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MTR Corporation Limited

31 December 2011





Independent auditor's report to the shareholders of MTR Corporation Limited

(Incorporated in Hong Kong with limited liability)

We have audited the consolidated accounts of MTR Corporation Limited (the "Company") and its subsidiaries (together "the Group") set out on pages 2 to 94, which comprise the consolidated and company balance sheets as at 31 December 2011, the consolidated profit and loss account, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information

Directors' responsibility for the consolidated accounts

The directors of the Company are responsible for the preparation of consolidated accounts that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of consolidated accounts that are free from material misstatement, whether due to fraud or error

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated accounts based on our audit. This report is made solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated accounts. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated accounts that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated accounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated accounts give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2011 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

8 March 2012

Consolidated Profit and Loss Account*for the year ended 31 December in HK\$ million*

	NOTE	2011	2010
Revenue from Hong Kong transport operations	4	13,509	12,635
Revenue from Hong Kong station commercial business	5	3,422	2,853
Revenue from property rental and management businesses	6	3,215	2,961
Revenue from railway subsidiaries outside of Hong Kong	7	12,279	10,144
Revenue from other businesses	8	998	925
Other net income	9	-	-
		33,423	29,518
Expenses relating to Hong Kong transport operations			
- Staff costs and related expenses	10A	(3,673)	(3,398)
- Energy and utilities		(1,110)	(1,067)
- Operational rent and rates		(199)	(184)
- Stores and spares consumed		(466)	(421)
- Maintenance and related works	10B	(1,048)	(912)
- Railway support services		(206)	(207)
- General and administration expenses		(429)	(379)
- Other expenses		(223)	(253)
		(7,354)	(6,821)
Expenses relating to Hong Kong station commercial business		(358)	(294)
Expenses relating to property rental and management businesses		(721)	(654)
Expenses relating to railway subsidiaries outside of Hong Kong	7	(11,830)	(9,865)
Expenses relating to other businesses		(913)	(751)
Project study and business development expenses	10C	(123)	(216)
Operating expenses before depreciation, amortisation and variable annual payment	10D, E&F	(21,299)	(18,601)
Operating profit before property developments, depreciation, amortisation and variable annual payment		12,124	10,917
Profit on property developments	12	4,934	4,034
Operating profit before depreciation, amortisation and variable annual payment		17,058	14,951
Depreciation and amortisation	13	(3,206)	(3,120)
Variable annual payment	14	(647)	(45)
Operating profit before interest and finance charges		13,205	11,786
Interest and finance charges	15	(921)	(1,237)
Investment property revaluation	23	5,088	4,074
Share of profits of non-controlled subsidiaries and associates	16	297	139
Profit before taxation		17,669	14,762
Income tax	17A	(2,821)	(2,590)
Profit for the year		14,848	12,172
Attributable to:			
- Equity shareholders of the Company	18A	14,716	12,059
- Non-controlling interests		132	113
Profit for the year		14,848	12,172
Profit for the year attributable to equity shareholders of the Company:			
- Arising from underlying businesses before property developments		6,243	5,397
- Arising from property developments		4,225	3,260
- Arising from underlying businesses	18B	10,468	8,657
- Arising from investment property revaluation		4,248	3,402
		14,716	12,059
Earnings per share:	20		
- Basic		HK\$2.55	HK\$2.10
- Diluted		HK\$2.54	HK\$2.10

The notes on pages 8 to 94 form part of the accounts

Consolidated Statement of Comprehensive Income

for the year ended 31 December in HK\$ million

	NOTE	2011	2010
Profit for the year		14,848	12,172
Other comprehensive income for the year (after taxation and reclassification adjustments):			
Exchange differences on translation of			
- financial statements of overseas subsidiaries		146	141
- non-controlling interests		(1)	16
	22A	145	157
Cash flow hedges net movement in hedging reserve	22A&B	(12)	(26)
Self-occupied land and buildings net movement in fixed assets revaluation reserve	22A&B	471	285
		604	416
Total comprehensive income for the year		15,452	12,588
Attributable to:			
- Equity shareholders of the Company		15,321	12,459
- Non-controlling interests		131	129
Total comprehensive income for the year		15,452	12,588

The notes on pages 8 to 94 form part of the accounts

Consolidated Balance Sheet

at 31 December in HK\$ million

	NOTE	2011	2010
Assets			
Fixed assets			
- Investment properties	23	51,453	45,314
- Other property, plant and equipment	24	76,687	77,276
- Service concession assets	25	23,928	21,467
		<u>152,068</u>	<u>144,057</u>
Property management rights	26	31	31
Railway construction in progress	27	3,566	-
Property development in progress	29A	11,964	9,128
Deferred expenditure	30	14	1,079
Interests in non-controlled subsidiaries	31	579	541
Interests in associates	33	948	836
Deferred tax assets	49B	27	9
Investments in securities	34	2,974	3,912
Properties held for sale	35	3,757	1,936
Derivative financial assets	36	344	375
Stores and spares	37	1,135	1,061
Debtors, deposits and payments in advance	38	3,964	3,061
Loan to a property developer	39	-	1,975
Amounts due from related parties	40	402	330
Cash, bank balances and deposits	41	16,100	13,334
		<u>197,873</u>	<u>181,665</u>
Liabilities			
Bank overdrafts	42A	-	16
Short-term loans	42A	-	300
Creditors and accrued charges	43	16,402	15,491
Current taxation	49A	597	1,018
Contract retentions	44	643	404
Amounts due to related parties	45	1,481	892
Loans and other obligations	42A	23,168	20,741
Obligations under service concession	46	10,724	10,749
Derivative financial liabilities	36	151	148
Loan from holders of non-controlling interests	47	154	154
Deferred income	48	403	605
Deferred tax liabilities	49B	15,105	13,854
		<u>68,828</u>	<u>64,372</u>
Net assets		<u>129,045</u>	<u>117,293</u>
Capital and reserves			
Share capital, share premium and capital reserve	50A	44,062	43,734
Other reserves	51	84,797	73,416
Total equity attributable to equity shareholders of the Company		<u>128,859</u>	<u>117,150</u>
Non-controlling interests		<u>186</u>	<u>143</u>
Total equity		<u>129,045</u>	<u>117,293</u>

Approved and authorised for issue by the Members of the Board on 8 March 2012

Raymond K F Ch'ien

Jay H Walder

Lincoln K K Leong

The notes on pages 8 to 94 form part of the accounts

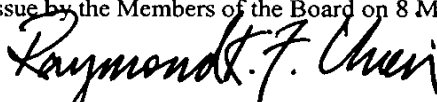
Balance Sheet

at 31 December in HK\$ million

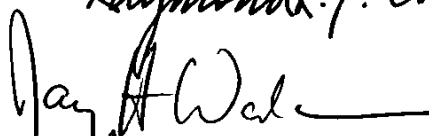
	NOTE	2011	2010
Assets			
Fixed assets			
- Investment properties	23	50,287	44,166
- Other property, plant and equipment	24	76,086	76,845
- Service concession assets	25	16,169	15,963
		<u>142,542</u>	<u>136,974</u>
Property management rights	26	31	31
Railway construction in progress	27	3,566	-
Property development in progress	29A	9,521	9,128
Deferred expenditure	30	14	1,079
Investments in subsidiaries	32	1,260	1,256
Investments in securities	34	2,626	3,627
Properties held for sale	35	3,757	1,936
Derivative financial assets	36	344	375
Stores and spares	37	932	874
Debtors, deposits and payments in advance	38	2,629	1,779
Loan to a property developer	39	-	1,975
Amounts due from related parties	40	5,035	4,365
Cash, bank balances and deposits	41	13,971	12,273
		<u>186,228</u>	<u>175,672</u>
Liabilities			
Bank overdrafts	42A	-	16
Short-term loans	42A	-	300
Creditors and accrued charges	43	11,418	13,308
Current taxation	49A	582	910
Contract retentions	44	423	221
Amounts due to related parties	45	13,244	12,079
Loans and other obligations	42A	7,502	7,700
Obligations under service concession	46	10,557	10,592
Derivative financial liabilities	36	151	148
Deferred income	48	68	568
Deferred tax liabilities	49B	15,031	13,840
		<u>58,976</u>	<u>59,682</u>
Net assets		<u>127,252</u>	<u>115,990</u>
Capital and reserves			
Share capital, share premium and capital reserve	50A	44,062	43,734
Other reserves	51	83,190	72,256
Total equity		<u>127,252</u>	<u>115,990</u>

Approved and authorised for issue by the Members of the Board on 8 March 2012

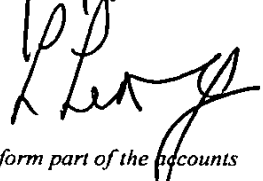
Raymond K F Ch'ien



Jay H Walder



Lincoln K K Leong



The notes on pages 8 to 94 form part of the accounts

Consolidated Statement of Changes in Equity for the year ended 31 December in HK\$ million

	NOTE	Share capital, share premium and capital reserve	Fixed assets revaluation reserve	Hedging reserve	Employee share-based capital reserve	Exchange reserve	Retained profits	Total equity attributable to equity shareholders of the Company	Non-controlling interests	Total equity
2011										
Balance as at 1 January 2011		43,734	1,417	(78)	102	194	71,781	117,150	143	117,293
Changes in equity for the year ended 31 December 2011										
- Profit for the year	22	-	-	-	-	-	14,716	14,716	132	14,848
- Other comprehensive income for the year		-	471	(12)	-	146	-	605	(1)	604
- Total comprehensive income for the year		-	471	(12)	-	146	14,716	15,321	131	15,452
- 2010 final dividend	19, 51	288	-	-	-	-	(2,598)	(2,310)	-	(2,310)
- 2011 interim dividend	19, 51	-	-	-	-	-	(1,446)	(1,446)	-	(1,446)
- Dividend paid to holders of non-controlling interests		-	-	-	-	-	-	-	(88)	(88)
- Employee share-based payments		-	-	-	110	-	-	110	-	110
- Employee share options exercised	50A, 51	40	-	-	(6)	-	-	34	-	34
- Employee share options forfeited		-	-	-	(5)	-	5	-	-	-
Balance as at 31 December 2011		44,062	1,888	(90)	201	340	82,458	128,859	186	129,045
2010										
Balance as at 1 January 2010		42,497	1,132	(52)	52	53	62,705	106,387	66	106,453
Changes in equity for the year ended 31 December 2010										
- Profit for the year	22	-	-	-	-	-	12,059	12,059	113	12,172
- Other comprehensive income for the year		-	285	(26)	-	141	-	400	16	416
- Total comprehensive income for the year		-	285	(26)	-	141	12,059	12,459	129	12,588
- 2009 final dividend	19, 51	1,087	-	-	-	-	(2,177)	(1,090)	-	(1,090)
- 2010 interim dividend	19, 51	81	-	-	-	-	(807)	(726)	-	(726)
- Dividend paid to holders of non-controlling interests		-	-	-	-	-	-	-	(52)	(52)
- Employee share-based payments		-	-	-	57	-	-	57	-	57
- Employee share options exercised	51	69	-	-	(6)	-	-	63	-	63
- Employee share options forfeited		-	-	-	(1)	-	1	-	-	-
Balance as at 31 December 2010		43,734	1,417	(78)	102	194	71,781	117,150	143	117,293

The notes on pages 8 to 94 form part of the accounts

Consolidated Cash Flow Statement*for the year ended 31 December in HK\$ million*

	NOTE	2011	2010
Cash flows from operating activities			
Cash generated from operations	52	12,489	11,920
Receipt of government subsidy for Shenzhen Metro Longhua			
Line operation		638	-
Current tax paid			
- Hong Kong Profits Tax paid		(1,949)	(1,007)
- Overseas tax paid		(154)	(4)
Net cash generated from operating activities		11,024	10,909
Cash flows from investing activities			
Capital expenditure			
- Purchase of assets for Hong Kong transport and related operations		(2,102)	(1,953)
- West Island Line Project		(3,111)	(3,218)
- South Island Line (East) Project		(1,467)	(347)
- Kwun Tong Line Extension Project		(450)	(190)
- Shenzhen Metro Longhua Line Project		(1,385)	(1,846)
- Property development projects		(1,075)	(4,444)
- Property renovation and fitting out works		(255)	(173)
- Other capital projects		(198)	(165)
Net cash receipt in respect of entrustment works of Shatin to Central Link and Express Rail Link		170	84
Fixed annual payment		(750)	(750)
Variable annual payment		(45)	-
Receipts in respect of property development		1,593	5,249
Receipt of loan repayment from a property developer		2,000	-
Receipt of government grant for West Island Line Project		-	12,252
Increase in bank deposits with more than three months to maturity when placed		(3,063)	(9,610)
Purchase of investments in securities		(160)	(3,844)
Proceeds from sale of investments in securities		1,094	159
Proceeds from disposal of fixed assets		5	7
Receipt of loan repayment from an associate		29	-
Settlement of loan repayment to an associate		(29)	-
Dividends received from non-controlled subsidiaries		144	75
Net cash used in investing activities		(9,055)	(8,714)
Cash flows from financing activities			
Proceeds from shares issued under share option schemes		34	63
Drawdown of loans		1,392	8,153
Proceeds from issuance of capital market instruments		2,198	-
Repayment of loans		(1,111)	(5,390)
Repayment of capital market instruments		(500)	(5,778)
Interest paid		(603)	(861)
Interest received		194	123
Finance charges paid		(12)	(19)
Dividends paid to equity shareholders of the Company		(3,754)	(1,814)
Dividends paid to holders of non-controlling interests		(88)	(58)
Net cash used in financing activities		(2,250)	(5,581)
Net decrease in cash and cash equivalents		(281)	(3,386)
Cash and cash equivalents at 1 January		3,708	7,094
Cash and cash equivalents at 31 December	41	3,427	3,708

The notes on pages 8 to 94 form part of the accounts

Notes to the Accounts

1 Statement of Compliance

These accounts have been prepared in compliance with the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). These accounts have also been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), and accounting principles generally accepted in Hong Kong. The HKFRSs are fully converged with International Financial Reporting Standards in all material respects. A summary of the principal accounting policies adopted by the Group is set out in note 2.

The HKICPA has issued certain new and revised HKFRSs that are effective for accounting periods beginning on or after 1 January 2011. Changes in accounting policies resulting from the initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these accounts are disclosed in note 2A(iii).

2 Principal Accounting Policies

A. Basis of Preparation of the Accounts

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

- investment properties (note 2F(i)),
- self-occupied land and buildings (note 2F(ii)),
- financial instruments classified as investments in securities other than those intended to be held to maturity (note 2M), and
- derivative financial instruments (note 2T).

(ii) The preparation of the accounts in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenditure. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements and estimations about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the accounts and estimates are discussed in note 59.

(iii) The HKICPA has issued a number of amendments to HKFRSs and one new Interpretation that are first effective for the current accounting period of the Group. Of these, only HKAS 24 (revised 2009), *Related party disclosures* is relevant to the Group's accounts.

HKAS 24 (revised 2009) introduces modified disclosure requirements for government-related entities. As a result, the Group has revised the disclosure on material related party transactions with the Hong Kong Special Administrative Region ("HKSAR") Government and entities related to the HKSAR Government for those transactions that are collectively but not individually significant (note 57). HKAS 24 (revised 2009) also revises the definition of a related party. The Group has re-assessed the identification of related parties and concluded that the revised definition does not have any impact on the Group's related party disclosures in the current and previous period.

The Group has not applied any new and revised standard or interpretation that is not yet effective for the current accounting period (note 60).

B. Basis of Consolidation

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

C. Subsidiaries and Non-Controlling Interests

A subsidiary in accordance with the Hong Kong Companies Ordinance is a company in which the Group, directly or indirectly, holds more than half of the issued share capital, or controls more than half of the voting power, or controls the composition of the board of directors. Subsidiaries are considered to be controlled if the Company has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities.

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

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Non-controlling interests are presented in the consolidated balance sheet within equity, separately from equity attributable to equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated profit and loss account and the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated balance sheet depending on the nature of the liability.

Investments in subsidiaries are carried in the Company’s balance sheet at cost less any impairment losses (note 2H(1))

D. Non-controlled Subsidiaries

Non-controlled subsidiaries are not consolidated in the accounts as the Group does not have effective control over their Boards. The investments in non-controlled subsidiaries are accounted for in the consolidated accounts of the Company using the equity method and are initially recorded at cost and adjusted thereafter for the post acquisition change in the Group’s share of their net assets. The consolidated profit and loss account reflects the Group’s share of the results of those non-controlled subsidiaries for the year.

Unrealised profits and losses resulting from transactions between the Group and the non-controlled subsidiaries are eliminated to the extent of the Group’s interest in those subsidiaries, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in the profit and loss account.

In the Company’s balance sheet, its investments in non-controlled subsidiaries are stated at cost less impairment losses (note 2H(1))

E. Associates and Jointly Controlled Entities

An associate is an entity over which the Group or the Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A jointly controlled entity is an entity which operates under a contractual arrangement between the Group or the Company and other parties, where the contractual arrangement establishes that the Group or the Company and one or more of the other parties share joint control over the economic activity of the entity.

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

When the Group's share of losses equals or exceeds its interest in the associate or the jointly controlled entity, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest in the investee is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate or the jointly controlled entity.

Unrealised profits and losses resulting from transactions between the Group and its associates and jointly controlled entities are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in the profit and loss account.

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

F. Fixed Assets

(i) Investment properties are land and/or buildings which are owned or held under a leasehold interest to earn rental income and/or for capital appreciation. These include property that is being constructed or developed for future use as investment property.

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

(ii) Leasehold land registered and located in the HKSAR is accounted for as being held under a finance lease and is stated at cost less accumulated depreciation and impairment losses (note 2H(ii)). Land held for own use under operating leases and buildings thereon, where the fair value of the leasehold interest in the land and buildings cannot be measured separately at inception of the lease, are accounted for as being held under a finance lease, unless the buildings are also clearly held under an operating lease. For these purposes, inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee, or at the date of construction of those buildings, if later. The self-occupied land and buildings are stated on the balance sheet at their fair value on the basis of their existing use at the date of revaluation less any subsequent accumulated depreciation. Revaluations are performed by independent qualified valuers semi-annually, with changes in the fair value arising on revaluations recorded as movements in the fixed assets revaluation reserve, except:

(a) where the balance of the fixed assets revaluation reserve relating to a self-occupied land and building is insufficient to cover a revaluation deficit of that property, the excess of the deficit is charged to the profit and loss account, and

(b) where a revaluation deficit had previously been charged to the profit and loss account and a revaluation surplus subsequently arises, this surplus is firstly credited to the profit and loss account to the extent of the deficit previously charged to the profit and loss account, and thereafter taken to the fixed assets revaluation reserve.

(iii) Civil works and plant and equipment are stated at cost less accumulated depreciation and impairment losses (note 2H(ii)).

(iv) Assets under construction are stated at cost less impairment losses (note 2H(ii)). Cost comprises direct costs of construction, such as materials, staff costs and overheads, together with interest expense capitalised during the period of construction or installation and testing. Capitalisation of these costs ceases and the asset concerned is transferred to the appropriate fixed assets category when substantially all the activities necessary to prepare the asset for its intended use are completed.

(v) Leased Assets

(a) Leases of assets under which the lessee assumes substantially all the risks and rewards of ownership are classified as finance leases. Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments (computed using the rate of interest implicit in the lease), of such assets are included in fixed assets and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation and impairment losses are accounted for in accordance with the accounting policy as set out in notes 2I(iv) and 2H(ii) respectively. Finance charges implicit in the lease payments are charged to the profit and loss account over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

(b) Leases of assets, other than that mentioned in note 2F(ii), under which the lessor has not transferred substantially all the risks and rewards of ownership are classified as operating leases. Where the Group leases out assets under operating leases, the assets are included in the balance sheet according to their nature and, where applicable, are depreciated in accordance with the Group's depreciation policies. Impairment losses are accounted for in accordance with the accounting policies on impairment of assets (note 2H(ii)). Revenue arising from operating leases is recognised in accordance with the Group's revenue recognition policies as set out in note 2Z(ii).

(vi) Subsequent expenditure relating to the replacement of certain parts of an existing fixed asset is recognised in the carrying amount of the asset if it is probable that future economic benefit will flow to the Group and the cost of the item can be measured reliably. The carrying amount of those parts that are replaced is derecognised, with gain or loss arising therefrom dealt with in the profit and loss account.

Expenditure on repairs or maintenance of an existing fixed asset to restore or maintain the originally assessed standard of performance of that asset is charged as an expense when incurred.

Gains or losses arising from the retirement or disposal of a fixed asset or an investment property are determined as the difference between the net disposal proceeds and the carrying amount of the asset. Such gains or losses are recognised as income or expense in the profit and loss account on the date of retirement or disposal. Any related revaluation surplus is transferred from the fixed assets revaluation reserve to retained profits and is not re-classified to profit and loss account.

(vii) Service Concession Assets

Where the Group enters into service concession arrangements under which the Group acquires the right to access, use and operate certain assets for the provision of public services, upfront payments and expenditure directly attributable to the acquisition of the service concession up to inception of the service concession are capitalised as service concession assets and amortised on a straight-line basis over the period of the service concession. Annual payments over the period of the service concession with the amounts fixed at inception are capitalised at their present value, calculated using the incremental long term borrowing rate determined at inception as the discount rate, as service concession assets and amortised on a straight-line basis over the period of the service concession, with a corresponding liability recognised as obligations under service concession. Annual payments for the service concession which are not fixed or determinable at inception and are contingent on future revenues are charged to the profit and loss account in the period when incurred.

Where the Group enters into service concession arrangements under which the Group constructs, uses and operates certain assets for the provision of public services, construction revenues and costs are recognised in the profit and loss account by reference to the stage of completion at the balance sheet date while the fair value of construction service is capitalised initially as service concession assets in the balance sheet and amortised on a straight-line basis over the shorter of the assets' useful lives and the period in which the service concession assets are expected to be available for use by the Group.

Expenditure for the replacement and/or upgrade of the assets subject to service concession is capitalised and amortised on a straight-line basis over the shorter of the assets' useful lives and the remaining period of the service concession.

Service concession assets are carried on the balance sheet as an intangible asset at cost less accumulated amortisation and impairment losses, if any (note 2H(ii)).

Income and expenditure and assets and liabilities in relation to the operation of the service concessions are accounted for in the Group's and the Company's profit and loss accounts and balance sheets.

G. Property Management Rights

Where the Group makes payments for the acquisition of property management rights, the amounts paid are capitalised as intangible assets and stated on the balance sheet at cost less accumulated amortisation and impairment losses (note

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

H. Impairment of Assets

(i) Impairment of Debtors and Other Receivables

Debtors and other current and non-current receivables are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets) where the effect of discounting is material.

If in a subsequent period the amount of an impairment loss decreases, the impairment loss is reversed through the profit and loss account.

(ii) Impairment of Other Assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

- fixed assets (including service concession assets but other than assets carried at revalued amounts),
- property management rights,
- railway construction in progress,
- property development in progress,
- deferred expenditure,
- investments in held-to-maturity securities, and
- investments in subsidiaries, non-controlled subsidiaries, associates and jointly controlled entities.

If any such indication exists, the asset's recoverable amount is estimated.

The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

An impairment loss is recognised in the profit and loss account whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount.

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount of the asset.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the profit and loss account in the year in which the reversals are recognised.

I. Depreciation and Amortisation

(i) Investment properties are not depreciated

(ii) Fixed assets other than investment properties, assets under construction and service concession assets which are amortised over the entire or remaining period of the service concession (note 2F(vii)) are depreciated or amortised on a straight-line basis at rates sufficient to write off their cost or valuation, less their estimated residual value, if any, over their estimated useful lives as follows:

Land and Buildings

Self-occupied land and buildings
Leasehold land

the shorter of 50 years and the unexpired term of the lease
the unexpired term of the lease

Civil Works

Excavation and boring

Indefinite

Tunnel linings, underground civil structures, overhead structures and immersed tubes	100 years
Station building structures	100 years
Depot structures	80 years
Kiosk structures	20 years
Cableway station tower and theme village structures	27 years

Plant and Equipment

Rolling stock and components	4 - 50 years
Platform screen doors	25 - 35 years
Rail track	7 - 30 years
Environmental control systems, lifts and escalators, fire protection and drainage system	7 - 30 years
Power supply systems	7 - 40 years
Aerial ropeway and cabin	5 - 27 years
Automatic fare collection systems, metal station kiosks, and other mechanical equipment	20 - 25 years
Train control and signalling equipment, station announcement systems, telecommunication systems and advertising panels	5 - 25 years
Station architectural finishes	20 - 30 years
Fixtures and fittings	10 - 25 years
Maintenance equipment	4 - 25 years
Office furniture and equipment	2 - 15 years
Computer software licences and applications	2 - 10 years
Computer equipment	3 - 5 years
Cleaning equipment and tools	5 years
Motor vehicles	4 - 5 years

Where parts of an item of property, plant and equipment have different useful lives, each part is depreciated or amortised separately. The useful lives of the various categories of fixed assets are reviewed annually in the light of actual asset condition, usage experience and the current asset replacement programme.

(iii) No depreciation or amortisation is provided on assets under construction until construction is completed and the assets are ready for their intended use.

(iv) Depreciation on assets held under finance leases is provided at rates designed to write off the cost of the asset in equal annual amounts over the shorter of the lease term or the anticipated useful life of the asset as set out above, except in cases where title to the asset will be acquired by the Group at the end of the lease where depreciation is provided at rates designed to write off the cost of the asset in equal amounts over the anticipated useful life of the asset.

J. Construction Costs

(i) Costs incurred by the Group in respect of feasibility studies on proposed railway related construction projects (including consultancy fees, in-house staff costs and overheads) are dealt with as follows:

- where the proposed projects are at a preliminary review stage with no certainty of materialising, the costs concerned are charged to the profit and loss account, and
- where the proposed projects are at a detailed study stage, having been agreed in principle by the Members of the Board based on a feasible financial plan, the costs concerned are recorded as deferred expenditure until such time as a project agreement is reached, whereupon the costs are transferred to railway construction in progress.

(ii) After entering into a project agreement, all costs incurred in the construction of the railway are dealt with as railway construction in progress until commissioning of the railway line, whereupon the relevant construction costs are transferred to fixed assets.

K. Property Development

(i) Costs incurred by the Group in respect of site preparation, land costs and acquisition of development rights as well as notional interest in connection with interest-free loans to property developers are dealt with as property development in progress.

(ii) Payments received from developers in respect of property developments are offset against the amounts in property development in progress attributable to that development. Any surplus amounts of payments received from developers in excess of the balance in property development in progress are transferred to deferred income. In these cases, further costs subsequently incurred by the Group in respect of that development are charged against deferred income.

(iii) Where an interest-free loan is provided to a developer as one of the terms of the development contract, such loan is initially stated at fair value which is its face value discounted at the prevailing market rates of interest at inception. When the repayment schedule of the loan is altered, the fair value is re-calculated and the carrying amount of the loan is adjusted. The difference between the fair value and the face value of the loan is dealt with as property development in progress during construction and transferred to the profit and loss account upon completion of the development. Notional interest income is credited to the profit and loss account and debited to the loan over the period of the loan so that the fair value of the loan at maturity equates its face value.

(iv) Profits arising from the development of properties undertaken in conjunction with property developers are recognised in the profit and loss account as follows:

- where the Group receives payments from developers, profits arising from such payments are recognised when the foundation and site enabling works are complete and acceptable for development, and after taking into account the outstanding risks and obligations, if any, retained by the Group in connection with the development,
- where the Group receives a right to a share of the net surplus from sale of the development and interests in any unsold units, income is initially recognised by the Group upon the issue of occupation permits provided the amounts of revenue and costs can be estimated reliably. The interest in any unsold properties is subsequently remeasured on a basis consistent with the policy set out in note 2K(v), and
- where the Group receives a distribution of the assets of the development, profit is recognised based on the fair value of such assets at the time of receipt and after taking into account any outstanding risks and obligations retained by the Group in connection with the development.

Upon recognition of profit, the balance of deferred income or property development in progress relating to that development is credited or charged to the profit and loss account, as the case may be.

(v) Where properties are received as a profit distribution upon completion of development and are held for sale, those properties are stated at fair value upon receipt and subsequently carried at their estimated net realisable value. Net realisable value represents the estimated selling price less costs to be incurred in selling the properties. When properties are sold, the carrying amount of those properties is recognised as cost of properties sold in the period in which the related revenue is recognised. The amount of any write-down of properties to net realisable value is recognised as an expense in the period the write-down occurs. The amount of any reversal of any write-down of properties arising from an increase in net realisable value is recognised as a reduction in the cost of properties sold in the period in which the reversal occurs.

(vi) Where properties under construction are received from a development for investment purpose, these properties are recognised as investment properties at fair value. Further costs incurred in the construction of those assets are capitalised in investment properties.

