognised for the year ended 31 December 2011 was HK$1.3 million (2010: HK$0.5 million);
- Thomas H K Ho was granted options in respect of 170,000 shares each on 12 December 2007, 11 December 2008 and 14 December 2009 and 127,500 shares on 17 December 2010, of which 155,500 options were vested in 2011 (2010: 170,000), and the respective fair value of the share-based payments recognised for the year ended 31 December 2011 was HK$1.1 million (2010: HK$0.8 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 and 170,000 shares on 17 December 2010, of which 117,000 options were vested in 2011 (2010: 69,000), and the respective fair value of the share-based payments recognised for the year ended 31 December 2011 was HK$1.0 million (2010: HK$0.3 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, of which 170,000 options were vested in 2011 (2010: 170,000), and the respective fair value of the share-based payments recognised for the year ended 31 December 2011 was HK$1.2 million (2010: HK$0.7 million);
- Andrew McCusker was granted options in respect of 170,000 shares each on 12 December 2007, 12 December 2008 and 10 December 2009, of which 170,000 options were vested in 2010, and the respective fair value of the share-based payments recognised for the year ended 31 December 2010 was HK$0.7 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 and 90,000 shares on 17 December 2010, of which 75,000 options were vested in 2011 (2010: 63,500), and the respective fair value of the share-based payments recognised for the year ended 31 December 2011 was HK$0.6 million (2010: HK$0.3 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, of which 65,000 options were vested in 2011 (2010: 65,000), and the respective fair value of the share-based payments recognised for the year ended 31 December 2011 was HK$0.5 million (2010: HK$0.3 million);
- Leonard B Turk was granted options in respect of 170,000 shares each on 12 December 2007, 9 December 2008 and 10 December 2009 and 127,500 shares on 17 December 2010, of which 155,500 options were vested in 2011 (2010: 170,000), and the respective fair value of the share-based payments recognised for the year ended 31 December 2011 was HK$1.1 million (2010: HK$0.7 million); and
- 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, of which 65,000 options were vested in 2011 (2010: 69,000), and the respective fair value of the share-based payments recognised for the year ended 31 December 2011 was HK$0.5 million (2010: HK$0.3 million).

Jay H Walder replaced C K Chow, who retired from the Company on 31 December 2011, as a Member of the Executive Directorate with effect from 1 January 2012. As a transitional arrangement, Jay H Walder was appointed Chief Executive Officer (Designate) during 1 November 2011 to 31 December 2011. The emolument of Jay H Walder during the year ended 31 December 2011 was HK$2.1 million. Jay H Walder was granted a derivative interest in respect of 300,000 shares in the Company within the meaning of Part XV of the Securities and Futures Ordinance. The derivative interest represents Jay H Walder's entitlement to be paid an equivalent value in cash of 300,000 shares in the Company following 30 June 2014, being the date on which his initial term of office is expected to expire (35% of which shall be deemed to be earned at 31 October 2013 subject to certain conditions specified in his employment contract).

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 53.

(ii) 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$79.5 million (2010: HK$70.5 million).

(iii) Non-executive directors of the Company are not appointed for a specific term but are subject (save for those appointed pursuant to Section 8 of the Mass Transit Railway Ordinance (Chapter 556 of the Laws of Hong Kong)) 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 as the non-executive Chairman of the Company with effect from 2 December 2009 until 31 December 2012.

All of the five individuals with the highest emoluments are Members of the Executive Directorate whose emoluments are disclosed above.

11 Remuneration of Members of the Board and the Executive Directorate *(continued)*

B Share Options

Options exercised and outstanding in respect of each Member of the Executive Directorate as at 31 December 2011 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 53A(i), Lincoln K K Leong and David C F Tang, Members of the Executive Directorate, were granted options to acquire 1,066,000 shares on 1 August 2003 and 213,000 shares on 15 May 2006 respectively.

Under the vesting terms of the New Option Scheme, Lincoln K K Leong must continue to beneficially own (i) at all times on and after 4 August 2004, at least 23,000 shares; and (ii) at all times on and after 4 August 2005, at least 46,000 shares, up to and including the date on which he has exercised his option in full or the date on which his option lapses (whichever is earlier).

(ii) 2007 Share Option Scheme

Under the 2007 Share Option Scheme (the "2007 Option Scheme") as described in note 53A(ii), all Members of the Executive Directorate were granted options to acquire shares in each year from 2007 to 2010. C K Chow was granted options to acquire 720,000 shares in 2007 and 470,000 shares each in 2008, 2009 and 2010. Russell J Black was granted options to acquire 170,000 shares in both 2007 and 2008 and 42,500 shares in 2009. William F K Chan and Lincoln K K Leong were each granted options to acquire 170,000 shares in each year from 2007 to 2010. T C Chew was granted options to acquire 85,000 shares in June 2009 and 170,000 shares each in December 2009 and 2010. Thomas H K Ho and Leonard B Turk were each granted options to acquire 170,000 shares in each of 2007, 2008 and 2009 and 127,500 shares in 2010. Andrew McCusker was granted options to acquire 170,000 shares in each of 2007, 2008 and 2009. Jacob C P Kam was granted options to acquire 75,000 shares in December 2007, 65,000 shares each in December 2008 and 2009, 50,000 shares in July 2010 and 170,000 shares in December 2010. Gillian E Meller was granted options to acquire 55,000 shares in 2007, 70,000 shares in 2008, 65,000 shares in 2009 and 90,000 shares in 2010. David C F Tang was granted options to acquire 65,000 shares each year from 2007 to 2010. Jeny M C Yeung was granted options to acquire 75,000 shares in 2007 and 65,000 shares each year from 2008 to 2010.

Under the vesting terms of the options granted each year from 2007 to 2010, 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 11A(i)).

12 Profit on Property Developments

Profit on property developments comprises:

in HK$ million	**2011**	2010
Transfer from deferred income on:		
– payments received from developers (note 48)	**468**	–
– sharing in kind (note 29B)	**–**	17
Share of surplus from development	**3,889**	990
Income recognised from sharing in kind	**572**	3,026
Miscellaneous income net of other overhead costs	**5**	1
	4,934	4,034

13 Depreciation and Amortisation

Depreciation and amortisation comprise:

in HK$ million	**2011**	2010
Depreciation charge on assets relating to:		
Hong Kong transport operations	**2,517**	2,517
Hong Kong station commercial business	**121**	93
Property rental and management businesses	**11**	9
Railway subsidiaries outside of Hong Kong	**46**	24
Other businesses	**62**	63
	2,757	2,706
Amortisation charge on service concession assets relating to:		
KCRC Rail Merger	**434**	400
Railway subsidiaries outside of Hong Kong	**169**	14
	603	414
Utilisation of government subsidy for Shenzhen Metro Longhua Line operation	**(154)**	–
	449	414
	3,206	3,120

14 Variable Annual Payment

Commencing after the third year from the Appointed Day of the Rail Merger, i.e. 2 December 2010, the Company is obliged to pay variable annual payments to KCRC, calculated on a tiered basis by reference to the revenue generated from the operation of the KCRC service concession over certain thresholds. For the year ended 31 December 2011, the variable annual payment amounted to HK$647 million (2010: HK$45 million).

15 Interest and Finance Charges

in HK$ million	**2011**		2010	
Interest expenses in respect of:				
Bank loans, overdrafts and capital market instruments wholly repayable within 5 years	**315**		560	
Bank loans and capital market instruments not wholly repayable within 5 years	**268**		206	
Obligations under service concession	**723**		721	
Other obligations (note 24E)	**16**		15	
Finance charges	**18**		27	
Exchange loss/(gain)	**32**		(37)	
		1,372		1,492
Utilisation of government subsidy for Shenzhen Metro Longhua Line operation		**(133)**		–
Derivative financial instruments:				
Fair value hedges	**(15)**		–	
Cash flow hedges:				
– transfer from hedging reserve	**63**		86	
– ineffective portion	**–**		(1)	
		48		85
Interest expenses capitalised		**(176)**		(178)
		1,111		1,399
Interest income in respect of:				
Deposits with banks and other financial institutions	**(199)**		(114)	
Investment in bank medium term notes	**(45)**		(34)	
Loans to associates	**(1)**		–	
		(245)		(148)
Interest income capitalised		**80**		78
		946		1,329
Accreted interest on loan to a property developer		**(25)**		(92)
		921		1,237

During the year ended 31 December 2011, interest expenses capitalised were calculated on a monthly basis at the pre-determined cost of borrowings and/or the relevant group company's net borrowing cost which varied from 0.8% to 5.8% per annum (2010: 0.6% to 5.3% per annum), while interest income capitalised was calculated on a monthly basis at the average return from deposits and investments in bank medium term notes which varied from 1.1% to 1.6% per annum (2010: 0.8% to 1.2% per annum).

During the year ended 31 December 2011, interest and finance charges net of interest expenses capitalised in relation to the Shenzhen Metro Longhua Line was HK$133 million (2010: HK$3 million). This amount was fully offset by the subsidy received from the Shenzhen Municipal Government in 2011.

During the same year, the gain resulting from fair value changes of the underlying financial assets and liabilities being hedged was HK$24 million (2010: HK$119 million of loss) and the loss resulting from fair value changes of hedging instruments comprising interest rate and cross currency swaps was HK$9 million (2010: HK$119 million of gain), resulting in a net gain of HK$15 million (2010: nil).

16 Share of Profits of Non-controlled Subsidiaries and Associates

Share of profits of non-controlled subsidiaries and associates comprises:

in HK$ million	2011	2010
Share of profit before taxation of non-controlled subsidiaries (note 31)	**208**	148
Share of profit before taxation of associates (note 33)	**152**	22
	360	170
Share of income tax of non-controlled subsidiaries (note 31)	**(26)**	(22)
Share of income tax of associates (note 33)	**(37)**	(9)
	297	139

17 Income Tax

A Income tax in the consolidated profit and loss account represents:

in HK$ million	2011	2010
Current tax		
– Provision for Hong Kong Profits Tax at 16.5% (2010: 16.5%) for the year	**1,619**	1,495
– Overseas tax for the year	**56**	93
	1,675	1,588
Deferred tax		
– Origination and reversal of temporary differences on:		
– investment property revaluation	**840**	672
– (provision)/utilisation of tax losses	**(9)**	10
– depreciation allowances in excess of related depreciation	**316**	287
– provision and others	**(1)**	33
	1,146	1,002
	2,821	2,590

The provision for Hong Kong Profits Tax for the year ended 31 December 2011 is calculated at 16.5% (2010: 16.5%) on the estimated assessable profits for the year after deducting accumulated tax losses brought forward, if any. Current tax for the Mainland of China and overseas subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries.

Provision for deferred tax on temporary differences arising in Hong Kong is calculated at the Hong Kong Profits Tax rate at 16.5% (2010: 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:

	2011		2010	
	HK$ million	%	HK$ million	%
Profit before taxation	**17,669**		14,762	
Notional tax on profit before taxation, calculated at the rates applicable to profits in the tax jurisdictions concerned	**2,957**	**16.7**	2,451	16.6
Tax effect of non-deductible expenses	**106**	**0.6**	200	1.4
Tax effect of non-taxable revenue	**(215)**	**(1.2)**	(90)	(0.6)
Tax effect of unused tax losses not recognised	**(27)**	**(0.2)**	29	0.2
Actual tax expenses	**2,821**	**15.9**	2,590	17.6

18 Profit Attributable to Equity Shareholders

A The consolidated profit attributable to equity shareholders includes a profit of HK$14,415 million (2010: HK$11,878 million) which has been dealt with in the accounts of the Company. Details of dividend paid and payable to equity shareholders of the Company are set out in note 19.

B Profit attributable to equity shareholders of the Company arising from underlying businesses represents profits excluding impact of investment property revaluation net of related deferred tax, calculated as follows:

in HK$ million	2011	2010
Profit attributable to equity shareholders	**14,716**	12,059
Investment property revaluation	**(5,088)**	(4,074)
Deferred tax on investment property revaluation (note 17A)	**840**	672
	10,468	8,657

Within the profit arising from underlying businesses, the amount attributable to property development has taken into account the effect of related income tax expense of HK$720 million (2010: HK$785 million) and net interest income of HK$11 million (2010: HK$11 million) in relation to the loan to a property developer.

19 Dividends

During the year, dividends paid and proposed to equity shareholders of the Company comprised:

in HK$ million	2011	2010
Dividends paid/payable attributable to the year		
– Interim dividend of 25 cents (2010: 14 cents) per share approved and paid during the year	**1,446**	807
– Final dividend proposed after the balance sheet date of 51 cents (2010: 45 cents) per share	**2,950**	2,598
	4,396	3,405
Dividends paid attributable to the previous year		
– Final dividend of 45 cents (2009: 38 cents) per share approved and paid during the year	**2,598**	2,177

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date. For the dividends attributable to the year ended 31 December 2010, scrip dividend elections were offered to all shareholders except shareholders with registered addresses in the United States of America or any of its territories or possessions. No scrip dividend election was offered for the dividends attributable to the year ended 31 December 2011. Details of dividends paid to the Company's majority shareholder, The Financial Secretary Incorporated, are disclosed in note 57N.

20 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$14,716 million (2010: HK$12,059 million) and the weighted average number of ordinary shares of 5,780,030,171 in issue during the year (2010: 5,751,035,100), calculated as follows:

	2011	2010
Issued ordinary shares at 1 January	**5,772,563,031**	5,727,833,692
Effect of scrip dividends issued	**6,461,157**	20,911,122
Effect of share options exercised	**1,005,983**	2,290,286
Weighted average number of ordinary shares at 31 December	**5,780,030,171**	5,751,035,100

20 Earnings Per Share *(continued)*

B Diluted Earnings Per Share

The calculation of diluted earnings per share is based on the profit for the year attributable to equity shareholders of HK$14,716 million (2010: HK$12,059 million) and the weighted average number of ordinary shares of 5,783,905,064 in issue during the year (2010: 5,756,548,816) after adjusting for the number of dilutive potential ordinary shares under the employee share option schemes, calculated as follows:

	2011	2010
Weighted average number of ordinary shares at 31 December	**5,780,030,171**	5,751,035,100
Effect of dilutive potential shares under the Company's share option schemes	**3,874,893**	5,513,716
Weighted average number of ordinary shares (diluted) at 31 December	**5,783,905,064**	5,756,548,816

C Both basic and diluted earnings per share would have been HK$1.81 (2010: HK$1.51) if the calculation is based on profit attributable to equity shareholders arising from underlying businesses of HK$10,468 million (2010: HK$8,657 million) (note 18B).

21 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) Property rental and management businesses: The letting of retail, office and car parking space and the provision of estate management services in Hong Kong and the Mainland of China.

(iv) Railway subsidiaries outside of Hong Kong: The operation and maintenance of mass transit railway systems including station commercial activities outside of Hong Kong.

(v) Other businesses: Businesses not directly relating to transport operations or properties such as Ngong Ping 360, which comprises cable car operations in Tung Chung and related businesses at the Ngong Ping Theme Village, railway consultancy business and the provision of project management services to HKSAR Government and KCRC.

(vi) Property developments: Property development activities at locations relating to the railway systems.

During the year ended 31 December 2011, the Group re-categorised certain business activities not directly relating to transport operations or properties including Ngong Ping 360, railway consultancy business and the provision of project management services to the HKSAR Government and KCRC under a new business segment "Other Businesses". The re-categorisation amounted to HK$925 million in revenue and HK$751 million in expenses for the year ended 31 December 2010. Accordingly, the comparatives of the consolidated profit and loss account and segmental information are reclassified.

21 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	Property rental and management businesses	Railway subsidiaries outside of Hong Kong	Other businesses	Property developments	Total
2011							
Revenue	**13,509**	**3,422**	**3,215**	**12,279**	**998**	**–**	**33,423**
Operating expenses before depreciation, amortisation and variable annual payment	**(7,354)**	**(358)**	**(721)**	**(11,830)**	**(913)**	**–**	**(21,176)**
	6,155	**3,064**	**2,494**	**449**	**85**	**–**	**12,247**
Profit on property developments	**–**	**–**	**–**	**–**	**–**	**4,934**	**4,934**
Operating profit before depreciation, amortisation and variable annual payment	**6,155**	**3,064**	**2,494**	**449**	**85**	**4,934**	**17,181**
Depreciation and amortisation	**(2,934)**	**(138)**	**(11)**	**(61)**	**(62)**	**–**	**(3,206)**
Variable annual payment	**(520)**	**(127)**	**–**	**–**	**–**	**–**	**(647)**
	2,701	**2,799**	**2,483**	**388**	**23**	**4,934**	**13,328**
Project studies and business development expenses							**(123)**
Operating profit before interest and finance charges							**13,205**
Interest and finance charges							**(921)**
Investment property revaluation			**5,088**				**5,088**
Share of profits of non-controlled subsidiaries and associates				**115**	**182**		**297**
Income tax							**(2,821)**
Profit for the year ended 31 December 2011							**14,848**
Assets							
Operational assets *	**73,588**	**1,726**	**52,332**	**3,714**	**1,124**	**1,211**	**133,695**
Assets under construction	**2,030**	**18**	**–**	**–**	**–**	**–**	**2,048**
Service concession assets	**16,169**	**–**	**–**	**7,759**	**–**	**–**	**23,928**
Property management rights	**–**	**–**	**31**	**–**	**–**	**–**	**31**
Railway construction in progress	**3,566**	**–**	**–**	**–**	**–**	**–**	**3,566**
Property development in progress	**–**	**–**	**–**	**–**	**–**	**11,964**	**11,964**
Deferred expenditure	**–**	**–**	**14**	**–**	**–**	**–**	**14**
Deferred tax assets	**–**	**19**	**3**	**5**	**–**	**–**	**27**
Investments in securities	**–**	**–**	**–**	**–**	**348**	**–**	**348**
Properties held for sale	**–**	**–**	**–**	**–**	**–**	**3,757**	**3,757**
Interests in non-controlled subsidiaries	**–**	**–**	**–**	**–**	**579**	**–**	**579**
Interests in associates	**–**	**–**	**–**	**948**	**–**	**–**	**948**
	95,353	**1,763**	**52,380**	**12,426**	**2,051**	**16,932**	**180,905**
Unallocated assets							**16,968**
Total assets							**197,873**

21 Segmental Information *(continued)*

in HK$ million	Hong Kong transport operations	Hong Kong station commercial business	Property rental and management businesses	Railway subsidiaries outside of Hong Kong	Other businesses	Property developments	Total
2011							
Liabilities							
Segment liabilities	**9,080**	**988**	**1,422**	**2,987**	**928**	**3,351**	**18,756**
Obligations under service concession	**10,557**	**–**	**–**	**167**	**–**	**–**	**10,724**
Deferred income	**–**	**47**	**–**	**288**	**–**	**68**	**403**
	19,637	**1,035**	**1,422**	**3,442**	**928**	**3,419**	**29,883**
Unallocated liabilities							**38,945**
Total liabilities							**68,828**
Other Information							
Capital expenditure on:							
Operational assets	**57**	**16**	**11**	**90**	**14**	**1**	**189**
Assets under construction	**1,296**	**83**	**–**	**110**	**–**	**–**	**1,489**
Investment properties	**–**	**–**	**1,040**	**–**	**–**	**–**	**1,040**
Service concession assets	**630**	**–**	**–**	**2,122**	**–**	**–**	**2,752**
Railway construction in progress	**5,585**	**–**	**–**	**–**	**–**	**–**	**5,585**
Property development in progress	**–**	**–**	**–**	**–**	**–**	**3,045**	**3,045**
Non-cash expenses other than depreciation and amortisation	**28**	**2**	**–**	**–**	**2**	**–**	**32**

* Operational assets include property, plant and equipment and other assets employed in the operations of individual business segments.

