

CHAIRMAN'S LETTER

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.

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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.

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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