L. Jointly Controlled Operations

The arrangements entered into by the Group with developers for property developments without establishing separate entities are considered to be jointly controlled operations pursuant to HKAS 31, *Interests in joint ventures*. Under the development arrangements, the Group is normally responsible for its own costs, including in-house staff costs and the costs of enabling works, and the developers normally undertake to pay for all other project costs such as land premium (or such remaining portion as not already paid by the Group), construction costs, professional fees, etc. Such costs are deductible from the proceeds of sale before surplus proceeds are shared. In respect of its interests in such operations, the Group accounts for the purchase consideration of development rights, costs of enabling works (including any interest accrued) and land costs (including any land premiums) paid net of payments received as property development in progress. In cases where payments received from developers exceed the related expenditures incurred by the Group, such excess is recorded as deferred income. Expenses incurred by the Group on staff, overhead and consultancy fees in respect of these developments are also capitalised as property development in progress. The Group's share of income earned from such operations is recognised in the profit and loss account on the basis of note 2K(iv) after netting off any related balance in property development in progress at that time.

M. Investments in Securities

The Group's policies for investments in securities (other than investments in its subsidiaries, non-controlled subsidiaries, associates and jointly controlled entities) are as follows

- (i) Investments in securities held for trading purpose are initially stated at fair value. At each balance sheet date the fair value is remeasured, with any resultant unrealised gain or loss being recognised in the profit and loss account
- (ii) Investments in debt securities and bank medium term notes on which the Group has the ability and intention to hold to maturity are classified as held-to-maturity securities, which are stated at amortised cost less impairment losses (note 2H(ii))
- (iii) Investments are recognised / derecognised on the date the Group commits to purchase/sell the investments
- (iv) Interest income in relation to investment in securities is recognised as it accrues using the effective interest method
- (v) Profit or loss on disposal of investments in securities are determined as the difference between the estimated net disposal proceeds and the carrying amount of the investments and are accounted for in the profit and loss account as they arise

N. Stores and Spares

Stores and spares used for railway and business operation are categorised as either revenue or capital. Revenue spares are stated in the balance sheet at cost, using the weighted average cost method and are recognised in the year in which the consumption occurred. Provision is made for obsolescence where appropriate. Capital items are included in fixed assets and stated at cost less accumulated depreciation and impairment losses (note 2H(i)). Depreciation is charged at the rates applicable to the relevant fixed assets against which the capital spares are held in reserve.

O. Long-term Contracts

The accounting policy for contract revenue is set out in note 2Z(iii). When the outcome of a fixed-price long-term contract can be estimated reliably, contract costs are recognised as expenses by reference to the stage of completion of the contract activity at the balance sheet date. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately. When the outcome of a long-term contract cannot be estimated reliably, contract costs are recognised as expenses in the period in which they are incurred.

Long-term contracts in progress at the balance sheet date are recorded in the balance sheet at the net amount of costs incurred plus recognised profits less recognised losses and progress billings, and are presented in the balance sheet as the "Gross amount due from customers for contract work" (as an asset) or the "Gross amount due to customers for contract work" (as a liability), as applicable. Progress billings not yet paid by the customer are included in the balance sheet under "Debtors, deposits and payments in advance". Amounts received before the related work is performed are included in the balance sheet as a liability under "Creditors and accrued charges".

P. Cash and Cash Equivalents

Cash and cash equivalents comprise cash at banks and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments that are readily convertible into known amounts of cash and subject to an insignificant risk of changes in value with a maturity at acquisition within three months. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

Q. Debtors, Deposits and Payments in Advance

Debtors, deposits and payments in advance are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method less impairment losses for bad and doubtful debts (note 2H(i)), except where the effect of discounting would be immaterial or the discount is not measurable as the receivables are interest-free loans made to

related parties without any fixed repayment terms. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts.

R. Interest-bearing Borrowings

Interest-bearing borrowings are recognised initially at fair value net of transaction costs incurred. The unhedged portion of interest-bearing borrowings is subsequently stated at amortised costs. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the profit and loss account over the period of the borrowings using the effective interest method.

Subsequent to initial recognition, the carrying amount of the hedged portion of interest-bearing borrowings is remeasured and the change in fair value attributable to the risk being hedged is recognised in the profit and loss account to offset the effect of the gain or loss on the related hedging instrument.

S. Creditors and Accrued Charges

Creditors and accrued charges are stated at amortised cost if the effect of discounting would be material, otherwise they are stated at cost.

T. Derivative Financial Instruments and Hedging Activities

The Group uses derivative financial instruments such as interest rate swaps and currency swaps to manage its interest rate and foreign exchange exposure. Based on the Group's policies, these instruments are used solely for reducing or eliminating financial risks associated with the Group's investments and liabilities and not for trading or speculation purposes.

Derivatives are initially recognised at fair value and are subsequently remeasured at their fair value at each balance sheet date. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and the nature of the item being hedged.

Where hedge accounting applies, the Group designates derivatives employed as either (1) a fair value hedge to hedge the fair value of recognised liabilities, or (2) a cash flow hedge to hedge the variability in cash flows of a recognised liability or the foreign currency risk of a firm commitment.

(i) Fair Value Hedge

Changes in the fair value of derivatives that are designated and qualified as fair value hedges are recorded in the profit and loss account, together with any changes in the fair value of the hedged assets or liabilities that are attributable to the hedged risk.

(ii) Cash Flow Hedge

The effective portion of changes in the fair value of derivatives that are designated and qualified as cash flow hedges is recognised in other comprehensive income which is accumulated separately in equity in the hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in the profit and loss account.

Amounts previously recognised in other comprehensive income and accumulated in equity are transferred to the profit and loss account in the periods when the hedged item is recognised in the profit and loss account. However, when the transaction in respect of the hedged item results in the recognition of a non-financial asset or liability, the associated gains and losses that were previously recognised in other comprehensive income and accumulated in equity are transferred from equity and included in the initial cost or carrying amount of the non-financial asset or liability.

When a hedging instrument expires or is sold, terminated or exercised, or the Group revokes designation of the hedge relationship but the transaction in respect of the hedged item is still expected to occur, the cumulative gain or loss existing in equity at that time remains in equity until the transaction occurs and it is recognised in accordance with the above policy. However, if the transaction in respect of the hedged item is no longer expected to occur, the gain or loss accumulated in equity is immediately transferred to the profit and loss account.

(iii) Derivatives That Do Not Qualify for Hedge Accounting

Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the profit and loss account

U. Employee Benefits

(i) Salaries, annual leave, leave passage allowance, contributions to defined contribution retirement plans, including contributions to Mandatory Provident Funds ("MPF") as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance, and other costs of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where these benefits are incurred for staff relating to construction projects, capital works and property developments, they are capitalised as part of the cost of the qualifying assets. In other cases, they are recognised as expenses in the profit and loss account as incurred.

(ii) The Group's net obligation in respect of defined benefit retirement plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior years, that benefit is discounted to determine the present value, and the fair value of any plan assets is deducted. The discount rate is the yield at balance sheet date on high quality corporate bonds that have maturity dates approximating the terms of the Group's obligations. If there is no deep market in such bonds, the market yield on government bonds would be used. The calculation is performed annually by a qualified actuary using the Projected Unit Credit Method.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised either as an expense in the profit and loss account, or capitalised as part of the cost of the relevant construction projects, capital works or property developments, as the case may be, on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in a similar manner.

In calculating the Group's obligation in respect of a plan, to the extent that any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the defined benefit obligation and the fair value of plan assets, that portion is recognised in the profit and loss account over the expected average remaining working lives of the employees participating in the plan. Otherwise, the actuarial gain or loss is not recognised.

Where the calculation of the Group's net obligation results in a negative amount, the asset recognised is limited to the net total of any cumulative unrecognised net actuarial losses and past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

(iii) Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date is recognised as a staff cost, unless the relevant employee expenses qualify for recognition as an asset, on a straight-line basis over the vesting period and taking into account the probability that the options will vest, with a corresponding increase in the employee share-based capital reserve within equity. Fair value is measured by use of a Black-Scholes model, taking into account the terms and conditions upon which the options are granted. The expected life used in the model is adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit and loss account for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to the capital reserve). The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

For cash-settled share-based payments, a liability equal to the portion of the services received is recognised at the fair value of the shares determined at each balance sheet date.

(iv) Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

V. Retirement Schemes

The Group operates both defined contribution and defined benefit retirement schemes.

Employer's contributions to defined contribution retirement schemes including MPF Schemes are recognised in the accounts in accordance with the policy set out in note 2U(1)

Employer's contributions paid and payable in respect of employees of defined benefit retirement schemes as calculated annually by independent actuaries in accordance with the Retirement Scheme Rules and provisions of the Occupational Retirement Schemes Ordinance are used to satisfy the pension expenses recognised in the accounts according to note 2U(ii). Any deficit or surplus thereof will be dealt with in the balance sheet as accrued or prepaid benefit expenses, as the case may be.

W. Income Tax

(i) Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Income tax is recognised in the profit and loss account except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case it is recognised in other comprehensive income or directly in equity respectively.

(ii) Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

(iii) Deferred tax assets and liabilities arise from deductible and taxable temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities and deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination) and investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

(iv) Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if, and only if, the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously, or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either
 - the same taxable entity, or
 - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

X. Financial Guarantee Contracts

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

When the Group issues a financial guarantee, where the effect is material, the fair value of the guarantee (being the transaction price, unless the fair value can otherwise be reliably estimated) after netting off any consideration received or receivable at inception is initially debited to the profit and loss account and recognised as deferred income within creditors and accrued charges

The amount of the guarantee initially recognised as deferred income is amortised in the profit and loss account over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 2Y if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in creditors and accrued charges in respect of that guarantee, i.e. the amount initially recognised less accumulated amortisation.

Y. Provisions and Contingent Liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Company or Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Z. Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits associated with the transactions will flow to the Group and the amount of revenue can be measured reliably, revenue is recognised in the profit and loss account as follows:

- (i) Fare revenue is recognised when the journey is provided.
- (ii) Rental income from investment properties, station kiosks and other railway premises under operating leases is accounted for in accordance with the terms of the leases. Lease incentives granted are recognised in the profit and loss account as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.
- (iii) Contract revenue is recognised when the outcome of a consultancy, construction or service contract can be estimated reliably. Contract revenue is recognised using the percentage of completion method, measured by reference to the percentage of contract costs incurred to date to the estimated total contract costs for the contract. When the outcome of a consultancy, construction or service contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that it is probable to be recovered.
- (iv) Incomes from other station commercial businesses, property management and franchise revenue from service concessions are recognised when the services are provided.

AA. Operating Lease Charges

Rentals payable under operating leases are charged on a straight-line basis over the period of the lease to the profit and loss account, except for rentals payable in respect of railway construction, property development in progress and proposed capital projects which are capitalised as part of railway construction in progress, property development in progress and deferred expenditure respectively.

BB. Interest and Finance Charges

Interest income and expense directly attributable to the financing of capital projects prior to their completion or commissioning are capitalised. Exchange differences arising from foreign currency borrowings relating to the acquisition of assets are capitalised to the extent that they are regarded as an adjustment to capitalised interest costs. Interest expense attributable to other purposes is charged to the profit and loss account.

Finance charges implicit in the lease payments on assets held under finance leases are charged to the profit and loss account over the period of the lease so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

CC. Foreign Currency Translation

Foreign currency transactions during the year are translated into Hong Kong dollars and recorded at exchange rates ruling at the transaction dates. Foreign currency monetary assets and liabilities are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in the profit and loss account.

The results of foreign enterprises are translated into Hong Kong dollars at the average exchange rates for the year. Balance sheet items are translated into Hong Kong dollars at the closing exchange rates at the balance sheet date. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

DD. Segment Reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of services and products, the type or class of customers, the methods used to provide the services or distribute the products, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

EE. Related Parties

For the purposes of these accounts, a person, or a close member of that person's family, is related to the Group if that person is a member of the key management personnel of the Group. An entity is related to the Group if the entity and the Group are members of the same group, or the entity is an associate or joint venture of the Group, or post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group, or an individual who is a related party of the Group has control, jointly control, significant influence over that entity or is a member of the key management personnel of that entity.

FF. Government Grants

Government grants are assistance by governments in the form of transfer of resources in return for the Group's compliance to the conditions attached thereto. Government grants which represent compensation for the cost of an asset are deducted from the cost of the asset in arriving at its carrying value to the extent of the amounts received and receivable as at the date of the balance sheet. Government grants which represent compensation for expenses or losses are deducted from the related expenses. Any excess of the amount of grant received or receivable over the cost of the asset or the expenses or losses at the balance sheet date are carried forward as advance receipts or deferred income to set off against the future cost of the asset or future expenses or losses.

3 Rail Merger with Kowloon-Canton Railway Corporation ("KCRC")

On 2 December 2007 (the "Appointed Day"), the Company's operations merged with those of KCRC ("Rail Merger"). The structure and key terms of the Rail Merger were set out in a series of transaction agreements entered into between, inter alia, HKSAR Government, KCRC and the Company including the Service Concession Agreement, Property Package Agreements and Merger Framework Agreement. Key elements of the Rail Merger included the following:

- The expansion of the Company's existing franchise under the Mass Transit Railway Ordinance ("MTR Ordinance") to cover the construction, operation and regulation of railways in addition to the MTRC railway for an initial period of 50 years from the Appointed Day ("Franchise Period"), which may be extended pursuant to the provisions of the MTR Ordinance (note 57C),
- The Service Concession Agreement ("SCA") pursuant to which KCRC granted the Company the right to access, use and operate the KCRC system for an initial term of 50 years (the "Concession Period"), which will be extended if the Franchise Period (as it relates to the KCRC railway) is extended. The SCA also sets out the basis on which the KCRC system will be returned at the end of the Concession Period. In accordance with the terms of the SCA, the Company paid an upfront lump sum to KCRC on the Appointed Day and is obliged to pay an annual fixed payment to KCRC for the duration of the Concession Period. Additionally, commencing after three years from the Appointed Day, the Company is obliged to pay a variable annual payment to KCRC based on the revenue generated from the KCRC system above certain thresholds,
- Under the SCA, the Company is responsible for the expenditure incurred in relation to the maintenance, repair, replacement and upgrade of the KCRC system (with any new assets acquired being classified as "additional concession property"). To the extent that such expenditure exceeds an agreed threshold ("Capex Threshold"), the Company will be reimbursed for any above threshold expenditure at the end of the Concession Period with such reimbursement to be on the basis of depreciated book value,
- In the event that the Concession Period is extended, the fixed annual payment and the variable annual payment will continue to be payable by the Company. On such extension, the Capex Threshold may also be adjusted, and
- Property Package Agreements and Merger Framework agreement setting out the acquisition of certain properties, property management rights and property development rights by the Company as well as the framework for the Rail Merger including the implementation of the Fare Adjustment Mechanism.

4 Revenue from Hong Kong Transport Operations

Revenue from Hong Kong transport operations comprises

<i>in HK\$ million</i>	2011	2010
Fare Revenue		
- Domestic Service	9,300	8,668
- Cross-boundary Service	2,633	2,487
- Airport Express	751	694
- Light Rail, Bus and Intercity	673	610
	13,357	12,459
Other rail-related income	152	176
	13,509	12,635

The Domestic Service comprises the Kwun Tong, Tsuen Wan, Island, Tung Chung, Tseung Kwan O, Disneyland Resort, East Rail (excluding Cross-boundary Service), West Rail and Ma On Shan lines. Other rail-related income includes mainly ancillary service income from Intercity, by-law infringement surcharge and Octopus load agent fees.

5 Revenue from Hong Kong Station Commercial Business

Revenue from Hong Kong station commercial business comprises

<i>in HK\$ million</i>	2011	2010
Duty free shops and kiosk rental	1,905	1,716
Advertising	893	734
Telecommunication income	500	290
Other station commercial income	124	113

<u>3,422</u>	<u>2,853</u>
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6 Revenue from Property Rental and Management Businesses

Revenue from property rental and management businesses comprises

<i>in HK\$ million</i>	<u>2011</u>	<u>2010</u>
Property rental income from		
- Telford Plaza	672	614
- Elements	634	509
- Maritime Square	389	377
- Luk Yeung Galleria	161	153
- Paradise Mall	124	118
- Citylink Plaza	120	112
- International Finance Centre	410	390
- Ginza Mall - Beijing	123	105
- Other properties	383	380
	<u>3,016</u>	<u>2,758</u>
Property management income	199	203
	<u>3,215</u>	<u>2,961</u>

7 Revenue and Expenses of Railway Subsidiaries outside of Hong Kong

On 16 June 2011, Shenzhen Metro Longhua Line ("Shenzhen Longhua Line") Phase 2 commenced revenue operation. Revenue and expenses relating to railway subsidiaries outside of Hong Kong comprise

<i>in HK\$ million</i>	Stockholm Metro	Melbourne Train	Shenzhen Longhua Line	Total
2011				
Revenue				
- Railway operations related	3,166	6,177	185	9,528
- Project related	-	2,748	3	2,751
	<u>3,166</u>	<u>8,925</u>	<u>188</u>	<u>12,279</u>
Expenses				
- Railway operations related	3,111	5,967	254	9,332
- Project related	-	2,558	2	2,560
- Utilisation of government grant	-	-	(62)	(62)
	<u>3,111</u>	<u>8,525</u>	<u>194</u>	<u>11,830</u>
2010				
Revenue				
- Railway operations related	2,858	5,226	20	8,104
- Project related	-	2,013	27	2,040
	<u>2,858</u>	<u>7,239</u>	<u>47</u>	<u>10,144</u>
Expenses				
- Railway operations related	2,864	5,043	62	7,969
- Project related	-	1,870	26	1,896
	<u>2,864</u>	<u>6,913</u>	<u>88</u>	<u>9,865</u>

8 Revenue from Other Businesses

Revenue from other businesses comprises incomes from

<i>in HK\$ million</i>	<u>2011</u>	<u>2010</u>
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Ngong Ping 360	270	239
Consultancy business	105	113
Project management for KCRC and HKSAR Government	588	540
Miscellaneous businesses	35	33
	<u>998</u>	<u>925</u>

9 Other Net Income

Other net income relates to the construction of Shenzhen Longhua Line Phase 2 and comprises

<i>in HK\$ million</i>	2011	2010
Construction revenue	1,933	1,719
Construction cost	(1,933)	(1,719)
	<u>-</u>	<u>-</u>

Construction revenue is recognised by reference to the total construction cost incurred since signing of the Project Concession Agreement on 18 March 2009 up to the date of operation commencement on 16 June 2011. As of 31 December 2011, such cost amounted to HK\$5,541 million (31 December 2010: HK\$3,608 million). There was no cumulative net profit or loss recognised in respect of the construction as at 31 December 2011 and 2010.

10 Operating Expenses

A. Total staff costs include

<i>in HK\$ million</i>	2011	2010
Amount charged to profit and loss account under		
- staff costs and related expenses for Hong Kong transport operations	3,673	3,398
- maintenance and related works for Hong Kong transport operations	70	78
- other expense line items for Hong Kong transport operations	50	59
- expenses relating to Hong Kong station commercial business	53	47
- expenses relating to property rental and management businesses	88	73
- expenses relating to railway subsidiaries outside of Hong Kong	4,837	3,848
- expenses relating to other businesses	690	561
- project study and business development expenses	96	142
Amount capitalised under		
- railway construction in progress before offset by government grant	452	183
- property development in progress	93	90
- assets under construction and other projects	242	399
- service concession assets	284	251
Amount recoverable	591	542
Total staff costs	<u>11,219</u>	<u>9,671</u>

Amount recoverable relates to property management, entrustment works and other agreements.

The following expenditures are included in total staff costs:

<i>in HK\$ million</i>	2011	2010
Share-based payments	113	61
Contributions to defined contribution retirement plans and Mandatory Provident Fund	409	362
Expenses recognised in respect of defined benefit retirement plans	144	173
	<u>666</u>	<u>596</u>

B. The costs of maintenance and related works for Hong Kong transport operations relate mainly to contracted maintenance and revenue works. Other routine repairs and maintenance works are performed by in-house operations and the costs of which are included under staff costs and related expenses as well as stores and spares consumed.

C. Project study and business development expenses comprise

<i>in HK\$ million</i>	2011	2010
Business development expenses	114	192
Miscellaneous project study expenses and project cost written off	9	24
	<u>123</u>	<u>216</u>

Business development expenses relate mainly to new business opportunities in the Mainland of China, Europe and Australia

D. Auditors' remuneration charged to the profit and loss account include

<i>in HK\$ million</i>	2011	2010
Audit services	10	10
Tax services	1	1
Other audit related services	3	3
	<u>14</u>	<u>14</u>

E. The following charges/(credits) are included in operating expenses

<i>in HK\$ million</i>	2011	2010
Loss on disposal of fixed assets	32	50
Derivative financial instruments		
- foreign exchange contracts - ineffective portion of cash flow hedges	-	(1)
- transfer from hedging reserve (note 22B)	(5)	(1)
Unrealised loss on revaluation of investments in securities	4	2

F. Operating lease expenses charged to the profit and loss account comprise

<i>in HK\$ million</i>	2011	2010
Shopping centre, office building, staff quarters and bus depot	78	84
Rolling stock, stations, office buildings, depots, depot equipment and other minor assets for railway subsidiaries	1,066	935
Amount capitalised	(4)	(20)
	<u>1,140</u>	<u>999</u>

11 Remuneration of Members of the Board and the Executive Directorate**A. Remuneration of Members of the Board and the Executive Directorate**

(i) The emoluments of Members of the Board and the Executive Directorate of the Company were as follows

<i>in HK\$ million</i>	Fees	Base pay, allowances and benefits in kind	Retirement scheme contribution	Variable remuneration related to performance	Total
2011					
Members of the Board					
- Raymond Ch'ien Kuo-fung	1.2	-	-	-	1.2
- Vincent Cheng Hoi-chuen	0.3	-	-	-	0.3
- Christine Fang Meng-sang	0.3	-	-	-	0.3
- Edward Ho Sing-tin	0.4	-	-	-	0.4
- Alasdair George Morrison	0.3	-	-	-	0.3
- Ng Leung-sing	0.3	-	-	-	0.3
- Abraham Shek Lai-him	0.3	-	-	-	0.3

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- T Brian Stevenson	0.4	-	-	-	0.4
- Ceajer Chan Ka-keung	0.3	-	-	-	0.3
- Eva Cheng	0.3	-	-	-	0.3
- Joseph Lai Yee-tak	0.3	-	-	-	0.3

Members of the Executive Directorate

- Chow Chung-kong (retired on 31 December 2011)	-	7.8	- *	7.0	14.8
- William Chan Fu-keung	-	4.6	0.2	1.9	6.7
- Chew Tai-chong	-	4.3	- *	1.8	6.1
- Thomas Ho Hang-kwong (retired on 30 September 2011)	-	4.5	0.2	1.5	6.2
- Jacob Kam Chak-pui (appointed on 1 January 2011)	-	3.7	0.6	1.5	5.8
- Lincoln Leong Kwok-kuen	-	5.1	0.8	2.1	8.0
- Gillian Elizabeth Meller (appointed on 1 September 2011)**	-	1.1	0.2	0.3	1.6
- David Tang Chi-fai (appointed on 1 October 2011)**	-	0.8	0.2	0.3	1.3
- Leonard Bryan Turk (retired on 31 August 2011)	-	3.9	0.1	1.5	5.5
- Jeny Yeung Mei-chun (appointed on 1 September 2011)**	-	1.1	0.2	0.3	1.6
	<u>4.4</u>	<u>36.9</u>	<u>2.5</u>	<u>18.2</u>	<u>62.0</u>

* During the year ended 31 December 2011, the total contributions paid by the Company for C K Chow and T C Chew, who participated in the MTR MPF Scheme, were HK\$12,000 each

** Gillian E Meller and Jeny M C Yeung were appointed as Members of the Executive Directorate since 1 September 2011 while David C F Tang was appointed as Member of the Executive Directorate since 1 October 2011. The amount of their emoluments shown in the above table covered the period from the date of their appointment to 31 December 2011

<i>in HK\$ million</i>	Fees	Base pay, allowances and benefits in kind	Retirement scheme contribution	Variable remuneration related to performance	Total
2010					
Members of the Board					
- Raymond Ch'ien Kuo-fung	1.2	-	-	-	1.2
- Vincent Cheng Hoi-chuen	0.3	-	-	-	0.3
- Christine Fang Meng-sang	0.3	-	-	-	0.3
- Edward Ho Sing-tin	0.4	-	-	-	0.4
- Alasdair George Morrison (appointed on 9 July 2010)	0.1	-	-	-	0.1
- Ng Leung-sing	0.3	-	-	-	0.3
- Abraham Shek Lai-hum	0.3	-	-	-	0.3
- T Brian Stevenson	0.4	-	-	-	0.4
- Ceajer Chan Ka-keung	0.3	-	-	-	0.3
- Eva Cheng	0.3	-	-	-	0.3
- Joseph Lai Yee-tak	0.3	-	-	-	0.3
Members of the Executive Directorate					
- Chow Chung-kong	-	6.8	- *	7.1	13.9
- Russell John Black (retired on 31 January 2010)	-	0.8	- *	0.1	0.9
- William Chan Fu-keung	-	4.7	0.2	1.9	6.8
- Chew Tai-chong (appointed on 1 February 2010)**	-	3.8	- *	1.6	5.4
- Thomas Ho Hang-kwong	-	4.5	0.2	1.9	6.6
- Lincoln Leong Kwok-kuen	-	5.0	0.8	2.0	7.8
- Andrew McCusker (retired on 31 December 2010)	-	4.6	0.2	1.8	6.6
- Leonard Bryan Turk	-	4.4	0.2	1.9	6.5
	<u>4.2</u>	<u>34.6</u>	<u>1.6</u>	<u>18.3</u>	<u>58.7</u>

* During the year ended 31 December 2010, the total contributions paid by the Company for C K Chow and T C Chew, who participated in the MTR MPF Scheme, were HK\$12,000 and HK\$7,000 respectively. The contribution paid by the Company for Russell J Black, who participated in the MTR Retirement Scheme, was HK\$17,484.

** T C Chew was appointed as Member of the Executive Directorate since 1 February 2010. The amount of the emoluments shown in the above table covered the period from the date of his appointment to 31 December 2010.

Russell J Black, Andrew McCusker, Thomas H K Ho and Leonard B Turk received a lump sum benefit payment of HK\$20.8 million, HK\$20.7 million, HK\$24.3 million and HK\$24.3 million respectively from the MTR Retirement Scheme upon their retirements in January 2010 for Russell J Black, December 2010 for Andrew McCusker, August 2011 for Leonard B Turk and September 2011 for Thomas H K Ho.

Andrew McCusker, who retired on 31 December 2010, received a pro-rated discretionary award of HK\$153,510 in July 2011 in respect of his service from 1 July 2010 to 31 December 2010.

On 12 April 2010, Lincoln K K Leong was paid HK\$4.6 million, representing the derivative interest granted to him on 12 April 2007 to receive an equivalent value in cash of 160,000 shares (note 53B(iii)). On 4 January 2012, C K Chow was paid HK\$5.6 million, representing his entitlement to receive an equivalent value in cash of 222,161 shares on completion of his two-year contract ended on 31 December 2011 (note 53B(i)).

The above emoluments do not include the fair value of share options, as estimated at the date of grant which is defined as the date of acceptance of the offer to grant the option.