21 Segmental Information *(continued)*

in HK$ million	Hong Kong transport operations	Hong Kong station commercial business	Property rental and management businesses	Railway subsidiaries outside of Hong Kong	Other businesses	Property developments	Total
2010							
Revenue	12,635	2,853	2,961	10,144	925	–	29,518
Operating expenses before depreciation, amortisation and variable annual payment	(6,821)	(294)	(654)	(9,865)	(751)	–	(18,385)
	5,814	2,559	2,307	279	174	–	11,133
Profit on property developments	–	–	–	–	–	4,034	4,034
Operating profit before depreciation, amortisation and variable annual payment	5,814	2,559	2,307	279	174	4,034	15,167
Depreciation and amortisation	(2,901)	(109)	(9)	(38)	(63)	–	(3,120)
Variable annual payment	(36)	(9)	–	–	–	–	(45)
	2,877	2,441	2,298	241	111	4,034	12,002
Project studies and business development expenses							(216)
Operating profit before interest and finance charges							11,786
Interest and finance charges							(1,237)
Investment property revaluation			4,074				4,074
Share of profits of non-controlled subsidiaries and associates				13	126		139
Income tax							(2,590)
Profit for the year ended 31 December 2010							12,172
Assets							
Operational assets *	73,920	1,557	46,093	2,411	1,255	652	125,888
Assets under construction	2,161	10	–	26	–	–	2,197
Service concession assets	15,963	–	–	5,504	–	–	21,467
Property management rights	–	–	31	–	–	–	31
Property development in progress	–	–	–	–	–	9,128	9,128
Deferred expenditure	1,021	–	21	–	–	37	1,079
Deferred tax assets	–	1	5	3	–	–	9
Investments in securities	–	–	–	–	285	–	285
Properties held for sale	–	–	–	–	–	1,936	1,936
Loan to a property developer	–	–	–	–	–	1,975	1,975
Interests in non-controlled subsidiaries	–	–	–	–	541	–	541
Interests in associates	–	–	–	836	–	–	836
	93,065	1,568	46,150	8,780	2,081	13,728	165,372
Unallocated assets							16,293
Total assets							181,665

21 Segmental Information *(continued)*

in HK$ million	Hong Kong transport operations	Hong Kong station commercial business	Property rental and management businesses	Railway subsidiaries outside of Hong Kong	Other businesses	Property developments	Total
2010							
Liabilities							
Segment liabilities	10,578	921	1,241	2,206	745	1,357	17,048
Obligations under service concession	10,592	–	–	157	–	–	10,749
Deferred income	–	37	–	–	–	568	605
	21,170	958	1,241	2,363	745	1,925	28,402
Unallocated liabilities							35,970
Total liabilities							64,372
Other Information							
Capital expenditure on:							
Operational assets	65	3	14	95	9	1	187
Assets under construction	1,561	142	–	24	2	–	1,729
Investment properties	–	–	247	–	–	–	247
Service concession assets	566	–	–	1,757	–	–	2,323
Railway construction in progress	3,462	–	–	–	–	–	3,462
Property development in progress	–	–	–	–	–	4,372	4,372
Non-cash expenses other than depreciation and amortisation	44	2	–	4	–	–	50

* Operational assets include property, plant and equipment and other assets employed in the operations of individual business segments.

Unallocated assets and liabilities mainly comprise cash, bank balances and deposits, investments in securities, derivative financial assets and liabilities, interest-bearing loans and borrowings and deferred tax liabilities.

The following table sets out information about the geographical location of the Group's revenue from external customers and the Group's fixed assets, property management rights, railway construction in progress, property development in progress, deferred expenditure and interests in non-controlled subsidiaries and associates ("specified non-current assets"). The geographical location of customers is based on the location at which the services were provided or goods were delivered. The geographical location of the specified non-current assets is based on the physical location of the asset, in the case of property, plant and equipment, railway construction in progress and property development in progress; the location of the proposed capital project, in the case of deferred expenditure; the location of the operation to which they are related, in the case of service concession assets and property management rights; and the location of operation, in the case of interests in non-controlled subsidiaries and associates.

	Revenue from external customers		Specified non-current assets	
in HK$ million	**2011**	2010	**2011**	2010
Hong Kong (place of domicile)	**20,951**	19,177	**157,615**	149,073
Australia	**8,927**	7,239	**265**	123
Mainland of China	**328**	175	**11,065**	6,268
Sweden	**3,166**	2,858	**145**	151
Other countries	**51**	69	**80**	57
	12,472	10,341	**11,555**	6,599
	33,423	29,518	**169,170**	155,672

22 Other Comprehensive Income

A Tax effects relating to each component of other comprehensive income of the Group are shown below:

in HK$ million	2011 Before-tax amount	2011 Tax benefit/ (expense)	2011 Net-of-tax amount	2010 Before-tax amount	2010 Tax benefit/ (expense)	2010 Net-of-tax amount
Exchange differences on translation of:						
– Financial statements of overseas subsidiaries	**146**	**–**	**146**	141	–	141
– Non-controlling interests	**(1)**	**–**	**(1)**	16	–	16
	145	**–**	**145**	157	–	157
Cash flow hedges: net movement in hedging reserve	**(14)**	**2**	**(12)**	(31)	5	(26)
Self-occupied land and building: net movement in fixed assets revaluation reserve	**564**	**(93)**	**471**	341	(56)	285
Other comprehensive income	**695**	**(91)**	**604**	467	(51)	416

B The changes in each component of equity arising from transactions recognised in other comprehensive income of the Group are as follows:

in HK$ million	2011	2010
Exchange reserve		
Exchange differences on translation of financial statements of overseas subsidiaries	**146**	141
Hedging reserve		
Effective portion of changes in fair value of hedging instruments recognised during the year	**(64)**	(104)
Amounts transferred to initial carrying amount of hedged items	**(8)**	(12)
Transferred to profit or loss:		
– Interest and finance charges (note 15)	**63**	86
– Other expenses (note 10E)	**(5)**	(1)
Net deferred tax credited/(debited) to other comprehensive income resulting from:		
– Changes in fair value of hedging instruments recognised during the year	**11**	17
– Amounts transferred to initial carrying amount of hedged items	**1**	2
– Transferred to profit or loss	**(10)**	(14)
Net movement during the year recognised in other comprehensive income	**(12)**	(26)
Fixed assets revaluation reserve		
Changes in fair value recognised during the year	**564**	341
Net deferred tax debited to other comprehensive income resulting from changes in fair value recognised during the year	**(93)**	(56)
Net movement during the year recognised in other comprehensive income	**471**	285

23 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	**2011**	2010	**2011**	2010
Cost or Valuation				
At 1 January	**45,314**	40,993	**44,166**	39,879
Additions	**1,040**	247	**1,033**	229
Change in fair value	**5,088**	4,074	**5,077**	4,058
Transfer from deferred expenditure (note 30)	**11**	–	**11**	–
At 31 December	**51,453**	45,314	**50,287**	44,166
Long leases	**74**	1,589	**74**	1,589
Medium-term leases	**51,379**	43,725	**50,213**	42,577
	51,453	45,314	**50,287**	44,166

All investment properties of the Group were revalued at open market value at 31 December 2011 by an independent firm of surveyors, Jones Lang LaSalle Limited, who have among their staff Members of the Hong Kong Institute of Surveyors. The valuations are based on a "term and reversion basis", which capitalises the existing and reversionary net rental income having regard to market valuation checks on comparable sales and yields. The net increase in fair value of HK$5,088 million (2010: HK$4,074 million) arising from the revaluation has been credited to the consolidated profit and loss account.

The Group's future minimum lease receipts in respect of investment properties under non-cancellable operating leases are disclosed together with those in respect of other properties under note 24D.

24 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
2011						
Cost or Valuation						
At 1 January 2011	**732**	**2,403**	**46,642**	**61,534**	**2,197**	**113,508**
Additions	**–**	**–**	**3**	**186**	**1,489**	**1,678**
Capitalisation adjustments *	**–**	**–**	**(2)**	**(4)**	**–**	**(6)**
Disposals/write-offs	**–**	**–**	**(1)**	**(207)**	**(3)**	**(211)**
Surplus on revaluation (note 22B)	**–**	**491**	**–**	**–**	**–**	**491**
Reclassification within other property, plant and equipment	**–**	**–**	**5**	**(6)**	**1**	**–**
Transfer to additional concession property (note 25)	**–**	**–**	**–**	**(5)**	**(10)**	**(15)**
Other assets commissioned	**–**	**–**	**4**	**1,623**	**(1,627)**	**–**
Exchange differences	**–**	**–**	**–**	**(5)**	**1**	**(4)**
At 31 December 2011	**732**	**2,894**	**46,651**	**63,116**	**2,048**	**115,441**
At Cost	**732**	**–**	**46,651**	**63,116**	**2,048**	**112,547**
At 31 December 2011 Valuation	**–**	**2,894**	**–**	**–**	**–**	**2,894**
Aggregate depreciation						
At 1 January 2011	**191**	**–**	**5,410**	**30,631**	**–**	**36,232**
Charge for the year	**13**	**73**	**403**	**2,268**	**–**	**2,757**
Written back on disposal	**–**	**–**	**(1)**	**(161)**	**–**	**(162)**
Written back on revaluation (note 22B)	**–**	**(73)**	**–**	**–**	**–**	**(73)**
At 31 December 2011	**204**	**–**	**5,812**	**32,738**	**–**	**38,754**
Net book value at 31 December 2011	**528**	**2,894**	**40,839**	**30,378**	**2,048**	**76,687**

24 Other Property, Plant and Equipment *(continued)*

The Group

in HK$ million	Leasehold land	Self-occupied land and buildings	Civil works	Plant and equipment	Assets under construction	Total
2010						
Cost or Valuation						
At 1 January 2010	732	2,120	46,507	61,026	1,366	111,751
Additions	–	–	–	187	1,729	1,916
Capitalisation adjustments *	–	–	(9)	(2)	–	(11)
Disposals/write-offs	–	–	(1)	(360)	(19)	(380)
Surplus on revaluation (note 22B)	–	283	–	–	–	283
Reclassification within other property, plant and equipment	–	–	12	(31)	19	–
Transfer to additional concession property (note 25)	–	–	–	(6)	(68)	(74)
Other assets commissioned	–	–	133	699	(832)	–
Exchange differences	–	–	–	21	2	23
At 31 December 2010	732	2,403	46,642	61,534	2,197	113,508
At Cost	732	–	46,642	61,534	2,197	111,105
At 31 December 2010 Valuation	–	2,403	–	–	–	2,403
Aggregate depreciation						
At 1 January 2010	178	–	5,008	28,721	–	33,907
Charge for the year	13	58	403	2,232	–	2,706
Written back on disposal	–	–	(1)	(324)	–	(325)
Written back on revaluation (note 22B)	–	(58)	–	–	–	(58)
Exchange differences	–	–	–	2	–	2
At 31 December 2010	191	–	5,410	30,631	–	36,232
Net book value at 31 December 2010	541	2,403	41,232	30,903	2,197	77,276

* Capitalisation adjustments relate to adjustments on the cost of assets to their final contract values after finalisation of contract claims with contractors.

Depreciation charge for the year ended 31 December 2011 was HK$2,757 million (2010: HK$2,706 million), comprising depreciation for the year of HK$2,757 million (2010: HK$2,707 million) less nil (2010: HK$1 million) capitalisation adjustment.

24 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
2011						
Cost or Valuation						
At 1 January 2011	**732**	**2,403**	**46,642**	**60,529**	**2,161**	**112,467**
Additions	**–**	**–**	**3**	**76**	**1,345**	**1,424**
Capitalisation adjustments *	**–**	**–**	**(2)**	**(4)**	**–**	**(6)**
Disposals/write-offs	**–**	**–**	**(1)**	**(205)**	**(3)**	**(209)**
Surplus on revaluation (note 22B)	**–**	**491**	**–**	**–**	**–**	**491**
Reclassification within other property, plant and equipment	**–**	**–**	**5**	**(6)**	**1**	**–**
Transfer to additional concession property (note 25)	**–**	**–**	**–**	**(5)**	**(10)**	**(15)**
Other assets commissioned	**–**	**–**	**4**	**1,460**	**(1,464)**	**–**
At 31 December 2011	**732**	**2,894**	**46,651**	**61,845**	**2,030**	**114,152**
At Cost	**732**	**–**	**46,651**	**61,845**	**2,030**	**111,258**
At 31 December 2011 Valuation	**–**	**2,894**	**–**	**–**	**–**	**2,894**
Aggregate depreciation						
At 1 January 2011	**191**	**–**	**5,410**	**30,021**	**–**	**35,622**
Charge for the year	**14**	**73**	**403**	**2,189**	**–**	**2,679**
Written back on disposal	**–**	**–**	**(1)**	**(161)**	**–**	**(162)**
Written back on revaluation (note 22B)	**–**	**(73)**	**–**	**–**	**–**	**(73)**
At 31 December 2011	**205**	**–**	**5,812**	**32,049**	**–**	**38,066**
Net book value at 31 December 2011	**527**	**2,894**	**40,839**	**29,796**	**2,030**	**76,086**

24 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
2010						
Cost or Valuation						
At 1 January 2010	732	2,120	46,507	60,177	1,350	110,886
Additions	–	–	–	89	1,678	1,767
Capitalisation adjustments *	–	–	(9)	(2)	–	(11)
Disposals/write-offs	–	–	(1)	(364)	(19)	(384)
Surplus on revaluation (note 22B)	–	283	–	–	–	283
Reclassification within other property, plant and equipment	–	–	12	(31)	19	–
Transfer to additional concession property (note 25)	–	–	–	(6)	(68)	(74)
Other assets commissioned	–	–	133	666	(799)	–
At 31 December 2010	732	2,403	46,642	60,529	2,161	112,467
At Cost	732	–	46,642	60,529	2,161	110,064
At 31 December 2010 Valuation	–	2,403	–	–	–	2,403
Aggregate depreciation						
At 1 January 2010	178	–	5,008	28,167	–	33,353
Charge for the year	13	58	403	2,177	–	2,651
Written back on disposal	–	–	(1)	(323)	–	(324)
Written back on revaluation (note 22B)	–	(58)	–	–	–	(58)
At 31 December 2010	191	–	5,410	30,021	–	35,622
Net book value at 31 December 2010	541	2,403	41,232	30,508	2,161	76,845

* Capitalisation adjustments relate to adjustments of the cost of assets to their final contract values after finalisation of contract claims with contractors.

Depreciation charge for the year ended 31 December 2011 was HK$2,679 million (2010: HK$2,651 million), comprising depreciation for the year of HK$2,679 million (2010: HK$2,652 million) less nil (2010: HK$1 million) of capitalisation adjustment.

24 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	2011	2010
At net book value		
– long leases	**142**	146
– medium-term leases	**385**	395
	527	541

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 57A, 57B and 57C).

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 of the Group's self-occupied land and buildings are held in Hong Kong under medium-term leases and carried at fair value. All self-occupied land and buildings were revalued at open market value on an existing use basis at 31 December 2011 by an independent firm of surveyors, Jones Lang LaSalle Limited, who have among their staff Members of the Hong Kong Institute of Surveyors. The valuation resulted in a revaluation surplus of HK$564 million (2010: HK$341 million), which, net of deferred tax provision of HK$93 million (2010: HK$56 million) (note 22B), has been recognised in other comprehensive income and accumulated in fixed assets revaluation reserve account (note 51).

The carrying amount of the self-occupied land and buildings at 31 December 2011 would have been HK$874 million (2010: HK$899 million) had the land and buildings been stated at cost less accumulated depreciation.

C Assets under construction include capital works on operating railway.

D The Group leases out investment properties and station kiosks, including duty free shops, under operating leases. The leases typically run for an initial period of one to ten years, with an option to renew the lease after that date, at which time all terms will be renegotiated. Lease payments are usually adjusted annually to reflect market rentals. Certain leases above 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$51,453 million (2010: HK$45,314 million) and HK$50,287 million (2010: HK$44,166 million) respectively. The gross carrying amounts of station kiosks of the Group and the Company held for use in operating leases were HK$585 million (2010: HK$551 million) and the related accumulated depreciation charges were HK$221 million (2010: HK$190 million).

Total future minimum lease receipts under non-cancellable operating leases are receivable as follows:

	The Group		The Company	
in HK$ million	2011	2010	2011	2010
Within 1 year	**4,101**	3,846	**3,811**	3,592
After 1 year but within 5 years	**5,777**	5,486	**4,963**	4,664
Later than 5 years	**336**	391	**239**	74
	10,214	9,723	**9,013**	8,330

24 Other Property, Plant and Equipment *(continued)*

E In March 2003, the Group entered into a series of structured transactions with unrelated third parties to lease out and lease back certain of its passenger cars ("Lease Transaction") involving a total original cost of HK$2,562 million and a total net book value of HK$1,674 million as at 31 March 2003. Under the Lease Transaction, the Group has leased the assets to institutional investors in the United States (the "Investors"), who have prepaid all the rentals in relation to the lease agreement. Simultaneously, the Group has leased the assets back from the Investors based on terms ranging from 21 to 29 years with an obligation to pay rentals in accordance with a pre-determined payment schedule. The Group has an option to purchase the Investors' leasehold interest in the assets at the expiry of the lease term for fixed amounts. Part of the rental prepayments received from the Investors has been invested in debt securities to meet the Group's rental obligations and the amount payable for exercising the purchase option under the Lease Transaction. The Group has an obligation to replace these debt securities with other debt securities in the event those securities do not meet certain credit ratings requirements. In addition, the Group has provided standby letters of credit to the Investors to cover additional amounts payable by the Group in the event the transactions are terminated prior to the expiry of the lease terms.

The Group retains legal title to the assets and there are no restrictions on the Group's ability to utilise these assets in the operation of the railway business.

As a result of the Lease Transaction, an amount of approximately HK$3,688 million was received in an investment account and was used to purchase debt securities ("Defeasance Securities") to be used to settle the long-term lease payments with an estimated net present value in March 2003 of approximately HK$3,533 million. 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.

During 2008, credit ratings of some of these Defeasance Securities were downgraded and subsequently these securities were replaced by standby letters of credit issued to the relevant Investors to support the corresponding payment obligations.

25 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 Longhua Line	Stockholm Metro	Total
2011					
Cost					
At 1 January 2011	**15,226**	**1,818**	**5,429**	**91**	**22,564**
Net additions during the year	**–**	**630**	**2,122**	**–**	**2,752**
Disposal	**–**	**(5)**	**–**	**–**	**(5)**
Transfer from other property, plant and equipment (note 24)	**–**	**15**	**–**	**–**	**15**
Exchange differences	**–**	**–**	**304**	**(3)**	**301**
At 31 December 2011	**15,226**	**2,458**	**7,855**	**88**	**25,627**
Accumulated amortisation					
At 1 January 2011	**939**	**142**	**2**	**14**	**1,097**
Charge for the year	**304**	**130**	**156**	**13**	**603**
Written-off on disposal	**–**	**–**	**–**	**–**	**–**
Exchange differences	**–**	**–**	**1**	**(2)**	**(1)**
At 31 December 2011	**1,243**	**272**	**159**	**25**	**1,699**
Net book value at 31 December 2011	**13,983**	**2,186**	**7,696**	**63**	**23,928**

25 Service Concession Assets *(continued)*

The Group

in HK$ million	KCRC Rail Merger Initial concession property	KCRC Rail Merger Additional concession property	Shenzhen Longhua Line	Stockholm Metro	Total
2010					
Cost					
At 1 January 2010	15,226	1,183	3,539	88	20,036
Net additions during the year	–	566	1,757	–	2,323
Disposal	–	(5)	–	–	(5)
Transfer from other property, plant and equipment (note 24)	–	74	–	–	74
Exchange differences	–	–	133	3	136
At 31 December 2010	15,226	1,818	5,429	91	22,564
Accumulated amortisation					
At 1 January 2010	634	50	–	1	685
Charge for the year	305	95	2	12	414
Written-off on disposal	–	(3)	–	–	(3)
Exchange differences	–	–	–	1	1
At 31 December 2010	939	142	2	14	1,097
Net book value at 31 December 2010	14,287	1,676	5,427	77	21,467

The Company

in HK$ million	Initial concession property	Additional concession property	Total
2011			
Cost			
At 1 January 2011	**15,226**	**1,818**	**17,044**
Net additions during the year	**–**	**630**	**630**
Disposal	**–**	**(5)**	**(5)**
Transfer from other property, plant and equipment (note 24)	**–**	**15**	**15**
At 31 December 2011	**15,226**	**2,458**	**17,684**
Accumulated amortisation			
At 1 January 2011	**939**	**142**	**1,081**
Charge for the year	**304**	**130**	**434**
Written-off on disposal	**–**	**–**	**–**
At 31 December 2011	**1,243**	**272**	**1,515**
Net book value at 31 December 2011	**13,983**	**2,186**	**16,169**

25 Service Concession Assets *(continued)*

The Company

in HK$ million	Initial concession property	Additional concession property	Total
2010			
Cost			
At 1 January 2010	15,226	1,183	16,409
Net additions during the year	–	566	566
Disposal	–	(5)	(5)
Transfer from other property, plant and equipment (note 24)	–	74	74
At 31 December 2010	15,226	1,818	17,044
Accumulated amortisation			
At 1 January 2010	634	50	684
Charge for the year	305	95	400
Written-off on disposal	–	(3)	(3)
At 31 December 2010	939	142	1,081
Net book value at 31 December 2010	14,287	1,676	15,963

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.

