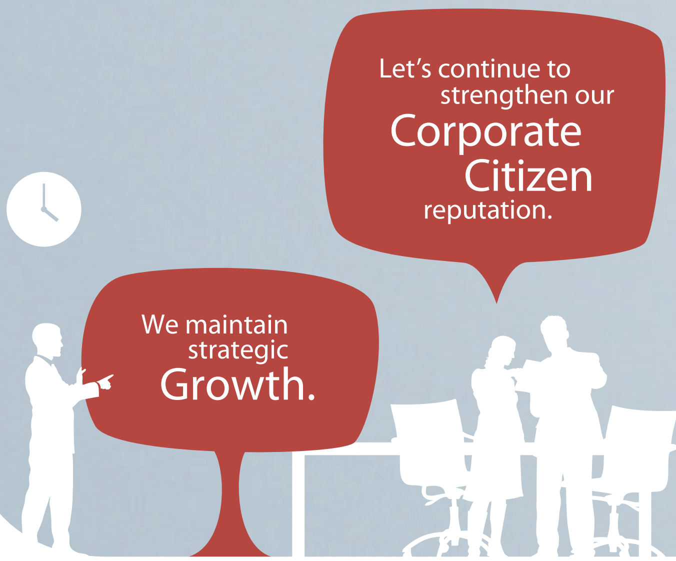
"Whilst handling more passengers than ever before, we continued to maintain world class operational and safety standards throughout our network."

Jay H Walder
CEO



Dear Shareholders and other Stakeholders,

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

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

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

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

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

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

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

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

Hong Kong Transport Operations

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

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

Patronage

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

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

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

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

Market Share

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

Fare Revenue

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

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

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

Service and Performance

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

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

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

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

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

Hong Kong Station Commercial Business

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

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

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

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

Hong Kong Property and Other Businesses

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

Property Development in Hong Kong

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

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

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

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

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

Property Rental and Management Businesses in Hong Kong

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

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

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

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

Other Businesses

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

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

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

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

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

Mainland of China and International Businesses

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

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

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

Railway Businesses in the Mainland of China

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

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

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

Railway Businesses Overseas

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

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

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

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

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

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

Future Growth

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

Growth in Hong Kong

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

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

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

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

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

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

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

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

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

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

Growth in the Mainland of China and Overseas

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

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

Financial Review

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

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

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

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

Human Resources

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

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

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

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

Community Engagement

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

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

Outlook

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

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

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

Jay H Walder

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