Share options were granted to Members of the Executive Directorate under the Company's 2007 Option Scheme, which were offered to them on 10 December 2007, 8 December 2008, 12 June 2009, 8 December 2009, 28 June 2010 and 16 December 2010. The entitlements of each of the Members are as follows:

- C K Chow was granted options in respect of 720,000 shares on 13 December 2007 and 470,000 shares each on 9 December 2008, 9 December 2009 and 17 December 2010, of which 470,000 options were vested in 2011 (2010: 554,000), and the respective fair value of the share-based payments recognised for the year ended 31 December 2011 was HK\$3.4 million (2010: HK\$2.5 million),
- Russell J Black was granted options in respect of 170,000 shares each on 12 December 2007 and 9 December 2008 and 42,500 shares on 10 December 2009, of which 127,500 options were vested in 2010, and the respective fair value of the share-based payments recognised for the year ended 31 December 2010 was HK\$0.5 million,
- William F K Chan was granted options in respect of 170,000 shares each on 13 December 2007, 9 December 2008, 10 December 2009 and 17 December 2010, of which 170,000 options were vested in 2011 (2010: 170,000), and the respective fair value of the share-based payments recognised for the year ended 31 December 2011 was HK\$1.2 million (2010: HK\$0.8 million),
- T C Chew was granted options in respect of 85,000 shares on 18 June 2009 and 170,000 shares each on 10 December 2009 and 17 December 2010, of which 142,500 options were vested in 2011 (2010: 85,500), and the respective fair value of the share-based payments recognised for the year ended 31 December 2011 was HK\$1.3 million (2010: HK\$0.5 million),
- Thomas H K Ho was granted options in respect of 170,000 shares each on 12 December 2007, 11 December 2008 and 14 December 2009 and 127,500 shares on 17 December 2010, of which 155,500 options were vested in 2011 (2010: 170,000), and the respective fair value of the share-based payments recognised for the year ended 31 December 2011 was HK\$1.1 million (2010: HK\$0.8 million),
- Jacob C P Kam was granted options in respect of 75,000 shares on 13 December 2007, 65,000 shares each on 8 December 2008 and 14 December 2009, 50,000 shares on 21 July 2010 and 170,000 shares on 17 December 2010, of which 117,000 options were vested in 2011 (2010: 69,000), and the respective fair value of the share-based payments recognised for the year ended 31 December 2011 was HK\$1.0 million (2010: HK\$0.3 million),
- Lincoln K K Leong was granted options in respect of 170,000 shares each on 12 December 2007, 9 December 2008, 10 December 2009 and 17 December 2010, of which 170,000 options were vested in 2011 (2010: 170,000), and the respective fair value of the share-based payments recognised for the year ended 31 December 2011 was HK\$1.2 million (2010: HK\$0.7 million),

- Andrew McCusker was granted options in respect of 170,000 shares each on 12 December 2007, 12 December 2008 and 10 December 2009, of which 170,000 options were vested in 2010, and the respective fair value of the share-based payments recognised for the year ended 31 December 2010 was HK\$0 7 million,
- Gillian E Meller was granted options in respect of 55,000 shares on 12 December 2007, 70,000 shares on 11 December 2008, 65,000 shares on 10 December 2009 and 90,000 shares on 17 December 2010, of which 75,000 options were vested in 2011 (2010 63,500), and the respective fair value of the share-based payments recognised for the year ended 31 December 2011 was HK\$0 6 million (2010 HK\$0 3 million),
- David C F Tang was granted options in respect of 65,000 shares each on 13 December 2007, 12 December 2008, 15 December 2009 and 17 December 2010, of which 65,000 options were vested in 2011 (2010 65,000), and the respective fair value of the share-based payments recognised for the year ended 31 December 2011 was HK\$0 5 million (2010 HK\$0 3 million),
- Leonard B Turk was granted options in respect of 170,000 shares each on 12 December 2007, 9 December 2008 and 10 December 2009 and 127,500 shares on 17 December 2010, of which 155,500 options were vested in 2011 (2010 170,000), and the respective fair value of the share-based payments recognised for the year ended 31 December 2011 was HK\$1 1 million (2010 HK\$0 7 million), and
- Jeny M C Yeung was granted options in respect of 75,000 shares on 12 December 2007 and 65,000 shares each on 10 December 2008, 10 December 2009 and 17 December 2010, of which 65,000 options were vested in 2011 (2010 69,000), and the respective fair value of the share-based payments recognised for the year ended 31 December 2011 was HK\$0 5 million (2010 HK\$0 3 million)

Jay H Walder replaced C K Chow, who retired from the Company on 31 December 2011, as a Member of the Executive Directorate with effect from 1 January 2012. As a transitional arrangement, Jay H Walder was appointed Chief Executive Officer (Designate) during 1 November 2011 to 31 December 2011. The emolument of Jay H Walder during the year ended 31 December 2011 was HK\$2 1 million. Jay H Walder was granted a derivative interest in respect of 300,000 shares in the Company within the meaning of Part XV of the Securities and Futures Ordinance. The derivative interest represents Jay H Walder's entitlement to be paid an equivalent value in cash of 300,000 shares in the Company following 30 June 2014, being the date on which his initial term of office is expected to expire (35% of which shall be deemed to be earned at 31 October 2013 subject to certain conditions specified in his employment contract).

The details of Board Members' and Executive Directorate's interest in the Company's shares are disclosed in the Report of the Members of the Board and note 53.

(ii) The aggregate emoluments of Members of the Board and the Executive Directorate for the year pursuant to section 161 of the Hong Kong Companies Ordinance was HK\$79 5 million (2010 HK\$70 5 million).

(iii) Non-executive directors of the Company are not appointed for a specific term but are subject (save for those appointed pursuant to Section 8 of the Mass Transit Railway Ordinance (Chapter 556 of the Laws of Hong Kong)) to retirement by rotation and re-election at the Company's annual general meetings in accordance with Articles 87 and 88 of the Company's Articles of Association. Dr Raymond Ch'ien Kuo-fung, a Member of the Board and the non-executive Chairman of the Company since 1998 and 2003 respectively, was re-appointed by the HKSAR Government as the non-executive Chairman of the Company with effect from 2 December 2009 until 31 December 2012.

All of the five individuals with the highest emoluments are Members of the Executive Directorate whose emoluments are disclosed above.

B Share Options

Options exercised and outstanding in respect of each Member of the Executive Directorate as at 31 December 2011 are set out in the Report of the Members of the Board. Details of the options granted to Members of the Executive Directorate are as follows:

(i) New Joiners Share Option Scheme

Under the New Joiners Share Option Scheme (the "New Option Scheme") as described in note 53A(i), Lincoln K K Leong and David C F Tang, Members of the Executive Directorate, were granted options to acquire 1,066,000 shares on 1 August 2003 and 213,000 shares on 15 May 2006 respectively.

Under the vesting terms of the New Option Scheme, Lincoln K K Leong must continue to beneficially own (i) at all times on and after 4 August 2004, at least 23,000 shares, and (ii) at all times on and after 4 August 2005, at least 46,000

shares, up to and including the date on which he has exercised his option in full or the date on which his option lapses (whichever is earlier)

(ii) 2007 Share Option Scheme

Under the 2007 Share Option Scheme (the "2007 Option Scheme") as described in note 53A(ii), all Members of the Executive Directorate were granted options to acquire shares in each year from 2007 to 2010. C K Chow was granted options to acquire 720,000 shares in 2007 and 470,000 shares each in 2008, 2009 and 2010. Russell J Black was granted options to acquire 170,000 shares in both 2007 and 2008 and 42,500 shares in 2009. William F K Chan and Lincoln K K Leong were each granted options to acquire 170,000 shares in each year from 2007 to 2010. T C Chew was granted options to acquire 85,000 shares in June 2009 and 170,000 shares each in December 2009 and 2010. Thomas H K Ho and Leonard B Turk were each granted options to acquire 170,000 shares in each of 2007, 2008 and 2009 and 127,500 shares in 2010. Andrew McCusker was granted options to acquire 170,000 shares in each of 2007, 2008 and 2009. Jacob C P Kam was granted options to acquire 75,000 shares in December 2007, 65,000 shares each in December 2008 and 2009, 50,000 shares in July 2010 and 170,000 shares in December 2010. Gillian E Meller was granted options to acquire 55,000 shares in 2007, 70,000 shares in 2008, 65,000 shares in 2009 and 90,000 shares in 2010. David C F Tang was granted options to acquire 65,000 shares each year from 2007 to 2010. Jeny M C Yeung was granted options to acquire 75,000 shares in 2007 and 65,000 shares each year from 2008 to 2010.

Under the vesting terms of the options granted each year from 2007 to 2010, options granted will be evenly vested in respect of their underlying shares over a period of three years from the date of offer to grant such options (note 11A(i)).

12 Profit on Property Developments

Profit on property developments comprises

<i>in HK\$ million</i>	2011	2010
Transfer from deferred income on		
- payments received from developers (note 48)	468	-
- sharing in kind (note 29B)	-	17
Share of surplus from development	3,889	990
Income recognised from sharing in kind	572	3,026
Miscellaneous income net of other overhead costs	5	1
	<u>4,934</u>	<u>4,034</u>

13 Depreciation and Amortisation

Depreciation and amortisation comprise

<i>in HK\$ million</i>	2011	2010
Depreciation charge on assets relating to		
Hong Kong transport operations	2,517	2,517
Hong Kong station commercial business	121	93
Property rental and management businesses	11	9
Railway subsidiaries outside of Hong Kong	46	24
Other businesses	62	63
	<u>2,757</u>	<u>2,706</u>
Amortisation charge on service concession assets relating to		
KCRC Rail Merger	434	400
Railway subsidiaries outside of Hong Kong	169	14
	<u>603</u>	<u>414</u>
Utilisation of government subsidy for Shenzhen Metro Longhua Line operation	(154)	-
	<u>449</u>	<u>414</u>
	<u>3,206</u>	<u>3,120</u>

14 Variable Annual Payment

Commencing after the third year from the Appointed Day of the Rail Merger, i.e. 2 December 2010, the Company is obliged to pay variable annual payments to KCRC, calculated on a tiered basis by reference to the revenue generated from the operation of the KCRC service concession over certain thresholds. For the year ended 31 December 2011, the variable annual payment amounted to HK\$647 million (2010: HK\$45 million).

15 Interest and Finance Charges

in HK\$ million

	2011	2010
Interest expenses in respect of		
Bank loans, overdrafts and capital market instruments wholly repayable within 5 years	315	560
Bank loans and capital market instruments not wholly repayable within 5 years	268	206
Obligations under service concession	723	721
Other obligations (note 24E)	16	15
Finance charges	18	27
Exchange loss/(gain)	32	(37)
	1,372	1,492
Utilisation of government subsidy for Shenzhen Metro Longhua Line operation	(133)	-
Derivative financial instruments		
Fair value hedges	(15)	-
Cash flow hedges		
- transfer from hedging reserve	63	86
- ineffective portion	-	(1)
	48	85
Interest expenses capitalised	(176)	(178)
	1,111	1,399
Interest income in respect of		
Deposits with banks and other financial institutions	(199)	(114)
Investment in bank medium term notes	(45)	(34)
Loans to associates	(1)	-
	(245)	(148)
Interest income capitalised	80	78
	946	1,329
Accreted interest on loan to a property developer	(25)	(92)
	921	1,237

During the year ended 31 December 2011, interest expenses capitalised were calculated on a monthly basis at the pre-determined cost of borrowings and/or the relevant group company's net borrowing cost which varied from 0.8% to 5.8% per annum (2010: 0.6% to 5.3% per annum), while interest income capitalised was calculated on a monthly basis at the average return from deposits and investments in bank medium term notes which varied from 1.1% to 1.6% per annum (2010: 0.8% to 1.2% per annum).

During the year ended 31 December 2011, interest and finance charges net of interest expenses capitalised in relation to the Shenzhen Metro Longhua Line was HK\$133 million (2010: HK\$3 million). This amount was fully offset by the subsidy received from the Shenzhen Municipal Government in 2011.

During the same year, the gain resulting from fair value changes of the underlying financial assets and liabilities being hedged was HK\$24 million (2010: HK\$119 million of loss) and the loss resulting from fair value changes of hedging instruments comprising interest rate and cross currency swaps was HK\$9 million (2010: HK\$119 million of gain), resulting in a net gain of HK\$15 million (2010: nil).

16 Share of Profits of Non-controlled Subsidiaries and Associates

Share of profits of non-controlled subsidiaries and associates comprises

<i>in HK\$ million</i>	2011	2010
Share of profit before taxation of non-controlled subsidiaries (note 31)	208	148
Share of profit before taxation of associates (note 33)	152	22
	360	170
Share of income tax of non-controlled subsidiaries (note 31)	(26)	(22)
Share of income tax of associates (note 33)	(37)	(9)
	297	139

17 Income Tax

A. Income tax in the consolidated profit and loss account represents

<i>in HK\$ million</i>	2011	2010
Current tax		
- Provision for Hong Kong Profits Tax at 16.5% (2010: 16.5%) for the year	1,619	1,495
- Overseas tax for the year	56	93
	1,675	1,588
Deferred tax		
- Origination and reversal of temporary differences on		
- investment property revaluation	840	672
- (provision)/utilisation of tax losses	(9)	10
- depreciation allowances in excess of related depreciation	316	287
- provision and others	(1)	33
	1,146	1,002
	2,821	2,590

The provision for Hong Kong Profits Tax for the year ended 31 December 2011 is calculated at 16.5% (2010: 16.5%) on the estimated assessable profits for the year after deducting accumulated tax losses brought forward, if any. Current tax for the Mainland of China and overseas subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries.

Provision for deferred tax on temporary differences arising in Hong Kong is calculated at the Hong Kong Profits Tax rate at 16.5% (2010: 16.5%) while that arising in the Mainland of China and overseas is calculated at the appropriate current rates of taxation ruling in the relevant countries.

B. Reconciliation between tax expense and accounting profit at applicable tax rates

	2011		2010	
	<i>HK\$ million</i>	<i>%</i>	<i>HK\$ million</i>	<i>%</i>
Profit before taxation	17,669		14,762	
Notional tax on profit before taxation, calculated at the rates applicable to profits in the tax jurisdictions concerned	2,957	16.7	2,451	16.6
Tax effect of non-deductible expenses	106	0.6	200	1.4
Tax effect of non-taxable revenue	(215)	(1.2)	(90)	(0.6)
Tax effect of unused tax losses not recognised	(27)	(0.2)	29	0.2
Actual tax expenses	2,821	15.9	2,590	17.6

18 Profit Attributable to Equity Shareholders

A The consolidated profit attributable to equity shareholders includes a profit of HK\$14,415 million (2010 HK\$11,878 million) which has been dealt with in the accounts of the Company. Details of dividend paid and payable to equity shareholders of the Company are set out in note 19.

B Profit attributable to equity shareholders of the Company arising from underlying businesses represents profits excluding impact of investment property revaluation net of related deferred tax, calculated as follows:

<i>in HK\$ million</i>	2011	2010
Profit attributable to equity shareholders	14,716	12,059
Investment property revaluation	(5,088)	(4,074)
Deferred tax on investment property revaluation (note 17A)	840	672
	10,468	8,657

Within the profit arising from underlying businesses, the amount attributable to property development has taken into account the effect of related income tax expense of HK\$720 million (2010 HK\$785 million) and net interest income of HK\$11 million (2010 HK\$11 million) in relation to the loan to a property developer.

19 Dividends

During the year, dividends paid and proposed to equity shareholders of the Company comprised:

<i>in HK\$ million</i>	2011	2010
Dividends paid/payable attributable to the year		
- Interim dividend of 25 cents (2010 14 cents) per share approved and paid during the year	1,446	807
- Final dividend proposed after the balance sheet date of 51 cents (2010 45 cents) per share	2,950	2,598
	4,396	3,405
Dividends paid attributable to the previous year		
- Final dividend of 45 cents (2009 38 cents) per share approved and paid during the year	2,598	2,177

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date. For the dividends attributable to the year ended 31 December 2010, scrip dividend elections were offered to all shareholders except shareholders with registered addresses in the United States of America or any of its territories or possessions. No scrip dividend election was offered for the dividends attributable to the year ended 31 December 2011. Details of dividends paid to the Company's majority shareholder, The Financial Secretary Incorporated, are disclosed in note 57N.

20 Earnings Per Share

A. Basic Earnings Per Share

The calculation of basic earnings per share is based on the profit for the year attributable to equity shareholders of HK\$14,716 million (2010 HK\$12,059 million) and the weighted average number of ordinary shares of 5,780,030,171 in issue during the year (2010 5,751,035,100), calculated as follows:

	2011	2010
Issued ordinary shares at 1 January	5,772,563,031	5,727,833,692
Effect of scrip dividends issued	6,461,157	20,911,122
Effect of share options exercised	1,005,983	2,290,286
Weighted average number of ordinary shares at 31 December	5,780,030,171	5,751,035,100

B. Diluted Earnings Per Share

The calculation of diluted earnings per share is based on the profit for the year attributable to equity shareholders of HK\$14,716 million (2010 HK\$12,059 million) and the weighted average number of ordinary shares of 5,783,905,064 in issue during the year (2010 5,756,548,816) after adjusting for the number of dilutive potential ordinary shares under the employee share option schemes, calculated as follows

	<u>2011</u>	<u>2010</u>
Weighted average number of ordinary shares at 31 December	5,780,030,171	5,751,035,100
Effect of dilutive potential shares under the Company's share option schemes	3,874,893	5,513,716
Weighted average number of ordinary shares (diluted) at 31 December	<u>5,783,905,064</u>	<u>5,756,548,816</u>

C. Both basic and diluted earnings per share would have been HK\$1 81 (2010 HK\$1 51) if the calculation is based on profit attributable to equity shareholders arising from underlying businesses of HK\$10,468 million (2010 HK\$8,657 million) (note 18B)

21 Segmental Information

The Group manages its businesses by the various business executive committees. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has identified the following six reportable segments

- (i) **Hong Kong transport operations** The provision of passenger operation and related services on the urban mass transit railway system in Hong Kong, the Airport Express serving both the Hong Kong International Airport and the AsiaWorld-Expo at Chek Lap Kok, cross-boundary railway connection with the border of Mainland of China at Lo Wu and Lok Ma Chau, light rail and bus feeder with railway system in the north-west New Territories and intercity railway transport with certain cities in the Mainland of China
- (ii) **Hong Kong station commercial business** Commercial activities including the letting of advertising, retail and car parking space at railway stations, the provision of telecommunication and bandwidth services in railway premises and other commercial activities within the Hong Kong transport operations network
- (iii) **Property rental and management businesses** The letting of retail, office and car parking space and the provision of estate management services in Hong Kong and the Mainland of China
- (iv) **Railway subsidiaries outside of Hong Kong** The operation and maintenance of mass transit railway systems including station commercial activities outside of Hong Kong
- (v) **Other businesses** Businesses not directly relating to transport operations or properties such as Ngong Ping 360, which comprises cable car operations in Tung Chung and related businesses at the Ngong Ping Theme Village, railway consultancy business and the provision of project management services to HKSAR Government and KCRC
- (vi) **Property developments** Property development activities at locations relating to the railway systems

During the year ended 31 December 2011, the Group re-categorised certain business activities not directly relating to transport operations or properties including Ngong Ping 360, railway consultancy business and the provision of project management services to the HKSAR Government and KCRC under a new business segment "Other Businesses". The re-categorisation amounted to HK\$925 million in revenue and HK\$751 million in expenses for the year ended 31 December 2010. Accordingly, the comparatives of the consolidated profit and loss account and segmental information are reclassified.

The results of the reportable segments and reconciliation to the corresponding consolidated totals in the accounts are shown below

MTR CORPORATION LIMITED

<i>in HK\$ million</i>	Hong Kong transport operations	Hong Kong station commercial business	Property rental and manage- ment businesses	Railway subsidiaries outside of Hong Kong	Other businesses	Property develop- ments	Total
2011							
Revenue	13,509	3,422	3,215	12,279	998	-	33,423
Operating expenses before depreciation, amortisation and variable annual payment	(7,354)	(358)	(721)	(11,830)	(913)	-	(21,176)
	6,155	3,064	2,494	449	85	-	12,247
Profit on property developments	-	-	-	-	-	4,934	4,934
Operating profit before depreciation, amortisation and variable annual payment	6,155	3,064	2,494	449	85	4,934	17,181
Depreciation and amortisation	(2,934)	(138)	(11)	(61)	(62)	-	(3,206)
Variable annual payment	(520)	(127)	-	-	-	-	(647)
	2,701	2,799	2,483	388	23	4,934	13,328
Project studies and business development expenses							(123)
Operating profit before interest and finance charges							13,205
Interest and finance charges							(921)
Investment property revaluation			5,088				5,088
Share of profits of non-controlled subsidiaries and associates				115	182		297
Income tax							(2,821)
Profit for the year ended 31 December 2011							14,848
Assets							
Operational assets *	73,588	1,726	52,332	3,714	1,124	1,211	133,695
Assets under construction	2,030	18	-	-	-	-	2,048
Service concession assets	16,169	-	-	7,759	-	-	23,928
Property management rights	-	-	31	-	-	-	31
Railway construction in progress	3,566	-	-	-	-	-	3,566
Property development in progress	-	-	-	-	-	11,964	11,964
Deferred expenditure	-	-	14	-	-	-	14
Deferred tax assets	-	19	3	5	-	-	27
Investments in securities	-	-	-	-	348	-	348
Properties held for sale	-	-	-	-	-	3,757	3,757
Interests in non-controlled subsidiaries	-	-	-	-	579	-	579
Interests in associates	-	-	-	948	-	-	948
	95,353	1,763	52,380	12,426	2,051	16,932	180,905
Unallocated assets							16,968
Total assets							197,873
Liabilities							
Segment liabilities	9,080	988	1,422	2,987	928	3,351	18,756
Obligations under service concession	10,557	-	-	167	-	-	10,724
Deferred income	-	47	-	288	-	68	403
	19,637	1,035	1,422	3,442	928	3,419	29,883
Unallocated liabilities							38,945

Total liabilities							68,828
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Other Information**Capital expenditure on**

Operational assets	57	16	11	90	14	1	189
Assets under construction	1,296	83	-	110	-	-	1,489
Investment properties	-	-	1,040	-	-	-	1,040
Service concession assets	630	-	-	2,122	-	-	2,752
Railway construction in progress	5,585	-	-	-	-	-	5,585
Property development in progress	-	-	-	-	-	3,045	3,045
Non-cash expenses other than depreciation and amortisation	28	2	-	-	2	-	32

* Operational assets include property, plant and equipment and other assets employed in the operations of individual business segments

<i>in HK\$ million</i>	Hong Kong transport operations	Hong Kong station commercial business	Property rental and management businesses	Railway subsidiaries outside of Hong Kong	Other businesses	Property developments	Total
2010							
Revenue	12,635	2,853	2,961	10,144	925	-	29,518
Operating expenses before depreciation, amortisation and variable annual payment	(6,821)	(294)	(654)	(9,865)	(751)	-	(18,385)
	5,814	2,559	2,307	279	174	-	11,133
Profit on property developments	-	-	-	-	-	4,034	4,034
Operating profit before depreciation, amortisation and variable annual payment	5,814	2,559	2,307	279	174	4,034	15,167
Depreciation and amortisation	(2,901)	(109)	(9)	(38)	(63)	-	(3,120)
Variable annual payment	(36)	(9)	-	-	-	-	(45)
	2,877	2,441	2,298	241	111	4,034	12,002
Project studies and business development expenses							(216)
Operating profit before interest and finance charges							11,786
Interest and finance charges							(1,237)
Investment property revaluation			4,074				4,074
Share of profits of non-controlled subsidiaries and associates				13	126		139
Income tax							(2,590)
Profit for the year ended 31 December 2010							12,172

Assets

Operational assets *	73,920	1,557	46,093	2,411	1,255	652	125,888
Assets under construction	2,161	10	-	26	-	-	2,197
Service concession assets	15,963	-	-	5,504	-	-	21,467
Property management rights	-	-	31	-	-	-	31
Property development in progress	-	-	-	-	-	9,128	9,128
Deferred expenditure	1,021	-	21	-	-	37	1,079
Deferred tax assets	-	1	5	3	-	-	9
Investments in securities	-	-	-	-	285	-	285
Properties held for sale	-	-	-	-	-	1,936	1,936

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Loan to a property developer	-	-	-	-	-	1,975	1,975
Interests in non-controlled subsidiaries	-	-	-	-	541	-	541
Interests in associates	-	-	-	836	-	-	836
	<u>93,065</u>	<u>1,568</u>	<u>46,150</u>	<u>8,780</u>	<u>2,081</u>	<u>13,728</u>	<u>165,372</u>
Unallocated assets							16,293
Total assets							<u>181,665</u>
Liabilities							
Segment liabilities	10,578	921	1,241	2,206	745	1,357	17,048
Obligations under service concession	10,592	-	-	157	-	-	10,749
Deferred income	-	37	-	-	-	568	605
	<u>21,170</u>	<u>958</u>	<u>1,241</u>	<u>2,363</u>	<u>745</u>	<u>1,925</u>	<u>28,402</u>
Unallocated liabilities							35,970
Total liabilities							<u>64,372</u>
Other Information							
Capital expenditure on							
Operational assets	65	3	14	95	9	1	187
Assets under construction	1,561	142	-	24	2	-	1,729
Investment properties	-	-	247	-	-	-	247
Service concession assets	566	-	-	1,757	-	-	2,323
Railway construction in progress	3,462	-	-	-	-	-	3,462
Property development in progress	-	-	-	-	-	4,372	4,372
Non-cash expenses other than depreciation and amortisation	44	2	-	4	-	-	50

* Operational assets include property, plant and equipment and other assets employed in the operations of individual business segments

Unallocated assets and liabilities mainly comprise cash, bank balances and deposits, investments in securities, derivative financial assets and liabilities, interest-bearing loans and borrowings and deferred tax liabilities

The following table sets out information about the geographical location of the Group's revenue from external customers and the Group's fixed assets, property management rights, railway construction in progress, property development in progress, deferred expenditure and interests in non-controlled subsidiaries and associates ("specified non-current assets")

The geographical location of customers is based on the location at which the services were provided or goods were delivered. The geographical location of the specified non-current assets is based on the physical location of the asset, in the case of property, plant and equipment, railway construction in progress and property development in progress, the location of the proposed capital project, in the case of deferred expenditure, the location of the operation to which they are related, in the case of service concession assets and property management rights, and the location of operation, in the case of interests in non-controlled subsidiaries and associates

in HK\$ million	Revenue from external customers		Specified non-current assets	
	2011	2010	2011	2010
Hong Kong (place of domicile)	<u>20,951</u>	19,177	<u>157,615</u>	149,073
Australia	8,927	7,239	265	123
Mainland of China	328	175	11,065	6,268
Sweden	3,166	2,858	145	151
Other countries	51	69	80	57
	<u>12,472</u>	10,341	<u>11,555</u>	6,599
	<u>33,423</u>	29,518	<u>169,170</u>	155,672

22 Other Comprehensive Income

A Tax effects relating to each component of other comprehensive income of the Group are shown below

<i>in HK\$ million</i>	2011			2010		
	Before-tax amount	Tax benefit/ (expense)	Net-of-tax amount	Before-tax amount	Tax benefit/ (expense)	Net-of-tax amount
Exchange differences on translation of						
- Financial statements of overseas subsidiaries	146	-	146	141	-	141
- Non-controlling interests	(1)	-	(1)	16	-	16
	<u>145</u>	<u>-</u>	<u>145</u>	<u>157</u>	<u>-</u>	<u>157</u>
Cash flow hedges net movement in hedging reserve	(14)	2	(12)	(31)	5	(26)
Self-occupied land and building net movement in fixed assets revaluation reserve	564	(93)	471	341	(56)	285
Other comprehensive income	<u>695</u>	<u>(91)</u>	<u>604</u>	<u>467</u>	<u>(51)</u>	<u>416</u>

B The changes in each component of equity arising from transactions recognised in other comprehensive income of the Group are as follows

<i>in HK\$ million</i>	2011	2010
Exchange reserve		
Exchange differences on translation of financial statements of overseas subsidiaries	<u>146</u>	<u>141</u>
Hedging reserve		
Effective portion of changes in fair value of hedging instruments recognised during the year	(64)	(104)
Amounts transferred to initial carrying amount of hedged items	(8)	(12)
Transferred to profit or loss		
- Interest and finance charges (note 15)	63	86
- Other expenses (note 10E)	(5)	(1)
Net deferred tax credited/(debited) to other comprehensive income resulting from		
- Changes in fair value of hedging instruments recognised during the year	11	17
- Amounts transferred to initial carrying amount of hedged items	1	2
- Transferred to profit or loss	(10)	(14)
Net movement during the year recognised in other comprehensive income	<u>(12)</u>	<u>(26)</u>
Fixed assets revaluation reserve		
Changes in fair value recognised during the year	564	341
Net deferred tax debited to other comprehensive income resulting from changes in fair value recognised during the year	(93)	(56)
Net movement during the year recognised in other comprehensive income	<u>471</u>	<u>285</u>

23 Investment Properties

Movements and analysis of the Group's and the Company's investment properties, all of which being held in Hong Kong and carried at fair value, are as follows

<i>in HK\$ million</i>	The Group	The Company
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	2011	2010	2011	2010
Cost or valuation				
At 1 January	45,314	40,993	44,166	39,879
Additions	1,040	247	1,033	229
Change in fair value	5,088	4,074	5,077	4,058
Transfer from deferred expenditure (note 30)	11	-	11	-
At 31 December	51,453	45,314	50,287	44,166
Long leases	74	1,589	74	1,589
Medium-term leases	51,379	43,725	50,213	42,577
	51,453	45,314	50,287	44,166

All investment properties of the Group were revalued at open market value at 31 December 2011 by an independent firm of surveyors, Jones Lang LaSalle Limited, who have among their staff Members of the Hong Kong Institute of Surveyors. The valuations are based on a "term and reversion basis", which capitalises the existing and reversionary net rental income having regard to market valuation checks on comparable sales and yields. The net increase in fair value of HK\$5,088 million (2010: HK\$4,074 million) arising from the revaluation has been credited to the consolidated profit and loss account.

The Group's future minimum lease receipts in respect of investment properties under non-cancellable operating leases are disclosed together with those in respect of other properties under note 24D.