26 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	2011	2010
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

27 Railway Construction in Progress

The Group and The Company

in HK$ million	Balance at 1 January	Transfer from deferred expenditure (note 30)	Expenditure	Balance at 31 December
2011				
West Island Line Project				
Construction costs	**3,955**	**–**	**2,682**	**6,637**
Consultancy fees	**430**	**–**	**50**	**480**
Staff costs and other expenses	**750**	**–**	**308**	**1,058**
Interest income	**(58)**	**–**	**(78)**	**(136)**
Utilisation of government grant	**(5,077)**	**–**	**(2,962)**	**(8,039)**
	–	**–**	**–**	**–**
South Island Line (East) Project				
Construction costs	**–**	**41**	**1,653**	**1,694**
Consultancy fees	**–**	**394**	**37**	**431**
Staff costs and other expenses	**–**	**277**	**165**	**442**
Finance costs	**–**	**23**	**22**	**45**
	–	**735**	**1,877**	**2,612**
Kwun Tong Line Extension Project				
Construction costs	**–**	**18**	**500**	**518**
Consultancy fees	**–**	**137**	**39**	**176**
Staff costs and other expenses	**–**	**123**	**121**	**244**
Finance costs	**–**	**8**	**8**	**16**
	–	**286**	**668**	**954**
Total	**–**	**1,021**	**2,545**	**3,566**
2010				
West Island Line Project				
Construction costs	891	–	3,064	3,955
Consultancy fees	364	–	66	430
Staff costs and other expenses	418	–	332	750
Finance costs/(interest income)	12	–	(70)	(58)
Utilisation of government grant	(1,685)	–	(3,392)	(5,077)
Total	–	–	–	–

A West Island Line ("WIL") Project

On 13 July 2009, the Company entered into a Project Agreement with HKSAR Government for the financing, design, construction and operation of the WIL and related services and facilities.

Pursuant to the agreement, 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 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).

27 Railway Construction in Progress *(continued)*

A West Island Line ("WIL") Project *(continued)*

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$17,117 million. As at 31 December 2011, the Company has incurred cumulative expenditure of HK$8,039 million (2010: HK$5,077 million), which was wholly offset by the government grant, and has authorised outstanding commitments on contracts totalling HK$5,324 million (2010: HK$7,042 million) and estimated future project costs of HK$3,754 million in relation to the project (note 58).

B South Island Line (East) ("SIL(E)") Project

On 17 May 2011, the Company entered into a Project Agreement with 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$15,273 million. As at 31 December 2011, the Company has incurred cumulative expenditure of HK$2,612 million and has authorised outstanding commitments on contracts totalling HK$5,326 million and estimated future project costs of HK$7,335 million in relation to the project (note 58).

C Kwun Tong Line Extension ("KTE") Project

On 17 May 2011, the Company entered into a Project Agreement with 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$6,511 million. As at 31 December 2011, the Company has incurred cumulative expenditure of HK$954 million and has authorised outstanding commitments on contracts totalling HK$2,449 million and estimated future project costs of HK$3,108 million in relation to the project (note 58).

28 Other Railway Construction in Progress under Entrustment by Kowloon-Canton Railway Corporation or HKSAR Government

A Kowloon Southern Link ("KSL") Project

Pursuant to the KSL Project Management Agreement, which was the one of the principal agreements of the Rail Merger, the Company acted as a project management agent to KCRC in respect of the construction of the KSL, which was completed and commenced operation on 16 August 2009. During the year ended 31 December 2011, HK$3 million of project management fee (2010: HK$52 million of project management fee and HK$55 million of incentive payment) was recognised as income in the consolidated profit and loss account.

B Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link ("XRL") Project

On 24 November 2008, HKSAR Government and the Company entered into an entrustment agreement for the design of and site investigation and procurement activities in relation to the XRL ("Preliminary Entrustment Agreement"). Pursuant to the Preliminary Entrustment Agreement, the Company shall carry out or procure the carrying out of the design, site investigation and procurement activities and HKSAR Government shall 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, HKSAR Government and the Company entered into another entrustment agreement for the construction, testing and commissioning of the XRL ("Entrustment Agreement"). Pursuant to the Entrustment Agreement, the Company shall be responsible for the construction, testing and commissioning of the XRL and HKSAR Government is responsible as the owner of XRL to fund directly the total cost of such activities and pay to the Company HK$4,590 million in respect of the Company's management of the project. Such sum may be varied in accordance with the terms of the Entrustment Agreement but is subject to a maximum annual limit of HK$2,000 million and a total limit of HK$10 billion. In addition, 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 2011, project management revenue of HK$585 million (2010: HK$433 million) was recognised in the consolidated profit and loss account.

C Shatin to Central Link ("SCL") Project

On 24 November 2008, HKSAR Government and the Company entered into an entrustment agreement for the design of and site investigation and procurement activities in relation to the SCL ("Preliminary Entrustment Agreement"). Pursuant to the Preliminary Entrustment Agreement, the Company shall carry out or procure the carrying out of the design, site investigation and procurement activities and HKSAR Government shall 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 17 May 2011, the Company entered into another entrustment agreement with HKSAR Government for the financing, construction, procurement of services and equipment and other matters associated with 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 ancillary works in relation to the SCL ("Entrustment Agreement"). Pursuant to the Entrustment Agreement, the Company shall carry out or procure the carrying out of the agreed works and receive from HKSAR Government a project management fee while HKSAR Government shall bear and pay to the Company all the work costs. The maximum aggregate amount payable by HKSAR Government to the Company is limited to HK$3,000 million per annum and HK$15 billion in total.

29 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, HKSAR Government has granted the Company development rights on the lands over the stations along railway lines. As at 31 December 2011, the outstanding property developments include the Tseung Kwan O Extension Property Projects at depot sites along the Tsueng Kwan O Line, the East Rail Line/Kowloon Southern Link/Light Rail Property Projects at five 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.

Costs incurred by the Company for the acquisition of property development rights and preparation of the sites for development including land premium are capitalised as property development in progress and offset by payments received from developers in respect of the same development. In cases where payments received from developers exceed the related expenditure incurred by the Company, such excess is recorded as deferred income (note 29B). In these cases, any subsequent expenditure incurred by the Company in respect of that development will be charged against deferred income. The remaining deferred income is to be recognised as profits of the Company at the appropriate time after taking into account the outstanding risks and obligations retained by the Company relating to each development. Until such time as deferred income is recognised as profit, it is recorded as a liability of the Company in recognition of the Company's obligations under the grant of the development rights.

During the year ended 31 December 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. The two subsidiaries will incorporate a project company in the Mainland of China to undertake residential and commercial development of the site ("Shenzhen Property Project"). Part of the net profits generated from this property development will be shared with the Shenzhen Municipal Government.

A Property Development in Progress

The Group

in HK$ million	Balance at 1 January	Transfer from deferred expenditure (note 30)	Expenditure	Offset against payments received from developers	Transfer out on project completion	Balance at 31 December
2011						
Airport Railway Property Projects	**–**	**–**	**4**	**(4)**	**–**	**–**
Tseung Kwan O Extension Property Projects	**1,151**	**–**	**159**	**(9)**	**(213)**	**1,088**
East Rail Line/Kowloon Southern Link/ Light Rail Property Projects	**7,977**	**–**	**123**	**(19)**	**–**	**8,081**
South Island Line (East) Property Project	**–**	**32**	**253**	**–**	**–**	**285**
Kwun Tong Line Extension Property Project	**–**	**4**	**61**	**–**	**–**	**65**
Shenzhen Property Project	**–**	**–**	**2,445**	**–**	**–**	**2,445**
	9,128	**36**	**3,045**	**(32)**	**(213)**	**11,964**
2010						
Airport Railway Property Projects	–	–	14	(14)	–	–
Tseung Kwan O Extension Property Projects	2,245	–	331	(12)	(1,413)	1,151
East Rail Line/Kowloon Southern Link/ Light Rail Property Projects	4,473	–	4,027	(523)	–	7,977
	6,718	–	4,372	(549)	(1,413)	9,128

29 Property Development in Progress *(continued)*

A Property Development in Progress *(continued)*

The Company

in HK$ million	Balance at 1 January	Transfer from deferred expenditure (note 30)	Expenditure	Offset against payments received from developers	Transfer out on project completion	Balance at 31 December
2011						
Airport Railway Property Projects	**–**	**–**	**4**	**(4)**	**–**	**–**
Tseung Kwan O Extension Property Projects	**1,151**	**–**	**159**	**(9)**	**(213)**	**1,088**
East Rail Line/Kowloon Southern Link/ Light Rail Property Projects	**7,977**	**–**	**123**	**(19)**	**–**	**8,081**
South Island Line (East) Property Project	**–**	**32**	**253**	**–**	**–**	**285**
Kwun Tong Line Extension Property Project	**–**	**4**	**61**	**–**	**–**	**65**
Shenzhen Property Project	**–**	**–**	**2**	**–**	**–**	**2**
	9,128	**36**	**602**	**(32)**	**(213)**	**9,521**
2010						
Airport Railway Property Projects	–	–	14	(14)	–	–
Tseung Kwan O Extension Property Projects	2,245	–	331	(12)	(1,413)	1,151
East Rail Line/Kowloon Southern Link/ Light Rail Property Projects	4,473	–	4,027	(523)	–	7,977
	6,718	–	4,372	(549)	(1,413)	9,128

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 2011, outstanding mandatory payments including interest accrued amounted to HK$720 million (2010: HK$699 million). Expenditure during the year ended 31 December 2010 included HK$3,900 million of land premium in respect of the property development of Austin Station Sites C and D.

Shenzhen Property Project includes the price for Lot 1 of the Shenzhen Metro Longhua Line Depot Site of RMB1,977 million (HK$2,438 million). In this regard, HK$493 million, representing an equivalent amount of RMB400 million, has been deposited into the foreign currency bank account of the Shenzhen Land Exchange Centre.

B Deferred Income on Property Development

The Group and The Company

in HK$ million	Balance at 1 January	Payments received from developers	Offset against development in progress (note 29A)	Amount recognised as profit (note 12)	Balance at 31 December
2011					
Airport Railway Property Projects	**38**	**–**	**(4)**	**–**	**34**
Tseung Kwan O Extension Property Projects	**43**	**–**	**(9)**	**–**	**34**
East Rail Line/Kowloon Southern Link/ Light Rail Property Projects	**487**	**–**	**(19)**	**(468)**	**–**
	568	**–**	**(32)**	**(468)**	**68**
2010					
Airport Railway Property Projects	69	–	(14)	(17)	38
Tseung Kwan O Extension Property Projects	55	–	(12)	–	43
East Rail Line/Kowloon Southern Link/ Light Rail Property Projects	–	1,010	(523)	–	487
	124	1,010	(549)	(17)	568

29 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 stakeholding funds during the year are as follows:

The Group and The Company

in HK$ million	2011	2010
Balance as at 1 January	**3,708**	6,455
Stakeholding funds received	**25,039**	43,110
Add: Interest earned thereon	**15**	18
	28,762	49,583
Disbursements during the year	**(23,926)**	(45,875)
Balance as at 31 December	**4,836**	3,708
Represented by :		
Balances in designated bank accounts as at 31 December	**4,834**	3,706
Retention receivable	**2**	2
	4,836	3,708

In addition to the above, there are certain deposit monies and sales proceeds in respect of an East Rail Line property development site, amounting to HK$2,410 million at 31 December 2011 (2010: HK$1,225 million) that are under the custody of the solicitors and managed by the Company on behalf of KCRC as KCRC's agent.

D West Rail Property Developments

As part of the Rail Merger, the Company was appointed to act as the agent of KCRC and certain KCRC subsidiary companies ("West Rail Subsidiaries") in the development of specified development sites along the West Rail. The Company will 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 will receive 10% of the net profits accrued under the development agreement. The Company will 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 2011, the reimbursable costs incurred by the Company including on-cost and interest accrued were HK$96 million (2010: HK$60 million).

30 Deferred Expenditure

The Group and The Company

in HK$ million	2011	2010
Balance at 1 January	**1,079**	558
Expenditure during the year	**3**	521
Transfer to investment properties (note 23)	**(11)**	–
Transfer to railway construction in progress (note 27)	**(1,021)**	–
Transfer to property development in progress (note 29)	**(36)**	–
Balance at 31 December	**14**	1,079

Upon signing of the Project Agreements in relation to the South Island Line (East) ("SIL(E)") and Kwun Tong Line Extension ("KTE") on 17 May 2011, expenditures previously incurred for the SIL(E) (HK$735 million on railway construction and HK$32 million on property development) and KTE (HK$286 million on railway construction and HK$4 million on property development) were transferred to railway construction in progress (note 27) and property development in progress (note 29). Deferred expenditure as at 31 December 2011 mainly related to property development project studies.

31 Interests in Non-controlled Subsidiaries

	The Group		The Company	
in HK$ million	**2011**	2010	**2011**	2010
Unlisted shares, at cost	**–**	–	**24**	24
Share of net assets	**579**	541	**–**	–
	579	541	**24**	24

The following list contains the particulars of all major non-controlled subsidiaries of the Group:

Name of company	Issued and paid up ordinary share capital	Proportion of ownership interest: Group's effective interest	Proportion of ownership interest: Held by the Company	Proportion of ownership interest: Held by subsidiary	Place of incorporation and operation	Principal activities
Octopus Holdings Limited	HK$42,000,000	57.4%	57.4%	–	Hong Kong	Investment holding
Octopus Cards Limited	HK$42,000,000	57.4%	–	100%	Hong Kong	Operate a contactless smartcard common payment system in Hong Kong
Octopus China Investments Limited	HK$1	57.4%	–	100%	Hong Kong	Investment holding
Octopus Connect Limited	HK$2	57.4%	–	100%	Hong Kong	Dormant
Octopus International Projects Limited	HK$1	57.4%	–	100%	Hong Kong	Investment holding
Octopus Investments Limited	HK$2	57.4%	–	100%	Hong Kong	Investment holding
Octopus Knowledge Limited	HK$2	57.4%	–	100%	Hong Kong	Consultancy services on introducing a smartcard system in Dubai
Octopus Netherlands Limited	HK$1	57.4%	–	100%	Hong Kong	Consultancy services on introducing a smartcard system in the Netherlands
Octopus Payments Limited	HK$2	57.4%	–	100%	Hong Kong	Project management
Octopus Rewards Limited	HK$1	57.4%	–	100%	Hong Kong	Develop and operate a common loyalty scheme
Octopus Solutions Limited	HK$2	57.4%	–	100%	Hong Kong	Consultancy services in Auckland
Octopus Systems Limited	HK$2	57.4%	–	100%	Hong Kong	Consultancy services in Hong Kong
Octopus Transactions Limited	HK$2	57.4%	–	100%	Hong Kong	Project management
Octopus Cards Macau Limited	MOP25,000	57.4%	–	100%	Macau	Promote the contactless smartcard common payment system in Macau

Octopus Cards Limited ("OCL") was formed in 1994 by the Company and four other local transport companies to undertake the development and operation of the "Octopus" contactless smart card ticketing system. In 2000, the Hong Kong Monetary Authority ("HKMA") approved OCL to become a deposit-taking company ("DTC") and extend the use of Octopus cards to non-transport related services. In 2001, the Company disposed 10.4% of the shareholding interest of OCL to certain other shareholders of OCL for a consideration of HK$16 million, together with a deferred consideration to be received in the event of OCL subsequently becoming a stock exchange listed company. In 2005, OCL undertook a company re-structuring to separate OCL's regulated payment businesses and non-payment businesses by setting up a new holding company, Octopus Holdings Limited ("OHL"), to hold the entire issued share capital of OCL as well as other companies established for the non-payment businesses. The Company's effective interest in OHL and OHL's subsidiaries remains unchanged at 57.4% and the Company's appointees to the OHL's Board of Directors are limited to 49% of the voting rights at board meetings.

During the year ended 31 December 2011, the Company incurred HK$116 million (2010: HK$109 million) of expenses for the central clearing services provided by OCL. OCL incurred HK$29 million (2010: HK$48 million) of expenses for the load agent and Octopus card issuance and refund services, computer equipment and relating services, staff secondment, project administration services as well as warehouse storage space provided by the Company. During the year, OHL distributed dividends of HK$144 million (2010: HK$75 million) to the Company.

31 Interests in Non-controlled Subsidiaries *(continued)*

The condensed consolidated profit and loss account and the balance sheet for OHL are shown below:

Consolidated Profit and Loss Account

Year ended 31 December in HK$ million	2011 (Audited)	2010 (Audited)
Turnover	**704**	662
Other operating income	**8**	6
	712	668
Staff costs	**(126)**	(119)
Load agent fees and bank charges for add value services	**(88)**	(80)
Other expenses	**(148)**	(222)
Operating profit before depreciation	**350**	247
Depreciation	**(38)**	(43)
Operating profit before interest and finance charges	**312**	204
Net interest income	**54**	56
Share of loss from a jointly controlled entity	**(4)**	(2)
Profit before taxation	**362**	258
Income tax	**(45)**	(39)
Profit for the year	**317**	219
Group's share of profit before taxation (note 16)	**208**	148
Group's share of income tax (note 16)	**(26)**	(22)

Consolidated Balance Sheet

at 31 December in HK$ million	2011 (Audited)	2010 (Audited)
Assets		
Fixed assets	**216**	189
Investments	**2,641**	2,195
Other assets	**358**	277
Cash at banks and on hand	**517**	671
	3,732	3,332
Liabilities		
Card floats and card deposits due to cardholders	**(2,244)**	(2,004)
Amounts due to related parties	**(55)**	(24)
Other liabilities	**(423)**	(362)
	(2,722)	(2,390)
Net assets	**1,010**	942
Equity		
Share capital	**42**	42
Exchange reserve	**1**	–
Retained profits	**967**	900
	1,010	942
Group's share of net assets	**579**	541

32 Investments in Subsidiaries

The Company

in HK$ million	**2011**	2010
Unlisted shares, at cost	**1,260**	1,256

Investments in subsidiaries include HK$24 million (2010: HK$24 million) in respect of investments in non-controlled subsidiaries, the relevant details of which are disclosed in note 31. The following list contains details of controlled subsidiaries as defined under note 2C as at 31 December 2011, which have been consolidated into the Group's accounts.

