

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.

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

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

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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.

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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

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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.

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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

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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