24 Other Property, Plant and Equipment

The Group

<i>in HK\$ million</i>	Leasehold land	Self- occupied land and buildings	Civil works	Plant and equipment	Assets under construction	Total
2011						
Cost or Valuation						
At 1 January 2011	732	2,403	46,642	61,534	2,197	113,508
Additions	-	-	3	186	1,489	1,678
Capitalisation adjustments *	-	-	(2)	(4)	-	(6)
Disposals / write-offs	-	-	(1)	(207)	(3)	(211)
Surplus on revaluation (note 22B)	-	491	-	-	-	491
Reclassification within other property, plant and equipment	-	-	5	(6)	1	-
Transfer to additional concession property (note 25)	-	-	-	(5)	(10)	(15)
Other assets commissioned	-	-	4	1,623	(1,627)	-
Exchange differences	-	-	-	(5)	1	(4)
At 31 December 2011	732	2,894	46,651	63,116	2,048	115,441
At Cost	732	-	46,651	63,116	2,048	112,547
At 31 December 2011 Valuation	-	2,894	-	-	-	2,894
Aggregate depreciation						
At 1 January 2011	191	-	5,410	30,631	-	36,232
Charge for the year	13	73	403	2,268	-	2,757
Written back on disposal	-	-	(1)	(161)	-	(162)
Written back on revaluation (note 22B)	-	(73)	-	-	-	(73)
At 31 December 2011	204	-	5,812	32,738	-	38,754
Net book value at 31 December 2011	528	2,894	40,839	30,378	2,048	76,687

2010

Cost or Valuation

At 1 January 2010	732	2,120	46,507	61,026	1,366	111,751
Additions	-	-	-	187	1,729	1,916
Capitalisation adjustments *	-	-	(9)	(2)	-	(11)
Disposals / write-offs	-	-	(1)	(360)	(19)	(380)
Surplus on revaluation (note 22B)	-	283	-	-	-	283
Reclassification within other property, plant and equipment	-	-	12	(31)	19	-
Transfer to additional concession property (note 25)	-	-	-	(6)	(68)	(74)
Other assets commissioned	-	-	133	699	(832)	-
Exchange differences	-	-	-	21	2	23
At 31 December 2010	<u>732</u>	<u>2,403</u>	<u>46,642</u>	<u>61,534</u>	<u>2,197</u>	<u>113,508</u>

At Cost	732	-	46,642	61,534	2,197	111,105
At 31 December 2010 Valuation	-	2,403	-	-	-	2,403

Aggregate depreciation

At 1 January 2010	178	-	5,008	28,721	-	33,907
Charge for the year	13	58	403	2,232	-	2,706
Written back on disposal	-	-	(1)	(324)	-	(325)
Written back on revaluation (note 22B)	-	(58)	-	-	-	(58)
Exchange differences	-	-	-	2	-	2
At 31 December 2010	<u>191</u>	<u>-</u>	<u>5,410</u>	<u>30,631</u>	<u>-</u>	<u>36,232</u>

Net book value at 31 December 2010	<u>541</u>	<u>2,403</u>	<u>41,232</u>	<u>30,903</u>	<u>2,197</u>	<u>77,276</u>
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* Capitalisation adjustments relate to adjustments on the cost of assets to their final contract values after finalisation of contract claims with contractors

Depreciation charge for the year ended 31 December 2011 was HK\$2,757 million (2010 HK\$2,706 million), comprising depreciation for the year of HK\$2,757 million (2010 HK\$2,707 million) less nil (2010 HK\$1 million) capitalisation adjustment

The Company

<i>in HK\$ million</i>	Leasehold land	Self- occupied land and buildings	Civil works	Plant and equipment	Assets under construction	Total
2011						
Cost or Valuation						
At 1 January 2011	732	2,403	46,642	60,529	2,161	112,467
Additions	-	-	3	76	1,345	1,424
Capitalisation adjustments *	-	-	(2)	(4)	-	(6)
Disposals / write-offs	-	-	(1)	(205)	(3)	(209)
Surplus on revaluation (note 22B)	-	491	-	-	-	491
Reclassification within other property, plant and equipment	-	-	5	(6)	1	-
Transfer to additional concession property (note 25)	-	-	-	(5)	(10)	(15)
Other assets commissioned	-	-	4	1,460	(1,464)	-
At 31 December 2011	<u>732</u>	<u>2,894</u>	<u>46,651</u>	<u>61,845</u>	<u>2,030</u>	<u>114,152</u>
At Cost	732	-	46,651	61,845	2,030	111,258
At 31 December 2011 Valuation	-	2,894	-	-	-	2,894

Aggregate depreciation

At 1 January 2011	191	-	5,410	30,021	-	35,622
Charge for the year	14	73	403	2,189	-	2,679
Written back on disposal	-	-	(1)	(161)	-	(162)
Written back on revaluation (note 22B)	-	(73)	-	-	-	(73)
At 31 December 2011	<u>205</u>	<u>-</u>	<u>5,812</u>	<u>32,049</u>	<u>-</u>	<u>38,066</u>
Net book value at 31 December 2011	<u>527</u>	<u>2,894</u>	<u>40,839</u>	<u>29,796</u>	<u>2,030</u>	<u>76,086</u>

2010

Cost or Valuation

At 1 January 2010	732	2,120	46,507	60,177	1,350	110,886
Additions	-	-	-	89	1,678	1,767
Capitalisation adjustments *	-	-	(9)	(2)	-	(11)
Disposals / write-offs	-	-	(1)	(364)	(19)	(384)
Surplus on revaluation (note 22B)	-	283	-	-	-	283
Reclassification within other property, plant and equipment	-	-	12	(31)	19	-
Transfer to additional concession property (note 25)	-	-	-	(6)	(68)	(74)
Other assets commissioned	-	-	133	666	(799)	-
At 31 December 2010	<u>732</u>	<u>2,403</u>	<u>46,642</u>	<u>60,529</u>	<u>2,161</u>	<u>112,467</u>
At Cost	732	-	46,642	60,529	2,161	110,064
At 31 December 2010 Valuation	-	2,403	-	-	-	2,403

Aggregate depreciation

At 1 January 2010	178	-	5,008	28,167	-	33,353
Charge for the year	13	58	403	2,177	-	2,651
Written back on disposal	-	-	(1)	(323)	-	(324)
Written back on revaluation (note 22B)	-	(58)	-	-	-	(58)
At 31 December 2010	<u>191</u>	<u>-</u>	<u>5,410</u>	<u>30,021</u>	<u>-</u>	<u>35,622</u>
Net book value at 31 December 2010	<u>541</u>	<u>2,403</u>	<u>41,232</u>	<u>30,508</u>	<u>2,161</u>	<u>76,845</u>

* Capitalisation adjustments relate to adjustments of the cost of assets to their final contract values after finalisation of contract claims with contractors

Depreciation charge for the year ended 31 December 2011 was HK\$2,679 million (2010 HK\$2,651 million), comprising depreciation for the year of HK\$2,679 million (2010 HK\$2,652 million) less nil (2010 HK\$1 million) of capitalisation adjustment

A. The lease term of the Group's and the Company's leasehold land is analysed as follows

The Group and the Company

in HK\$ million

	<u>2011</u>	<u>2010</u>
At net book value		
- long leases	142	146
- medium-term leases	<u>385</u>	<u>395</u>
	<u>527</u>	<u>541</u>

The lease of the land on which civil works as well as plant and equipment are situated for Hong Kong transport operations was granted to the Company under a running line lease which is coterminous with the Company's franchise to operate the mass transit railway under the Operating Agreement (notes 57A, 57B and 57C)

Under the terms of the lease, the Company undertakes to keep and maintain all the leased areas, including underground and overhead structures, at its own cost. With respect to parts of the railway situated in structures where access is shared with other users, such as the Lantau Fixed Crossing, the Company's obligation for maintenance is limited to the railway only. All maintenance costs incurred under the terms of the lease have been dealt with as expenses relating to Hong Kong transport operations in the consolidated profit and loss account.

B. All of the Group's self-occupied land and buildings are held in Hong Kong under medium-term leases and carried at fair value. All self-occupied land and buildings were revalued at open market value on an existing use basis at 31 December 2011 by an independent firm of surveyors, Jones Lang LaSalle Limited, who have among their staff Members of the Hong Kong Institute of Surveyors. The valuation resulted in a revaluation surplus of HK\$564 million (2010 HK\$341 million), which, net of deferred tax provision of HK\$93 million (2010 HK\$56 million) (note 22B), has been recognised in other comprehensive income and accumulated in fixed assets revaluation reserve account (note 51).

The carrying amount of the self-occupied land and buildings at 31 December 2011 would have been HK\$874 million (2010 HK\$899 million) had the land and buildings been stated at cost less accumulated depreciation.

C. Assets under construction include capital works on operating railway.

D. The Group leases out investment properties and station kiosks, including duty free shops, under operating leases. The leases typically run for an initial period of one to ten years, with an option to renew the lease after that date, at which time all terms will be renegotiated. Lease payments are usually adjusted annually to reflect market rentals. Certain leases above carry additional rental based on turnover, some of which are with reference to thresholds. Lease incentives granted are amortised in the consolidated profit and loss account as an integral part of the net lease payment receivable.

The gross carrying amounts of investment properties of the Group and the Company held for use in operating leases were HK\$51,453 million (2010 HK\$45,314 million) and HK\$50,287 million (2010 HK\$44,166 million) respectively. The gross carrying amounts of station kiosks of the Group and the Company held for use in operating leases were HK\$585 million (2010 HK\$551 million) and the related accumulated depreciation charges were HK\$221 million (2010 HK\$190 million).

Total future minimum lease receipts under non-cancellable operating leases are receivable as follows:

<i>in HK\$ million</i>	The Group		The Company	
	2011	2010	2011	2010
Within 1 year	4,101	3,846	3,811	3,592
After 1 year but within 5 years	5,777	5,486	4,963	4,664
Later than 5 years	336	391	239	74
	10,214	9,723	9,013	8,330

E. In March 2003, the Group entered into a series of structured transactions with unrelated third parties to lease out and lease back certain of its passenger cars ("Lease Transaction") involving a total original cost of HK\$2,562 million and a total net book value of HK\$1,674 million as at 31 March 2003. Under the Lease Transaction, the Group has leased the assets to institutional investors in the United States (the "Investors"), who have prepaid all the rentals in relation to the lease agreement. Simultaneously, the Group has leased the assets back from the Investors based on terms ranging from 21 to 29 years with an obligation to pay rentals in accordance with a pre-determined payment schedule. The Group has an option to purchase the Investors' leasehold interest in the assets at the expiry of the lease term for fixed amounts. Part of the rental prepayments received from the Investors has been invested in debt securities to meet the Group's rental obligations and the amount payable for exercising the purchase option under the Lease Transaction. The Group has an obligation to replace these debt securities with other debt securities in the event those securities do not meet certain credit ratings requirements. In addition, the Group has provided standby letters of credit to the Investors to cover additional amounts payable by the Group in the event the transactions are terminated prior to the expiry of the lease terms.

The Group retains legal title to the assets and there are no restrictions on the Group's ability to utilise these assets in the operation of the railway business.

As a result of the Lease Transaction, an amount of approximately HK\$3,688 million was received in an investment account and was used to purchase debt securities ("Defeasance Securities") to be used to settle the long-term lease payments with an estimated net present value in March 2003 of approximately HK\$3,533 million. This resulted in the

Group having received in 2003 an amount of HK\$141 million net of costs. As the Group is not able to control the investment account in pursuit of its own objectives and its obligations to pay the lease payments are funded by the proceeds of the above investments, those obligations and investments in the Defeasance Securities were not recognised in March 2003 as liabilities and assets of the Group. The net amount of cash received was accounted for as deferred income by the Group.

During 2008, credit ratings of some of these Defeasance Securities were downgraded and subsequently these securities were replaced by standby letters of credit issued to the relevant Investors to support the corresponding payment obligations.

25 Service Concession Assets

Movements and analysis of the Group and the Company's service concession assets are as follows

The Group

<i>in HK\$ million</i>	KCRC Rail Merger		Shenzhen Longhua Line	Stockholm Metro	Total
	Initial concession property	Additional concession property			
2011					
Cost					
At 1 January 2011	15,226	1,818	5,429	91	22,564
Net additions during the year	-	630	2,122	-	2,752
Disposal	-	(5)	-	-	(5)
Transfer from other property, plant and equipment (note 24)	-	15	-	-	15
Exchange differences	-	-	304	(3)	301
At 31 December 2011	15,226	2,458	7,855	88	25,627
Accumulated amortisation					
At 1 January 2011	939	142	2	14	1,097
Charge for the year	304	130	156	13	603
Written-off on disposal	-	-	-	-	-
Exchange differences	-	-	1	(2)	(1)
At 31 December 2011	1,243	272	159	25	1,699
Net book value at 31 December 2011	13,983	2,186	7,696	63	23,928
2010					
Cost					
At 1 January 2010	15,226	1,183	3,539	88	20,036
Net additions during the year	-	566	1,757	-	2,323
Disposal	-	(5)	-	-	(5)
Transfer from other property, plant and equipment (note 24)	-	74	-	-	74
Exchange differences	-	-	133	3	136
At 31 December 2010	15,226	1,818	5,429	91	22,564
Accumulated amortisation					
At 1 January 2010	634	50	-	1	685
Charge for the year	305	95	2	12	414
Written-off on disposal	-	(3)	-	-	(3)
Exchange differences	-	-	-	1	1
At 31 December 2010	939	142	2	14	1,097

Net book value at 31 December 2010	<u>14,287</u>	<u>1,676</u>	<u>5,427</u>	<u>77</u>	<u>21,467</u>
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The Company

<i>in HK\$ million</i>	Initial concession property	Additional concession property	Total
2011			
Cost			
At 1 January 2011	15,226	1,818	17,044
Net additions during the year	-	630	630
Disposal	-	(5)	(5)
Transfer from other property, plant and equipment (note 24)	-	15	15
At 31 December 2011	<u>15,226</u>	<u>2,458</u>	<u>17,684</u>
Accumulated amortisation			
At 1 January 2011	939	142	1,081
Charge for the year	304	130	434
Written-off on disposal	-	-	-
At 31 December 2011	<u>1,243</u>	<u>272</u>	<u>1,515</u>
Net book value at 31 December 2011	<u>13,983</u>	<u>2,186</u>	<u>16,169</u>
2010			
Cost			
At 1 January 2010	15,226	1,183	16,409
Net additions during the year	-	566	566
Disposal	-	(5)	(5)
Transfer from other property, plant and equipment (note 24)	-	74	74
At 31 December 2010	<u>15,226</u>	<u>1,818</u>	<u>17,044</u>
Accumulated amortisation			
At 1 January 2010	634	50	684
Charge for the year	305	95	400
Written-off on disposal	-	(3)	(3)
At 31 December 2010	<u>939</u>	<u>142</u>	<u>1,081</u>
Net book value at 31 December 2010	<u>14,287</u>	<u>1,676</u>	<u>15,963</u>

Initial concession property relates to the payments recognised at inception of the Rail Merger with KCRC while additional concession property relates to the expenditures for the replacement and/or upgrade of the initial concession property after inception of the Rail Merger

26 Property Management Rights

Property management rights relate to the rights acquired by the Company from KCRC in the Rail Merger in respect of existing and future managed properties on the Appointed Day

The Group and The Company

<i>in HK\$ million</i>	2011	2010
Cost at 1 January and 31 December	40	40
Accumulated amortisation at 1 January and 31 December	9	9
Net book value at 31 December	<u>31</u>	<u>31</u>

27 Railway Construction in Progress

The Group and The Company

<i>in HK\$ million</i>	Balance at 1 January	Transfer from deferred expenditure (note 30)	Expenditure	Balance at 31 December
2011				
West Island Line Project				
Construction costs	3,955	-	2,682	6,637
Consultancy fees	430	-	50	480
Staff costs and other expenses	750	-	308	1,058
Interest income	(58)	-	(78)	(136)
Utilisation of government grant	(5,077)	-	(2,962)	(8,039)
	-	-	-	-
South Island Line (East) Project				
Construction costs	-	41	1,653	1,694
Consultancy fees	-	394	37	431
Staff costs and other expenses	-	277	165	442
Finance costs	-	23	22	45
	-	735	1,877	2,612
Kwun Tong Line Extension Project				
Construction costs	-	18	500	518
Consultancy fees	-	137	39	176
Staff costs and other expenses	-	123	121	244
Finance costs	-	8	8	16
	-	286	668	954
Total	-	1,021	2,545	3,566
2010				
West Island Line Project				
Construction costs	891	-	3,064	3,955
Consultancy fees	364	-	66	430
Staff costs and other expenses	418	-	332	750
Finance costs/(interest income)	12	-	(70)	(58)
Utilisation of government grant	(1,685)	-	(3,392)	(5,077)
Total	-	-	-	-

A. West Island Line ("WIL") Project

On 13 July 2009, the Company entered into a Project Agreement with HKSAR Government for the financing, design, construction and operation of the WIL and related services and facilities

Pursuant to the agreement, HKSAR Government provided a grant of HK\$12,252 million to the Company in March 2010 (having already made HK\$400 million available in February 2008 under a preliminary project agreement). This grant is subject to a repayment mechanism whereby, within 24 months of commercial operations commencing on the WIL, the Company will pay to HKSAR Government amounts to reflect the excess of the original estimation over actual costs incurred on certain capital expenditure, price escalation costs, land costs and the amount of contingency in relation to the railway and related works (together with interest).

The project is targeted to complete in 2014. Total capital cost for the project based on the defined scope of works and programme is estimated at HK\$17,117 million. As at 31 December 2011, the Company has incurred cumulative expenditure of HK\$8,039 million (2010: HK\$5,077 million), which was wholly offset by the government grant, and has

authorised outstanding commitments on contracts totalling HK\$5,324 million (2010 HK\$7,042 million) and estimated future project costs of HK\$3,754 million in relation to the project (note 58)

B. South Island Line (East) (“SIL(E)”) Project

On 17 May 2011, the Company entered into a Project Agreement with HKSAR Government for the financing, design, construction and operation of the SIL(E)

The project is targeted to complete in 2015. Total capital cost for the project based on the defined scope of works and programme is estimated at HK\$15,273 million. As at 31 December 2011, the Company has incurred cumulative expenditure of HK\$2,612 million and has authorised outstanding commitments on contracts totalling HK\$5,326 million and estimated future project costs of HK\$7,335 million in relation to the project (note 58)

C. Kwun Tong Line Extension (“KTE”) Project

On 17 May 2011, the Company entered into a Project Agreement with HKSAR Government for the financing, design, construction and operation of the KTE

The project is targeted to complete in 2015. Total capital cost for the project based on the defined scope of works and programme is estimated at HK\$6,511 million. As at 31 December 2011, the Company has incurred cumulative expenditure of HK\$954 million and has authorised outstanding commitments on contracts totalling HK\$2,449 million and estimated future project costs of HK\$3,108 million in relation to the project (note 58)

28 Other Railway Construction in Progress under Entrustment by Kowloon-Canton Railway Corporation or HKSAR Government

A. Kowloon Southern Link (“KSL”) Project

Pursuant to the KSL Project Management Agreement, which was the one of the principal agreements of the Rail Merger, the Company acted as a project management agent to KCRC in respect of the construction of the KSL, which was completed and commenced operation on 16 August 2009. During the year ended 31 December 2011, HK\$3 million of project management fee (2010 HK\$52 million of project management fee and HK\$55 million of incentive payment) was recognised as income in the consolidated profit and loss account

B. Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link (“XRL”) Project

On 24 November 2008, HKSAR Government and the Company entered into an entrustment agreement for the design of and site investigation and procurement activities in relation to the XRL (“Preliminary Entrustment Agreement”). Pursuant to the Preliminary Entrustment Agreement, the Company shall carry out or procure the carrying out of the design, site investigation and procurement activities and HKSAR Government shall fund directly the total cost of such activities and pay to the Company a maximum amount of HK\$1.5 billion in respect of certain costs incurred by the Company, including the Company's in-house design costs and certain on-costs and preliminary costs

On 26 January 2010, HKSAR Government and the Company entered into another entrustment agreement for the construction, testing and commissioning of the XRL (“Entrustment Agreement”). Pursuant to the Entrustment Agreement, the Company shall be responsible for the construction, testing and commissioning of the XRL and HKSAR Government is responsible as the owner of XRL to fund directly the total cost of such activities and pay to the Company HK\$4,590 million in respect of the Company's management of the project. Such sum may be varied in accordance with the terms of the Entrustment Agreement but is subject to a maximum annual limit of HK\$2,000 million and a total limit of HK\$10 billion. In addition, HKSAR Government has agreed that the Company will be invited to undertake the operation of the XRL under the service concession approach

During the year ended 31 December 2011, project management revenue of HK\$585 million (2010 HK\$433 million) was recognised in the consolidated profit and loss account

C. Shatin to Central Link (“SCL”) Project

On 24 November 2008, HKSAR Government and the Company entered into an entrustment agreement for the design of and site investigation and procurement activities in relation to the SCL ("Preliminary Entrustment Agreement"). Pursuant to the Preliminary Entrustment Agreement, the Company shall carry out or procure the carrying out of the design, site investigation and procurement activities and HKSAR Government shall fund directly the total cost of such activities and pay to the Company a maximum amount of HK\$1.5 billion in respect of certain costs incurred by the Company, including the Company's in-house design costs and certain on-costs and preliminary costs.

On 17 May 2011, the Company entered into another entrustment agreement with HKSAR Government for the financing, construction, procurement of services and equipment and other matters associated with certain enabling works on the expanded Admiralty Station and the to be constructed Ho Man Tin Station, the reprovisioning of the International Mail Centre from Hung Hom to Kowloon Bay and other ancillary works in relation to the SCL ("Entrustment Agreement"). Pursuant to the Entrustment Agreement, the Company shall carry out or procure the carrying out of the agreed works and receive from HKSAR Government a project management fee while HKSAR Government shall bear and pay to the Company all the work costs. The maximum aggregate amount payable by HKSAR Government to the Company is limited to HK\$3,000 million per annum and HK\$15 billion in total.

29 Property Development in Progress

Pursuant to the project agreements in respect of the construction of railway extensions and the Property Package Agreements in respect of the Rail Merger, HKSAR Government has granted the Company development rights on the lands over the stations along railway lines. As at 31 December 2011, the outstanding property developments include the Tseung Kwan O Extension Property Projects at depot sites along the Tsuen Kwan O Line, the East Rail Line/Kowloon Southern Link/Light Rail Property Projects at five development sites along the East Rail Line, Kowloon Southern Link and Light Rail, South Island Line (East) Property Project at a site in Wong Chuk Hang and Kwun Tong Line Extension Property Project at a site in Ho Man Tin.

Costs incurred by the Company for the acquisition of property development rights and preparation of the sites for development including land premium are capitalised as property development in progress and offset by payments received from developers in respect of the same development. In cases where payments received from developers exceed the related expenditure incurred by the Company, such excess is recorded as deferred income (note 29B). In these cases, any subsequent expenditure incurred by the Company in respect of that development will be charged against deferred income. The remaining deferred income is to be recognised as profits of the Company at the appropriate time after taking into account the outstanding risks and obligations retained by the Company relating to each development. Until such time as deferred income is recognised as profit, it is recorded as a liability of the Company in recognition of the Company's obligations under the grant of the development rights.

During the year ended 31 December 2011, the Company's two wholly owned subsidiaries, MTR Corporation (Shenzhen) Limited and MTR Property (Shenzhen) Company Limited, won the bid for Lot 1 of the Shenzhen Metro Longhua Line Depot Site. The two subsidiaries will incorporate a project company in the Mainland of China to undertake residential and commercial development of the site ("Shenzhen Property Project"). Part of the net profits generated from this property development will be shared with the Shenzhen Municipal Government.

A. Property Development in Progress

The Group

<i>in HK\$ million</i>	Balance at 1 January	Transfer from deferred expenditure (note 30)	Expenditure	Offset against payments received from developers	Transfer out on project completion	Balance at 31 December
2011						
Airport Railway Property Projects	-	-	4	(4)	-	-
Tseung Kwan O Extension Property Projects	1,151	-	159	(9)	(213)	1,088
East Rail Line/Kowloon Southern	7,977	-	123	(19)	-	8,081

Link/Light Rail Property Projects						
South Island Line (East) Property Project	-	32	253	-	-	285
Kwun Tong Line Extension Property Project	-	4	61	-	-	65
Shenzhen Property Project	-	-	2,445	-	-	2,445
	<u>9,128</u>	<u>36</u>	<u>3,045</u>	<u>(32)</u>	<u>(213)</u>	<u>11,964</u>

2010

Airport Railway Property Projects	-	-	14	(14)	-	-
Tseung Kwan O Extension Property Projects	2,245	-	331	(12)	(1,413)	1,151
East Rail Line/Kowloon Southern Link/Light Rail Property Projects	4,473	-	4,027	(523)	-	7,977
	<u>6,718</u>	<u>-</u>	<u>4,372</u>	<u>(549)</u>	<u>(1,413)</u>	<u>9,128</u>

The Company

<i>in HK\$ million</i>	Balance at 1 January	Transfer from deferred expenditure (note 30)	Expenditure	Offset against payments received from developers	Transfer out on project completion	Balance at 31 December
2011						
Airport Railway Property Projects	-	-	4	(4)	-	-
Tseung Kwan O Extension Property Projects	1,151	-	159	(9)	(213)	1,088
East Rail Line/Kowloon Southern Link/Light Rail Property Projects	7,977	-	123	(19)	-	8,081
South Island Line (East) Property Project	-	32	253	-	-	285
Kwun Tong Line Extension Property Project	-	4	61	-	-	65
Shenzhen Property Project	-	-	2	-	-	2
	<u>9,128</u>	<u>36</u>	<u>602</u>	<u>(32)</u>	<u>(213)</u>	<u>9,521</u>
2010						
Airport Railway Property Projects	-	-	14	(14)	-	-
Tseung Kwan O Extension Property Projects	2,245	-	331	(12)	(1,413)	1,151
East Rail Line/Kowloon Southern Link/Light Rail Property Projects	4,473	-	4,027	(523)	-	7,977
	<u>6,718</u>	<u>-</u>	<u>4,372</u>	<u>(549)</u>	<u>(1,413)</u>	<u>9,128</u>

East Rail Line/Kowloon Southern Link/Light Rail Property Projects include the acquisition cost for the property development rights on the development sites from KCRC and mandatory payments in respect of enabling works carried out by KCRC for such sites. As at 31 December 2011, outstanding mandatory payments including interest accrued amounted to HK\$720 million (2010: HK\$699 million). Expenditure during the year ended 31 December 2010 included HK\$3,900 million of land premium in respect of the property development of Austin Station Sites C and D.

Shenzhen Property Project includes the price for Lot 1 of the Shenzhen Metro Longhua Line Depot Site of RMB1,977 million (HK\$2,438 million). In this regard, HK\$493 million, representing an equivalent amount of RMB400 million, has been deposited into the foreign currency bank account of the Shenzhen Land Exchange Centre.

B. Deferred Income on Property Development

The Group and The Company

<i>in HK\$ million</i>	Balance at 1 January	Payments received from developers	Offset against development in progress (note 29A)	Amount recognised as profit (note 12)	Balance at 31 December
2011					
Airport Railway Property Projects	38	-	(4)	-	34
Tseung Kwan O Extension Property Projects	43	-	(9)	-	34
East Rail Line/Kowloon Southern Link/Light Rail Property Projects	487	-	(19)	(468)	-
	<u>568</u>	<u>-</u>	<u>(32)</u>	<u>(468)</u>	<u>68</u>
2010					
Airport Railway Property Projects	69	-	(14)	(17)	38
Tseung Kwan O Extension Property Projects	55	-	(12)	-	43
East Rail Line/Kowloon Southern Link/Light Rail Property Projects	-	1,010	(523)	-	487
	<u>124</u>	<u>1,010</u>	<u>(549)</u>	<u>(17)</u>	<u>568</u>

C. Stakeholding Funds

Being the stakeholder under certain Airport Railway, Tseung Kwan O Extension and East Rail Line Property Projects, the Company receives and manages deposit monies and sales proceeds in respect of sales of properties under those developments. These monies are placed in separate designated bank accounts and, together with any interest earned, are to be released to the developers for the reimbursement of costs of the respective developments in accordance with the terms and conditions of the Government Consent Schemes and development agreements. Any balance remaining is to be released for distribution only after all obligations relating to the developments have been met. Accordingly, the balances of the stakeholding funds and the corresponding bank balances have not been included in the Group's and the Company's balance sheets. Movements in stakeholding funds during the year are as follows:

The Group and The Company

<i>in HK\$ million</i>	2011	2010
Balance as at 1 January	3,708	6,455
Stakeholding funds received	25,039	43,110
Add Interest earned thereon	15	18
	<u>28,762</u>	<u>49,583</u>
Disbursements during the year	(23,926)	(45,875)
Balance as at 31 December	<u>4,836</u>	<u>3,708</u>
<i>Represented by</i>		
Balances in designated bank accounts as at 31 December	4,834	3,706
Retention receivable	2	2
	<u>4,836</u>	<u>3,708</u>

In addition to the above, there are certain deposit monies and sales proceeds in respect of an East Rail Line property development site, amounting to HK\$2,410 million at 31 December 2011 (2010 HK\$1,225 million) that are under the custody of the solicitors and managed by the Company on behalf of KCRC as KCRC's agent.