		Proportion of ownership interest				
Name of company	Issued and paid up ordinary/registered share capital	Group's effective interest	Held by the Company	Held by subsidiary	Place of incorporation and operation	Principal activities
Subsidiaries held throughout 2011						
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 (previously Rail Sourcing Solutions (International) 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 (previously Extensive Growth 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 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 agency
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 Rail Transport Training (International) Company Limited	HK$2,800,000	100%	100%	–	Hong Kong	Provide rail transport training in Mainland China

32 Investments in Subsidiaries *(continued)*

Name of company	Issued and paid up ordinary/registered share capital	Proportion of ownership interest: Group's effective interest	Proportion of ownership interest: Held by the Company	Proportion of ownership interest: Held by subsidiary	Place of incorporation and operation	Principal activities
MTR Shenyang Holdings Limited	HK$1,000	100%	100%	–	Hong Kong	Investment holding
MTR Shenyang Investment Holdings Limited	HK$1	100%	100%	–	Hong Kong	Investment holding
MTR Shenyang Property No.1 Limited	HK$1	100%	–	100%	Hong Kong	Property development, investment and management
MTR Shenzhen Investment Holding Limited	HK$400,000	100%	100%	–	Hong Kong	Investment holding
MTR Telecommunication Company Limited	HK$100,000,000	100%	100%	–	Hong Kong	Mobile telecommunication services
MTR Travel Limited	HK$2,500,000	100%	100%	–	Hong Kong	Travel services
Ngong Ping 360 Limited	HK$2	100%	100%	–	Hong Kong	Operate the Tung Chung to Ngong Ping cable car system and Theme Village in Ngong Ping
Pierhead Garden Management Company Limited	HK$50,000	100%	100%	–	Hong Kong	Property management
Royal Ascot Management Company Limited	HK$50,000	100%	100%	–	Hong Kong	Property management
Sun Tuen Mun Centre Management Company Limited	HK$50,000	100%	100%	–	Hong Kong	Property management
TraxComm Limited	HK$15,000,000	100%	100%	–	Hong Kong	Fixed telecommunication network services
V-Connect Limited	HK$1,000	100%	100%	–	Hong Kong	Mobile telecommunication network services
360 Holidays Limited	HK$500,000	100%	–	100%	Hong Kong	Guided tour services
Metro Trains Melbourne Pty. Ltd. *	AUD16,250,000	60% on ordinary shares; 30% on Class A shares	60% on ordinary shares; 30% on Class A shares	–	Australia	Railway operations and maintenance
Fasttrack Insurance Ltd.	HK$77,500,000	100%	100%	–	Bermuda	Insurance underwriting
Candiman Limited *	US$1	100%	100%	–	British Virgin Islands	Investment holding
MTR Corporation (C.I.) Limited	US$1,000	100%	100%	–	Cayman Islands/ Hong Kong	Finance
MTR Finance Lease (001) Limited	US$1	100%	100%	–	Cayman Islands/ Hong Kong	Finance
MTR Stockholm AB	SEK40,000,000	100%	–	100%	Sweden	Railway operations and maintenance

32 Investments in Subsidiaries *(continued)*

Name of company	Issued and paid up ordinary/registered share capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by subsidiary	Place of incorporation and operation	Principal activities
Chongqing Premier Property Management Company Limited *	US$150,000	70%	–	70%	The People's Republic of China	Property management
MTR (Beijing) Commercial Facilities Management Co., Ltd.	HK$93,000,000	100%	–	100%	The People's Republic of China	Property leasing and management
MTR (Beijing) Property Services Company Limited *	RMB3,000,000	100%	100%	–	The People's Republic of China	Property management
MTR Commercial Management (Beijing) Company Limited *	HK$120,000	100%	–	100%	The People's Republic of China	Business management, business consultancy, commercial facilities strategy and consultancy services, and corporate training management
MTR Consultancy (Beijing) Co. Limited (Incorporated)	HK$4,200,000	100%	100%	–	The People's Republic of China	Railway consultancy services, marketing and promotion
MTR Consulting (Shenzhen) Co. Ltd. (Incorporated)	HK$1,000,000	100%	100%	–	The People's Republic of China	Railway consultancy services
MTR Corporation (Shenzhen) Limited (Incorporated)	HK$2,636,000,000	100%	–	100%	The People's Republic of China	Railway construction, operation and management
MTR Corporation (Shenzhen) Training Centre * (Incorporated)	RMB2,000,000	100%	–	100%	The People's Republic of China	Provide rail transport training
Shanghai Hong Kong Metro Construction Management Co. Ltd. (Incorporated)	HK$15,000,000	60%	–	60%	The People's Republic of China	Railway construction management and development
MTR Corporation (Silverlink) Limited	GBP1	100%	–	100%	United Kingdom	Investment holding
MTR Corporation (UK) Limited	GBP29	100%	100%	–	United Kingdom	Investment holding
Subsidiaries established during 2011						
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

* Subsidiaries not audited by KPMG

During the year ended 31 December 2011, MTR (Macau) Property Management Company Limited was wound up and resolution was passed to dissolve Shanghai Hong Kong Metro Construction Management Co. Ltd..

33 Interests in Associates

The Group

in HK$ million	2011	2010
Share of net assets	**948**	836

The Group and the Company had interests in the following associates as at 31 December 2011:

		Proportion of ownership interest			
Name of company	Issued and paid up ordinary/registered share capital	Group's effective interest	Held by subsidiary	Place of incorporation and operation	Principal activities
Beijing MTR Corporation Limited (Incorporated)	RMB1,380,000,000	49%	49%	The People's Republic of China	Railway construction, operation, management and development
Shenyang MTR Corporation Limited	RMB100,000,000	49%	49%	The People's Republic of China	Railway operation and management
Tunnelbanan Teknik Stockholm AB	SEK30,000,000	50%	50%	Sweden	Railway maintenance
London Overground Rail Operations Ltd ("LOROL") *	GBP2	50%	50%	United Kingdom	Railway management

* Companies not audited by KPMG

The Company has reached agreement with the other parent company of Shenyang MTR Corporation Limited ("Shenyang MTR") to wind up Shenyang MTR. The request for approval has been submitted to the Shenyang Municipal Government and the process for liquidation has started.

During the year ended 31 December 2011, Tunnelbanan Teknik Stockholm AB provided rolling stock maintenance and other supporting services to MTR Stockholm AB at an amount of SEK520 million (HK$629 million) (2010: SEK511 million or HK$550 million). MTR Stockholm AB leased depots, depot equipment and provided other supporting services to Tunnelbanan Teknik Stockholm AB at a total amount of SEK108 million (HK$131 million) (2010: SEK114 million or HK$122 million).

During the same year, the Company provided staff secondment, information technology and other support services to Beijing MTR Corporation Limited at a total amount of HK$19 million (2010: HK$32 million). During the year ended 31 December 2010, the Company provided staff secondment and consultancy service to LOROL at an amount of HK$1 million.

The summary financial information of the Group's effective interests in associates is as follows:

in HK$ million	2011	2010
Non-current assets	**2,319**	2,435
Current assets	**793**	747
Non-current liabilities	**(860)**	(972)
Current liabilities	**(1,304)**	(1,374)
Net assets	**948**	836
Income	**1,760**	1,612
Expenses	**(1,608)**	(1,590)
Profit before taxation	**152**	22
Income tax	**(37)**	(9)
Net profit for the year	**115**	13

34 Investments in Securities

Investments in securities, representing bank medium term notes held by the Company and debt securities held by the overseas insurance underwriting subsidiary, comprise:

The Group

in HK$ million	2011	2010
Held-to-maturity securities, at amortised cost		
– maturing within 1 year	2,626	1,000
– maturing after 1 year	–	2,627
	2,626	3,627
Trading securities listed overseas, at fair value (Level 1, see note 36 for definition)		
– maturing within 1 year	126	67
– maturing after 1 year	222	218
	348	285
	2,974	3,912

The Company

in HK$ million	2011	2010
Held-to-maturity securities, at amortised cost		
– maturing within 1 year	2,626	1,000
– maturing after 1 year	–	2,627
	2,626	3,627

35 Properties Held for Sale

The Group and The Company

in HK$ million	2011	2010
Properties held for sale		
– at cost	3,718	1,829
– at net realisable value	39	107
	3,757	1,936

Properties held for sale at 31 December 2011 comprised mainly residential units and car parking spaces at Festival City at Tai Wai Maintenance Centre and The Palazzo at Fo Tan Station along the East Rail Line and Lake Silver at Wu Kai Sha Station along the Ma On Shan Line. They represent either properties received by the Company as sharing in kind or as part of the profit distribution upon completion of the development. The properties are stated on the balance sheet at the lower of cost, which is deemed to be their fair value upon initial recognition as determined by reference to an independent open market valuation at the date of receipt (notes 2K(iv) and (v)), 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 2011 and 2010 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$18 million (2010: HK$12 million), made in order to state these properties at the lower of their cost and estimated net realisable value.

36 Derivative Financial Assets and Liabilities

A Fair Value

The contracted notional amounts, fair values and maturities based on contractual undiscounted cash flows of derivative financial instruments outstanding are as follows:

The Group and The Company

in HK$ million	Notional amount	Fair value	Level*	Contractual undiscounted cash flow maturing in Less than 1 year	1-2 years	2-5 years	Over 5 years	Total
2011								
Derivative Financial Assets								
Gross settled:								
Foreign exchange forwards								
– cash flow hedges :	**86**	**3**	**2**					
– inflow				**29**	**26**	**34**	**–**	**89**
– outflow				**(27)**	**(26)**	**(33)**	**–**	**(86)**
– not qualified for hedge accounting :	**6**	**–**	**2**					
– inflow				**5**	**–**	**–**	**–**	**5**
– outflow				**(5)**	**–**	**–**	**–**	**(5)**
Cross currency swaps								
– fair value hedges :	**1,245**	**54**	**2**					
– inflow				**37**	**811**	**6**	**470**	**1,324**
– outflow				**(6)**	**(785)**	**–**	**(465)**	**(1,256)**
Net settled:								
Interest rate swaps								
– fair value hedges	**2,833**	**287**	**2**	**134**	**95**	**78**	**34**	**341**
– cash flow hedges	**300**	**–**	**2**	**(1)**	**(1)**	**2**	**–**	**–**
– not qualified for hedge accounting	**388**	**–**	**2**	**–**	**–**	**–**	**–**	**–**
	4,858	**344**		**166**	**120**	**87**	**39**	**412**
Derivative Financial Liabilities								
Gross settled:								
Foreign exchange forwards								
– cash flow hedges :	**83**	**4**	**2**					
– inflow				**59**	**16**	**4**	**–**	**79**
– outflow				**(62)**	**(17)**	**(4)**	**–**	**(83)**
– not qualified for hedge accounting :	**174**	**7**	**2**					
– inflow				**132**	**27**	**7**	**–**	**166**
– outflow				**(138)**	**(28)**	**(7)**	**–**	**(173)**
Cross currency swaps								
– fair value hedges :	**4,663**	**28**	**2**					
– inflow				**12**	**13**	**6,593**	**–**	**6,618**
– outflow				**(18)**	**(21)**	**(6,609)**	**–**	**(6,648)**
Net settled:								
Interest rate swaps								
– cash flow hedges	**1,912**	**112**	**2**	**(59)**	**(48)**	**(16)**	**(3)**	**(126)**
	6,832	**151**		**(74)**	**(58)**	**(32)**	**(3)**	**(167)**
Total	**11,690**							

36 Derivative Financial Assets and Liabilities *(continued)*

A Fair Value *(continued)*

The Group and The Company

in HK$ million	Notional amount	Fair value	Level*	Contractual undiscounted cash flow maturing in Less than 1 year	1-2 years	2-5 years	Over 5 years	Total
2010								
Derivative Financial Assets								
Gross settled:								
Foreign exchange forwards								
– cash flow hedges :	147	11	2					
– inflow				121	27	12	–	160
– outflow				(112)	(25)	(12)	–	(149)
– not qualified for hedge accounting :	11	2	2					
– inflow				13	–	–	–	13
– outflow				(11)	–	–	–	(11)
Cross currency swaps								
– fair value hedges :	1,255	75	2					
– inflow				46	37	817	467	1,367
– outflow				(15)	(10)	(792)	(464)	(1,281)
Net settled:								
Interest rate swaps								
– fair value hedges	2,834	280	2	102	123	91	18	334
– cash flow hedges	350	7	2	(7)	(5)	5	11	4
	4,597	375		137	147	121	32	437
Derivative Financial Liabilities								
Gross settled:								
Foreign exchange forwards								
– cash flow hedges :	82	4	2					
– inflow				49	19	8	–	76
– outflow				(52)	(20)	(8)	–	(80)
– not qualified for hedge accounting :	129	–	2					
– inflow				108	17	4	–	129
– outflow				(108)	(17)	(4)	–	(129)
Cross currency swaps								
– fair value hedges :	4,663	32	2					
– inflow				9	15	5,092	–	5,116
– outflow				(15)	(26)	(5,106)	–	(5,147)
Net settled:								
Interest rate swaps								
– fair value hedges	–	–	2	–	–	–	–	–
– cash flow hedges	1,312	112	2	(49)	(42)	(29)	–	(120)
	6,186	148		(58)	(54)	(43)	–	(155)
Total	10,783							

* The levels are defined in HKFRS 7 as follows:

Level 1: Fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments

Level 2: Fair values measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data

Level 3: Fair values measured using valuation techniques in which any significant input is not based on observable market data

36 Derivative Financial Assets and Liabilities *(continued)*

A Fair Value *(continued)*

The discounted cash flow method, which discounts the future contractual cash flows at the current market interest and foreign exchange rates that are available to the Group for similar financial instruments, is the main valuation technique used to determine the fair value of the Group's borrowings and derivative financial instruments such as interest rate swaps and cross currency swaps. The fair value of forward foreign exchange contracts is determined using forward exchange market rates at the balance sheet date.

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 2011 and 2010 were used to discount the cash flows of financial instruments. Interest rates used ranged from 0.250% to 1.877% (2010: 0.045% to 3.407%) for Hong Kong dollars, 0.208% to 2.027% (2010: 0.392% to 3.509%) for US dollars and 0.677% to 2.381% (2010: 0.379% to 3.393%) for Euro.

The table above details the remaining contractual maturities at the balance sheet date of the Group's and the Company's derivative financial liabilities and assets, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the balance sheet date) and the earliest date the Group and the Company can be required to pay.

B Financial Risks

The Group's operating activities and financing activities expose it to four main types of financial risks, namely liquidity risk, interest rate risk, foreign exchange risk and credit risk. The Group's overall risk management policy focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects of these financial risks on the Group's financial performance.

The Board of Directors provides principles for overall risk management and approves policies covering specific areas, such as liquidity risk, interest rate risk, foreign exchange risk, credit risk, concentration risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity. The Group's Preferred Financing Model (the "Model") is an integral part of its risk management policies. The Model specifies, amongst other things, the preferred mix of fixed and floating rate debts, the permitted level of foreign currency debts and an adequate length of financing horizon for coverage of forward funding requirements, against which the Group's financing related liquidity, interest rate and currency risk exposures are measured, monitored and controlled. The Board regularly reviews its risk management polices and authorises changes if necessary based on operating and market conditions and other relevant factors. The Board also reviews on an annual basis as part of the budgeting process and authorises changes if necessary to the Model in accordance with changes in market conditions and practical requirements.

The use of derivative financial instruments to control and hedge against interest rate and foreign exchange risk exposures is an integral part of the Group's risk management strategy. In accordance with Board policy, these instruments shall only be used for controlling or hedging risk exposures, and cannot be used for speculation purposes. All of the derivative instruments used by the Group are over-the-counter derivatives comprising principally interest rate swaps, cross currency swaps and foreign exchange forward contracts.

(i) Liquidity Risk

Liquidity risk refers to the risk that funds are not available to meet liabilities as they fall due, and it may result from timing and amount mismatches of cash inflow and outflow.

The Group employs projected cash flow analysis to manage liquidity risk by forecasting the amount of cash required, including working capital, debt repayments, dividend payments, capital expenditures and new investments, and by maintaining sufficient cash balance and/or undrawn committed banking facilities to ensure these requirements are met. It adopts a prudent approach and will maintain sufficient cash balance and committed banking facilities to provide forward coverage of at least 6 to 15 months of projected cash requirements as specified in the Model. The Group also conducts stress testing of its projected cash flow to analyse liquidity risk, and would arrange additional banking facilities or debt issuance or otherwise take appropriate actions if such stress tests reveal significant risk of material cash flow shortfall.

The following table details the remaining contractual maturities at the balance sheet date of the Group's and the Company's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the balance sheet date) and the earliest date the Group and the Company can be required to pay:

The Group

	2011				2010			
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	**2,876**	**4,305**	**592**	**7,773**	3,218	2,315	598	6,131
Amounts repayable within a period of between 2 and 5 years	**7,498**	**840**	**1**	**8,339**	8,717	1,318	1	10,036
Amounts repayable within a period of between 1 and 2 years	**3,883**	**387**	**2**	**4,272**	603	6,569	1	7,173
Amounts repayable within 1 year	**632**	**6,426**	**2**	**7,060**	1,013	480	1	1,494
	14,889	**11,958**	**597**	**27,444**	13,551	10,682	601	24,834

36 Derivative Financial Assets and Liabilities *(continued)*

B Financial Risks *(continued)*

The Company

	2011				2010			
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	**543**	**–**	**592**	**1,135**	577	–	598	1,175
Amounts repayable within a period of between 2 and 5 years	**117**	**326**	**–**	**443**	117	531	–	648
Amounts repayable within a period of between 1 and 2 years	**39**	**194**	**–**	**233**	39	6,457	–	6,496
Amounts repayable within 1 year	**39**	**6,229**	**–**	**6,268**	39	376	–	415
	738	**6,749**	**592**	**8,079**	772	7,364	598	8,734

Others represent obligations under lease out/lease back transaction (note 24E).

(ii) Interest Rate Risk

The Group's interest rate risk arises principally from its borrowing activities. Borrowings based on fixed and floating rates expose the Group to fair value and cash flow interest rate risk respectively due to fluctuations in market interest rates. The Group manages and controls its interest rate risk exposure by maintaining a level of fixed rate debt between 40% and 70% of total debt outstanding as specified by the Model. Should the actual fixed rate debt level deviate substantially from the Model, derivative financial instruments such as interest rate swaps would be procured to align the fixed and floating mix with the Model. As at 31 December 2011, 51% 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 2011, the Group had total cash balances and bank deposits of HK$7,156 million from which it derived floating rate interest income, compared with total floating rate borrowings of HK$11,031 million.

As at 31 December 2011, it is estimated that a 100 basis points increase/25 basis points decrease in interest rates, with all other variables held constant, would increase/decrease the Group's profit after tax and retained profits by approximately HK$31/HK$8 million. Other components of consolidated equity would increase/decrease by approximately HK$46/HK$16 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 the light of the current low absolute levels of interest rates and the greater scope for rate increase than decrease in the future.

In 2010, a similar analysis was performed based on the assumption of a general increase/decrease of 100/50 basis points in interest rates, which would increase/decrease the Group's profit after tax and retained profits by approximately HK$85/HK$24 million. Other components of consolidated equity would increase/decrease by approximately HK$49/HK$26 million.

(iii) Foreign Exchange Risk

Foreign exchange risk arises when recognised assets and liabilities are denominated in a currency that is not the Group's functional currency. For the Group, it arises principally from its borrowing and overseas procurement activities.

The Group manages and controls its foreign exchange risk exposure by maintaining a modest level of unhedged non-Hong Kong dollar debt as specified by the Model, and minimal foreign exchange open positions created by its procurements overseas. Where the currency of a borrowing is not matched with that of the expected cash flows for servicing the debt, the Group would convert its foreign currency exposure resulting from the borrowing to Hong Kong dollar exposure through cross currency swaps. For procurement in foreign currencies, the Group would enter into foreign exchange forward contracts to secure the necessary foreign currencies at pre-determined exchange rates for settlement.

The Group's exposure to US dollars due to its foreign currency borrowings is also offset by the amount of US dollar cash balances, bank deposits and investments that it maintains.

As most of the Group's receivables and payables are denominated in the respective Group companies' functional currencies (Hong Kong dollars, Renminbi, Australian dollars or Swedish krona) or United States dollars (with which Hong Kong dollars are pegged) and most of its payment commitments denominated in foreign currencies are covered by foreign exchange forward contracts, management does not expect that there will be any significant currency risk associated with them.

36 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 24E). 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 38.

37 Stores and Spares

	The Group		The Company	
in HK$ million	**2011**	2010	**2011**	2010
Stores and spares expected to be consumed:				
– within 1 year	**695**	643	**570**	519
– after 1 year	**446**	426	**368**	363
	1,141	1,069	**938**	882
Less: Provision for obsolete stock	**(6)**	(8)	**(6)**	(8)
	1,135	1,061	**932**	874

Stores and spares expected to be consumed after 1 year comprise mainly contingency spares and stocks kept to meet cyclical maintenance requirements.

38 Debtors, Deposits and Payments in Advance

	The Group		The Company	
in HK$ million	**2011**	2010	**2011**	2010
Debtors, deposits and payments in advance relate to:				
– Property development projects	**1,203**	636	**1,203**	636
– Railway subsidiaries outside of Hong Kong	**1,204**	1,203	**–**	–
– Hong Kong operations and others	**1,557**	1,222	**1,426**	1,143
	3,964	3,061	**2,629**	1,779

38 Debtors, Deposits and Payments in Advance *(continued)*

The Group's credit policies in respect of receivables arising from its principal activities are as follows:

(i) The majority of fare revenue from Hong Kong transport operation is collected either through Octopus Cards with daily settlement on the next working day or in cash for other ticket types. A small portion of fare revenue from Hong Kong transport operation collected through pre-sale agents is due within 21 days.

(ii) Fare revenue from Shenzhen Longhua Line is collected either through Shenzhen Tong Cards with daily settlement on the next working day or in cash for other ticket types.

(iii) Franchise revenue in Melbourne is collected either weekly or monthly depending on its 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 respective terms of the agreements.

(vi) Consultancy service incomes are billed monthly, upon work completion or on other basis stipulated in the consultancy contracts and are due within 30 days.

(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	**2011**	2010	**2011**	2010
Amounts not yet due	**2,612**	1,904	**1,831**	1,092
Overdue by 30 days	**428**	157	**242**	61
Overdue by 60 days	**21**	27	**5**	21
Overdue by 90 days	**8**	8	**6**	3
Overdue by more than 90 days	**20**	11	**2**	6
Total debtors	**3,089**	2,107	**2,086**	1,183
Deposits and payments in advance	**677**	785	**345**	427
Prepaid pension costs	**198**	169	**198**	169
	3,964	3,061	**2,629**	1,779

Included in amounts not yet due as at 31 December 2011 was HK$1,203 million (2010: HK$634 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 29C) awaiting finalisation of the respective development accounts as well as other receivables on miscellaneous recoverable expenses.

As at 31 December 2011, 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 (2010: HK$153 million) included in Hong Kong operations and others, which were expected to be recovered between one to three years. The nominal values less impairment losses for bad and doubtful debts are not discounted as it is considered that the effect of discounting would not be significant.

Included in debtors, deposits and payments in advance are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	The Group		The Company	
	2011	2010	**2011**	2010
New Taiwan dollars (in million)	**–**	2	**–**	2
Pound sterling (in million)	**1**	–	**1**	–
United States dollars (in million)	**9**	9	**9**	8

39 Loan to a Property Developer

The Group and The Company

in HK$ million	2011 Nominal amount	2011 Carrying amount	2010 Nominal amount	2010 Carrying amount
Interest-free loan to a property developer	**–**	**–**	2,000	1,975

The outstanding loan provided to the developer of Tseung Kwan O Area 86 Package 2 ("LOHAS Park") property development project under the terms of the development agreement was fully repaid during the year ended 31 December 2011.

40 Amounts Due from Related Parties

	The Group		The Company	
in HK$ million	**2011**	2010	**2011**	2010
Amounts due from:				
– HKSAR Government	**248**	156	**248**	156
– KCRC	**20**	25	**20**	25
– non-controlled subsidiaries	**23**	17	**23**	17
– associates	**111**	132	**63**	71
– other subsidiaries of the Company (net of impairment losses)	**–**	–	**4,681**	4,096
	402	330	**5,035**	4,365

The amount due from HKSAR Government includes outstanding receivables in relation to the Shatin to Central Link, South Island Line (East) and Kwun Tong Line Extension projects.

The amount due from KCRC related to payments to the Company in respect of the Outsourcing Agreement and costs on certain capital works recoverable from KCRC in accordance with the Merger Framework Agreement.

The amount due from non-controlled subsidiaries related to receivables from Octopus Cards Limited.

The amounts due from associates of the Group as at 31 December 2011 included the outstanding balances of loan to Tunnelbanan Teknik Stockholm AB ("TBT"), amounting to HK$56 million (SEK50 million) (2010: HK$75 million or SEK65 million), which bears an interest rate of 3% per annum above the 3-month Stockholm Inter Bank Offer Rate published by the Riksbank with repayment due by 31 December 2013. The amounts due from associates of the Group as at 31 December 2010 included a loan to London Overground Rail Operations Ltd ("LOROL") amounting to HK$12 million or GBP 1 million, which was fully repaid during the year ended 31 December 2011.

All contract retentions on the above entrusted works were due for release within one year. All other amounts due from HKSAR Government and other related parties were expected to be received within 12 months.

The nominal values of amounts due from HKSAR Government and other related parties are considered not significantly different from their fair values as the amounts due are expected to be substantially settled within 24 months.

41 Cash, Bank Balances and Deposits

in HK$ million	The Group 2011	The Group 2010	The Company 2011	The Company 2010
Deposits with banks and other financial institutions	**14,009**	12,337	**13,728**	12,065
Cash at banks and on hand	**2,091**	997	**243**	208
Cash, bank balances and deposits	**16,100**	13,334	**13,971**	12,273
Less: Bank deposits with more than three months to maturity when placed	**(12,673)**	(9,610)	**(12,396)**	(9,355)
Less: Bank overdrafts (note 42A)	**–**	(16)	**–**	(16)
Cash and cash equivalents in the cash flow statement	**3,427**	3,708	**1,575**	2,902

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 2011	The Group 2010	The Company 2011	The Company 2010
Australian dollars (in million)	**5**	11	**5**	11
Euros (in million)	**6**	5	**6**	5
Japanese Yen (in million)	**42**	100	**42**	100
New Taiwan dollars (in million)	**8**	10	**8**	10
Pound sterling (in million)	**2**	–	**2**	–
Renminbi (in million)	**3**	–	**–**	–
Swedish krona (in million)	**–**	2	**–**	2
United States dollars (in million)	**603**	679	**601**	676

42 Loans and Other Obligations

A By Type

The Group

in HK$ million	2011 Carrying amount	2011 Fair value	2011 Repayable amount	2010 Carrying amount	2010 Fair value	2010 Repayable amount
Capital market instruments						
Listed or publicly traded:						
Debt issuance programme (Eurobond due 2014)	**4,734**	**5,038**	**4,663**	4,759	5,144	4,663
	4,734	**5,038**	**4,663**	4,759	5,144	4,663
Unlisted:						
Debt issuance programme notes due 2012 to 2020 (2010: due 2011 to 2020)	**8,421**	**9,130**	**8,180**	6,679	7,202	6,447
	8,421	**9,130**	**8,180**	6,679	7,202	6,447
Total capital market instruments	**13,155**	**14,168**	**12,843**	11,438	12,346	11,110
Bank loans	**9,663**	**9,665**	**9,665**	8,971	8,973	8,972
Others	**350**	**469**	**350**	332	370	332
Loans and others	**23,168**	**24,302**	**22,858**	20,741	21,689	20,414
Bank overdrafts	**–**	**–**	**–**	16	16	16
Short-term loans	**–**	**–**	**–**	300	300	300
Total	**23,168**	**24,302**	**22,858**	21,057	22,005	20,730

42 Loans and Other Obligations *(continued)*

A By Type *(continued)*

The Company

in HK$ million	2011 Carrying amount	2011 Fair value	2011 Repayable amount	2010 Carrying amount	2010 Fair value	2010 Repayable amount
Capital market instruments						
Unlisted:						
Debt issuance programme notes due 2018	**461**	**673**	**465**	457	646	466
Bank loans	**6,698**	**6,700**	**6,700**	6,915	6,918	6,916
Others	**343**	**464**	**343**	328	366	328
Loans and others	**7,502**	**7,837**	**7,508**	7,700	7,930	7,710
Bank overdrafts	**–**	**–**	**–**	16	16	16
Short-term loans	**–**	**–**	**–**	300	300	300
Total	**7,502**	**7,837**	**7,508**	8,016	8,246	8,026

Others include non-defeased obligations under lease out/lease back transaction (note 24E).

As at 31 December 2011, the Group had a number of uncommitted facilities with undrawn amounts totalling HK$14,135 million (2010: HK$15,028 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.

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	
	2011	2010	**2011**	2010
Euros (in million)	**–**	1	**–**	–
Renminbi (in million)	**1,000**	–	**–**	–
United States dollars (in million)	**760**	761	**–**	1

The Company

	Before hedging activities		After hedging activities	
	2011	2010	**2011**	2010
Euros (in million)	**–**	1	**–**	–
United States dollars (in million)	**60**	61	**–**	1

42 Loans and Other Obligations *(continued)*

B By Repayment Terms

The Group

in HK$ million	2011 Capital market instruments	2011 Bank loans and overdrafts	2011 Others	2011 Total	2010 Capital market instruments	2010 Bank loans and overdrafts	2010 Others	2010 Total
Long-term loans and others								
Amounts repayable beyond 5 years	**2,515**	**2,862**	**343**	**5,720**	2,715	1,471	328	4,514
Amounts repayable within a period of between 2 and 5 years	**6,863**	**364**	**2**	**7,229**	7,793	1,084	2	8,879
Amounts repayable within a period of between 1 and 2 years	**3,363**	**221**	**3**	**3,587**	102	6,400	1	6,503
Amounts repayable within 1 year	**102**	**6,218**	**2**	**6,322**	500	17	1	518
	12,843	**9,665**	**350**	**22,858**	11,110	8,972	332	20,414
Bank overdrafts	**–**	**–**	**–**	**–**	–	16	–	16
Short-term loans	**–**	**–**	**–**	**–**	–	300	–	300
	12,843	**9,665**	**350**	**22,858**	11,110	9,288	332	20,730
Less: Unamortised discount/premium/ finance charges outstanding	**(35)**	**(2)**	**–**	**(37)**	(38)	(5)	–	(43)
Adjustment due to fair value change of financial instruments	**347**	**–**	**–**	**347**	366	4	–	370
Total carrying amount of debt	**13,155**	**9,663**	**350**	**23,168**	11,438	9,287	332	21,057

The Company

in HK$ million	2011 Capital market instruments	2011 Bank loans and overdrafts	2011 Others	2011 Total	2010 Capital market instruments	2010 Bank loans and overdrafts	2010 Others	2010 Total
Long-term loans and others								
Amounts repayable beyond 5 years	**465**	**–**	**343**	**808**	465	–	328	793
Amounts repayable within a period of between 2 and 5 years	**–**	**322**	**–**	**322**	1	511	–	512
Amounts repayable within a period of between 1 and 2 years	**–**	**189**	**–**	**189**	–	6,389	–	6,389
Amounts repayable within 1 year	**–**	**6,189**	**–**	**6,189**	–	16	–	16
	465	**6,700**	**343**	**7,508**	466	6,916	328	7,710
Bank overdrafts	**–**	**–**	**–**	**–**	–	16	–	16
Short-term loans	**–**	**–**	**–**	**–**	–	300	–	300
	465	**6,700**	**343**	**7,508**	466	7,232	328	8,026
Less: Unamortised discount/premium/ finance charges outstanding	**(5)**	**(2)**	**–**	**(7)**	(5)	(5)	–	(10)
Adjustment due to fair value change of financial instruments	**1**	**–**	**–**	**1**	(4)	4	–	–
Total carrying amount of debt	**461**	**6,698**	**343**	**7,502**	457	7,231	328	8,016

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.

42 Loans and Other Obligations *(continued)*

C Bonds and Notes Issued and Redeemed

Notes issued during the year ended 31 December 2011 and 2010 comprise:

The Group

in HK$ million	2011 Principal amount	2011 Net consideration received	2010 Principal amount	2010 Net consideration received
Debt issuance programme notes	**2,206**	**2,198**	–	–

The above notes were issued in Hong Kong by a subsidiary, MTR Corporation (C.I.) Limited. The notes issued are unconditionally and irrevocably guaranteed by the Company, and are direct, unsecured, unconditional and unsubordinated to other unsecured and unsubordinated obligations of MTR Corporation (C.I.) Limited. The obligations of the Company under the guarantee are direct, unsecured, unconditional, and unsubordinated to other unsecured and unsubordinated obligations of the Company.

During the year ended 31 December 2011, the Group redeemed HK$500 million of its unlisted debt securities (2010: HK$1,100 million). During the year ended 31 December 2011, the Group did not redeem any of its listed securities (2010: redeemed US$600 million).

D Guarantees and Pledges

(i) There were no guarantees given by HKSAR Government in respect of the loan facilities of the Group as at 31 December 2011 and 2010.

(ii) As at 31 December 2011, certain assets held by MTR Corporation (Shenzhen) Limited, an indirect wholly owned subsidiary of the Company in the Mainland of China, were pledged as security for a RMB4,000 million (2010: RMB4,000 million) bank loan facility granted to it.

(iii) As at 31 December 2011, certain assets held by Metro Trains Melbourne Pty. Ltd., a 60% owned subsidiary of the Company in Australia, were pledged as security for an AUD13 million (2010: AUD13 million) bank loan facility granted to it.

Apart from the above, none of the other assets of the Group was charged or subject to any encumbrance as at 31 December 2011.

43 Creditors and Accrued Charges

in HK$ million	The Group 2011	The Group 2010	The Company 2011	The Company 2010
Creditors and accrued charges				
– West Island Line Project	**417**	512	**417**	512
– South Island Line (East) Project	**479**	27	**479**	27
– Kwun Tong Line Extension Project	**188**	14	**188**	14
– Shenzhen Metro Longhua Line Project	**1,183**	535	**–**	–
– Hong Kong property development projects	**681**	657	**681**	657
– Mainland property development project	**1,950**	–	**–**	–
– Railway subsidiaries outside of Hong Kong	**1,337**	1,163	**–**	–
– Hong Kong operations and others	**5,539**	4,993	**5,025**	4,508
Gross amount due to customers for contract work	**15**	15	**15**	15
Government grant on West Island Line Project un-utilised	**4,613**	7,575	**4,613**	7,575
	16,402	15,491	**11,418**	13,308

As at 31 December 2011, the aggregate amount of contract costs incurred plus recognised profits less recognised losses included in the gross amount due to customers for contract works was HK$294 million (2010: HK$294 million). All of the gross amount due to customers for contract work as at 31 December 2011 and 2010 is expected to be settled after more than one year.

43 Creditors and Accrued Charges *(continued)*

The analysis of creditors by due dates is as follows:

in HK$ million	The Group 2011	The Group 2010	The Company 2011	The Company 2010
Due within 30 days or on demand	**2,765**	2,331	**1,267**	1,025
Due after 30 days but within 60 days	**2,379**	1,603	**1,612**	1,077
Due after 60 days but within 90 days	**537**	341	**335**	331
Due after 90 days	**3,950**	1,725	**1,627**	1,530
	9,631	6,000	**4,841**	3,963
Rental and other refundable deposits	**1,704**	1,517	**1,618**	1,472
Accrued employee benefits	**454**	399	**346**	298
Government grant on West Island Line Project un-utilised	**4,613**	7,575	**4,613**	7,575
	16,402	15,491	**11,418**	13,308

Creditors and accrued charges were expected to be settled within one year except for HK$1,540 million (2010: HK$1,544 million) included in Hong Kong operations and others and HK$29 million (2010: nil) included in railway subsidiaries outside of Hong Kong, which were expected to be settled after one year. The amounts due after one year are mainly rental deposits received from investment property and station kiosk tenants and advance income received from telecommunication service operators, majority of which are due to be repaid within three years. The Group considers the effect of discounting these deposits would be immaterial.

The nominal values of creditors and accrued charges are not significantly different from their fair values.

Included in creditors and accrued charges are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	The Group 2011	The Group 2010	The Company 2011	The Company 2010
Australian dollars (in million)	**2**	1	**2**	1
Euros (in million)	**3**	6	**3**	6
Japanese Yen (in million)	**83**	31	**83**	31
Pound sterling (in million)	**1**	1	**1**	1
Renminbi (in million)	**1,577**	–	**–**	–
United States dollars (in million)	**17**	17	**2**	2

44 Contract Retentions

The Group

in HK$ million	Due for release within 12 months	Due for release after 12 months	Total
2011			
Railway extension projects	**2**	**300**	**302**
Transport operations and others	**120**	**221**	**341**
	122	**521**	**643**
2010			
Railway extension projects	3	123	126
Transport operations and others	105	173	278
	108	296	404

44 Contract Retentions *(continued)*

The Company

in HK$ million	Due for release within 12 months	Due for release after 12 months	Total
2011			
Railway extension projects	**2**	**300**	**302**
Transport operations and others	**60**	**61**	**121**
	62	**361**	**423**
2010			
Railway extension projects	3	123	126
Transport operations and others	46	49	95
	49	172	221

The effect of discounting these contract retentions is considered immaterial as these amounts are substantially due to be released within 24 months.

45 Amounts Due to Related Parties

	The Group		The Company	
in HK$ million	**2011**	2010	**2011**	2010
Amounts due to:				
– HKSAR Government	**31**	27	**31**	27
– KCRC	**1,432**	809	**1,432**	809
– an associate	**18**	56	**–**	–
– subsidiaries	**–**	–	**11,781**	11,243
	1,481	892	**13,244**	12,079

The amount due to HKSAR Government related to land administrative costs in respect of the West Island Line, South Island Line (East) and Kwun Tong Line Extension projects.

The amount due to KCRC relates to mandatory payments and related interest payable to KCRC upon tender award in respect of the property development sites along the East Rail Line and Light Rail as well as the accrued portion of the fixed annual payment and variable annual payment.

The amount due to an associate as at 31 December 2010 included the outstanding balance of a loan from Tunnelbanan Teknik Stockholm AB to MTR Stockholm AB amounting to HK$29 million (SEK25 million), which was fully repaid during the year ended 31 December 2011. The loan is unsecured, bears an interest rate of 3% per annum above the 3-month Stockholm Inter Bank Offer Rate and has no fixed terms of repayment.

The amount due to the Company's subsidiaries included HK$11,641 million (2010: HK$11,162 million) due to MTR Corporation (C.I.) Limited in respect of proceeds from bonds and notes issued by the subsidiary, which were on-lent to the Company for its general corporate purposes with specified repayment dates and interest rates (note 42C), and accrued interest. These amounts are stated at their fair values. The remaining balances due to subsidiaries are non-interest bearing and have not been discounted as they do not have any fixed repayment terms and the amount is not material. Out of the total amount due to subsidiaries as at 31 December 2011, HK$11,328 million (2010: HK$10,481 million) is expected to be settled after one year.

46 Obligations under Service Concession

Movements of the Group's and the Company's obligations under service concessions are as follows:

	The Group		The Company	
in HK$ million	**2011**	2010	**2011**	2010
Balance as at 1 January	**10,749**	10,625	**10,592**	10,625
Add: Total annual lease payments capitalised at inception	**–**	151	**–**	–
Add: Net increase in interest payable	**3**	4	**–**	–
Less: Amount repaid/payable during the year	**(35)**	(36)	**(35)**	(33)
Exchange difference	**7**	5	**–**	–
Balance as at 31 December	**10,724**	10,749	**10,557**	10,592

During the year ended 31 December 2010, the Group recognised HK$151 million of the obligation under service concession for the annual lease payment in respect of Shenzhen Longhua Line Phase 1.