D. West Rail Property Developments

As part of the Rail Merger, the Company was appointed to act as the agent of KCRC and certain KCRC subsidiary companies ("West Rail Subsidiaries") in the development of specified development sites along the West Rail. The Company will receive an agency fee of 0.75% of the gross sale proceeds in respect of the developments except for the Tuen Mun development on which the Company will receive 10% of the net profits accrued under the development agreement. The Company will also recover from the West Rail Subsidiaries all the costs incurred in respect of the West Rail development sites plus 16.5% on-cost, together with interest accrued thereon. During the year ended 31 December

2011, the reimbursable costs incurred by the Company including on-cost and interest accrued were HK\$96 million (2010 HK\$60 million)

30 Deferred Expenditure

The Group and the Company

in HK\$ million

	2011	2010
Balance at 1 January	1,079	558
Expenditure during the year	3	521
Transfer to investment properties (note 23)	(11)	-
Transfer to railway construction in progress (note 27)	(1,021)	-
Transfer to property development in progress (note 29)	(36)	-
Balance at 31 December	14	1,079

Upon signing of the Project Agreements in relation to the South Island Line (East) ("SIL(E)") and Kwun Tong Line Extension ("KTE") on 17 May 2011, expenditures previously incurred for the SIL(E) (HK\$735 million on railway construction and HK\$32 million on property development) and KTE (HK\$286 million on railway construction and HK\$4 million on property development) were transferred to railway construction in progress (note 27) and property development in progress (note 29). Deferred expenditure as at 31 December 2011 mainly related to property development project studies.

31 Interests in Non-controlled Subsidiaries

<i>in HK\$ million</i>	The Group		The Company	
	2011	2010	2011	2010
Unlisted shares, at cost	-	-	24	24
Share of net assets	579	541	-	-
	579	541	24	24

The following list contains the particulars of all major non-controlled subsidiaries of the Group

Name of company	Issued and paid up ordinary share capital	Proportion of ownership interest			Place of incorporation and operation	Principal activities
		Group's effective interest	Held by the Company	Held by subsidiary		
Octopus Holdings Limited	HK\$42,000,000	57.4%	57.4%	-	Hong Kong	Investment holding
Octopus Cards Limited	HK\$42,000,000	57.4%	-	100%	Hong Kong	Operate a contactless smartcard common payment system in Hong Kong
Octopus China Investments Limited	HK\$1	57.4%	-	100%	Hong Kong	Investment holding
Octopus Connect Limited	HK\$2	57.4%	-	100%	Hong Kong	Dormant
Octopus International Projects Limited	HK\$1	57.4%	-	100%	Hong Kong	Investment holding
Octopus Investments Limited	HK\$2	57.4%	-	100%	Hong Kong	Investment holding
Octopus Knowledge Limited	HK\$2	57.4%	-	100%	Hong Kong	Consultancy services on introducing a smartcard system in Dubai

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Octopus Netherlands Limited	HK\$1	57.4%	-	100%	Hong Kong	Consultancy services on introducing a smartcard system in the Netherlands
Octopus Payments Limited	HK\$2	57.4%	-	100%	Hong Kong	Project management
Octopus Rewards Limited	HK\$1	57.4%	-	100%	Hong Kong	Develop and operate a common loyalty scheme
Octopus Solutions Limited	HK\$2	57.4%	-	100%	Hong Kong	Consultancy services in Auckland
Octopus Systems Limited	HK\$2	57.4%	-	100%	Hong Kong	Consultancy services in Hong Kong
Octopus Transactions Limited	HK\$2	57.4%	-	100%	Hong Kong	Project management
Octopus Cards Macau Limited	MOP25,000	57.4%	-	100%	Macau	Promote the contactless smartcard common payment system in Macau

Octopus Cards Limited ("OCL") was formed in 1994 by the Company and four other local transport companies to undertake the development and operation of the "Octopus" contactless smart card ticketing system. In 2000, the Hong Kong Monetary Authority ("HKMA") approved OCL to become a deposit-taking company ("DTC") and extend the use of Octopus cards to non-transport related services. In 2001, the Company disposed 10.4% of the shareholding interest of OCL to certain other shareholders of OCL for a consideration of HK\$16 million, together with a deferred consideration to be received in the event of OCL subsequently becoming a stock exchange listed company. In 2005, OCL undertook a company re-structuring to separate OCL's regulated payment businesses and non-payment businesses by setting up a new holding company, Octopus Holdings Limited ("OHL"), to hold the entire issued share capital of OCL as well as other companies established for the non-payment businesses. The Company's effective interest in OHL and OHL's subsidiaries remains unchanged at 57.4% and the Company's appointees to the OHL's Board of Directors are limited to 49% of the voting rights at board meetings.

During the year ended 31 December 2011, the Company incurred HK\$116 million (2010: HK\$109 million) of expenses for the central clearing services provided by OCL. OCL incurred HK\$29 million (2010: HK\$48 million) of expenses for the load agent and Octopus card issuance and refund services, computer equipment and relating services, staff secondment, project administration services as well as warehouse storage space provided by the Company. During the year, OHL distributed dividends of HK\$144 million (2010: HK\$75 million) to the Company.

The condensed consolidated profit and loss account and the balance sheet for OHL are shown below.

Consolidated Profit and Loss Account

Year ended 31 December
in HK\$ million

	2011 (Audited)	2010 (Audited)
Turnover	704	662
Other operating income	8	6
	<u>712</u>	<u>668</u>
Staff costs	(126)	(119)
Load agent fees and bank charges for add value services	(88)	(80)
Other expenses	(148)	(222)
Operating profit before depreciation	<u>350</u>	<u>247</u>
Depreciation	(38)	(43)
Operating profit before interest and finance charges	<u>312</u>	<u>204</u>
Net interest income	54	56
Share of loss from a jointly controlled entity	(4)	(2)
Profit before taxation	<u>362</u>	<u>258</u>
Income tax	(45)	(39)
Profit for the year	<u>317</u>	<u>219</u>

Group's share of profit before taxation (note 16)	208	148
Group's share of income tax (note 16)	(26)	(22)
Consolidated Balance Sheet		
at 31 December in HK\$ million	2011 (Audited)	2010 (Audited)
Assets		
Fixed assets	216	189
Investments	2,641	2,195
Other assets	358	277
Cash at banks and on hand	517	671
	3,732	3,332
Liabilities		
Card floats and card deposits due to cardholders	(2,244)	(2,004)
Amounts due to related parties	(55)	(24)
Other liabilities	(423)	(362)
	(2,722)	(2,390)
Net assets	1,010	942
Equity		
Share capital	42	42
Exchange reserve	1	-
Retained profits	967	900
	1,010	942
Group's share of net assets	579	541

32 Investments in Subsidiaries

The Company

in HK\$ million	2011	2010
Unlisted shares, at cost	1,260	1,256

Investments in subsidiaries include HK\$24 million (2010 HK\$24 million) in respect of investments in non-controlled subsidiaries, the relevant details of which are disclosed in note 31. The following list contains details of controlled subsidiaries as defined under note 2C as at 31 December 2011, which have been consolidated into the Group's accounts

<u>Name of company</u>	Issued and paid up ordinary/ registered <u>share capital</u>	<u>Proportion of ownership interest</u>			Place of incorporation <u>and operation</u>	<u>Principal activities</u>
		Group's effective <u>interest</u>	Held by the <u>Company</u>	Held by <u>subsidiary</u>		
<u>Subsidiaries held throughout 2011</u>						
Glory Goal Limited	HK\$10,000	100%	100%	-	Hong Kong	Investment holding
Hanford Garden Property Management Company Limited	HK\$10,000	100%	100%	-	Hong Kong	Property management

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<u>Name of company</u>	Issued and paid up ordinary/ registered <u>share capital</u>	<u>Proportion of ownership interest</u>			Place of incorporation and operation	<u>Principal activities</u>
		Group's effective <u>interest</u>	Held by the <u>Company</u>	Held by <u>subsidiary</u>		
MTR (Estates Management) Limited	HK\$1,000	100%	100%	-	Hong Kong	Investment holding and property management
MTR (Shanghai Project Management) Limited	HK\$1,000	100%	100%	-	Hong Kong	Railway consultancy services, property investment and development
MTR Beijing Line 4 Investment Company Limited	HK\$1	100%	100%	-	Hong Kong	Investment holding
MTR Building Works Company Limited (previously Rail Sourcing Solutions (International) Limited)	HK\$2	100%	100%	-	Hong Kong	General building, maintenance and engineering works
MTR China Commercial Management No. 1 Holdings Limited	HK\$1,000	100%	100%	-	Hong Kong	Investment holding
MTR China Consultancy Company Limited	HK\$1,000	100%	100%	-	Hong Kong	Railway consultancy services
MTR China Property Holdings Limited (previously Extensive Growth Limited)	HK\$1	100%	100%	-	Hong Kong	Investment holding
MTR China Property Limited	HK\$1,000	100%	100%	-	Hong Kong	Property management
MTR Engineering Services Limited	HK\$1,000	100%	100%	-	Hong Kong	Engineering services
MTR Hangzhou Line 1 Investment Company Limited	HK\$1,000	100%	100%	-	Hong Kong	Investment holding
MTR Information Solutions Company Limited	HK\$1,000	100%	100%	-	Hong Kong	License MTR software to MTR's subsidiaries and associates
MTR Property Agency Co Limited	HK\$2	100%	100%	-	Hong Kong	Property agency
MTR Property (Beijing) No. 1 Company Limited	HK\$1	100%	-	100%	Hong Kong	Property development, investment and management
MTR Property (Shenzhen) Company Limited	HK\$1	100%	100%	-	Hong Kong	Property development, investment and management
MTR Rail Transport Training (International) Company Limited	HK\$2,800,000	100%	100%	-	Hong Kong	Provide rail transport training in Mainland China
MTR Shenyang Holdings Limited	HK\$1,000	100%	100%	-	Hong Kong	Investment holding
MTR Shenyang Investment Holdings Limited	HK\$1	100%	100%	-	Hong Kong	Investment holding

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<u>Name of company</u>	<u>Issued and paid up ordinary/ registered share capital</u>	<u>Proportion of ownership interest</u>			<u>Place of incorporation and operation</u>	<u>Principal activities</u>
		<u>Group's effective interest</u>	<u>Held by the Company</u>	<u>Held by subsidiary</u>		
MTR Shenyang Property No 1 Limited	HK\$1	100%	-	100%	Hong Kong	Property development, investment and management
MTR Shenzhen Investment Holding Limited	HK\$400,000	100%	100%	-	Hong Kong	Investment holding
MTR Telecommunication Company Limited	HK\$100,000,000	100%	100%	-	Hong Kong	Mobile telecommunication services
MTR Travel Limited	HK\$2,500,000	100%	100%	-	Hong Kong	Travel services
Ngong Ping 360 Limited	HK\$2	100%	100%	-	Hong Kong	Operate the Tung Chung to Ngong Ping cable car system and Theme Village in Ngong Ping
Pierhead Garden Management Company Limited	HK\$50,000	100%	100%	-	Hong Kong	Property management
Royal Ascot Management Company Limited	HK\$50,000	100%	100%	-	Hong Kong	Property management
Sun Tuen Mun Centre Management Company Limited	HK\$50,000	100%	100%	-	Hong Kong	Property management
TraxComm Limited	HK\$15,000,000	100%	100%	-	Hong Kong	Fixed telecommunication network services
V-Connect Limited	HK\$1,000	100%	100%	-	Hong Kong	Mobile telecommunication network services
360 Holidays Limited	HK\$500,000	100%	-	100%	Hong Kong	Guided tour services
Metro Trains Melbourne Pty Ltd *	AUD16,250,000	60% on ordinary shares, 30% on Class A shares	60% on ordinary shares, 30% on Class A shares	-	Australia	Railway operations and maintenance
Fasttrack Insurance Ltd	HK\$77,500,000	100%	100%	-	Bermuda	Insurance underwriting
Candiman Limited *	US\$1	100%	100%	-	British Virgin Islands	Investment holding
MTR Corporation (C I) Limited	US\$1,000	100%	100%	-	Cayman Islands / Hong Kong	Finance
MTR Finance Lease (001) Limited	US\$1	100%	100%	-	Cayman Islands / Hong Kong	Finance
MTR Stockholm AB	SEK40,000,000	100%	-	100%	Sweden	Railway operations and maintenance
Chongqing Premier Property Management Company Limited *	US\$150,000	70%	-	70%	The People's Republic of China	Property management

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<u>Name of company</u>	Issued and paid up ordinary/ registered <u>share capital</u>	<u>Proportion of ownership interest</u>			Place of incorporation and operation	<u>Principal activities</u>
		Group's effective <u>interest</u>	Held by the <u>Company</u>	Held by <u>subsidiary</u>		
MTR (Beijing) Commercial Facilities Management Co , Ltd	HK\$93,000,000	100%	-	100%	The People's Republic of China	Property leasing and management
MTR (Beijing) Property Services Company Limited *	RMB3,000,000	100%	100%	-	The People's Republic of China	Property management
MTR Commercial Management (Beijing) Company Limited *	HK\$120,000	100%	-	100%	The People's Republic of China	Business management, business consultancy, commercial facilities strategy and consultancy services, and corporate training management
MTR Consultancy (Beijing) Co Limited (Incorporated)	HK\$4,200,000	100%	100%	-	The People's Republic of China	Railway consultancy services, marketing and promotion
MTR Consulting (Shenzhen) Co Ltd (Incorporated)	HK\$1,000,000	100%	100%	-	The People's Republic of China	Railway consultancy services
MTR Corporation (Shenzhen) Limited (Incorporated)	HK\$2,636,000,000	100%	-	100%	The People's Republic of China	Railway construction, operation and management
MTR Corporation (Shenzhen) Training Centre * (Incorporated)	RMB2,000,000	100%	-	100%	The People's Republic of China	Provide rail transport training
Shanghai Hong Kong Metro Construction Management Co Ltd (Incorporated)	HK\$15,000,000	60%	-	60%	The People's Republic of China	Railway construction management and development
MTR Corporation (Silverlink) Limited	GBP1	100%	-	100%	United Kingdom	Investment holding
MTR Corporation (UK) Limited	GBP29	100%	100%	-	United Kingdom	Investment holding
<u>Subsidiaries established during 2011</u>						
MTR Property (Tianjin) No 1 Company Limited	HK\$1	100%	-	100%	Hong Kong	Property development, investment and management
MTR Property (Tianjin) No 2 Company Limited	HK\$1	100%	-	100%	Hong Kong	Property development, investment and management

* Subsidiaries not audited by KPMG

During the year ended 31 December 2011, MTR (Macau) Property Management Company Limited was wound up and resolution was passed to dissolve Shanghai Hong Kong Metro Construction Management Co Ltd

33 Interests in Associates

The Group

in HK\$ million

	<u>2011</u>	<u>2010</u>
Share of net assets	<u>948</u>	<u>836</u>

The Group and the Company had interests in the following associates as at 31 December 2011

<u>Name of company</u>	<u>Issued and paid up ordinary/registered share capital</u>	<u>Proportion of ownership interest</u>		<u>Place of incorporation and operation</u>	<u>Principal activities</u>
		<u>Group's effective interest</u>	<u>Held by subsidiary</u>		
Beijing MTR Corporation Limited (Incorporated)	RMB1,380,000,000	49%	49%	The People's Republic of China	Railway construction, operation, management and development
Shenyang MTR Corporation Limited	RMB100,000,000	49%	49%	The People's Republic of China	Railway operation and management
Tunnelbanan Teknik Stockholm AB	SEK30,000,000	50%	50%	Sweden	Railway maintenance
London Overground Rail Operations Ltd ("LOROL") *	GBP2	50%	50%	United Kingdom	Railway management

* Companies not audited by KPMG

The Company has reached agreement with the other parent company of Shenyang MTR Corporation Limited ("Shenyang MTR") to wind up Shenyang MTR. The request for approval has been submitted to the Shenyang Municipal Government and the process for liquidation has started.

During the year ended 31 December 2011, Tunnelbanan Teknik Stockholm AB provided rolling stock maintenance and other supporting services to MTR Stockholm AB at an amount of SEK520 million (HK\$629 million) (2010 SEK511 million or HK\$550 million). MTR Stockholm AB leased depots, depot equipment and provided other supporting services to Tunnelbanan Teknik Stockholm AB at a total amount of SEK108 million (HK\$131 million) (2010 SEK114 million or HK\$122 million).

During the same year, the Company provided staff secondment, information technology and other support services to Beijing MTR Corporation Limited at a total amount of HK\$19 million (2010 HK\$32 million). During the year ended 31 December 2010, the Company provided staff secondment and consultancy service to LOROL at an amount of HK\$1 million.

The summary financial information of the Group's effective interests in associates is as follows

<i>in HK\$ million</i>	<u>2011</u>	<u>2010</u>
Non-current assets	<u>2,319</u>	2,435
Current assets	<u>793</u>	747
Non-current liabilities	<u>(860)</u>	(972)
Current liabilities	<u>(1,304)</u>	(1,374)
Net assets	<u>948</u>	<u>836</u>
Income	<u>1,760</u>	1,612
Expenses	<u>(1,608)</u>	(1,590)
Profit before taxation	<u>152</u>	22
Income tax	<u>(37)</u>	(9)

Net profit for the year	<u>115</u>	<u>13</u>
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34 Investments in Securities

Investments in securities, representing bank medium term notes held by the Company and debt securities held by the overseas insurance underwriting subsidiary, comprise

The Group

in HK\$ million

	<u>2011</u>	<u>2010</u>
Held-to-maturity securities, at amortised cost		
- maturing within 1 year	2,626	1,000
- maturing after 1 year	-	2,627
	<u>2,626</u>	<u>3,627</u>
Trading securities listed overseas, at fair value (Level 1, see note 36 for definition)		
- maturing within 1 year	126	67
- maturing after 1 year	222	218
	<u>348</u>	<u>285</u>
	<u>2,974</u>	<u>3,912</u>

The Company

in HK\$ million

	<u>2011</u>	<u>2010</u>
Held-to-maturity securities, at amortised cost		
- maturing within 1 year	2,626	1,000
- maturing after 1 year	-	2,627
	<u>2,626</u>	<u>3,627</u>

35 Properties Held for Sale

The Group and The Company

in HK\$ million

	<u>2011</u>	<u>2010</u>
Properties held for sale		
- at cost	3,718	1,829
- at net realisable value	39	107
	<u>3,757</u>	<u>1,936</u>

Properties held for sale at 31 December 2011 comprised mainly residential units and car parking spaces at Festival City at Tai Wai Maintenance Centre and The Palazzo at Fo Tan Station along the East Rail Line and Lake Silver at Wu Kai Sha Station along the Ma On Shan Line. They represent either properties received by the Company as sharing in kind or as part of the profit distribution upon completion of the development. The properties are stated on the balance sheet at the lower of cost, which is deemed to be their fair value upon initial recognition as determined by reference to an independent open market valuation at the date of receipt (notes 2K(iv) and (v)), and their net realisable value at the balance sheet date. Net realisable value represents the estimated selling price less costs to be incurred in selling the properties. The net realisable values as at 31 December 2011 and 2010 were determined by reference to an open market valuation of the properties as at those dates, undertaken by an independent firm of surveyors, Jones Lang LaSalle Limited, who have among their staff Members of the Hong Kong Institute of Surveyors.

Properties held for sale at net realisable value are stated net of provision of HK\$18 million (2010: HK\$12 million), made in order to state these properties at the lower of their cost and estimated net realisable value.

36 Derivative Financial Assets and Liabilities

A. Fair Value

The contracted notional amounts, fair values and maturities based on contractual undiscounted cash flows of derivative financial instruments outstanding are as follows

The Group and The Company

	Notional amount	Fair value	Level*	Contractual undiscounted cash flow maturing in				
				Less than 1 year	1-2 years	2-5 years	Over 5 years	Total
<i>in HK\$ million</i>								
2011								
Derivative Financial Assets								
Gross settled								
Foreign exchange forwards								
- cash flow hedges	86	3	2					
- inflow				29	26	34	-	89
- outflow				(27)	(26)	(33)	-	(86)
- not qualified for hedge accounting	6	-	2					
- inflow				5	-	-	-	5
- outflow				(5)	-	-	-	(5)
Cross currency swaps								
- fair value hedges	1,245	54	2					
- inflow				37	811	6	470	1,324
- outflow				(6)	(785)	-	(465)	(1,256)
Net settled								
Interest rate swaps								
- fair value hedges	2,833	287	2	134	95	78	34	341
- cash flow hedges	300	-	2	(1)	(1)	2	-	-
- not qualified for hedge accounting	388	-	2	-	-	-	-	-
	<u>4,858</u>	<u>344</u>		<u>166</u>	<u>120</u>	<u>87</u>	<u>39</u>	<u>412</u>
Derivative Financial Liabilities								
Gross settled								
Foreign exchange forwards								
- cash flow hedges	83	4	2					
- inflow				59	16	4	-	79
- outflow				(62)	(17)	(4)	-	(83)
- not qualified for hedge accounting	174	7	2					
- inflow				132	27	7	-	166
- outflow				(138)	(28)	(7)	-	(173)
Cross currency swaps								
- fair value hedges	4,663	28	2					
- inflow				12	13	6,593	-	6,618
- outflow				(18)	(21)	(6,609)	-	(6,648)
Net settled								
Interest rate swaps								
- cash flow hedges	1,912	112	2	(59)	(48)	(16)	(3)	(126)
	<u>6,832</u>	<u>151</u>		<u>(74)</u>	<u>(58)</u>	<u>(32)</u>	<u>(3)</u>	<u>(167)</u>
Total	<u>11,690</u>							

	Notional amount	Fair value	Level*	Contractual undiscounted cash flow maturing in				
				Less than 1 year	1-2 years	2-5 years	Over 5 years	Total
<i>in HK\$ million</i>								
2010								
Derivative Financial Assets								
Gross settled								
Foreign exchange forwards								
- cash flow hedges	147	11	2					
- inflow				121	27	12	-	160
- outflow				(112)	(25)	(12)	-	(149)
- not qualified for hedge accounting	11	2	2					
- inflow				13	-	-	-	13
- outflow				(11)	-	-	-	(11)
Cross currency swaps								
- fair value hedges	1,255	75	2					
- inflow				46	37	817	467	1,367
- outflow				(15)	(10)	(792)	(464)	(1,281)
Net settled								
Interest rate swaps								
- fair value hedges	2,834	280	2	102	123	91	18	334
- cash flow hedges	350	7	2	(7)	(5)	5	11	4
	<u>4,597</u>	<u>375</u>		<u>137</u>	<u>147</u>	<u>121</u>	<u>32</u>	<u>437</u>
Derivative Financial Liabilities								
Gross settled								
Foreign exchange forwards								
- cash flow hedges	82	4	2					
- inflow				49	19	8	-	76
- outflow				(52)	(20)	(8)	-	(80)
- not qualified for hedge accounting	129	-	2					
- inflow				108	17	4	-	129
- outflow				(108)	(17)	(4)	-	(129)
Cross currency swaps								
- fair value hedges	4,663	32	2					
- inflow				9	15	5,092	-	5,116
- outflow				(15)	(26)	(5,106)	-	(5,147)
Net settled								
Interest rate swaps								
- fair value hedges	-	-	2	-	-	-	-	-
- cash flow hedges	1,312	112	2	(49)	(42)	(29)	-	(120)
	<u>6,186</u>	<u>148</u>		<u>(58)</u>	<u>(54)</u>	<u>(43)</u>	<u>-</u>	<u>(155)</u>
Total	<u>10,783</u>							

* The levels are defined in HKFRS 7 as follows

Level 1 Fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments

Level 2 Fair values measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data

Level 3 Fair values measured using valuation techniques in which any significant input is not based on observable market data

The discounted cash flow method, which discounts the future contractual cash flows at the current market interest and foreign exchange rates that are available to the Group for similar financial instruments, is the main valuation technique used to determine the fair value of the Group's borrowings and derivative financial instruments such as interest rate swaps and cross currency swaps. The fair value of forward foreign exchange contracts is determined using forward exchange market rates at the balance sheet date.

The Group's derivative financial instruments consist predominantly of interest rate and cross currency swaps, and the relevant interest rate swap curves as of 31 December 2011 and 2010 were used to discount the cash flows of financial instruments. Interest rates used ranged from 0.250% to 1.877% (2010: 0.045% to 3.407%) for Hong Kong dollars, 0.208% to 2.027% (2010: 0.392% to 3.509%) for U.S. dollars and 0.677% to 2.381% (2010: 0.379% to 3.393%) for Euro.

The table above details the remaining contractual maturities at the balance sheet date of the Group's and the Company's derivative financial liabilities and assets, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the balance sheet date) and the earliest date the Group and the Company can be required to pay.

B. Financial Risks

The Group's operating activities and financing activities expose it to four main types of financial risks, namely liquidity risk, interest rate risk, foreign exchange risk and credit risk. The Group's overall risk management policy focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects of these financial risks on the Group's financial performance.

The Board of Directors provides principles for overall risk management and approves policies covering specific areas, such as liquidity risk, interest rate risk, foreign exchange risk, credit risk, concentration risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity. The Group's Preferred Financing Model (the "Model") is an integral part of its risk management policies. The Model specifies, amongst other things, the preferred mix of fixed and floating rate debts, the permitted level of foreign currency debts and an adequate length of financing horizon for coverage of forward funding requirements, against which the Group's financing related liquidity, interest rate and currency risk exposures are measured, monitored and controlled. The Board regularly reviews its risk management policies and authorises changes if necessary based on operating and market conditions and other relevant factors. The Board also reviews on an annual basis as part of the budgeting process and authorises changes if necessary to the Model in accordance with changes in market conditions and practical requirements.

The use of derivative financial instruments to control and hedge against interest rate and foreign exchange risk exposures is an integral part of the Group's risk management strategy. In accordance with Board policy, these instruments shall only be used for controlling or hedging risk exposures, and cannot be used for speculation purposes. All of the derivative instruments used by the Group are over-the-counter derivatives comprising principally interest rate swaps, cross currency swaps and foreign exchange forward contracts.

(i) Liquidity Risk

Liquidity risk refers to the risk that funds are not available to meet liabilities as they fall due, and it may result from timing and amount mismatches of cash inflow and outflow.

The Group employs projected cash flow analysis to manage liquidity risk by forecasting the amount of cash required, including working capital, debt repayments, dividend payments, capital expenditures and new investments, and by maintaining sufficient cash balance and/or undrawn committed banking facilities to ensure these requirements are met. It adopts a prudent approach and will maintain sufficient cash balance and committed banking facilities to provide forward coverage of at least 6 to 15 months of projected cash requirements as specified in the Model. The Group also conducts stress testing of its projected cash flow to analyse liquidity risk, and would arrange additional banking facilities or debt issuance or otherwise take appropriate actions if such stress tests reveal significant risk of material cash flow shortfall.

The following table details the remaining contractual maturities at the balance sheet date of the Group's and the Company's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the balance sheet date) and the earliest date the Group and the Company can be required to pay.

The Group

	2011	2010
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<i>in HK\$ million</i>	Capital market instruments	Bank loans and overdrafts	Others	Total	Capital market instruments	Bank loans and overdrafts	Others	Total
Loans and other obligations								
Amounts repayable beyond 5 years	2,876	4,305	592	7,773	3,218	2,315	598	6,131
Amounts repayable within a period of between 2 and 5 years	7,498	840	1	8,339	8,717	1,318	1	10,036
Amounts repayable within a period of between 1 and 2 years	3,883	387	2	4,272	603	6,569	1	7,173
Amounts repayable within 1 year	632	6,426	2	7,060	1,013	480	1	1,494
	<u>14,889</u>	<u>11,958</u>	<u>597</u>	<u>27,444</u>	<u>13,551</u>	<u>10,682</u>	<u>601</u>	<u>24,834</u>

The Company

	2011				2010			
<i>in HK\$ million</i>	Capital market instruments	Bank loans and overdrafts	Others	Total	Capital market instruments	Bank loans and overdrafts	Others	Total
Loans and other obligations								
Amounts repayable beyond 5 years	543	-	592	1,135	577	-	598	1,175
Amounts repayable within a period of between 2 and 5 years	117	326	-	443	117	531	-	648
Amounts repayable within a period of between 1 and 2 years	39	194	-	233	39	6,457	-	6,496
Amounts repayable within 1 year	39	6,229	-	6,268	39	376	-	415
	<u>738</u>	<u>6,749</u>	<u>592</u>	<u>8,079</u>	<u>772</u>	<u>7,364</u>	<u>598</u>	<u>8,734</u>

Others represent obligations under lease out/lease back transaction (note 24E)

(ii) Interest Rate Risk

The Group's interest rate risk arises principally from its borrowing activities. Borrowings based on fixed and floating rates expose the Group to fair value and cash flow interest rate risk respectively due to fluctuations in market interest rates. The Group manages and controls its interest rate risk exposure by maintaining a level of fixed rate debt between 40% and 70% of total debt outstanding as specified by the Model. Should the actual fixed rate debt level deviate substantially from the Model, derivative financial instruments such as interest rate swaps would be procured to align the fixed and floating mix with the Model. As at 31 December 2011, 51% of the Group's total debt outstanding was denominated either in or converted to fixed interest rate after taking into account outstanding cross currency and interest rate swaps.