The outstanding balances as at 31 December 2011 and 2010 are repayable as follows:

The Group

	2011			2010		
in HK$ million	Present value of fixed annual payments	Interest expense relating to future periods	Total fixed annual payments	Present value of fixed annual payments	Interest expense relating to future periods	Total fixed annual payments
Amounts repayable beyond 5 years	**10,510**	**20,531**	**31,041**	10,549	21,232	31,781
Amounts repayable within a period of between 2 and 5 years	**137**	**2,132**	**2,269**	128	2,140	2,268
Amounts repayable within a period of between 1 and 2 years	**40**	**716**	**756**	37	719	756
Amounts repayable within 1 year	**37**	**718**	**755**	35	721	756
	10,724	**24,097**	**34,821**	10,749	24,812	35,561

The Company

	2011			2010		
in HK$ million	Present value of fixed annual payments	Interest expense relating to future periods	Total fixed annual payments	Present value of fixed annual payments	Interest expense relating to future periods	Total fixed annual payments
Amounts repayable beyond 5 years	**10,343**	**20,344**	**30,687**	10,392	21,045	31,437
Amounts repayable within a period of between 2 and 5 years	**137**	**2,113**	**2,250**	128	2,122	2,250
Amounts repayable within a period of between 1 and 2 years	**40**	**710**	**750**	37	713	750
Amounts repayable within 1 year	**37**	**713**	**750**	35	715	750
	10,557	**23,880**	**34,437**	10,592	24,595	35,187

47 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$384 million) granted to Metro Trains Melbourne Pty. Ltd. ("MTM") by the holders of its non-controlling interests. The loan carries an interest rate of 7.5% per annum and is repayable at the discretion of MTM or on the expiry of the operation and maintenance franchise on 29 November 2017, whichever is earlier.

48 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
2011						
Deferred income on property development (note 29B)	**568**	**–**	**(32)**	**(468)**	**–**	**68**
Deferred income on transfer of assets from customers	**37**	**19**	**–**	**(9)**	**–**	**47**
Deferred income on government grant	**–**	**638**	**–**	**(349)**	**(1)**	**288**
	605	**657**	**(32)**	**(826)**	**(1)**	**403**
2010						
Deferred income on property development (note 29B)	124	1,010	(549)	(17)	–	568
Deferred income on transfer of assets from customers	43	–	–	(6)	–	37
	167	1,010	(549)	(23)	–	605

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
2011						
Deferred income on property development (note 29B)	**568**	**–**	**(32)**	**(468)**	**–**	**68**
2010						
Deferred income on property development (note 29B)	124	1,010	(549)	(17)	–	568

Deferred income on government grant relates to government subsidy for the operation of Shenzhen Metro Longhua Line.

49 Income Tax in the Balance Sheet

A Current taxation in the consolidated balance sheet comprised provision for Hong Kong Profits Tax for the Company and certain subsidiaries for the year ended 31 December 2011, chargeable at Hong Kong Profits Tax Rate at 16.5% (2010: 16.5%) and after netting off provisional tax paid, and overseas tax chargeable at the appropriate current rates of taxation ruling in the relevant countries.

	The Group		The Company	
in HK$ million	**2011**	2010	**2011**	2010
Provision for Hong Kong Profits Tax for the year (note 17)	**1,619**	1,495	**1,604**	1,484
Hong Kong Provisional Profits Tax paid	**(1,035)**	(581)	**(1,022)**	(574)
	584	914	**582**	910
Balance relating to overseas tax	**13**	104	**–**	–
	597	1,018	**582**	910

49 Income Tax in the Balance Sheet *(continued)*

B Deferred Tax Assets and Liabilities Recognised

The components of deferred tax assets and liabilities recognised in the balance sheet and the movements during the year are as follows:

The Group

	Deferred tax arising from					
in HK$ million	Depreciation allowances in excess of related depreciation	Revaluation of properties	Provision and other temporary differences	Cash flow hedges	Tax losses	Total
2011						
At 1 January 2011	**8,669**	**5,044**	**154**	**(15)**	**(7)**	**13,845**
Charged/(credited) to consolidated profit and loss account	**316**	**840**	**(1)**	**–**	**(9)**	**1,146**
Charged/(credited) to reserves	**–**	**93**	**–**	**(2)**	**–**	**91**
Exchange difference	**(4)**	**–**	**–**	**–**	**–**	**(4)**
At 31 December 2011	**8,981**	**5,977**	**153**	**(17)**	**(16)**	**15,078**
2010						
At 1 January 2010	8,382	4,316	121	(10)	(17)	12,792
Charged to consolidated profit and loss account	287	672	33	–	10	1,002
Charged/(credited) to reserves	–	56	–	(5)	–	51
At 31 December 2010	8,669	5,044	154	(15)	(7)	13,845

The Company

	Deferred tax arising from					
in HK$ million	Depreciation allowances in excess of related depreciation	Revaluation of properties	Provision and other temporary differences	Cash flow hedges	Tax losses	Total
2011						
At 1 January 2011	**8,651**	**5,051**	**153**	**(15)**	**–**	**13,840**
Charged/(credited) to profit and loss account	**274**	**838**	**(12)**	**–**	**–**	**1,100**
Charged/(credited) to reserves	**–**	**93**	**–**	**(2)**	**–**	**91**
At 31 December 2011	**8,925**	**5,982**	**141**	**(17)**	**–**	**15,031**
2010						
At 1 January 2010	8,362	4,325	121	(10)	–	12,798
Charged to profit and loss account	289	670	32	–	–	991
Charged/(credited) to reserves	–	56	–	(5)	–	51
At 31 December 2010	8,651	5,051	153	(15)	–	13,840

	The Group		The Company	
in HK$ million	**2011**	2010	**2011**	2010
Net deferred tax assets recognised on the balance sheet	**(27)**	(9)	**–**	–
Net deferred tax liabilities recognised on the balance sheet	**15,105**	13,854	**15,031**	13,840
	15,078	13,845	**15,031**	13,840

C The Group has not recognised deferred tax assets in respect of some of its subsidiaries' cumulative tax losses of HK$281 million (2010: HK$395 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.

50 Share Capital and Capital Management

A Share Capital, Share Premium and Capital Reserve

in HK$ million	2011	2010
Authorised:		
6,500,000,000 shares of HK$1.00 each	**6,500**	6,500
Issued and fully paid:		
5,784,871,250 shares (2010: 5,772,563,031 shares) of HK$1.00 each	**5,785**	5,773
Share premium	**11,089**	10,773
Capital reserve	**27,188**	27,188
	44,062	43,734

Pursuant to the Articles of Association of the Company, the capital reserve can only be applied in paying up in full unissued shares to be allotted and distributed as fully paid bonus shares to the shareholders of the Company.

Share premium represents the amount by which the issue price of shares exceeds the par value of those shares. The application of the share premium account is governed by section 48B of the Hong Kong Companies Ordinance.

New shares issued and fully paid up during the year comprise:

			Proceeds received/Transfer from employee share-based capital reserve		
	Number of shares	Option/ scrip price	Share capital account	Share premium account	Total
		HK$	HK$ million	HK$ million	HK$ million
Employee share options exercised					
– New Joiners Share Option Scheme	**525,700**	**9.75**	**1**	**6**	**7**
	266,500	**20.66**	**–**	**6**	**6**
– 2007 Share Option Scheme	**932,500**	**18.30**	**1**	**19**	**20**
	31,000	**26.52**	**–**	**1**	**1**
	74,000	**26.85**	**–**	**2**	**2**
	135,000	**27.60**	**–**	**4**	**4**
Issued as 2010 final scrip dividends	**10,343,519**	**27.87**	**10**	**278**	**288**
	12,308,219		**12**	**316**	**328**

An analysis of the Company's outstanding share options as at 31 December 2011 are disclosed in note 53.

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 HKSAR Government is the majority shareholder of the Company holding 4,434,552,207 shares as at 31 December 2011, representing 76.7% of total equity interest in the Company.

The Group monitors capital on the basis of the net debt-to-equity ratio, which is calculated on net borrowings as a percentage of the total equity attributable to shareholders of the Company, where net borrowings are represented by the aggregate of loans and other obligations, bank overdrafts, obligations under service concession and loan from holders of non-controlling interests net of cash and cash equivalents and bank medium term notes. The Group's net debt-to-equity ratios over the past years have been trending downward since the Rail Merger from 48.5% at 31 December 2007 to 12.8% at 31 December 2010 and 11.9% at 31 December 2011.

Octopus Cards Limited is subject to a prescribed ratio of total capital to total risk-weighted assets as required by the Hong Kong Monetary Authority. Fasttrack Insurance Ltd. is required to maintain a minimum level of shareholders' fund based on the Bermuda Insurance Act. MTR Corporation (Shenzhen) Limited is subject to minimum capital requirement at 40% of the total investment for the Shenzhen Longhua Line project in accordance with the concession agreement. Metro Trains Melbourne Pty. Ltd. is required to maintain total shareholders' funds at a specified amount in accordance with the franchise agreement. MTR Stockholm AB is required to maintain total shareholders' fund at or above 50% of its registered share capital based on the Swedish Companies Act. As at 31 December 2011, 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.

51 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
2011					
Balance as at 1 January 2011	**1,417**	**(78)**	**102**	**70,815**	**72,256**
2010 final dividend	**–**	**–**	**–**	**(2,598)**	**(2,598)**
2011 interim dividend	**–**	**–**	**–**	**(1,446)**	**(1,446)**
Employee share-based payments	**–**	**–**	**110**	**–**	**110**
Employee share options exercised	**–**	**–**	**(6)**	**–**	**(6)**
Employee share options forfeited	**–**	**–**	**(5)**	**5**	**–**
Total comprehensive income for the year	**471**	**(12)**	**–**	**14,415**	**14,874**
Balance as at 31 December 2011	**1,888**	**(90)**	**201**	**81,191**	**83,190**
2010					
Balance as at 1 January 2010	1,132	(52)	52	61,920	63,052
2009 final dividend	–	–	–	(2,177)	(2,177)
2010 interim dividend	–	–	–	(807)	(807)
Employee share-based payments	–	–	57	–	57
Employee share options exercised	–	–	(6)	–	(6)
Employee share options forfeited	–	–	(1)	1	–
Total comprehensive income for the year	285	(26)	–	11,878	12,137
Balance as at 31 December 2010	1,417	(78)	102	70,815	72,256

The fixed assets revaluation reserve was set up to deal with the surpluses or deficits arising from the revaluation of self-occupied land and buildings (note 2F(ii)).

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges pending subsequent recognition of the hedged cash flow in accordance with the accounting policy adopted for cash flow hedges as explained in note 2T(ii).

The employee share-based capital reserve comprises the fair value of share options granted which are yet to be exercised, as explained in accounting policy under note 2U(iii). The amount will either be transferred to the share premium account when the option is exercised, or be released directly to retained profits if the option is expired or forfeited.

The exchange reserve comprises all foreign exchange differences arising from the translation of the accounts of foreign enterprises. The reserve is dealt with in accordance with the accounting policy set out in note 2CC.

Apart from retained profits, the other reserves are not available for distribution to shareholders because they do not constitute realised profits. In addition, the Company considers the cumulative surpluses on revaluation of investment properties net of tax of HK$28,382 million (2010: HK$24,143 million) included in retained profits are non-distributable as they also do not constitute realised profits. As at 31 December 2011, the Company considers that the total amount of reserves available for distribution to equity shareholders amounted to HK$52,719 million (2010: HK$46,594 million).

Included in the Group's retained profits as at 31 December 2011 is an amount of HK$665 million (2010: HK$512 million), being the retained profits attributable to the non-controlled subsidiaries and associates.

52 Cash Generated from Operations

Reconciliation of operating profit before property developments, depreciation, amortisation and variable annual payment to cash generated from operations is as follows:

in HK$ million	2011	2010
Operating profit before property developments, depreciation, amortisation and variable annual payment	**12,124**	10,917
Adjustments for:		
(Decrease)/increase in provision for obsolete stock	**(2)**	2
Loss on disposal of fixed assets	**32**	50
Amortisation of deferred income from government subsidy for Shenzhen Metro Longhua Line operation	**(62)**	–
Amortisation of deferred income from transfers of assets from customers	**(9)**	(6)
Decrease/(increase) in fair value of derivative instruments	**8**	(1)
Unrealised loss on revaluation of investment in securities	**4**	2
Employee share-based payment expenses	**113**	61
Exchange (gain)/loss	**(8)**	14
Operating profit from recurrent businesses before working capital changes	**12,200**	11,039
Increase in debtors, deposits and payments in advance	**(395)**	(244)
Increase in stores and spares	**(72)**	(5)
Increase in creditors and accrued charges	**756**	1,130
Cash generated from operations	**12,489**	11,920

53 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 2011, 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. 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 2011, may be issued pursuant to the exercise of options granted under the New Option Scheme. Options granted will be evenly vested in respect of their underlying shares over a period of three years from the date on which the relevant option is offered. The exercise price of any option granted under the New Option Scheme is to be determined by the Company upon the offer of grant of the option and the exercise price should not be less than the greatest of (i) the average closing price of an MTR share for the five business days immediately preceding the day of offer of such option; (ii) the closing price of an MTR share on the day of offer of such option, which must be a business day; and (iii) the nominal value of an MTR share. The New Option Scheme expired on 16 May 2007 and no options can be granted under this Scheme on or after that date.

The following table summarises the outstanding share options granted under the New Option Scheme since inception:

Date of grant	Number of share options	Exercise price HK$	Exercisable period
23 September 2005	213,000	15.97	on or prior to 9 September 2015
15 May 2006	22,000	20.66	on or prior to 25 April 2016
5 October 2006	94,000	19.732	on or prior to 29 September 2016

53 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:

	2011		2010	
	Number of share options	Weighted average exercise price HK$	Number of share options	Weighted average exercise price HK$
Outstanding at 1 January	**1,121,200**	**14.581**	1,316,200	15.038
Exercised during the year	**(792,200)**	**13.420**	(195,000)	17.667
Outstanding at 31 December	**329,000**	**17.377**	1,121,200	14.581
Exercisable at 31 December	**329,000**	**17.358**	1,121,200	14.576

The weighted average closing price in respect of the share options exercised during the year was HK$27.470 (2010: HK$29.104).

Share options outstanding at 31 December 2011 had the following exercise prices and remaining contractual lives:

	2011		2010	
Exercise price	Number of share options	Remaining contractual life years	Number of share options	Remaining contractual life years
HK$9.75	**–**	**–**	525,700	2.54
HK$15.97	**213,000**	**3.69**	213,000	4.69
HK$20.66	**22,000**	**4.32**	288,500	5.32
HK$19.732	**94,000**	**4.75**	94,000	5.75
	329,000		1,121,200	

(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 2011, 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.

53 Share-based Payments *(continued)*

A Equity-settled Share-based Payments *(continued)*

As at 31 December 2011, 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	Period between 11 December 2007 to 7 January 2008
	26 March 2008	2,749,000	Period between 28 March 2008 to 23 April 2008
2009 Award	8 December 2008	12,712,000	Period between 8 December 2008 to 30 December 2008
	12 June 2009	345,000	Period between 18 June 2009 to 9 July 2009
2010 Award	8 December 2009	15,718,000	Period between 9 December 2009 to 22 December 2009
	28 June 2010	355,000	On 21 July 2010
2011 Award	16 December 2010	15,546,500	16 December 2010 to 23 December 2010
	27 June 2011	215,000	On 7 July 2011

The following table summarises the outstanding share options as at 31 December 2011 granted under the 2007 Option Scheme since inception:

Date of grant	Number of share options	Exercise price HK$	Exercisable period
2008 Award			
11 December 2007	45,000	27.60	on or prior to 10 December 2014
12 December 2007	1,903,000	27.60	on or prior to 10 December 2014
13 December 2007	1,740,000	27.60	on or prior to 10 December 2014
14 December 2007	820,000	27.60	on or prior to 10 December 2014
15 December 2007	228,000	27.60	on or prior to 10 December 2014
17 December 2007	730,000	27.60	on or prior to 10 December 2014
18 December 2007	275,000	27.60	on or prior to 10 December 2014
19 December 2007	80,000	27.60	on or prior to 10 December 2014
20 December 2007	190,000	27.60	on or prior to 10 December 2014
22 December 2007	35,000	27.60	on or prior to 10 December 2014
24 December 2007	118,000	27.60	on or prior to 10 December 2014
28 December 2007	35,000	27.60	on or prior to 10 December 2014
31 December 2007	130,000	27.60	on or prior to 10 December 2014
2 January 2008	35,000	27.60	on or prior to 10 December 2014
3 January 2008	40,000	27.60	on or prior to 10 December 2014
7 January 2008	80,000	27.60	on or prior to 10 December 2014
28 March 2008	199,000	26.52	on or prior to 26 March 2015
31 March 2008	323,000	26.52	on or prior to 26 March 2015
1 April 2008	249,000	26.52	on or prior to 26 March 2015
2 April 2008	276,000	26.52	on or prior to 26 March 2015
3 April 2008	140,000	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	330,000	26.52	on or prior to 26 March 2015
8 April 2008	110,000	26.52	on or prior to 26 March 2015
9 April 2008	85,000	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	117,000	26.52	on or prior to 26 March 2015
12 April 2008	48,000	26.52	on or prior to 26 March 2015
14 April 2008	40,000	26.52	on or prior to 26 March 2015
15 April 2008	34,000	26.52	on or prior to 26 March 2015
16 April 2008	40,000	26.52	on or prior to 26 March 2015
17 April 2008	124,000	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

53 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	110,000	18.30	on or prior to 8 December 2015
9 December 2008	1,359,000	18.30	on or prior to 8 December 2015
10 December 2008	1,897,900	18.30	on or prior to 8 December 2015
11 December 2008	1,993,200	18.30	on or prior to 8 December 2015
12 December 2008	1,141,000	18.30	on or prior to 8 December 2015
13 December 2008	78,000	18.30	on or prior to 8 December 2015
14 December 2008	52,200	18.30	on or prior to 8 December 2015
15 December 2008	873,200	18.30	on or prior to 8 December 2015
16 December 2008	450,000	18.30	on or prior to 8 December 2015
17 December 2008	470,500	18.30	on or prior to 8 December 2015
18 December 2008	470,500	18.30	on or prior to 8 December 2015
19 December 2008	198,000	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	487,000	18.30	on or prior to 8 December 2015
23 December 2008	218,000	18.30	on or prior to 8 December 2015
24 December 2008	367,500	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	118,000	18.30	on or prior to 8 December 2015
30 December 2008	19,000	18.30	on or prior to 8 December 2015
18 June 2009	175,000	24.50	on or prior to 12 June 2016
6 July 2009	45,000	24.50	on or prior to 12 June 2016
9 July 2009	30,000	24.50	on or prior to 12 June 2016
2010 Award			
9 December 2009	585,000	26.85	on or prior to 8 December 2016
10 December 2009	2,646,000	26.85	on or prior to 8 December 2016
11 December 2009	2,235,000	26.85	on or prior to 8 December 2016
12 December 2009	565,500	26.85	on or prior to 8 December 2016
13 December 2009	12,500	26.85	on or prior to 8 December 2016
14 December 2009	2,437,500	26.85	on or prior to 8 December 2016
15 December 2009	2,506,000	26.85	on or prior to 8 December 2016
16 December 2009	1,414,000	26.85	on or prior to 8 December 2016
17 December 2009	975,000	26.85	on or prior to 8 December 2016
18 December 2009	380,500	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	501,000	26.85	on or prior to 8 December 2016
22 December 2009	215,000	26.85	on or prior to 8 December 2016
21 July 2010	330,000	27.73	on or prior to 28 June 2017
2011 Award			
16 December 2010	194,000	28.84	on or prior to 16 December 2017
17 December 2010	5,326,500	28.84	on or prior to 16 December 2017
18 December 2010	673,000	28.84	on or prior to 16 December 2017
19 December 2010	174,000	28.84	on or prior to 16 December 2017
20 December 2010	4,728,000	28.84	on or prior to 16 December 2017
21 December 2010	3,001,000	28.84	on or prior to 16 December 2017
22 December 2010	956,000	28.84	on or prior to 16 December 2017
23 December 2010	189,000	28.84	on or prior to 16 December 2017
7 July 2011	215,000	26.96	on or prior to 27 June 2018

53 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:

	2011		2010	
	Number of share options	Weighted average exercise price HK$	Number of share options	Weighted average exercise price HK$
Outstanding at 1 January	**52,568,500**	**25.646**	38,929,500	24.185
Granted during the year	**215,000**	**26.960**	15,901,500	28.815
Exercised during the year	**(1,172,500)**	**20.128**	(1,573,500)	21.840
Forfeited during the year	**(1,767,500)**	**26.368**	(689,000)	24.888
Outstanding at 31 December	**49,843,500**	**25.756**	52,568,500	25.646
Exercisable at 31 December	**34,417,000**	**24.683**	21,495,500	24.095

Share options outstanding at 31 December 2011 had the following exercise prices and remaining contractual lives:

	2011		2010	
Exercise price	Number of share options	Remaining contractual life years	Number of share options	Remaining contractual life years
HK$27.60	**6,484,000**	**3**	7,208,000	4
HK$26.52	**2,338,000**	**3**	2,406,000	4
HK$18.30	**10,367,000**	**4**	11,523,000	5
HK$24.50	**250,000**	**4**	250,000	5
HK$26.85	**14,618,000**	**5**	15,280,000	6
HK$27.73	**330,000**	**5**	355,000	6
HK$28.84	**15,241,500**	**6**	15,546,500	7
HK$26.96	**215,000**	**6**	–	–
	49,843,500		52,568,500	

According to the Black-Scholes pricing model, the fair values of options granted during the year ended 31 December 2011 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$
7 July 2011	**5.01**	**27.70**	**26.96**	**0.2827**	**3.5**	**0.84**	**0.7**

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 2011, the equity-settled share-based payments recognised as an expense amounted to HK$110 million (2010: HK$57 million), all relating to the 2007 Option Scheme.

The Pre-Global Offering Share Option Scheme expired on 11 September 2010. During the period from 1 January 2010 to the expiry day, a total of 2,922,500 previously vested share options were exercised, with a weighted average closing price of HK$27.993 per share. On the expiry day, a total of 25,500 options lapsed.

53 Share-based Payments *(continued)*

B Cash-settled Share-based Payments

(i) C K Chow did not participate in the Company's Pre-Global Offering Share Option Scheme and New Joiners Share Option Scheme. Pursuant to the completion of his two-year contract which expired on 31 December 2011, he was paid on 4 January 2012 an equivalent value in cash of 222,161 shares in the Company, amounting to HK$5.6 million (calculated at a price of HK$25.0125 per share derived in accordance with the terms of the grant by reference to the average closing price of the Company's shares on the 20 business days immediately preceding 31 December 2011). For the year ended 31 December 2011, HK$2.3 million (2010: HK$3.0 million) was recorded as share-based payment expense. The fair value of the outstanding entitlement as at 31 December 2010 was calculated based on the closing price of the Company's shares at year-end date of HK$28.30 per share.

(ii) Jay H Walder is entitled to an equivalent value in cash of 300,000 shares in the Company following 30 June 2014, being the date on which his initial term of office is expected to expire (35% of which shall be deemed to be earned at 31 October 2013 subject to certain conditions specified in his employment contract). For the year ended 31 December 2011, HK$0.5 million (2010: nil) 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 2011, the fair value of these shares was HK$25.15 per share.

(iii) Lincoln K K Leong was entitled to a derivative interest in the Company's shares and was paid on 12 April 2010 an equivalent value in cash of 160,000 shares in the Company, amounting to HK$4.6 million (calculated at a price of HK$28.785 per share derived in accordance with the terms of the grant by reference to the average closing price of the Company's shares on the 20 business days immediately preceding 9 April 2010). For the year ended 31 December 2010, HK$0.7 million was recorded as share-based payment expense, measured on the same basis as described in note 53B(i) above.

54 Retirement Schemes

The Group operates a number of retirement schemes in Hong Kong, Mainland of China, United Kingdom, Sweden and Australia. The assets of these schemes are held under the terms of separate trust arrangements so that the assets are kept separate from those of the Group. The majority of the Group's employees are covered by the retirement schemes operated by the Company.

A Retirement Schemes Operated by the Company in Hong Kong

The Company operates five retirement schemes under trust in Hong Kong, including the MTR Corporation Limited Retirement Scheme (the "MTR Retirement Scheme"), the MTR Corporation Limited Retention Bonus Scheme (the "MTR RBS"), the MTR Corporation Limited Provident Fund Scheme (the "MTR Provident Fund Scheme") and two Mandatory Provident Fund ("MPF") Schemes, the "MTR MPF Scheme" and the "KCRC MPF Scheme".

Currently, new eligible employees can choose between the MTR Provident Fund Scheme and the MTR MPF Scheme while the MTR MPF Scheme covers employees who did not opt for and who are not eligible to join the MTR Provident Fund Scheme.

(i) MTR Retirement Scheme

The MTR Retirement Scheme is a defined benefit scheme registered under the Occupational Retirement Schemes Ordinance (Chapter 426 of the Laws of Hong Kong) ("ORSO") and granted with MPF Exemption by the Mandatory Provident Fund Schemes Authority ("MPFA").

The MTR Retirement Scheme has been closed to new employees since 31 March 1999. It provides benefits based on the greater of a multiple of final salary times the number of years of service rendered and the accumulated contributions with investment returns. Members' contributions to the MTR Retirement Scheme are based on a fixed percentage 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 2011, the total membership was 4,979 (2010: 5,127). In 2011, members contributed HK$70 million (2010: HK$70 million) and the Company contributed HK$120 million (2010: HK$120 million) to the MTR Retirement Scheme. The net asset value of the MTR Retirement Scheme as at 31 December 2011 was HK$7,794 million (2010: HK$8,200 million).

Actuarial valuation as at 31 December 2011 to determine the accounting obligations in accordance with HKAS 19, *Employee benefits,* was carried out by an independent actuarial consulting firm, Towers Watson, using the Projected Unit Credit Method. The results of the valuation are shown in note 55.

Actuarial valuation as at 31 December 2011 to determine the cash funding requirements was also carried out by Towers Watson using the Attained Age Method. The principal actuarial assumptions used included a long-term rate of investment return net of salary increases of 1.3% (2010: 2.0%) per annum, together with appropriate allowances for expected rates of mortality, turnover, redundancy and retirement. Towers Watson confirmed that, as at the valuation date:

(a) the MTR Retirement Scheme was solvent, with assets more than adequate to cover the aggregate value of members' vested benefits had all members left the MTR Retirement Scheme; and

(b) on the assumption that the MTR Retirement Scheme continued in force, the value of assets was more than sufficient to cover the aggregate past service liability, with a funding level of 105.5%.

(ii) MTR RBS

The MTR RBS is a defined benefit scheme registered under the ORSO. It is a top-up scheme to supplement the MTR Retirement Scheme for employees classified by the Company as staff working on designated projects and who are not on gratuity terms. The MTR RBS provides benefits only in the event of redundancy for service accrued up to 31 December 2002, offset by any benefits payable from the MTR Retirement Scheme and other applicable schemes. As at 31 December 2011, there were 310 members (2010: 316) under the MTR RBS.

54 Retirement Schemes *(continued)*

A Retirement Schemes Operated by the Company in Hong Kong *(continued)*

The MTR RBS is non-contributory for members. The Company's contributions are determined with reference to an actuarial valuation carried out by an independent actuarial consulting firm. During 2010 and 2011, 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 2011 was HK$12 million (2010: HK$12 million).

Actuarial valuation as at 31 December 2010 and 2011 to determine the accounting obligations in accordance with 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 55.

Actuarial valuation as at 31 December 2011 to determine the cash funding requirements was carried out by Towers Watson using the Attained Age Method. The principal actuarial assumptions used included an expected weighted rate of investment return net of salary increases, of approximately -3.5% (2010: -2.5%) per annum, together with appropriate allowance for expected rates of redundancy. Towers Watson confirmed that, as at the valuation date:

(a) due to the nature of the MTR RBS which provides for benefits only on redundancy, there was no aggregate vested liability, and thus the MTR RBS was technically solvent; and

(b) on the assumption that the MTR RBS continued in force, the value of assets was more than sufficient to cover the aggregate past service liability.

(iii) MTR Provident Fund Scheme

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

As at 31 December 2011, the total number of employees participating in the MTR Provident Fund Scheme was 6,667 (2010: 6,276). In 2011, total members' contributions were HK$58 million (2010: HK$52 million) and total contribution from the Company was HK$171 million (2010: HK$159 million). The net asset value as at 31 December 2011 was HK$3,527 million (2010: HK$3,588 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 2011, the total number of employees of the Company participating in the MTR MPF Scheme was 3,452 (2010: 2,540). In 2011, total members' contributions were HK$19 million (2010: HK$14 million) and total contribution from the Company was HK$21 million (2010: HK$16 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 2011, the total number of employees of the Company participating in the KCRC MPF Scheme was 856 (2010: 903). In 2011, total members' contributions were HK$6 million (2010: HK$6 million) and total contribution from the Company was HK$6 million (2010: HK$7 million).

B Retirement Schemes for Employees of Mainland 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 2011, total number of the Group's employees participating in this scheme was 854 (2010: 894). In 2011, total members' contributions were HK$38 million (2010: HK$31 million) and total contribution from the Group was HK$53 million (2010: HK$44 million).

(ii) Defined Contribution Plans

Except for the defined benefit plan stated in note 54B(i), all other retirement schemes to cover employees in overseas offices or in subsidiaries in Hong Kong, 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 2011, the total number of employees of the Group participating in these schemes was 7,709 (2010: 7,074). In 2011, total members' contributions were HK$104 million (2010: HK$77 million) and total contribution from the Group was HK$211 million (2010: HK$180 million).

55 Defined Benefit Retirement Plan Obligations

The Company makes contributions to and recognises defined benefit liabilities in respect of two defined benefit plans that provide benefits for employees upon retirement or termination of services for other reasons (note 54). The movements in respect of these defined benefit plans during the year are summarised as follows.

A The amounts recognised in the balance sheets are as follows:

The Group and The Company

	2011			2010		
in HK$ million	MTR Retirement Scheme	MTR RBS	Total	MTR Retirement Scheme	MTR RBS	Total
Present value of funded obligations	**(10,669)**	**–**	**(10,669)**	(9,342)	–	(9,342)
Fair value of plan assets	**7,794**	**12**	**7,806**	8,200	12	8,212
Net unrecognised actuarial losses/(gains)	**3,064**	**(3)**	**3,061**	1,302	(3)	1,299
Net asset	**189**	**9**	**198**	160	9	169

A portion of the above asset is expected to be recovered after more than one year. However, it is not practicable to segregate this amount from the amounts to be recovered in the next twelve months, as future contributions will also relate to future services rendered and future changes in actuarial assumptions and market conditions. The Company expects to pay HK$181 million in contribution to the MTR Retirement Scheme in 2012.

B Plan assets consist of the following:

The Group and The Company

	2011			2010		
in HK$ million	MTR Retirement Scheme	MTR RBS	Total	MTR Retirement Scheme	MTR RBS	Total
Equity securities	**3,761**	**–**	**3,761**	4,423	–	4,423
Bonds	**3,963**	**–**	**3,963**	3,602	–	3,602
Cash	**145**	**12**	**157**	250	12	262
	7,869	**12**	**7,881**	8,275	12	8,287
Voluntary units	**(75)**	**–**	**(75)**	(75)	–	(75)
	7,794	**12**	**7,806**	8,200	12	8,212

The plan assets include no investment in the Company's ordinary shares and the Company's debt securities in 2010 and 2011.

C Movements in the Present Value of the Defined Benefit Obligations

The Group and The Company

	2011			2010		
in HK$ million	MTR Retirement Scheme	MTR RBS	Total	MTR Retirement Scheme	MTR RBS	Total
At 1 January	**9,342**	**–**	**9,342**	8,959	–	8,959
Members' contributions paid to the Schemes	**70**	**–**	**70**	70	–	70
Benefits paid by the Schemes	**(336)**	**–**	**(336)**	(311)	–	(311)
Current service cost	**281**	**–**	**281**	293	–	293
Interest cost	**264**	**–**	**264**	227	–	227
Actuarial losses	**1,048**	**–**	**1,048**	104	–	104
At 31 December	**10,669**	**–**	**10,669**	9,342	–	9,342

55 Defined Benefit Retirement Plan Obligations *(continued)*

D Movements in Plan Assets

The Group and The Company

in HK$ million	2011 MTR Retirement Scheme	2011 MTR RBS	2011 Total	2010 MTR Retirement Scheme	2010 MTR RBS	2010 Total
At 1 January	**8,200**	**12**	**8,212**	7,542	12	7,554
Group's contributions paid to the Schemes	**120**	**–**	**120**	120	–	120
Members' contributions paid to the Schemes	**70**	**–**	**70**	70	–	70
Benefits paid by the Schemes	**(336)**	**–**	**(336)**	(311)	–	(311)
Expected return on plan assets	**486**	**–**	**486**	448	–	448
Actuarial (losses)/gains	**(746)**	**–**	**(746)**	331	–	331
At 31 December	**7,794**	**12**	**7,806**	8,200	12	8,212

E Expense recognised in the consolidated profit and loss account is as follows:

in HK$ million	2011 MTR Retirement Scheme	2011 MTR RBS	2011 Total	2010 MTR Retirement Scheme	2010 MTR RBS	2010 Total
Current service cost	**281**	**–**	**281**	293	–	293
Interest cost	**264**	**–**	**264**	227	–	227
Expected return on plan assets	**(486)**	**–**	**(486)**	(448)	–	(448)
Net actuarial losses/(gains) recognised	**32**	**–**	**32**	58	(1)	57
Expense recognised	**91**	**–**	**91**	130	(1)	129
Less: Amount capitalised	**(15)**	**–**	**(15)**	(21)	–	(21)
	76	**–**	**76**	109	(1)	108

The retirement expense is recognised under staff costs and related expenses in the consolidated profit and loss account.

F Actual Return on Plan Assets

in HK$ million	2011	2010
MTR Retirement Scheme	**(260)**	779
MTR RBS	**–**	–

55 Defined Benefit Retirement Plan Obligations *(continued)*

G The principal actuarial assumptions used as at 31 December 2011 (expressed as weighted average) are as follows:

	2011		2010	
	MTR Retirement Scheme	**MTR RBS**	MTR Retirement Scheme	MTR RBS
Discount rate at 31 December	**1.5%**	**0.9%**	2.9%	1.9%
Expected rate of return on plan assets	**6.0%**	**1.5%**	6.0%	1.5%
Future salary increases	**4.7%**	**5.0%**	4.0%	4.0%

The expected long-term rates of return on plan assets have been determined based on market expectations on returns over the entire life of the related obligations.

H Historical Information

The Group and The Company

	MTR Retirement Scheme				
in HK$ million	**2011**	2010	2009	2008	2007
Present value of funded obligations	**(10,669)**	(9,342)	(8,959)	(9,064)	(8,577)
Fair value of plan assets	**7,794**	8,200	7,542	6,162	7,929
Deficit in the Scheme	**(2,875)**	(1,142)	(1,417)	(2,902)	(648)
Experience adjustments arising on plan liabilities – gain/(loss)	**334**	(357)	(785)	1,391	(556)
Experience adjustments arising on plan assets – (loss)/gain	**(746)**	331	941	(1,997)	514

	MTR RBS				
in HK$ million	**2011**	2010	2009	2008	2007
Present value of funded obligations	**–**	–	–	(1)	(1)
Fair value of plan assets	**12**	12	12	12	12
Surplus in the Scheme	**12**	12	12	11	11
Experience adjustments arising on plan liabilities – gain/(loss)	**–**	–	1	–	1
Experience adjustments arising on plan assets – gain/(loss)	**–**	–	–	–	–

56 Interests in Jointly Controlled Operations

The Group has the following jointly controlled operations in respect of its awarded property development projects in Hong Kong as at 31 December 2011:

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	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	By phases from 2010–2012
Package Three	Residential/Kindergarten	129,544	2013
Choi Hung Park-and-Ride	Residential/Retail	21,538	Completed in 2005
Che Kung Temple Station	Residential/Retail/Kindergarten	90,655	2012
Austin Station			
Sites C & D	Residential	119,116	2014

* Completion based on issuance of occupation permit

The Group's assets held in relation to these joint venture operations include various site foundation works and related staff and overhead costs, land costs, acquisition cost of development rights and interest expense. These are set off against any payments received from developers in relation to that development package, and the balance is shown on the balance sheet either as property development in progress (note 29) or deferred income (note 48) as the case may be. As at 31 December 2011, total property development in progress in respect of these jointly controlled operations was HK$6,780 million (2010: HK$6,863 million) and total deferred income was HK$68 million (2010: HK$81 million).

During the year ended 31 December 2011, profits of HK$4,934 million (2010: HK$4,034 million) were recognised (note 12).

56 Interests in Jointly Controlled 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.

57 Material Related Party Transactions

The Financial Secretary Incorporated, which holds approximately 76.7% of the Company's issued share capital on trust for HKSAR Government, is the majority shareholder of the Company. Transactions between the Group and HKSAR Government departments or agencies, or entities controlled by HKSAR Government, other than those transactions such as the payment of fees, taxes, leases and rates, etc. that arise in the normal dealings between 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 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 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 HKSAR Government's prevailing land policy on the date on which the franchise is extended, certain consequential amendments will be made to agreements between 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 57C below.

B On 14 July 2000, the Company received a comfort letter from the Government pursuant to which 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, 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 HKSAR Government entered into a new operating agreement ("new OA"), which is based on the then existing OA referred to in note 57A 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. A detailed description of the new OA is contained in the circular to shareholders in respect of the Extraordinary General Meeting convened to approve the Rail Merger.

D Other than the new OA described in note 57C above, the Company also entered into the following principal agreements with KCRC and 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;

57 Material Related Party Transactions *(continued)*

D Other than the new OA described in note 57C above, the Company also entered into the following principal agreements with KCRC and HKSAR Government in connection with the Rail Merger: *(continued)*

(iii) Sale and Purchase Agreement, which was entered into on 9 August 2007, sets out the terms pursuant to which the Company acquired certain assets and contracts from KCRC;

(iv) Kowloon Southern Link ("KSL") Project Management Agreement, which was entered into on 9 August 2007, sets out the terms on which the Company was appointed by KCRC to manage the design and construction of the KSL in return for a management fee and an incentive payment if the construction of the KSL is completed ahead of time and under budget. KSL was completed for service commencement on 16 August 2009 and became part of the service concession. The final incentive payment was received in 2010;

(v) West Rail Agency Agreement, which was entered into on 9 August 2007, sets out the terms on which the Company was appointed to act as KCRC's agent to exercise certain rights and perform certain obligations relating to specified development sites along the West Rail;

(vi) Property Package Agreements, which were entered into on 9 August 2007, set out the arrangements in respect of the acquisition of the property package; and

(vii) US Cross Border Lease ("CBL") Assumption Agreements, which were entered into with KCRC on 30 November 2007, and US CBL Allocation Agreement, which was entered into with KCRC and KCRC's subsidiaries on 2 December 2007, set out the terms on which the Company has undertaken to perform, on a joint and several basis with KCRC, the obligations of KCRC under the respective CBLs, and delineate and allocate the obligations and responsibility for risks relating to the CBLs. Details of the commitment of the Company in connection with these agreements are specified in note 58E.

A detailed description of each of the above agreements is contained under the paragraph "Connected Transactions" of the Report of the Members of the Board.

E The Company entered into project agreements with 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 HKSAR Government a total of HK$12,652 million of government grant as funding support subject to a repayment mechanism (note 27A);

(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 27B); 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 27C).

F The Company entered into entrustment agreements with HKSAR Government for the design, site investigation, procurement activities, construction, testing and commissioning of new railway extensions, pursuant to which HKSAR Government funds the total costs of such activities while the Company is paid a fee for its project management service. Entrustment agreements on railway extensions that are still under construction in the current year include:

(i) Preliminary Entrustment Agreement, which was signed on 24 November 2008, and Entrustment Agreement, which was signed on 26 January 2010, in respect of the Guangzhou-Shenzhen-Hong Kong Express Rail Link ("XRL"). The two agreements together entrust the Company with the project management of activities leading to the completion of XRL. Detailed description of the agreements and the amount of project management fees recognised for the year ended 31 December 2011 are provided in note 28B; and

(ii) Preliminary Entrustment Agreement, which was signed on 24 November 2008, and Entrustment Agreement, which was signed on 17 May 2011, in respect of the Shatin to Central Link ("SCL"). The two agreements together entrust the Company with the design, site investigation and procurement activities of SCL as well as construction of certain enabling works at Admiralty and Ho Man Tin Stations and other associated works. Detailed description of the agreements is provided in note 28C.