The Group's exposure due to its floating rate borrowings is offset by the floating rate interest income it earns from its cash balances, bank deposits and other investment instruments. As at 31 December 2011, the Group had total cash balances and bank deposits of HK\$7,156 million from which it derived floating rate interest income, compared with total floating rate borrowings of HK\$11,031 million.

As at 31 December 2011, it is estimated that a 100 basis points increase / 25 basis points decrease in interest rates, with all other variables held constant, would increase/decrease the Group's profit after tax and retained profits by approximately HK\$31/HK\$8 million. Other components of consolidated equity would increase/decrease by approximately HK\$46/HK\$16 million.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for both derivative and non-derivative financial instruments in existence at that date. The interest rate assumptions represent management's assessment of a reasonable possible change in interest rates over the period until the next annual balance sheet date in the light of the current low absolute levels of interest rates and the greater scope for rate increase than decrease in the future.

In 2010, a similar analysis was performed based on the assumption of a general increase/decrease of 100/50 basis points in interest rates, which would increase/decrease the Group's profit after tax and retained profits by approximately HK\$85/HK\$24 million. Other components of consolidated equity would increase/decrease by approximately HK\$49/HK\$26 million.

(iii) Foreign Exchange Risk

Foreign exchange risk arises when recognised assets and liabilities are denominated in a currency that is not the Group's functional currency. For the Group, it arises principally from its borrowing and overseas procurement activities.

The Group manages and controls its foreign exchange risk exposure by maintaining a modest level of unhedged non-Hong Kong dollar debt as specified by the Model, and minimal foreign exchange open positions created by its procurements overseas. Where the currency of a borrowing is not matched with that of the expected cash flows for servicing the debt, the Group would convert its foreign currency exposure resulting from the borrowing to Hong Kong dollar exposure through cross currency swaps. For procurement in foreign currencies, the Group would enter into foreign exchange forward contracts to secure the necessary foreign currencies at pre-determined exchange rates for settlement.

The Group's exposure to US dollars due to its foreign currency borrowings is also offset by the amount of US dollar cash balances, bank deposits and investments that it maintains.

As most of the Group's receivables and payables are denominated in the respective Group companies' functional currencies (Hong Kong dollars, Renminbi, Australian dollars or Swedish krona) or United States dollars (with which Hong Kong dollars are pegged) and most of its payment commitments denominated in foreign currencies are covered by foreign exchange forward contracts, management does not expect that there will be any significant currency risk associated with them.

(iv) Credit Risk

Credit risk refers to the risk that a counterparty will be unable to pay amounts in full when due. For the Group, this arises mainly from the deposits it maintains and the derivative financial instruments that it has entered into with various banks and counterparties as well as from the Defeasance Securities it procured under the lease out/lease back transaction (note 24E). The Group limits its exposure to credit risk by placing deposits and transacting derivative financial instruments only with financial institutions with acceptable investment grade credit ratings or guarantee, and diversifying its exposure to various counterparties.

All derivative financial instruments are subject to a maximum counterparty limit based on the respective counterparty's credit ratings in accordance with policy approved by the Board. Credit exposure in terms of estimated fair market value of and largest potential loss arising from these instruments based on the "value-at-risk" concept is measured, monitored and controlled against their respective counterparty limits. To further reduce counterparty risk exposure, the Group also applies set-off and netting arrangements across all derivative financial instruments and other financial transactions with the same counterparty.

All deposits and investments are similarly subject to a separate maximum counterparty/issuer limit based on the respective counterparty/issuer's credit ratings and/or status as Hong Kong's note-issuing banks. There is also a limit on the length of time that the Group can maintain a deposit with a counterparty or investment from an issuer based upon the counterparty/issuer's credit ratings. Deposit/investment outstanding and maturity profile are monitored regularly to ensure they are within the limits established for the counterparties/issuers. In addition, the Group actively monitors the credit default swap levels of counterparties/issuers and their daily changes, and may on the basis of the observed levels and other considerations adjust its exposure and/or maximum counterparty/issuer limit to the relevant counterparty.

As at balance sheet date, the maximum exposure to credit risk of the Group with respect to derivative financial assets and bank deposits is represented respectively by the carrying amount of the derivative financial assets and the aggregate amount of deposits on its balance sheet. As at balance sheet date, there was no significant concentration risk to a single counterparty.

In addition, the Company also manages and controls its exposure to credit risks in respect of receivables as stated in note 38

37 Stores and Spares

<i>in HK\$ million</i>	The Group		The Company	
	2011	2010	2011	2010
Stores and spares expected to be consumed				
- within 1 year	695	643	570	519
- after 1 year	446	426	368	363
	1,141	1,069	938	882
Less Provision for obsolete stock	(6)	(8)	(6)	(8)
	1,135	1,061	932	874

Stores and spares expected to be consumed after 1 year comprise mainly contingency spares and stocks kept to meet cyclical maintenance requirements

38 Debtors, Deposits and Payments in Advance

<i>in HK\$ million</i>	The Group		The Company	
	2011	2010	2011	2010
Debtors, deposits and payments in advance relate to				
- Property development projects	1,203	636	1,203	636
- Railway subsidiaries outside of Hong Kong	1,204	1,203	-	-
- Hong Kong operations and others	1,557	1,222	1,426	1,143
	3,964	3,061	2,629	1,779

The Group's credit policies in respect of receivables arising from its principal activities are as follows

- (i) The majority of fare revenue from Hong Kong transport operation is collected either through Octopus Cards with daily settlement on the next working day or in cash for other ticket types. A small portion of fare revenue from Hong Kong transport operation collected through pre-sale agents is due within 21 days
- (ii) Fare revenue from Shenzhen Longhua Line is collected either through Shenzhen Tong Cards with daily settlement on the next working day or in cash for other ticket types
- (iii) Franchise revenue in Melbourne is collected either weekly or monthly depending on its nature. The majority of the franchise revenue in Stockholm is collected in the transaction month with the remainder being collected in the following month
- (iv) Rentals, advertising and telecommunications service fees are billed monthly with due dates ranging from immediately due to 50 days. Tenants of the Group's investment properties and station kiosks are required to pay three months' rental deposit upon the signing of lease agreements
- (v) Amounts receivable under interest rate and currency swap agreements with financial institutions are due in accordance with the respective terms of the agreements
- (vi) Consultancy service incomes are billed monthly, upon work completion or on other basis stipulated in the consultancy contracts and are due within 30 days
- (vii) Debtors in relation to contracts and capital works entrusted to the Group, subject to any agreed retentions, are due within 30 days upon the certification of work in progress
- (viii) Amounts receivable in respect of property development are due in accordance with the terms of relevant development agreements or sale and purchase agreements

The ageing of debtors is analysed as follows

<i>in HK\$ million</i>	The Group		The Company	
	2011	2010	2011	2010

Amounts not yet due	2,612	1,904	1,831	1,092
Overdue by 30 days	428	157	242	61
Overdue by 60 days	21	27	5	21
Overdue by 90 days	8	8	6	3
Overdue by more than 90 days	20	11	2	6
Total debtors	3,089	2,107	2,086	1,183
Deposits and payments in advance	677	785	345	427
Prepaid pension costs	198	169	198	169
	3,964	3,061	2,629	1,779

Included in amounts not yet due as at 31 December 2011 was HK\$1,203 million (2010 HK\$634 million) in respect of property development, comprising receivable on profits distributable based on the terms of the development agreements and sales and purchase agreements, receivable from certain stakeholding funds (note 29C) awaiting finalisation of the respective development accounts as well as other receivables on miscellaneous recoverable expenses

As at 31 December 2011, all debtors, deposits and payments in advance were expected to be recovered within one year except for amounts relating to deposits and receivables of HK\$279 million (2010 HK\$153 million) included in Hong Kong operations and others, which were expected to be recovered between one to three years. The nominal values less impairment losses for bad and doubtful debts are not discounted as it is considered that the effect of discounting would not be significant.

Included in debtors, deposits and payments in advance are the following amounts denominated in a currency other than the functional currency of the entity to which they relate

	The Group		The Company	
	2011	2010	2011	2010
New Taiwan dollars (in million)	-	2	-	2
Pound sterling (in million)	1	-	1	-
United States dollars (in million)	9	9	9	8

39 Loan to a Property Developer

The Group and The Company

	2011		2010	
	Nominal amount	Carrying amount	Nominal amount	Carrying amount
<i>in HK\$ million</i>				
Interest-free loan to a property developer	-	-	2,000	1,975

The outstanding loan provided to the developer of Tseung Kwan O Area 86 Package 2 ("LOHAS Park") property development project under the terms of the development agreement was fully repaid during the year ended 31 December 2011.

40 Amounts Due from Related Parties

	The Group		The Company	
	2011	2010	2011	2010
<i>in HK\$ million</i>				
Amounts due from				
- HKSAR Government	248	156	248	156
- KCRC	20	25	20	25
- non-controlled subsidiaries	23	17	23	17
- associates	111	132	63	71
- other subsidiaries of the Company (net of impairment losses)	-	-	4,681	4,096

402	330	5,035	4,365
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The amount due from HKSAR Government includes outstanding receivables in relation to the Shatin to Central Link, South Island Line (East) and Kwun Tong Line Extension projects

The amount due from KCRC related to payments to the Company in respect of the Outsourcing Agreement and costs on certain capital works recoverable from KCRC in accordance with the Merger Framework Agreement

The amount due from non-controlled subsidiaries related to receivables from Octopus Cards Limited

The amounts due from associates of the Group as at 31 December 2011 included the outstanding balances of loan to Tunnelbanan Teknik Stockholm AB ("TBT"), amounting to HK\$56 million (SEK50 million) (2010 HK\$75 million or SEK65 million), which bears an interest rate of 3% per annum above the 3-month Stockholm Inter Bank Offer Rate published by the Riksbank with repayment due by 31 December 2013. The amounts due from associates of the Group as at 31 December 2010 included a loan to London Overground Rail Operations Ltd ("LOROL") amounting to HK\$12 million or GBP 1 million, which was fully repaid during the year ended 31 December 2011.

All contract retentions on the above entrusted works were due for release within one year. All other amounts due from HKSAR Government and other related parties were expected to be received within 12 months.

The nominal values of amounts due from HKSAR Government and other related parties are considered not significantly different from their fair values as the amounts due are expected to be substantially settled within 24 months.

41 Cash, Bank Balances and Deposits

<i>in HK\$ million</i>	The Group		The Company	
	2011	2010	2011	2010
Deposits with banks and other financial institutions	14,009	12,337	13,728	12,065
Cash at banks and on hand	2,091	997	243	208
Cash, bank balances and deposits	16,100	13,334	13,971	12,273
Less: Bank deposits with more than three months to maturity when placed	(12,673)	(9,610)	(12,396)	(9,355)
Less: Bank overdrafts (note 42A)	-	(16)	-	(16)
Cash and cash equivalents in the cash flow statement	3,427	3,708	1,575	2,902

Included in cash, bank balance and deposits in the balance sheet are the following amounts denominated in a currency other than the functional currency of the entity to which they relate

	The Group		The Company	
	2011	2010	2011	2010
Australian dollars (in million)	5	11	5	11
Euros (in million)	6	5	6	5
Japanese Yen (in million)	42	100	42	100
New Taiwan dollars (in million)	8	10	8	10
Pound sterling (in million)	2	-	2	-
Renminbi (in million)	3	-	-	-
Swedish krona (in million)	-	2	-	2
United States dollars (in million)	603	679	601	676

42 Loans and Other Obligations

A. By Type

<i>in HK\$ million</i>	2011			2010		
	Carrying	Fair value	Repayable	Carrying	Fair value	Repayable

	amount	amount	amount	amount	amount
The Group					
Capital market instruments					
Listed or publicly traded					
Debt issuance programme (Eurobond due 2014)	4,734	5,038	4,663	4,759	5,144
	4,734	5,038	4,663	4,759	5,144
Unlisted					
Debt issuance programme notes due 2012 to 2020 (2010 due 2011 to 2020)	8,421	9,130	8,180	6,679	7,202
	8,421	9,130	8,180	6,679	7,202
Total capital market instruments	13,155	14,168	12,843	11,438	12,346
Bank loans	9,663	9,665	9,665	8,971	8,973
Others	350	469	350	332	370
Loans and others	23,168	24,302	22,858	20,741	21,689
Bank overdrafts	-	-	-	16	16
Short-term loans	-	-	-	300	300
Total	23,168	24,302	22,858	21,057	22,005

The Company

Capital market instruments

Unlisted

Debt issuance programme notes due 2018	461	673	465	457	646
Bank loans	6,698	6,700	6,700	6,915	6,918
Others	343	464	343	328	366
Loans and others	7,502	7,837	7,508	7,700	7,930
Bank overdrafts	-	-	-	16	16
Short-term loans	-	-	-	300	300
Total	7,502	7,837	7,508	8,016	8,246

Others include non-defeased obligations under lease out/lease back transaction (note 24E)

As at 31 December 2011, the Group had a number of uncommitted facilities with undrawn amounts totalling HK\$14,135 million (2010 HK\$15,028 million), comprising a debt issuance programme and short-term bank loan facilities

The fair values are based on the discounted cash flows method which discounts the future contractual cash flows at the current market interest and foreign exchange rates that is available to the Group for similar financial instruments

The carrying amounts of short-term loans and bank overdrafts approximated their fair values

The amounts of borrowings, denominated in a currency other than the functional currency of the entity to which they relate, before and after currency hedging activities are as follows

	Before hedging activities		After hedging activities	
	2011	2010	2011	2010
The Group				
Euros (in million)	-	1	-	-
Renminbi (in million)	1,000	-	-	-
United States dollars (in million)	760	761	-	1

The Company

MTR CORPORATION LIMITED

Euros (in million)	-	1	-	-
United States dollars (in million)	<u>60</u>	<u>61</u>	<u>-</u>	<u>1</u>

B. By Repayment Terms

The Group

<i>in HK\$ million</i>	2011				2010			
	Capital market instruments	Bank loans and overdrafts	Others	Total	Capital market instruments	Bank loans and overdrafts	Others	Total
Long-term loans and others								
Amounts repayable beyond 5 years	2,515	2,862	343	5,720	2,715	1,471	328	4,514
Amounts repayable within a period of between 2 and 5 years	6,863	364	2	7,229	7,793	1,084	2	8,879
Amounts repayable within a period of between 1 and 2 years	3,363	221	3	3,587	102	6,400	1	6,503
Amounts repayable within 1 year	102	6,218	2	6,322	500	17	1	518
	<u>12,843</u>	<u>9,665</u>	<u>350</u>	<u>22,858</u>	<u>11,110</u>	<u>8,972</u>	<u>332</u>	<u>20,414</u>
Bank overdrafts	-	-	-	-	-	16	-	16
Short-term loans	-	-	-	-	-	300	-	300
	<u>12,843</u>	<u>9,665</u>	<u>350</u>	<u>22,858</u>	<u>11,110</u>	<u>9,288</u>	<u>332</u>	<u>20,730</u>
<i>Less</i> Unamortised discount / premium / finance charges outstanding	(35)	(2)	-	(37)	(38)	(5)	-	(43)
Adjustment due to fair value change of financial instruments	347	-	-	347	366	4	-	370
Total carrying amount of debt	<u>13,155</u>	<u>9,663</u>	<u>350</u>	<u>23,168</u>	<u>11,438</u>	<u>9,287</u>	<u>332</u>	<u>21,057</u>

The Company

<i>in HK\$ million</i>	2011				2010			
	Capital market instruments	Bank loans and overdrafts	Others	Total	Capital market instruments	Bank loans and overdrafts	Others	Total
Long-term loans and others								
Amounts repayable beyond 5 years	465	-	343	808	465	-	328	793
Amounts repayable within a period of between 2 and 5 years	-	322	-	322	1	511	-	512
Amounts repayable within a period of between 1 and 2 years	-	189	-	189	-	6,389	-	6,389
Amounts repayable within 1 year	-	6,189	-	6,189	-	16	-	16
	<u>465</u>	<u>6,700</u>	<u>343</u>	<u>7,508</u>	<u>466</u>	<u>6,916</u>	<u>328</u>	<u>7,710</u>
Bank overdrafts	-	-	-	-	-	16	-	16
Short-term loans	-	-	-	-	-	300	-	300
	<u>465</u>	<u>6,700</u>	<u>343</u>	<u>7,508</u>	<u>466</u>	<u>7,232</u>	<u>328</u>	<u>8,026</u>
<i>Less</i> Unamortised discount / premium / finance charges outstanding	(5)	(2)	-	(7)	(5)	(5)	-	(10)
Adjustment due to fair value change of financial instruments	1	-	-	1	(4)	4	-	-
Total carrying amount of debt	<u>461</u>	<u>6,698</u>	<u>343</u>	<u>7,502</u>	<u>457</u>	<u>7,231</u>	<u>328</u>	<u>8,016</u>

The amounts repayable within 1 year in respect of capital market instruments and bank loans are included in long-term loans as these amounts are intended to be refinanced on a long-term basis

C. Bonds and Notes Issued and Redeemed

Notes issued during the year ended 31 December 2011 and 2010 comprise

The Group

<i>in HK\$ million</i>	2011		2010	
	Principal amount	Net consideration received	Principal amount	Net consideration received
Debt issuance programme notes	2,206	2,198	-	-

The above notes were issued in Hong Kong by a subsidiary, MTR Corporation (C I) Limited. The notes issued are unconditionally and irrevocably guaranteed by the Company, and are direct, unsecured, unconditional and unsubordinated to other unsecured and unsubordinated obligations of MTR Corporation (C I) Limited. The obligations of the Company under the guarantee are direct, unsecured, unconditional, and unsubordinated to other unsecured and unsubordinated obligations of the Company.

During the year ended 31 December 2011, the Group redeemed HK\$500 million of its unlisted debt securities (2010 HK\$1,100 million). During the year ended 31 December 2011, the Group did not redeem any of its listed securities (2010 redeemed US\$600 million).

D. Guarantees and Pledges

(i) There were no guarantees given by HKSAR Government in respect of the loan facilities of the Group as at 31 December 2011 and 2010.

(ii) As at 31 December 2011, certain assets held by MTR Corporation (Shenzhen) Limited, an indirect wholly owned subsidiary of the Company in the Mainland of China, were pledged as security for a RMB4,000 million (2010 RMB4,000 million) bank loan facility granted to it.

(iii) As at 31 December 2011, certain assets held by Metro Trains Melbourne Pty Ltd, a 60% owned subsidiary of the Company in Australia, were pledged as security for an AUD13 million (2010 AUD13 million) bank loan facility granted to it.

Apart from the above, none of the other assets of the Group was charged or subject to any encumbrance as at 31 December 2011.

43 Creditors and Accrued Charges

<i>in HK\$ million</i>	The Group		The Company	
	2011	2010	2011	2010
Creditors and accrued charges				
- West Island Line Project	417	512	417	512
- South Island Line (East) Project	479	27	479	27
- Kwun Tong Line Extension Project	188	14	188	14
- Shenzhen Metro Longhua Line Project	1,183	535	-	-
- Hong Kong property development projects	681	657	681	657
- Mainland property development project	1,950	-	-	-
- Railway subsidiaries outside of Hong Kong	1,337	1,163	-	-
- Hong Kong operations and others	5,539	4,993	5,025	4,508
Gross amount due to customers for contract work	15	15	15	15
Government grant on West Island Line Project un-utilised	4,613	7,575	4,613	7,575

<u>16,402</u>	<u>15,491</u>	<u>11,418</u>	<u>13,308</u>
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As at 31 December 2011, the aggregate amount of contract costs incurred plus recognised profits less recognised losses included in the gross amount due to customers for contract works was HK\$294 million (2010 HK\$294 million). All of the gross amount due to customers for contract work as at 31 December 2011 and 2010 is expected to be settled after more than one year.

The analysis of creditors by due dates is as follows:

<i>in HK\$ million</i>	The Group		The Company	
	2011	2010	2011	2010
Due within 30 days or on demand	2,765	2,331	1,267	1,025
Due after 30 days but within 60 days	2,379	1,603	1,612	1,077
Due after 60 days but within 90 days	537	341	335	331
Due after 90 days	3,950	1,725	1,627	1,530
	9,631	6,000	4,841	3,963
Rental and other refundable deposits	1,704	1,517	1,618	1,472
Accrued employee benefits	454	399	346	298
Government grant on West Island Line Project un-utilised	4,613	7,575	4,613	7,575
	<u>16,402</u>	<u>15,491</u>	<u>11,418</u>	<u>13,308</u>

Creditors and accrued charges were expected to be settled within one year except for HK\$1,540 million (2010 HK\$1,544 million) included in Hong Kong operations and others and HK\$29 million (2010 nil) included in railway subsidiaries outside of Hong Kong, which were expected to be settled after one year. The amounts due after one year are mainly rental deposits received from investment property and station kiosk tenants and advance income received from telecommunication service operators, majority of which are due to be repaid within three years. The Group considers the effect of discounting these deposits would be immaterial.

The nominal values of creditors and accrued charges are not significantly different from their fair values.

Included in creditors and accrued charges are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	The Group		The Company	
	2011	2010	2011	2010
Australian dollars (in million)	2	1	2	1
Euros (in million)	3	6	3	6
Japanese Yen (in million)	83	31	83	31
Pound sterling (in million)	1	1	1	1
Renminbi (in million)	1,577	-	-	-
United States dollars (in million)	17	17	2	2

44 Contract Retentions

<i>in HK\$ million</i>	Due for release within 12 months	Due for release after 12 months	Total
The Group			
2011			
Railway extension projects	2	300	302
Transport operations and others	120	221	341
	<u>122</u>	<u>521</u>	<u>643</u>
2010			
Railway extension projects	3	123	126
Transport operations and others	105	173	278

108	296	404
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The Company

2011

Railway extension projects	2	300	302
Transport operations and others	60	61	121
	<u>62</u>	<u>361</u>	<u>423</u>

2010

Railway extension projects	3	123	126
Transport operations and others	46	49	95
	<u>49</u>	<u>172</u>	<u>221</u>

The effect of discounting these contract retentions is considered immaterial as these amounts are substantially due to be released within 24 months

45 Amounts Due to Related Parties

<i>in HK\$ million</i>	The Group		The Company	
	2011	2010	2011	2010
Amounts due to				
- HKSAR Government	31	27	31	27
- KCRC	1,432	809	1,432	809
- an associate	18	56	-	-
- subsidiaries	-	-	11,781	11,243
	<u>1,481</u>	<u>892</u>	<u>13,244</u>	<u>12,079</u>

The amount due to HKSAR Government related to land administrative costs in respect of the West Island Line, South Island Line (East) and Kwun Tong Line Extension projects

The amount due to KCRC relates to mandatory payments and related interest payable to KCRC upon tender award in respect of the property development sites along the East Rail Line and Light Rail as well as the accrued portion of the fixed annual payment and variable annual payment

The amount due to an associate as at 31 December 2010 included the outstanding balance of a loan from Tunnelbanan Teknik Stockholm AB to MTR Stockholm AB amounting to HK\$29 million (SEK25 million), which was fully repaid during the year ended 31 December 2011. The loan is unsecured, bears an interest rate of 3% per annum above the 3-month Stockholm Inter Bank Offer Rate and has no fixed terms of repayment

The amount due to the Company's subsidiaries included HK\$11,641 million (2010 HK\$11,162 million) due to MTR Corporation (C I) Limited in respect of proceeds from bonds and notes issued by the subsidiary, which were on-lent to the Company for its general corporate purposes with specified repayment dates and interest rates (note 42C), and accrued interest. These amounts are stated at their fair values. The remaining balances due to subsidiaries are non-interest bearing and have not been discounted as they do not have any fixed repayment terms and the amount is not material. Out of the total amount due to subsidiaries as at 31 December 2011, HK\$11,328 million (2010 HK\$10,481 million) is expected to be settled after one year.

46 Obligations under Service Concession

Movements of the Group's and the Company's obligations under service concessions are as follows

<i>in HK\$ million</i>	The Group		The Company	
	2011	2010	2011	2010
Balance as at 1 January	10,749	10,625	10,592	10,625
Add Total annual lease payments capitalised at inception	-	151	-	-

Add Net increase in interest payable	3	4	-	-
Less Amount repaid/payable during the year	(35)	(36)	(35)	(33)
Exchange difference	7	5	-	-
Balance as at 31 December	<u>10,724</u>	<u>10,749</u>	<u>10,557</u>	<u>10,592</u>

During the year ended 31 December 2010, the Group recognised HK\$151 million of the obligation under service concession for the annual lease payment in respect of Shenzhen Longhua Line Phase 1

The outstanding balances as at 31 December 2011 and 2010 are repayable as follows

The Group

	2011			2010		
	Present value of fixed annual payments	Interest expense relating to future periods	Total fixed annual payments	Present value of fixed annual payments	Interest expense relating to future periods	Total fixed annual payments
<i>in HK\$ million</i>						
Amounts repayable beyond 5 years	10,510	20,531	31,041	10,549	21,232	31,781
Amounts repayable within a period of between 2 and 5 years	137	2,132	2,269	128	2,140	2,268
Amounts repayable within a period of between 1 and 2 years	40	716	756	37	719	756
Amounts repayable within 1 year	37	718	755	35	721	756
	<u>10,724</u>	<u>24,097</u>	<u>34,821</u>	<u>10,749</u>	<u>24,812</u>	<u>35,561</u>

The Company

	2011			2010		
	Present value of fixed annual payments	Interest expense relating to future periods	Total fixed annual payments	Present value of fixed annual payments	Interest expense relating to future periods	Total fixed annual payments
<i>in HK\$ million</i>						
Amounts repayable beyond 5 years	10,343	20,344	30,687	10,392	21,045	31,437
Amounts repayable within a period of between 2 and 5 years	137	2,113	2,250	128	2,122	2,250
Amounts repayable within a period of between 1 and 2 years	40	710	750	37	713	750
Amounts repayable within 1 year	37	713	750	35	715	750
	<u>10,557</u>	<u>23,880</u>	<u>34,437</u>	<u>10,592</u>	<u>24,595</u>	<u>35,187</u>

47 Loan from Holders of Non-controlling Interests

Loan from holders of non-controlling interests represents that portion of total shareholder loan of AUD48.75 million (HK\$384 million) granted to Metro Trains Melbourne Pty Ltd ("MTM") by the holders of its non-controlling interests. The loan carries an interest rate of 7.5% per annum and is repayable at the discretion of MTM or on the expiry of the operation and maintenance franchise on 29 November 2017, whichever is earlier.

48 Deferred Income

Movements of deferred income are as follows

The Group

<i>in HK\$ million</i>	Balance at 1 January	Amount received during the year	Offset against development in progress	Amount recognised in profit and loss account	Exchange difference	Balance at 31 December
2011						
Deferred income on property development (note 29B)	568	-	(32)	(468)	-	68
Deferred income on transfer of assets from customers	37	19	-	(9)	-	47
Deferred income on government grant	-	638	-	(349)	(1)	288
	<u>605</u>	<u>657</u>	<u>(32)</u>	<u>(826)</u>	<u>(1)</u>	<u>403</u>
2010						
Deferred income on property development (note 29B)	124	1,010	(549)	(17)	-	568
Deferred income on transfer of assets from customers	43	-	-	(6)	-	37
	<u>167</u>	<u>1,010</u>	<u>(549)</u>	<u>(23)</u>	<u>-</u>	<u>605</u>

The Company

<i>in HK\$ million</i>	Balance at 1 January	Amount received during the year	Offset against development in progress	Amount recognised in profit and loss account	Exchange Difference	Balance at 31 December
2011						
Deferred income on property development (note 29B)	568	-	(32)	(468)	-	68
2010						
Deferred income on property development (note 29B)	124	1,010	(549)	(17)	-	568

Deferred income on government grant relates to government subsidy for the operation of Shenzhen Metro Longhua Line

49 Income Tax in the Balance Sheet

A. Current taxation in the consolidated balance sheet comprised provision for Hong Kong Profits Tax for the Company and certain subsidiaries for the year ended 31 December 2011, chargeable at Hong Kong Profits Tax Rate at 16.5% (2010 16.5%) and after netting off provisional tax paid, and overseas tax chargeable at the appropriate current rates of taxation ruling in the relevant countries

<i>in HK\$ million</i>	The Group		The Company	
	2011	2010	2011	2010
Provision for Hong Kong Profits Tax for the year (note 17)	1,619	1,495	1,604	1,484
Hong Kong Provisional Profits Tax paid	(1,035)	(581)	(1,022)	(574)
	<u>584</u>	<u>914</u>	<u>582</u>	<u>910</u>
Balance relating to overseas tax	13	104	-	-
	<u>597</u>	<u>1,018</u>	<u>582</u>	<u>910</u>

B. Deferred Tax Assets and Liabilities Recognised

The components of deferred tax assets and liabilities recognised in the balance sheet and the movements during the year are as follows

<i>in HK\$ million</i>	Deferred tax arising from					
	Depreciation	Revaluation	Provision	Cash flow	Tax losses	Total

	allowances in excess of related depreciation	of properties	and other temporary differences	hedges		
The Group						
2011						
At 1 January 2011	8,669	5,044	154	(15)	(7)	13,845
Charged/(credited) to consolidated profit and loss account	316	840	(1)	-	(9)	1,146
Charged/(credited) to reserves	-	93	-	(2)	-	91
Exchange difference	(4)	-	-	-	-	(4)
At 31 December 2011	<u>8,981</u>	<u>5,977</u>	<u>153</u>	<u>(17)</u>	<u>(16)</u>	<u>15,078</u>
2010						
At 1 January 2010	8,382	4,316	121	(10)	(17)	12,792
Charged to consolidated profit and loss account	287	672	33	-	10	1,002
Charged/(credited) to reserves	-	56	-	(5)	-	51
At 31 December 2010	<u>8,669</u>	<u>5,044</u>	<u>154</u>	<u>(15)</u>	<u>(7)</u>	<u>13,845</u>
The Company						
2011						
At 1 January 2011	8,651	5,051	153	(15)	-	13,840
Charged/(credited) to profit and loss account	274	838	(12)	-	-	1,100
Charged/(credited) to reserves	-	93	-	(2)	-	91
At 31 December 2011	<u>8,925</u>	<u>5,982</u>	<u>141</u>	<u>(17)</u>	-	<u>15,031</u>
2010						
At 1 January 2010	8,362	4,325	121	(10)	-	12,798
Charged to profit and loss account	289	670	32	-	-	991
Charged/(credited) to reserves	-	56	-	(5)	-	51
At 31 December 2010	<u>8,651</u>	<u>5,051</u>	<u>153</u>	<u>(15)</u>	-	<u>13,840</u>
in HK\$ million						
	The Group		The Company			
	2011	2010	2011	2010		
Net deferred tax assets recognised on the balance sheet	(27)	(9)	-	-		
Net deferred tax liabilities recognised on the balance sheet	15,105	13,854	15,031	13,840		
	<u>15,078</u>	<u>13,845</u>	<u>15,031</u>	<u>13,840</u>		

C. The Group has not recognised deferred tax assets in respect of some of its subsidiaries' cumulative tax losses of HK\$281 million (2010 HK\$395 million) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdictions and entities

50 Share Capital and Capital Management

A. Share Capital, Share Premium and Capital Reserve

in HK\$ million	2011	2010
Authorised		
6,500,000,000 shares of HK\$1 00 each	<u>6,500</u>	<u>6,500</u>
Issued and fully paid		
5,784,871,250 shares (2010 5,772,563,031 shares) of HK\$1 00 each	5,785	5,773
Share premium	11,089	10,773
Capital reserve	<u>27,188</u>	<u>27,188</u>
	<u>44,062</u>	<u>43,734</u>

Pursuant to the Articles of Association of the Company, the capital reserve can only be applied in paying up in full unissued shares to be allotted and distributed as fully paid bonus shares to the shareholders of the Company

Share premium represents the amount by which the issue price of shares exceeds the par value of those shares. The application of the share premium account is governed by section 48B of the Hong Kong Companies Ordinance

New shares issued and fully paid up during the year comprise

	Number of shares	Option/ scrip price HK\$	Proceeds received / Transfer from employee share-based capital reserve		
			Share capital account HK\$ million	Share premium account HK\$ million	Total HK\$ million
Employee share options exercised					
- New Joiners Share Option Scheme	525,700	9.75	1	6	7
	266,500	20.66	-	6	6
- 2007 Share Option Scheme	932,500	18.30	1	19	20
	31,000	26.52	-	1	1
	74,000	26.85	-	2	2
	135,000	27.60	-	4	4
Issued as 2010 final scrip dividends	10,343,519	27.87	10	278	288
	<u>12,308,219</u>		<u>12</u>	<u>316</u>	<u>328</u>

An analysis of the Company's outstanding share options as at 31 December 2011 are disclosed in note 53

B. Capital Management

The Group's primary objectives in managing capital are to safeguard its ability to continue as a going concern, and to generate sufficient profit to maintain growth and provide an adequate return to its shareholders

The Group manages the amount of capital in proportion to risk, and makes adjustments to its capital structure through the amount of dividend payment to shareholders, issuance of scrip and new shares, and managing its debt portfolio in conjunction with projected financing requirement. The Financial Secretary Incorporated of HKSAR Government is the majority shareholder of the Company holding 4,434,552,207 shares as at 31 December 2011, representing 76.7% of total equity interest in the Company

The Group monitors capital on the basis of the net debt-to-equity ratio, which is calculated on net borrowings as a percentage of the total equity attributable to shareholders of the Company, where net borrowings are represented by the aggregate of loans and other obligations, bank overdrafts, obligations under service concession and loan from holders of non-controlling interests net of cash and cash equivalents and bank medium term notes. The Group's net debt-to-equity ratios over the past years have been trending downward since the Rail Merger from 48.5% at 31 December 2007 to 12.8% at 31 December 2010 and 11.9% at 31 December 2011

Octopus Cards Limited is subject to a prescribed ratio of total capital to total risk-weighted assets as required by the Hong Kong Monetary Authority. Fastrack Insurance Ltd is required to maintain a minimum level of shareholders' fund based on the Bermuda Insurance Act. MTR Corporation (Shenzhen) Limited is subject to minimum capital requirement at 40% of the total investment for the Shenzhen Longhua Line project in accordance with the concession agreement. Metro Trains Melbourne Pty Ltd is required to maintain total shareholders' funds at a specified amount in accordance with the franchise agreement. MTR Stockholm AB is required to maintain total shareholders' fund at or above 50% of its registered share capital based on the Swedish Companies Act. As at 31 December 2011, all these capital requirements were met. Apart from these, neither the Company nor any of its other subsidiaries are subject to externally imposed capital requirements

51 Other Reserves

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below.

<i>in HK\$ million</i>	Fixed assets revaluation reserve	Hedging reserve	Employee share-based capital reserve	Retained profits	Total other reserves
2011					
Balance as at 1 January 2011	1,417	(78)	102	70,815	72,256
2010 final dividend	-	-	-	(2,598)	(2,598)
2011 interim dividend	-	-	-	(1,446)	(1,446)
Employee share-based payments	-	-	110	-	110
Employee share options exercised	-	-	(6)	-	(6)
Employee share options forfeited	-	-	(5)	5	-
Total comprehensive income for the year	471	(12)	-	14,415	14,874
Balance as at 31 December 2011	<u>1,888</u>	<u>(90)</u>	<u>201</u>	<u>81,191</u>	<u>83,190</u>
2010					
Balance as at 1 January 2010	1,132	(52)	52	61,920	63,052
2009 final dividend	-	-	-	(2,177)	(2,177)
2010 interim dividend	-	-	-	(807)	(807)
Employee share-based payments	-	-	57	-	57
Employee share options exercised	-	-	(6)	-	(6)
Employee share options forfeited	-	-	(1)	1	-
Total comprehensive income for the year	285	(26)	-	11,878	12,137
Balance as at 31 December 2010	<u>1,417</u>	<u>(78)</u>	<u>102</u>	<u>70,815</u>	<u>72,256</u>

The fixed assets revaluation reserve was set up to deal with the surpluses or deficits arising from the revaluation of self-occupied land and buildings (note 2F(ii)).

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges pending subsequent recognition of the hedged cash flow in accordance with the accounting policy adopted for cash flow hedges as explained in note 2T(ii).

The employee share-based capital reserve comprises the fair value of share options granted which are yet to be exercised, as explained in accounting policy under note 2U(iii). The amount will either be transferred to the share premium account when the option is exercised, or be released directly to retained profits if the option is expired or forfeited.

The exchange reserve comprises all foreign exchange differences arising from the translation of the accounts of foreign enterprises. The reserve is dealt with in accordance with the accounting policy set out in note 2CC.

Apart from retained profits, the other reserves are not available for distribution to shareholders because they do not constitute realised profits. In addition, the Company considers the cumulative surpluses on revaluation of investment properties net of tax of HK\$28,382 million (2010: HK\$24,143 million) included in retained profits are non-distributable as they also do not constitute realised profits. As at 31 December 2011, the Company considers that the total amount of reserves available for distribution to equity shareholders amounted to HK\$52,719 million (2010: HK\$46,594 million).

Included in the Group's retained profits as at 31 December 2011 is an amount of HK\$665 million (2010: HK\$512 million), being the retained profits attributable to the non-controlled subsidiaries and associates.

52 Cash Generated from Operations

Reconciliation of operating profit before property developments, depreciation, amortisation and variable annual payment to cash generated from operations is as follows:

<i>in HK\$ million</i>	2011	2010
Operating profit before property developments, depreciation, amortisation and variable annual payment	12,124	10,917
Adjustments for		
(Decrease)/increase in provision for obsolete stock	(2)	2
Loss on disposal of fixed assets	32	50
Amortisation of deferred income from government subsidy for Shenzhen Metro Longhua Line operation	(62)	-
Amortisation of deferred income from transfers of assets from customers	(9)	(6)
Decrease/(increase) in fair value of derivative instruments	8	(1)
Unrealised loss on revaluation of investment in securities	4	2
Employee share-based payment expenses	113	61
Exchange (gain)/loss	(8)	14
Operating profit from recurrent businesses before working capital changes	12,200	11,039
Increase in debtors, deposits and payments in advance	(395)	(244)
Increase in stores and spares	(72)	(5)
Increase in creditors and accrued charges	756	1,130
Cash generated from operations	12,489	11,920

53 Share-based Payments

A. Equity-settled Share-based Payments

The Group granted equity-settled share options to its Members of the Executive Directorate and certain employees under share option schemes. As at 31 December 2011, the Company maintained two share option schemes, namely, the New Joiners Share Option Scheme and the 2007 Share Option Scheme. Details of the schemes are as follows:

(i) New Joiners Share Option Scheme

In May 2002, the New Joiners Share Option Scheme (the "New Option Scheme") was adopted at the 2002 Annual General Meeting to provide share options to new members of the top and senior management of the Company who did not participate in the Pre-IPO Option Scheme. Under the Rules of the New Option Scheme, a maximum of 5,056,431 shares, which represent 0.1% of the issued share capital of the Company as at 31 December 2011, may be issued pursuant to the exercise of options granted under the New Option Scheme. Options granted will be evenly vested in respect of their underlying shares over a period of three years from the date on which the relevant option is offered. The exercise price of any option granted under the New Option Scheme is to be determined by the Company upon the offer of grant of the option and the exercise price should not be less than the greatest of (i) the average closing price of an MTR share for the five business days immediately preceding the day of offer of such option, (ii) the closing price of an MTR share on the day of offer of such option, which must be a business day, and (iii) the nominal value of an MTR share. The New Option Scheme expired on 16 May 2007 and no options can be granted under this Scheme on or after that date.

The following table summarises the outstanding share options granted under the New Option Scheme since inception:

<u>Date of grant</u>	<u>Number of share options</u>	<u>Exercise price HK\$</u>	<u>Exercisable period</u>
23 September 2005	213,000	15.97	on or prior to 9 September 2015
15 May 2006	22,000	20.66	on or prior to 25 April 2016
5 October 2006	94,000	19.732	on or prior to 29 September 2016

Movements in the number of share options outstanding and their related weighted average exercise prices were as follows:

2011			2010		
<u>Number of</u>	<u>share</u>	<u>Weighted average</u>	<u>Number of</u>	<u>share</u>	<u>Weighted average</u>
<u>options</u>		<u>exercise price</u>	<u>options</u>		<u>exercise price</u>

		HK\$		HK\$
Outstanding at 1 January	1,121,200	14.581	1,316,200	15.038
Exercised during the year	(792,200)	13.420	(195,000)	17.667
Outstanding at 31 December	<u>329,000</u>	<u>17.377</u>	<u>1,121,200</u>	<u>14.581</u>
Exercisable at 31 December	<u>329,000</u>	<u>17.358</u>	<u>1,121,200</u>	<u>14.576</u>

The weighted average closing price in respect of the share options exercised during the year was HK\$27.470 (2010 HK\$29.104)

Share options outstanding at 31 December 2011 had the following exercise prices and remaining contractual lives

Exercise price	2011		2010	
	Number of share options	Remaining contractual life years	Number of share options	Remaining contractual life years
HK\$9.75	-	-	525,700	2.54
HK\$15.97	213,000	3.69	213,000	4.69
HK\$20.66	22,000	4.32	288,500	5.32
HK\$19.732	94,000	4.75	94,000	5.75
	<u>329,000</u>		<u>1,121,200</u>	

(ii) 2007 Share Option Scheme

Following the expiry of the New Option Scheme in May 2007, the 2007 Share Option Scheme (the "2007 Option Scheme") was submitted and approved at the 2007 Annual General Meeting to enhance the Company's ability to attract the best available personnel, to retain and motivate critical and key employees, to align their interest to the long-term success of the Company and to provide them with fair and market competitive remuneration. Under the Rules of the 2007 Option Scheme, a maximum of 277,461,072 shares, which represent 4.8% of the issued share capital of the Company as at 31 December 2011, may be issued pursuant to the exercise of options granted after 7 June 2007 under all share option schemes of the Company including the 2007 Option Scheme. Options granted will be vested in respect of their underlying shares not less than 1 year from the date on which the relevant option is offered. The exercise price of any option granted under the 2007 Option Scheme is to be determined by the Company upon the offer of grant of the option and the exercise price should not be less than the greatest of (i) the average closing price of an MTR share for the five business days immediately preceding the day of offer of such option, (ii) the closing price of an MTR share on the day of offer of such option, which must be a business day, and (iii) the nominal value of an MTR share.

Subject to the rules of the 2007 Option Scheme, the Company may, from time to time during the scheme period, offer to grant share options to any eligible employees at its absolute discretion. Under the 2007 Option Scheme, the date of grant is defined as the date of acceptance of the offer to grant the option.

As at 31 December 2011, the following awards of share options were offered to Members of the Executive Directorate and selected employees of the Company under the 2007 Option Scheme:

Awards of share options	Date of offer	No. of share options offered and accepted	Date of acceptance
2008 Award	10 December 2007 26 March 2008	8,273,000 2,749,000	Period between 11 December 2007 to 7 January 2008 Period between 28 March 2008 to 23 April 2008
2009 Award	8 December 2008 12 June 2009	12,712,000 345,000	Period between 8 December 2008 to 30 December 2008 Period between 18 June 2009 to 9 July 2009
2010 Award	8 December 2009 28 June 2010	15,718,000 355,000	Period between 9 December 2009 to 22 December 2009 On 21 July 2010

2011 Award	16 December 2010	15,546,500	16 December 2010 to 23 December 2010
	27 June 2011	215,000	On 7 July 2011

The following table summarises the outstanding share options as at 31 December 2011 granted under the 2007 Option Scheme since inception

Date of grant	Number of share options	Exercise price HK\$	Exercisable period
<u>2008 Award</u>			
11 December 2007	45,000	27 60	on or prior to 10 December 2014
12 December 2007	1,903,000	27 60	on or prior to 10 December 2014
13 December 2007	1,740,000	27 60	on or prior to 10 December 2014
14 December 2007	820,000	27 60	on or prior to 10 December 2014
15 December 2007	228,000	27 60	on or prior to 10 December 2014
17 December 2007	730,000	27 60	on or prior to 10 December 2014
18 December 2007	275,000	27 60	on or prior to 10 December 2014
19 December 2007	80,000	27 60	on or prior to 10 December 2014
20 December 2007	190,000	27 60	on or prior to 10 December 2014
22 December 2007	35,000	27 60	on or prior to 10 December 2014
24 December 2007	118,000	27 60	on or prior to 10 December 2014
28 December 2007	35,000	27 60	on or prior to 10 December 2014
31 December 2007	130,000	27 60	on or prior to 10 December 2014
2 January 2008	35,000	27 60	on or prior to 10 December 2014
3 January 2008	40,000	27 60	on or prior to 10 December 2014
7 January 2008	80,000	27 60	on or prior to 10 December 2014
28 March 2008	199,000	26 52	on or prior to 26 March 2015
31 March 2008	323,000	26 52	on or prior to 26 March 2015
1 April 2008	249,000	26 52	on or prior to 26 March 2015
2 April 2008	276,000	26 52	on or prior to 26 March 2015
3 April 2008	140,000	26 52	on or prior to 26 March 2015
4 April 2008	23,000	26 52	on or prior to 26 March 2015
5 April 2008	17,000	26 52	on or prior to 26 March 2015
7 April 2008	330,000	26 52	on or prior to 26 March 2015
8 April 2008	110,000	26 52	on or prior to 26 March 2015
9 April 2008	85,000	26 52	on or prior to 26 March 2015
10 April 2008	58,000	26 52	on or prior to 26 March 2015
11 April 2008	117,000	26 52	on or prior to 26 March 2015
12 April 2008	48,000	26 52	on or prior to 26 March 2015
14 April 2008	40,000	26 52	on or prior to 26 March 2015
15 April 2008	34,000	26 52	on or prior to 26 March 2015
16 April 2008	40,000	26 52	on or prior to 26 March 2015
17 April 2008	124,000	26 52	on or prior to 26 March 2015
18 April 2008	15,000	26 52	on or prior to 26 March 2015
19 April 2008	25,000	26 52	on or prior to 26 March 2015
21 April 2008	66,000	26 52	on or prior to 26 March 2015
23 April 2008	19,000	26 52	on or prior to 26 March 2015
<u>2009 Award</u>			
8 December 2008	110,000	18 30	on or prior to 8 December 2015
9 December 2008	1,359,000	18 30	on or prior to 8 December 2015
10 December 2008	1,897,900	18 30	on or prior to 8 December 2015
11 December 2008	1,993,200	18 30	on or prior to 8 December 2015
12 December 2008	1,141,000	18 30	on or prior to 8 December 2015
13 December 2008	78,000	18 30	on or prior to 8 December 2015
14 December 2008	52,200	18 30	on or prior to 8 December 2015
15 December 2008	873,200	18 30	on or prior to 8 December 2015
16 December 2008	450,000	18 30	on or prior to 8 December 2015

17 December 2008	470,500	18 30	on or prior to 8 December 2015
18 December 2008	470,500	18 30	on or prior to 8 December 2015
19 December 2008	198,000	18 30	on or prior to 8 December 2015
20 December 2008	19,000	18 30	on or prior to 8 December 2015
22 December 2008	487,000	18 30	on or prior to 8 December 2015
23 December 2008	218,000	18 30	on or prior to 8 December 2015
24 December 2008	367,500	18 30	on or prior to 8 December 2015
25 December 2008	45,000	18 30	on or prior to 8 December 2015
29 December 2008	118,000	18 30	on or prior to 8 December 2015
30 December 2008	19,000	18 30	on or prior to 8 December 2015
18 June 2009	175,000	24 50	on or prior to 12 June 2016
6 July 2009	45,000	24 50	on or prior to 12 June 2016
9 July 2009	30,000	24 50	on or prior to 12 June 2016
<u>2010 Award</u>			
9 December 2009	585,000	26 85	on or prior to 8 December 2016
10 December 2009	2,646,000	26 85	on or prior to 8 December 2016
11 December 2009	2,235,000	26 85	on or prior to 8 December 2016
12 December 2009	565,500	26 85	on or prior to 8 December 2016
13 December 2009	12,500	26 85	on or prior to 8 December 2016
14 December 2009	2,437,500	26 85	on or prior to 8 December 2016
15 December 2009	2,506,000	26 85	on or prior to 8 December 2016
16 December 2009	1,414,000	26 85	on or prior to 8 December 2016
17 December 2009	975,000	26 85	on or prior to 8 December 2016
18 December 2009	380,500	26 85	on or prior to 8 December 2016
19 December 2009	70,000	26 85	on or prior to 8 December 2016
20 December 2009	75,000	26 85	on or prior to 8 December 2016
21 December 2009	501,000	26 85	on or prior to 8 December 2016
22 December 2009	215,000	26 85	on or prior to 8 December 2016
21 July 2010	330,000	27 73	on or prior to 28 June 2017
<u>2011 Award</u>			
16 December 2010	194,000	28 84	on or prior to 16 December 2017
17 December 2010	5,326,500	28 84	on or prior to 16 December 2017
18 December 2010	673,000	28 84	on or prior to 16 December 2017
19 December 2010	174,000	28 84	on or prior to 16 December 2017
20 December 2010	4,728,000	28 84	on or prior to 16 December 2017
21 December 2010	3,001,000	28 84	on or prior to 16 December 2017
22 December 2010	956,000	28 84	on or prior to 16 December 2017
23 December 2010	189,000	28 84	on or prior to 16 December 2017
7 July 2011	215,000	26 96	on or prior to 27 June 2018

Movements in the number of share options outstanding and their related weighted average exercise prices were as follows

	2011		2010	
	Number of share options	Weighted average exercise price HK\$	Number of share options	Weighted average exercise price HK\$
Outstanding at 1 January	52,568,500	25 646	38,929,500	24 185
Granted during the year	215,000	26.960	15,901,500	28 815
Exercised during the year	(1,172,500)	20.128	(1,573,500)	21 840
Forfeited during the year	(1,767,500)	26.368	(689,000)	24 888
Outstanding at 31 December	49,843,500	25 756	52,568,500	25 646
Exercisable at 31 December	34,417,000	24.683	21,495,500	24 095

Share options outstanding at 31 December 2011 had the following exercise prices and remaining contractual lives

Exercise price	2011		2010	
	Number of share options	Remaining contractual life years	Number of share options	Remaining contractual life years
HK\$27 60	6,484,000	3	7,208,000	4
HK\$26 52	2,338,000	3	2,406,000	4
HK\$18 30	10,367,000	4	11,523,000	5
HK\$24 50	250,000	4	250,000	5
HK\$26 85	14,618,000	5	15,280,000	6
HK\$27 73	330,000	5	355,000	6
HK\$28 84	15,241,500	6	15,546,500	7
HK\$26 96	215,000	6	-	-
	<u>49,843,500</u>		<u>52,568,500</u>	

According to the Black-Scholes pricing model, the fair values of options granted during the year ended 31 December 2011 were as follows

Date of grant	Inputs into the Black-Scholes pricing model						
	Fair value of options granted	Share price immediately before grant date	Exercise price	Expected volatility	Expected life	Risk-free interest rate	Expected dividend per share
	HK\$	HK\$	HK\$		years	%	HK\$
7 July 2011	5 01	27 70	26 96	0 2827	3 5	0 84	0 7

When computing fair values of the options granted, expected volatility was determined by calculating the historical volatility of the Group's share price over the previous 3 5 years and the expected life adopted was assumed to be 3 5 years after granting of the options, with expected dividends based on historical dividends. In addition, vesting terms under the grants have been taken into account whilst no market conditions associated with the share option grants have been considered. Changes in the subjective input assumptions could materially affect the fair value estimate.

(iii) During the year ended 31 December 2011, the equity-settled share-based payments recognised as an expense amounted to HK\$110 million (2010: HK\$57 million), all relating to the 2007 Option Scheme.

The Pre-Global Offering Share Option Scheme expired on 11 September 2010. During the period from 1 January 2010 to the expiry day, a total of 2,922,500 previously vested share options were exercised, with a weighted average closing price of HK\$27 993 per share. On the expiry day, a total of 25,500 options lapsed.

B. Cash-settled Share-based Payments

(i) C K Chow did not participate in the Company's Pre-Global Offering Share Option Scheme and New Joiners Share Option Scheme. Pursuant to the completion of his two-year contract which expired on 31 December 2011, he was paid on 4 January 2012 an equivalent value in cash of 222,161 shares in the Company, amounting to HK\$5 6 million (calculated at a price of HK\$25 0125 per share derived in accordance with the terms of the grant by reference to the average closing price of the Company's shares on the 20 business days immediately preceding 31 December 2011). For the year ended 31 December 2011, HK\$2 3 million (2010: HK\$3 0 million) was recorded as share-based payment expense. The fair value of the outstanding entitlement as at 31 December 2010 was calculated based on the closing price of the Company's shares at year-end date of HK\$28 30 per share.

(ii) Jay H Walder is entitled to an equivalent value in cash of 300,000 shares in the Company following 30 June 2014, being the date on which his initial term of office is expected to expire (35% of which shall be deemed to be earned at 31 October 2013 subject to certain conditions specified in his employment contract). For the year ended 31 December 2011, HK\$0 5 million (2010: nil) was recorded as share-based payment expense. The fair value of the outstanding entitlement is calculated based on the closing price of the Company's shares at year-end. As at 31 December 2011, the fair value of these shares was HK\$25 15 per share.

(iii) Lincoln K K Leong was entitled to a derivative interest in the Company's shares and was paid on 12 April 2010 an equivalent value in cash of 160,000 shares in the Company, amounting to HK\$4.6 million (calculated at a price of HK\$28.785 per share derived in accordance with the terms of the grant by reference to the average closing price of the Company's shares on the 20 business days immediately preceding 9 April 2010). For the year ended 31 December 2010, HK\$0.7 million was recorded as share-based payment expense, measured on the same basis as described in note 53B(i) above.

54 Retirement Schemes

The Group operates a number of retirement schemes in Hong Kong, Mainland of China, United Kingdom, Sweden and Australia. The assets of these schemes are held under the terms of separate trust arrangements so that the assets are kept separate from those of the Group. The majority of the Group's employees are covered by the retirement schemes operated by the Company.

A Retirement Schemes Operated by the Company in Hong Kong

The Company operates five retirement schemes under trust in Hong Kong, including the MTR Corporation Limited Retirement Scheme (the "MTR Retirement Scheme"), the MTR Corporation Limited Retention Bonus Scheme (the "MTR RBS"), the MTR Corporation Limited Provident Fund Scheme (the "MTR Provident Fund Scheme") and two Mandatory Provident Fund ("MPF") Schemes, the "MTR MPF Scheme" and the "KCRC MPF Scheme".

Currently, new eligible employees can choose between the MTR Provident Fund Scheme and the MTR MPF Scheme while the MTR MPF Scheme covers employees who did not opt for and who are not eligible to join the MTR Provident Fund Scheme.

(i) MTR Retirement Scheme

The MTR Retirement Scheme is a defined benefit scheme registered under the Occupational Retirement Schemes Ordinance (Chapter 426 of the Laws of Hong Kong) ("ORSO") and granted with MPF Exemption by the Mandatory Provident Fund Schemes Authority ("MPFA").

The MTR Retirement Scheme has been closed to new employees since 31 March 1999. It provides benefits based on the greater of a multiple of final salary times the number of years of service rendered and the accumulated contributions with investment returns. Members' contributions to the MTR Retirement Scheme are based on a fixed percentage of base salary. The Company's contributions are determined with reference to an actuarial valuation carried out by an independent actuarial consulting firm. As at 31 December 2011, the total membership was 4,979 (2010: 5,127). In 2011, members contributed HK\$70 million (2010: HK\$70 million) and the Company contributed HK\$120 million (2010: HK\$120 million) to the MTR Retirement Scheme. The net asset value of the MTR Retirement Scheme as at 31 December 2011 was HK\$7,794 million (2010: HK\$8,200 million).

Actuarial valuation as at 31 December 2011 to determine the accounting obligations in accordance with HKAS 19, *Employee benefits* was carried out by an independent actuarial consulting firm, Towers Watson, using the Projected Unit Credit Method. The results of the valuation are shown in note 55.

Actuarial valuation as at 31 December 2011 to determine the cash funding requirements was also carried out by Towers Watson using the Attained Age Method. The principal actuarial assumptions used included a long-term rate of investment return net of salary increases of 1.3% (2010: 2.0%) per annum, together with appropriate allowances for expected rates of mortality, turnover, redundancy and retirement. Towers Watson confirmed that, as at the valuation date:

- (a) the MTR Retirement Scheme was solvent, with assets more than adequate to cover the aggregate value of members' vested benefits had all members left the MTR Retirement Scheme, and
- (b) on the assumption that the MTR Retirement Scheme continued in force, the value of assets was more than sufficient to cover the aggregate past service liability, with a funding level of 105.5%.

(ii) MTR RBS

The MTR RBS is a defined benefit scheme registered under the ORSO. It is a top-up scheme to supplement the MTR Retirement Scheme for employees classified by the Company as staff working on designated projects and who are not on gratuity terms. The MTR RBS provides benefits only in the event of redundancy for service accrued up to 31 December 2002, offset by any benefits payable from the MTR Retirement Scheme and other applicable schemes. As at 31 December 2011, there were 310 members (2010: 316) under the MTR RBS.

The MTR RBS is non-contributory for members. The Company's contributions are determined with reference to an actuarial valuation carried out by an independent actuarial consulting firm. During 2010 and 2011, the Company was not required to make any contribution to the MTR RBS. The net asset value of the MTR RBS as at 31 December 2011 was HK\$12 million (2010: HK\$12 million).

Actuarial valuation as at 31 December 2010 and 2011 to determine the accounting obligations in accordance with HKAS 19, *Employee benefits* were carried out by Towers Watson using the Projected Unit Credit Method. The results of the valuations are shown in note 55.

Actuarial valuation as at 31 December 2011 to determine the cash funding requirements was carried out by Towers Watson using the Attained Age Method. The principal actuarial assumptions used included an expected weighted rate of investment return net of salary increases, of approximately -3.5% (2010: -2.5%) per annum, together with appropriate allowance for expected rates of redundancy. Towers Watson confirmed that, as at the valuation date:

- (a) due to the nature of the MTR RBS which provides for benefits only on redundancy, there was no aggregate vested liability, and thus the MTR RBS was technically solvent, and
- (b) on the assumption that the MTR RBS continued in force, the value of assets was more than sufficient to cover the aggregate past service liability.