G On 19 November 2003, the Company entered into a project agreement with 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 HKSAR Government for a period of 30 years commencing 24 December 2003. The project was completed with operation commencement on 18 September 2006.

57 Material Related Party Transactions *(continued)*

H In connection with the construction of various railway projects, certain essential project works are embedded within the infrastructure works to be undertaken by HKSAR Government or certain of its related parties. These works have been entrusted to HKSAR Government and its related parties and are payable on an actual cost basis according to architectural certifications. 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 2011 are provided in notes 40 and 45 respectively.

I In connection with certain property developments along the railway extensions, the Company has been granted land lots by and paid land premiums to HKSAR Government in accordance with the terms of the development agreements in respect of the following sites:

Property development site	Land grant acceptance date	Total land premium HK$ million	Land premium settlement date
Site F of Tseung Kwan O Town Lot No. 70, Area 86	24 January 2005	2,319	14 April 2005
Sha Tin Town Lot No. 519	23 April 2008	3,662	14 July 2008
Kowloon Inland Lot No. 11126 and 11129 (Sites C and D, Canton Road, Kowloon)	12 March 2010	11,708	7 June 2010

J On 16 November 2011, the Company and KCRC entered into an Outsourcing Agreement pursuant to which the Company will provide certain administrative and financial activities to KCRC. The Agreement has no specific term but can be terminated by either party giving notice period specified in the Agreement. The fee payable pursuant to the Agreement and the scope of services are to be reviewed on an annual basis and amended upon the mutual agreement of the parties.

K On 21 August 2008, the Company renewed the maintenance agreement with the Hong Kong Airport Authority in respect of the automatic people mover system serving the Hong Kong International Airport including the Sky Plaza and Sky Pier terminal buildings. The agreement covers a period of five years effective from 6 July 2008. In respect of the agreement, HK$46 million was recognised as consultancy income during the year ended 31 December 2011 (2010: HK$40 million).

L Other than those stated in notes 57A to 57J, the Company has business transactions with HKSAR Government, entities related to HKSAR Government and the Company's non-controlled subsidiaries and associates in the normal course of business operations. Details of the transactions and the amounts involved for the reporting period are disclosed in notes 31, 33, 40 and 45.

M The Group has paid remuneration to Members of the Board and the Executive Directorate. Details of these transactions are described in note 11A. In addition, Members of the Executive Directorate were granted share options under the Company's New Joiners Share Option Scheme and 2007 Share Option Scheme. Details of the terms of these options are disclosed in note 11B 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	2011	2010
Short-term employee benefits	**59.5**	57.1
Post-employment benefits	**2.5**	1.6
Equity compensation benefits	**14.2**	10.9
	76.2	69.6

The above remuneration is included in staff costs and related expenses disclosed in note 10A.

N During the year, the following dividends were paid to HKSAR Government:

in HK$ million	2011	2010
Cash dividends paid	**3,104**	1,302
Shares allotted in respect of scrip dividends	**–**	991
	3,104	2,293

58 Commitments

A Capital Commitments

(i) Outstanding capital commitments as at 31 December 2011 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
2011					
Authorised but not yet contracted for	**2,079**	**–**	**824**	**9**	**2,912**
Authorised and contracted for	**1,447**	**13,099**	**624**	**216**	**15,386**
	3,526	**13,099**	**1,448**	**225**	**18,298**
2010					
Authorised but not yet contracted for	1,575	–	142	–	1,717
Authorised and contracted for	986	7,100	326	1,340	9,752
	2,561	7,100	468	1,340	11,469

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
2011				
Authorised but not yet contracted for	**2,074**	**–**	**824**	**2,898**
Authorised and contracted for	**1,447**	**13,099**	**624**	**15,170**
	3,521	**13,099**	**1,448**	**18,068**
2010				
Authorised but not yet contracted for	1,561	–	140	1,701
Authorised and contracted for	986	7,100	315	8,401
	2,547	7,100	455	10,102

Excluded from the above tables are estimated future project costs relating to the West Island Line, South Island Line (East) and Kwun Tong Line Extension of HK$3,754 million, HK$7,335 million and HK$3,108 million respectively as at 31 December 2011.

(ii) The commitments under Hong Kong transport, station commercial and other businesses comprise the following:

The Group and The Company

in HK$ million	Improvement and enhancement works	Acquisition of property, plant and equipment	Additional concession property	Total
2011				
Authorised but not yet contracted for	**897**	**279**	**903**	**2,079**
Authorised and contracted for	**468**	**602**	**377**	**1,447**
	1,365	**881**	**1,280**	**3,526**
2010				
Authorised but not yet contracted for	795	285	495	1,575
Authorised and contracted for	344	375	267	986
	1,139	660	762	2,561

58 Commitments *(continued)*

B Operating Lease Commitments

The Group had operating leases on office buildings, staff quarters, bus depot and a shopping centre in Beijing as at 31 December 2011. The total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group		The Company	
in HK$ million	**2011**	2010	**2011**	2010
Payable within one year	**132**	141	**6**	7
Payable after one but within five years	**3**	3	**3**	2
	135	144	**9**	9

The above includes HK$6 million (2010: HK$4 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$6,061 million (2010: HK$6,747 million) in respect of railway subsidiaries outside of Hong Kong over the respective franchise periods, of which HK$1,065 million (2010: HK$1,024 million) is payable within one year, HK$4,140 million (2010: HK$3,944 million) is payable after one but within five years and HK$856 million (2010: HK$1,779 million) is payable over five years. These railway subsidiaries will generate franchise revenue receivables 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 2011, the Group had total outstanding liabilities and contractual commitments of HK$1,599 million (2010: HK$1,314 million) in respect of these works and services. Cash funds totalling HK$1,655 million (2010: HK$1,371 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 42C), the Company has provided guarantees to the investors of approximately HK$12,379 million (in notional amount) as at 31 December 2011. The proceeds from the debts issued are on lent to the Company and MTR Corporation (Shenzhen) Limited. As such, the primary liabilities have been recorded in the Company's balance sheet .

In respect of the lease out/lease back transaction ("Lease Transaction") (note 24E), 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$110 million (HK$855 million) as at 31 December 2011. 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$38 million (HK$299 million) as at 31 December 2011.

In respect of the operating lease on the shopping centre in Beijing, the Group provided a bank guarantee of RMB12.5 million and a parent company guarantee of RMB52.5 million in respect of the quarterly rental payments to the landlord.

In respect of the Melbourne Metropolitan Train Franchise, the Group and the other shareholders of the Group's 60% owned subsidiary, Metro Trains Melbourne Pty. Ltd. ("MTM"), have provided to the State of Victoria Government a joint and several parent company guarantee of AUD125 million (HK$986 million) and a performance bond of AUD75 million (HK$592 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 Stockholm Metro Franchise, the Group has provided to the Stockholm transport authority a guarantee of SEK1,000 million (HK$1,123 million), which can be called if the franchise is terminated early as a result of default by MTR Stockholm AB, the wholly owned subsidiary of the Group to undertake the franchise.

In respect of the London Overground Franchise, London Overground Rail Operations Ltd ("LOROL"), the Group's 50% owned associate company to undertake the franchise, has provided to Transport for London (TfL) a performance bond of GBP12.0 million (HK$144 million), which may be called by TfL if the franchise is terminated early as a result of default. The performance bond is guaranteed by Deutsche Bahn, the ultimate parent company of the other shareholder of LOROL, with the Group providing to Deutsche Bahn a counter indemnity that is further backed by a performance bond of GBP6.0 million (HK$72 million) for the Group's share of the Guarantee.

In respect of the construction of Shenzhen Longhua Line Phase 2, the Group has provided payment guarantees of RMB168 million (HK$207 million) and performance guarantees of RMB48 million (HK$59 million) to the counterparties of the construction contracts.

58 Commitments *(continued)*

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 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 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.

59 Accounting Estimates and Judgements

A Key sources of accounting estimates and estimation uncertainty include the following:

(i) Estimated Useful Life and Depreciation and Amortisation of Property, Plant and Equipment and Service Concession Assets

The Group estimates the useful lives of the various categories of property, plant and equipment and service concession assets on the basis of their design lives, planned asset maintenance programme and actual usage experience. Depreciation is calculated using the straight-line method at rates sufficient to write off their cost or valuation over their estimated useful lives (note 2I).

(ii) Impairment of Long-lived Assets

The Group reviews its long-lived assets for indications of impairment at each balance sheet date according to accounting policies set out in note 2H(ii). In analysing potential impairments identified, the Group uses projections of future cash flows from the assets based on management's assignment of a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

(iii) Pension Costs

The Group employs independent valuation professionals to conduct annual assessment of the actuarial position of the Group's retirement plans. The determination of the Group's obligation and expense for the defined benefit element of these plans is dependent on certain assumptions and factors provided by the Company, which are disclosed in notes 54A(i) and 54A(ii).

(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 35) at the 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.

59 Accounting Estimates and Judgements *(continued)*

A Key sources of accounting estimates and estimation uncertainty include the following: *(continued)*

(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 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 57C). The Group's depreciation policies (note 2I) in respect of certain assets' lives which extend beyond 2057 are set on this basis.

(viii) Income Tax

Certain treatments adopted by the Group in its Hong Kong Profits Tax returns in the past years are yet to be finalised with the Hong Kong Inland Revenue Department. In assessing the Group's income tax and deferred taxation in the 2011 accounts, the Company has predominantly followed the tax treatments it has adopted in these tax returns, which may be different from the final outcome in due course.

(ix) Project Provisions

The Group establishes project provisions for the settlement of estimated claims that may arise due to time delays, additional costs or other unforeseen circumstances common to major construction contracts. The claims provisions are estimated based on an assessment of the Group's liabilities under each contract by professionally qualified personnel, which may differ from the actual claims settlement.

(x) Deferred Expenditure

As disclosed in note 2J(i), the Group capitalises proposed railway and property development project costs in deferred expenditure when the projects are at a detailed study stage and having been approved in principle by the Members of the Board. Such decision involves the Board's judgement on the outcome of the proposed project.

(xi) Fair Value of Derivatives and Other Financial Instruments

In determining the fair value of financial instruments, the Group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at each balance sheet date. For financial instruments that are not traded in active markets, the fair values were derived using the discounted cash flows method which discounts the future contractual cash flows at the current market interest or foreign exchange rates, as applicable, for similar financial instruments that were available to the Group at the time.

(xii) Obligations under Service Concession

In determining the present value of the obligations under service concession, the discount rate adopted was the relevant Group company's estimated long-term incremental cost of borrowing at inception after due consideration of the relevant Group company's existing fixed rate borrowing cost, future interest rate and inflation trends.

B Critical accounting judgements in applying the group's accounting policies include the following:

(i) Provisions and Contingent Liabilities

The Group recognises provisions for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as contingent liability. As at 31 December 2011, the Group considered that it had no disclosable contingent liabilities as there were neither pending litigations nor events with potential obligation which were probable to result in material outflow of economic benefits from the Group.

(ii) Non-controlled Subsidiaries

The Group regards Octopus Holdings Limited and its subsidiaries (the "OHL Group") as non-controlled subsidiaries. In determining whether the Group has control over these subsidiaries, the Group has taken into account its voting right conferred to it under the Shareholder's Agreement of OHL and the effective influence it may exercise over the decision of OHL's Board. Throughout the year ended 31 December 2011, the Group considered that its voting right in the OHL Group has been maintained at 49% despite an equity interest of 57.4%. As such, the OHL Group was accounted for as non-controlled subsidiaries in the Group's accounts.

60 Possible Impact of Amendments, New Standards and Interpretations Issued but Not Yet Effective for the Annual Accounting Period Ended 31 December 2011

Up to the date of issue of these accounts, the HKICPA has issued the following amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2011 and have not been adopted in these accounts.

	Effective for accounting periods beginning on or after
Amendments to HKFRS 1, *First-time adoption of Hong Kong Financial Reporting Standards – Severe hyperinflation and removal of fixed dates for first-time adopters*	1 July 2011
Amendments to HKFRS 7, *Financial instruments: Disclosures – Transfers of financial assets*	1 July 2011
Amendments to HKAS 12, *Income taxes – Deferred tax: Recovery of underlying assets*	1 January 2012
Amendments to HKAS 1, *Presentation of financial statements – Presentation of items of other comprehensive income*	1 July 2012
Amendments to HKFRS 7, *Financial instruments: Disclosures – Offsetting financial assets and financial liabilities*	1 January 2013
HKFRS 10, *Consolidated financial statements*	1 January 2013
HKFRS 11, *Joint arrangements*	1 January 2013
HKFRS 12, *Disclosure of interests in other entities*	1 January 2013
HKFRS 13, *Fair value measurement*	1 January 2013
HKAS 27, *Separate financial statements (2011)*	1 January 2013
HKAS 28, *Investments in associates and joint ventures*	1 January 2013
Revised HKAS 19, *Employee benefits*	1 January 2013
HK(IFRIC) 20, *Stripping costs in the production phase of a surface mine*	1 January 2013
Amendments to HKAS 32, *Financial instruments: Presentation – Offsetting financial assets and financial liabilities*	1 January 2014
HKFRS 9, *Financial instruments*	1 January 2015

The Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. At this moment, the Group considers that the adoption of Amendments to HKAS 12, Revised HKAS 19, Amendments to HKAS 1, HKFRS 12, and HKFRS 13 will have impact on the Group's accounts.

Amendments to HKAS 12 introduce a rebuttable presumption on the measurement of deferred tax on investment properties carried at fair value and the adoption of it is expected to result in the retrospective derecognition of deferred tax liabilities in relation to the change in value of investment properties upon first adoption. Such derecognition, if measured at 31 December 2011, would amount to HK$5,604 million. Revised HKAS 19 changes the accounting and disclosure requirements on defined benefit plans and therefore will affect the amounts recognised in the Group's financial statements and disclosure notes in respect of the MTRCL Retirement Scheme. Amendments to HKAS 1 will affect the presentation of items of other comprehensive income in the Statement of Comprehensive income while new HKFRS 12 and HKFRS 13 will affect the disclosures on information on non-controlling interests of subsidiaries and valuation on investment properties.

Other than the above, it has concluded so far that the adoption of other new issues or amendments is unlikely to have a material impact on the Group's results of operations and financial position.

61 Approval of Accounts

The accounts were approved by the Board on 8 March 2012.

GLOSSARY

Airport Express	Train Service provided between AsiaWorld-Expo Station and Hong Kong Station
Appointed Day or Day One or Merger Date	2 December 2007 when the Rail Merger was completed
Articles of Association	The articles of association of the Company
BJL4	Beijing Metro Line 4, which provided train service between Anghequao North Station and Gongyixiqiao Station, and connected with its extension Daxing line providing service between Gongyixiqiao Station and Tian Gongyuan Station
BJMTR	Beijing MTR Corporation Limited
Board	The board of directors of the Company
Bus	Feeder bus services operated in support of West Rail Line, East Rail Line and Light Rail
Company or MTR Corporation	MTR Corporation Limited 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 32 of the Laws of Hong Kong)
Computershare	Computershare Hong Kong Investor Services Limited
Cross-boundary Service or Cross-boundary	Journeys with the destination to/commencing from Lo Wu and Lok Ma Chau stations
Customer Service Pledge	Annually published performance targets in accordance with the Operating Agreement
Director or Member of the Board	A member of the Board
Domestic Service	Collective name for Kwun Tong, Tsuen Wan, Island, Tung Chung, Tseung Kwan O, Disneyland Resort, East Rail (excluding Cross-boundary Service), West Rail and Ma On Shan lines
Express Rail Link	Hong Kong section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link
Fare Index	A measure of customer satisfaction for the fares charged for Domestic/Cross-boundary services and Airport Express based on satisfaction scores for different fare attributes weighted by the corresponding importance rating from the customer research
FSI	The Financial Secretary Incorporated, a corporation solely established under the Financial Secretary Incorporation Ordinance (Chapter 1015 of the Laws of Hong Kong)
Government	The Government of the Hong Kong SAR
Group	The Company and its subsidiaries
HKSE or Stock Exchange	The Stock Exchange of Hong Kong Limited
Hong Kong or Hong Kong SAR or HKSAR	The Hong Kong Special Administrative Region of the People's Republic of China
Intercity	Intercity passenger services operated between Hong Kong and certain major cities in the Mainland of China such as Guangzhou, Beijing and Shanghai
Interest Cover	Operating profit before depreciation, amortisation and variable annual payment for rail concessions divided by gross interest and finance charges before capitalisation and accreted interest on loan to a property developer
KCRC	Kowloon-Canton Railway Corporation
Kowloon Southern Link	Project for extension of the West Rail Line from Nam Cheong Station to East Tsim Sha Tsui Station via Austin Station, providing direct access between the East Rail Line and West Rail Line after the completion of the project
Light Rail	Light rail system serving North West New Territories
Listing Rules	The Rules Governing the Listing of Securities on the Stock Exchange
LOROL	London Overground Rail Operations Limited
Mainland or Mainland China or Mainland of China	The People's Republic of China excluding Hong Kong SAR
MTM	Metro Trains Melbourne Pty. Ltd.
MTRS	MTR Stockholm AB
MTR Ordinance	The Mass Transit Railway Ordinance (Chapter 556 of the Law of Hong Kong)
Net Debt-to-equity Ratio	Loans and other obligations, bank overdrafts, obligations under service concession and loan from holders of non-controlling interests net of cash, bank balances and deposits, and investment in bank medium term notes in the consolidated balance sheet as a percentage of the total equity
Operating Agreement	The agreement entered into by the Company and the Government on 30 June, 2000 for the operation of our rail services before the Rail Merger and a new agreement entered on 9 August 2007 for the operation of all of our rail and bus passenger services after the Rail Merger
Operating Margin	Operating profit before property developments, depreciation, amortisation and variable annual payment for rail concessions as a percentage of turnover
Ordinary Shares	Ordinary shares of HK$1.00 each in the capital of the Company
Rail Merger or Merger	The merger of the rail operations of MTR Corporation and KCRC and the acquisition of certain property interests by MTR Corporation from KCRC, full details of which are set out in the Rail Merger Circular. The Rail Merger was completed on 2 December 2007
Rail Merger Bill or Rail Merger Ordinance	The Rail Merger Bill refers to the draft legislation on the Rail Merger which was passed by the Legislative Council of Hong Kong on 8 June 2007 and became the Rail Merger Ordinance (Ordinance No.11 of 2007)
Rail Merger Circular	Refers to the circular dated 3 September 2007 despatched to the Company's shareholders in connection with the Rail Merger
Return on Average Equity Attributable to Equity Shareholders	Profit attributable to equity shareholders of the Company as a percentage of the average of the beginning and closing total equity attributable to equity shareholders of the Company of the period
Service Concession	A contract to provide services for a particular period which is awarded by a public sector entity to an operator; in the context of concession projects in Hong Kong, service concession refers to the concession granted or to be granted by KCRC and/or Government to the Company to operate, maintain and renew certain railway lines under the Service Concession Agreement or a Supplemental Service Concession Agreement, as more particularly described in the Rail Merger Circular; in the context of concession projects in the Mainland of China and Overseas, service concession refers to the concession granted by the government or relevant public sector entity to a subsidiary or associate of the Company to provide certain specified services for a specified period under a negotiated concession agreement.
Service Quality Index	A measure of customer satisfaction for the services provided by Domestic/Cross-boundary services and Airport Express based on satisfaction scores for different service attributes (excluding fares) weighted by the corresponding importance rating from the customer research
SZL4	Shenzhen Metro Longhua Line, which provided train service between Futian checkpoint Station to Qinghu Station
SZMTR	MTR Corporation (Shenzhen) Limited
TBT	Tunnelbanan Teknik Stockholm AB

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

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MTR Corporation Limited
MTR Headquarters Building, Telford Plaza
Kowloon Bay, Kowloon, Hong Kong
GPO Box 9916, Hong Kong
Telephone : (852) 2993 2111
Facsimile : (852) 2798 8822
www.mtr.com.hk

Stock Code: 66