(iii) MTR Provident Fund Scheme

The MTR Provident Fund Scheme is a defined contribution scheme registered under the ORSO and granted with MPF Exemption by the MPFA. All benefits payable under the MTR Provident Fund Scheme are calculated with reference to the Company's contributions and members' own contributions, together with investment returns on these contributions. Both the Company's and members' contributions are based on fixed percentages of members' base salary.

As at 31 December 2011, the total number of employees participating in the MTR Provident Fund Scheme was 6,667 (2010: 6,276). In 2011, total members' contributions were HK\$58 million (2010: HK\$52 million) and total contribution from the Company was HK\$171 million (2010: HK\$159 million). The net asset value as at 31 December 2011 was HK\$3,527 million (2010: HK\$3,588 million).

(iv) MTR MPF Scheme

The MTR MPF Scheme is a defined contribution scheme covered under an MPF master trust registered with the MPFA. It covers those employees who did not opt for or who are not eligible to join the MTR Retirement Scheme or the MTR Provident Fund Scheme. Both members and the Company each contribute to the MTR MPF Scheme at the mandatory levels as required by the MPF Ordinance. The Company makes additional contributions above the mandatory level for eligible members who joined the MTR MPF Scheme before 1 April 2008, subject to individual terms of employment.

As at 31 December 2011, the total number of employees of the Company participating in the MTR MPF Scheme was 3,452 (2010: 2,540). In 2011, total members' contributions were HK\$19 million (2010: HK\$14 million) and total contribution from the Company was HK\$21 million (2010: HK\$16 million).

(v) KCRC MPF Scheme

The KCRC MPF Scheme is a defined contribution scheme covered under an MPF master trust registered with the MPFA. It covers those former KCRC employees who were previously members of the KCRC MPF Scheme and are eligible to join the MTR Provident Fund Scheme but opt to re-join the KCRC MPF Scheme. Both members and the Company each contribute to the KCRC MPF Scheme at the mandatory levels as required by the MPF Ordinance.

As at 31 December 2011, the total number of employees of the Company participating in the KCRC MPF Scheme was 856 (2010 903). In 2011, total members' contributions were HK\$6 million (2010 HK\$6 million) and total contribution from the Company was HK\$6 million (2010 HK\$7 million).

B Retirement Schemes for Employees of Mainland and Overseas Offices and Subsidiaries

Employees not eligible for joining the retirement schemes operated by the Company in Hong Kong are covered by the retirement schemes established by their respective subsidiary companies or in accordance with respective applicable labour regulations.

(i) Defined Benefit Plan

Certain employees of the Group's Australian subsidiary are entitled to receive retirement benefits from the Emergency Services Superannuation Scheme operated in Australia. The benefit amounts are calculated based on the member's years of service and final average salary. The Group does not recognise any defined benefit liability in respect of this scheme because the Group has no legal or constructive obligation to pay future benefits relating to its employees, its only obligation is to pay contributions as they fall due. As at 31 December 2011, total number of the Group's employees participating in this scheme was 854 (2010 894). In 2011, total members' contributions were HK\$38 million (2010 HK\$31 million) and total contribution from the Group was HK\$53 million (2010 HK\$44 million).

(ii) Defined Contribution Plans

Except for the defined benefit plan stated in note 54B(i), all other retirement schemes to cover employees in overseas offices or in subsidiaries in Hong Kong, Mainland of China or overseas are defined contribution schemes. For Hong Kong employees, these schemes are registered under the MPF Ordinance in Hong Kong. For the Mainland of China or overseas employees, these schemes are operated in accordance with the respective local laws and regulations. As at 31 December 2011, the total number of employees of the Group participating in these schemes was 7,709 (2010 7,074). In 2011, total members' contributions were HK\$104 million (2010 HK\$77 million) and total contribution from the Group was HK\$211 million (2010 HK\$180 million).

55 Defined Benefit Retirement Plan Obligations

The Company makes contributions to and recognises defined benefit liabilities in respect of two defined benefit plans that provide benefits for employees upon retirement or termination of services for other reasons (note 54). The movements in respect of these defined benefit plans during the year are summarised as follows:

A. The amounts recognised in the balance sheets are as follows:

The Group and The Company

in HK\$ million	2011			2010		
	MTR Retirement Scheme			MTR Retirement Scheme		
	MTR RBS	Total		MTR RBS	Total	
Present value of funded obligations	(10,669)	-	(10,669)	(9,342)	-	(9,342)
Fair value of plan assets	7,794	12	7,806	8,200	12	8,212
Net unrecognised actuarial losses/(gains)	3,064	(3)	3,061	1,302	(3)	1,299
Net asset	189	9	198	160	9	169

A portion of the above asset is expected to be recovered after more than one year. However, it is not practicable to segregate this amount from the amounts to be recovered in the next twelve months, as future contributions will also relate to future services rendered and future changes in actuarial assumptions and market conditions. The Company expects to pay HK\$181 million in contribution to the MTR Retirement Scheme in 2012.

B. Plan assets consist of the following:

The Group and The Company

<i>in HK\$ million</i>	2011			2010		
	MTR Retirement Scheme	MTR RBS	Total	MTR Retirement Scheme	MTR RBS	Total
Equity securities	3,761	-	3,761	4,423	-	4,423
Bonds	3,963	-	3,963	3,602	-	3,602
Cash	145	12	157	250	12	262
	7,869	12	7,881	8,275	12	8,287
Voluntary units	(75)	-	(75)	(75)	-	(75)
	7,794	12	7,806	8,200	12	8,212

The plan assets include no investment in the Company's ordinary shares and the Company's debt securities in 2010 and 2011

C. Movements in the present value of the defined benefit obligations

The Group and The Company

<i>in HK\$ million</i>	2011			2010		
	MTR Retirement Scheme	MTR RBS	Total	MTR Retirement Scheme	MTR RBS	Total
At 1 January	9,342	-	9,342	8,959	-	8,959
Members' contributions paid to the Schemes	70	-	70	70	-	70
Benefits paid by the Schemes	(336)	-	(336)	(311)	-	(311)
Current service cost	281	-	281	293	-	293
Interest cost	264	-	264	227	-	227
Actuarial losses	1,048	-	1,048	104	-	104
At 31 December	10,669	-	10,669	9,342	-	9,342

D. Movements in plan assets

The Group and The Company

<i>in HK\$ million</i>	2011			2010		
	MTR Retirement Scheme	MTR RBS	Total	MTR Retirement Scheme	MTR RBS	Total
At 1 January	8,200	12	8,212	7,542	12	7,554
Group's contributions paid to the Schemes	120	-	120	120	-	120
Members' contributions paid to the Schemes	70	-	70	70	-	70
Benefits paid by the Schemes	(336)	-	(336)	(311)	-	(311)
Expected return on plan assets	486	-	486	448	-	448
Actuarial (losses)/gains	(746)	-	(746)	331	-	331
At 31 December	7,794	12	7,806	8,200	12	8,212

E. Expense recognised in the consolidated profit and loss account is as follows

<i>in HK\$ million</i>	2011			2010		
	MTR Retirement Scheme	MTR RBS	Total	MTR Retirement Scheme	MTR RBS	Total

Current service cost	281	-	281	293	-	293
Interest cost	264	-	264	227	-	227
Expected return on plan assets	(486)	-	(486)	(448)	-	(448)
Net actuarial losses/(gains) recognised	32	-	32	58	(1)	57
Expense recognised	91	-	91	130	(1)	129
Less Amount capitalised	(15)	-	(15)	(21)	-	(21)
	76	-	76	109	(1)	108

The retirement expense is recognised under staff costs and related expenses in the consolidated profit and loss account

F. Actual return on plan assets

in HK\$ million

	2011	2010
MTR Retirement Scheme	(260)	779
MTR RBS	-	-

G. The principal actuarial assumptions used as at 31 December 2011 (expressed as weighted average) are as follows

	2011		2010	
	MTR Retirement Scheme	MTR RBS	MTR Retirement Scheme	MTR RBS
Discount rate at 31 December	1.5%	0.9%	2.9%	1.9%
Expected rate of return on plan assets	6.0%	1.5%	6.0%	1.5%
Future salary increases	4.7%	5.0%	4.0%	4.0%

The expected long-term rates of return on plan assets have been determined based on market expectations on returns over the entire life of the related obligations

H. Historical information

The Group and The Company

MTR Retirement Scheme					
<i>in HK\$ million</i>	2011	2010	2009	2008	2007
Present value of funded obligations	(10,669)	(9,342)	(8,959)	(9,064)	(8,577)
Fair value of plan assets	7,794	8,200	7,542	6,162	7,929
Deficit in the Scheme	(2,875)	(1,142)	(1,417)	(2,902)	(648)
Experience adjustments arising on plan liabilities - gain/(loss)	334	(357)	(785)	1,391	(556)
Experience adjustments arising on plan assets - (loss)/gain	(746)	331	941	(1,997)	514
MTR RBS					
<i>in HK\$ million</i>	2011	2010	2009	2008	2007
Present value of funded obligations	-	-	-	(1)	(1)
Fair value of plan assets	12	12	12	12	12
Surplus in the Scheme	12	12	12	11	11
Experience adjustments arising on plan liabilities - gain/(loss)	-	-	1	-	1

Experience adjustments arising on plan
assets - gain/(loss)

56 Interests in Jointly Controlled Operations

The Group has the following jointly controlled operations in respect of its awarded property development projects in Hong Kong as at 31 December 2011

Location/Development Package	Land Use	Total Gross Floor Area (sq m)	Actual or Expected Date of Completion of Construction Works *
Hong Kong Station	Office/Retail/Hotel	415,894	Completed by phases from 1998–2005
Kowloon Station			
Package One	Residential	147,547	Completed in 2000
Package Two	Residential	210,319	Completed by phases from 2002–2003
Package Three	Residential/Cross Border Bus Terminus	105,113	Completed in 2005
Package Four	Residential	128,845	Completed in 2003
Package Five, Six and Seven	Residential/Office/Retail/Hotel/ Service Apartment/ Kindergarten	504,345	Completed by phases from 2006–2010
Olympic Station			
Package One	Residential/Office/Retail/Indoor Sports Hall	309,069	Completed in 2000
Package Two	Residential/Retail/Market	268,650	Completed in 2001
Package Three	Residential/Kindergarten	104,452	Completed in 2006
Tsing Yi Station	Residential/Retail/Kindergarten	292,795	Completed in 1999
Tung Chung Station			
Package One	Residential/Office/Retail/Hotel/ Kindergarten	361,531	Completed by phases from 1999–2005
Package Two	Residential/Retail/Kindergarten	255,949	Completed by phases from 2002–2008
Package Three	Residential/Retail/Wet Market/ Kindergarten	413,154	Completed by phases from 2002–2008
Hang Hau Station	Residential/Retail	142,152	Completed in 2004
Tiu Keng Leng Station	Residential/Retail	253,765	Completed by phases from 2006–2007
Tseung Kwan O Station			
Area 55b	Residential/Retail	96,797	Completed in 2006
Area 57a	Residential/Retail	29,642	Completed in 2005
Area 56	Residential/Hotel/Retail/Office	163,130	By phases from 2011–2012

Tseung Kwan O Area 86

Package One	Residential/Retail/Residential Care Home for the Elderly	139,840	Completed in 2008
Package Two	Residential/Kindergarten	310,496	By phases from 2010–2012
Package Three	Residential/Kindergarten	129,544	2013
Choi Hung Park-and-Ride	Residential/Retail	21,538	Completed in 2005
Che Kung Temple Station	Residential/Retail/Kindergarten	90,655	2012
Austin Station			
Sites C & D	Residential	119,116	2014

* Completion based on issuance of occupation permit

The Group's assets held in relation to these joint venture operations include various site foundation works and related staff and overhead costs, land costs, acquisition cost of development rights and interest expense. These are set off against any payments received from developers in relation to that development package, and the balance is shown on the balance sheet either as property development in progress (note 29) or deferred income (note 48) as the case may be. As at 31 December 2011, total property development in progress in respect of these jointly controlled operations was HK\$6,780 million (2010 HK\$6,863 million) and total deferred income was HK\$68 million (2010 HK\$81 million).

During the year ended 31 December 2011, profits of HK\$4,934 million (2010 HK\$4,034 million) were recognised (note 12).

In connection with the Rail Merger, the Company entered into agreements with KCRC relating to the property development projects on the following three awarded sites:

Location/Development Package	Land Use	Total Gross Floor Area (sq m)	Actual or Expected Date of Completion of Construction Works *
Fo Tan Station			
Ho Tung Lau	Residential/Retail	122,900	Completed in 2008
Wu Kai Sha Station	Residential/Retail/Kindergarten	172,650	Completed in 2009
Tai Wai Maintenance Centre	Residential	313,955	Completed by phases from 2010–2011

* Completion based on issuance of occupation permit

Under these agreements, the Company was appointed as KCRC's agent to exercise the rights and to perform the obligations of KCRC as stipulated in the agreements. The Company received a right to share the net surplus from the sale of these property development projects.

57 Material Related Party Transactions

The Financial Secretary Incorporated, which holds approximately 76.7% of the Company's issued share capital on trust for HKSAR Government, is the majority shareholder of the Company. Transactions between the Group and HKSAR Government departments or agencies, or entities controlled by HKSAR Government, other than those transactions such as the payment of fees, taxes, leases and rates, etc. that arise in the normal dealings between HKSAR Government and

the Group, are considered to be related party transactions pursuant to HKAS 24 (revised 2009), *Related party disclosures*, and are identified separately in these accounts

Members of the Board and Members of the Executive Directorate and parties related to them, including their close family members, are also considered to be related parties of the Group. Transactions with these parties, except for those involving a Member of the Board or his related parties where the relevant Member abstains from voting, are separately disclosed in the accounts

Major related party transactions entered into by the Group which are relevant for the current year include

A. On 30 June 2000, the Company was granted by HKSAR Government a franchise, for an initial period of 50 years, to operate the then existing mass transit railway, and to operate and construct any extension to the railway. On the same day, the Company and HKSAR Government entered into an Operating Agreement ("OA") which laid down the detailed provisions for the design, construction, maintenance and operation of the railway under the franchise. Pursuant to the terms of the OA, the Company's franchise will be extended for further periods of 50 years upon satisfying certain capital expenditure requirements at no payment and without any change in the terms of the franchise. The OA also provides that upon extension of the franchise and subject to HKSAR Government's prevailing land policy on the date on which the franchise is extended, certain consequential amendments will be made to agreements between HKSAR Government and the Company in relation to the mass transit railway, including the renewal of various railway running line leases and land leases at nominal cost. With the Rail Merger, the OA was replaced with effect from 2 December 2007 by a new operating agreement, details of which are set out in note 57C below

B. On 14 July 2000, the Company received a comfort letter from the Government pursuant to which HKSAR Government agreed to extend the period of certain of the Company's land interests so that they are coterminous with the Company's franchise period. To prepare for the Rail Merger, on 3 August 2007, HKSAR Government wrote to KCRC confirming that, subject to all necessary approvals being obtained, the period of certain of KCRC's land interests (which are the subject of the service concession under the Rail Merger) will be extended so that they are coterminous with the concession period of the Rail Merger

C. In connection with the Rail Merger (note 3), on 9 August 2007, the Company and HKSAR Government entered into a new operating agreement ("new OA"), which is based on the then existing OA referred to in note 57A above. On the Appointed Day, the Company's then existing franchise under the Mass Transit Railway Ordinance was expanded to cover railways other than the then existing MTR railway for an initial period of 50 years from the Appointed Day ("expanded franchise"). The new OA detailed the design, construction, maintenance and operation of the railways under the expanded franchise. Pursuant to the terms of the new OA and the MTR Ordinance, the Company's franchise may be extended for further periods of 50 years (from the date of the extension) upon satisfying certain capital expenditure requirements at no payment and without any change in the terms of the franchise. The new OA also sets out a framework for the award of new railway projects in Hong Kong and introduces a fare adjustment mechanism. A detailed description of the new OA is contained in the circular to shareholders in respect of the Extraordinary General Meeting convened to approve the Rail Merger

D. Other than the new OA described in note 57C above, the Company also entered into the following principal agreements with KCRC and HKSAR Government in connection with the Rail Merger

- (i) Merger Framework Agreement, which was entered into on 9 August 2007, contains provisions for the overall structure and certain specific aspects of the Rail Merger,
- (ii) Service Concession Agreement, which was entered into on 9 August 2007, contains provisions in relation to the grant and operation of a service concession and licence granted by KCRC to the Company,
- (iii) Sale and Purchase Agreement, which was entered into on 9 August 2007, sets out the terms pursuant to which the Company acquired certain assets and contracts from KCRC,
- (iv) Kowloon Southern Link ("KSL") Project Management Agreement, which was entered into on 9 August 2007, sets out the terms on which the Company was appointed by KCRC to manage the design and construction of the KSL in return for a management fee and an incentive payment if the construction of the KSL is completed ahead of time and under budget. KSL was completed for service commencement on 16 August 2009 and became part of the service concession. The final incentive payment was received in 2010,

(v) West Rail Agency Agreement, which was entered into on 9 August 2007, sets out the terms on which the Company was appointed to act as KCRC's agent to exercise certain rights and perform certain obligations relating to specified development sites along the West Rail,

(vi) Property Package Agreements, which were entered into on 9 August 2007, set out the arrangements in respect of the acquisition of the property package, and

(vii) US Cross Border Lease ("CBL") Assumption Agreements, which were entered into with KCRC on 30 November 2007, and US CBL Allocation Agreement, which was entered into with KCRC and KCRC's subsidiaries on 2 December 2007, set out the terms on which the Company has undertaken to perform, on a joint and several basis with KCRC, the obligations of KCRC under the respective CBLs, and delineate and allocate the obligations and responsibility for risks relating to the CBLs. Details of the commitment of the Company in connection with these agreements are specified in note 58E.

A detailed description of each of the above agreements is contained under the paragraph "Connected Transactions" of the Report of the Members of the Board.

E. The Company entered into project agreements with HKSAR Government for the design, construction, financing and operation of new railway extensions and, where applicable, the granting of land for commercial and residential property developments along these railway extensions. Project agreements on railway extensions that are still under construction or the property developments in respect of which have not been completed in the current year include

(i) TKE Project Agreement in respect of the Tseung Kwan O Extension, which was signed on 4 November 1998 and includes the granting of property development rights at four sites along the extension,

(ii) Preliminary Project Agreement, which was signed on 6 February 2008, and Project Agreement, which was signed on 13 July 2009 in respect of the West Island Line. Pursuant to the agreements, the Company has received from HKSAR Government a total of HK\$12,652 million of government grant as funding support subject to a repayment mechanism (note 27A),

(iii) Project Agreement in respect of the SIL(E), which was signed on 17 May 2011 and includes the granting of property development rights at a site in Wong Chuk Hang (note 27B), and

(iv) Project Agreement in respect of the KTE, which was signed on 17 May 2011 and includes the granting of property development rights at a site in Ho Man Tin (note 27C).

F. The Company entered into entrustment agreements with HKSAR Government for the design, site investigation, procurement activities, construction, testing and commissioning of new railway extensions, pursuant to which HKSAR Government funds the total costs of such activities while the Company is paid a fee for its project management service. Entrustment agreements on railway extensions that are still under construction in the current year include

(i) Preliminary Entrustment Agreement, which was signed on 24 November 2008, and Entrustment Agreement, which was signed on 26 January 2010, in respect of the Guangzhou-Shenzhen-Hong Kong Express Rail Link ("XRL"). The two agreements together entrust the Company with the project management of activities leading to the completion of XRL. Detailed description of the agreements and the amount of project management fees recognised for the year ended 31 December 2011 are provided in note 28B, and

(ii) Preliminary Entrustment Agreement, which was signed on 24 November 2008, and Entrustment Agreement, which was signed on 17 May 2011, in respect of the Shatin to Central Link ("SCL"). The two agreements together entrust the Company with the design, site investigation and procurement activities of SCL as well as construction of certain enabling works at Admiralty and Ho Man Tin Stations and other associated works. Detailed description of the agreements is provided in note 28C.

G. On 19 November 2003, the Company entered into a project agreement with HKSAR Government to develop the Tung Chung Cable Car system together with a Theme Village at Ngong Ping on the Lantau Island under a franchise granted by HKSAR Government for a period of 30 years commencing 24 December 2003. The project was completed with operation commencement on 18 September 2006.

H. In connection with the construction of various railway projects, certain essential project works are embedded within the infrastructure works to be undertaken by HKSAR Government or certain of its related parties. These works have been entrusted to HKSAR Government and its related parties and are payable on an actual cost basis according to architectural certifications. HKSAR Government and certain of its related parties, on the other hand, have entered into entrustment agreements with the Company for the construction of various other infrastructure works that are also

reimbursable according to actual costs certified Details of the amounts receivable and the amounts paid and payable as at 31 December 2011 are provided in notes 40 and 45 respectively

I. In connection with certain property developments along the railway extensions, the Company has been granted land lots by and paid land premiums to HKSAR Government in accordance with the terms of the development agreements in respect of the following sites

Property development site	Land grant acceptance date	Total land premium (in HK\$ million)	Land premium settlement date
Site F of Tseung Kwan O Town Lot No 70, Area 86	24 January 2005	2,319	14 April 2005
Sha Tin Town Lot No 519	23 April 2008	3,662	14 July 2008
Kowloon Inland Lot No 11126 and 11129 (Sites C and D, Canton Road, Kowloon)	12 March 2010	11,708	7 June 2010

J. On 16 November 2011, the Company and KCRC entered into an Outsourcing Agreement pursuant to which the Company will provide certain administrative and financial activities to KCRC The Agreement has no specific term but can be terminated by either party giving notice period specified in the Agreement The fee payable pursuant to the Agreement and the scope of services are to be reviewed on an annual basis and amended upon the mutual agreement of the parties

K. On 21 August 2008, the Company renewed the maintenance agreement with the Hong Kong Airport Authority in respect of the automatic people mover system serving the Hong Kong International Airport including the Sky Plaza and Sky Pier terminal buildings The agreement covers a period of five years effective from 6 July 2008 In respect of the agreement, HK\$46 million was recognised as consultancy income during the year ended 31 December 2011 (2010 HK\$40 million)

L. Other than those stated in notes 57A to 57J, the Company has business transactions with HKSAR Government, entities related to HKSAR Government and the Company's non-controlled subsidiaries and associates in the normal course of business operations Details of the transactions and the amounts involved for the reporting period are disclosed in notes 31, 33, 40 and 45

M. The Group has paid remuneration to Members of the Board and the Executive Directorate Details of these transactions are described in note 11A In addition, Members of the Executive Directorate were granted share options under the Company's New Joiners Share Option Scheme and 2007 Share Option Scheme Details of the terms of these options are disclosed in note 11B and the Report of the Members of the Board Their gross remuneration charged to the profit and loss account is summarised as follows

<i>in HK\$ million</i>	2011	2010
Short-term employee benefits	59.5	57.1
Post-employment benefits	2.5	1.6
Equity compensation benefits	14.2	10.9
	<u>76.2</u>	<u>69.6</u>

The above remuneration is included in staff costs and related expenses disclosed in note 10A

N. During the year, the following dividends were paid to HKSAR Government

<i>in HK\$ million</i>	2011	2010
Cash dividends paid	3,104	1,302
Shares allotted in respect of scrip dividends	-	991
	<u>3,104</u>	<u>2,293</u>

58 Commitments

A. Capital Commitments

(i) Outstanding capital commitments as at 31 December 2011 not provided for in the accounts were as follows

The Group

<i>in HK\$ million</i>	Hong Kong transport, station commercial and other businesses	Hong Kong railway extension projects	Hong Kong property rental and development	Mainland of China and overseas operations	Total
2011					
Authorised but not yet contracted for	2,079	-	824	9	2,912
Authorised and contracted for	1,447	13,099	624	216	15,386
	<u>3,526</u>	<u>13,099</u>	<u>1,448</u>	<u>225</u>	<u>18,298</u>
2010					
Authorised but not yet contracted for	1,575	-	142	-	1,717
Authorised and contracted for	986	7,100	326	1,340	9,752
	<u>2,561</u>	<u>7,100</u>	<u>468</u>	<u>1,340</u>	<u>11,469</u>

The Company

<i>in HK\$ million</i>	Hong Kong transport, station commercial and other businesses	Hong Kong railway extension projects	Hong Kong property rental and development	Total
2011				
Authorised but not yet contracted for	2,074	-	824	2,898
Authorised and contracted for	1,447	13,099	624	15,170
	<u>3,521</u>	<u>13,099</u>	<u>1,448</u>	<u>18,068</u>
2010				
Authorised but not yet contracted for	1,561	-	140	1,701
Authorised and contracted for	986	7,100	315	8,401
	<u>2,547</u>	<u>7,100</u>	<u>455</u>	<u>10,102</u>

Excluded from the above tables are estimated future project costs relating to the West Island Line, South Island Line (East) and Kwun Tong Line Extension of HK\$3,754 million, HK\$7,335 million and HK\$3,108 million respectively as at 31 December 2011

(ii) The commitments under Hong Kong transport, station commercial and other businesses comprise the following

The Group and The Company

<i>in HK\$ million</i>	Improvement and enhancement works	Acquisition of property, plant and equipment	Additional concession property	Total
2011				
Authorised but not yet contracted for	897	279	903	2,079
Authorised and contracted for	468	602	377	1,447
	<u>1,365</u>	<u>881</u>	<u>1,280</u>	<u>3,526</u>
2010				

Authorised but not yet contracted for	795	285	495	1,575
Authorised and contracted for	344	375	267	986
	<u>1,139</u>	<u>660</u>	<u>762</u>	<u>2,561</u>

B. Operating Lease Commitments

The Group had operating leases on office buildings, staff quarters, bus depot and a shopping centre in Beijing as at 31 December 2011. The total future minimum lease payments under non-cancellable operating leases are payable as follows

<i>in HK\$ million</i>	The Group		The Company	
	2011	2010	2011	2010
Payable within one year	132	141	6	7
Payable after one but within five years	3	3	3	2
	<u>135</u>	<u>144</u>	<u>9</u>	<u>9</u>

The above includes HK\$6 million (2010 HK\$4 million) in respect of the office accommodation and quarters for construction project staff, majority of which are subject to rent reviews

In addition to the above, the Group has future operating lease commitments of HK\$6,061 million (2010 HK\$6,747 million) in respect of railway subsidiaries outside of Hong Kong over the respective franchise periods, of which HK\$1,065 million (2010 HK\$1,024 million) is payable within one year, HK\$4,140 million (2010 HK\$3,944 million) is payable after one but within five years and HK\$856 million (2010 HK\$1,779 million) is payable over five years. These railway subsidiaries will generate franchise revenue receivables to the Group.

C. Liabilities and Commitments in respect of Property Management Contracts

The Group has, over the years, jointly developed with outside property developers certain properties above or adjacent to railway depots and stations. Under most of the development agreements, the Group retained the right to manage these properties after their completion. The Group, as manager of these properties, enters into service contracts with outside contractors for the provision of security, cleaning, maintenance and other services on behalf of the managed properties. The Group is primarily responsible for these contracts, but any contract costs incurred will be reimbursed by the owners and tenants of the managed properties from the management funds as soon as they are paid.

As at 31 December 2011, the Group had total outstanding liabilities and contractual commitments of HK\$1,599 million (2010 HK\$1,314 million) in respect of these works and services. Cash funds totalling HK\$1,655 million (2010 HK\$1,371 million) obtained through monthly payments of management service charges from the managed properties are held by the Group on behalf of those properties for settlement of works and services provided.

D. Material Financial and Performance Guarantees

In respect of the debt securities issued by MTR Corporation (CI) Limited (note 42C), the Company has provided guarantees to the investors of approximately HK\$12,379 million (in notional amount) as at 31 December 2011. The proceeds from the debts issued are on lent to the Company and MTR Corporation (Shenzhen) Limited. As such, the primary liabilities have been recorded in the Company's balance sheet.

In respect of the lease out/lease back transaction ("Lease Transaction") (note 24E), the Group has provided standby letters of credit ("standby LC's") to the Investors to cover additional amounts payable by the Group in the event the transactions are terminated prior to the expiry of the lease terms, and such standby LC's amounted to US\$110 million (HK\$855 million) as at 31 December 2011. The Group has also provided standby LC's to certain of the Investors under the Lease Transaction to replace some of the Defeasance Securities previously used to support the corresponding long-term lease payments as a result of credit rating downgrades of these securities, and such standby LC's amounted to US\$38 million (HK\$299 million) as at 31 December 2011.

In respect of the operating lease on the shopping centre in Beijing, the Group provided a bank guarantee of RMB12.5 million and a parent company guarantee of RMB52.5 million in respect of the quarterly rental payments to the landlord.

In respect of the Melbourne Metropolitan Train Franchise, the Group and the other shareholders of the Group's 60% owned subsidiary, Metro Trains Melbourne Pty Ltd ("MTM"), have provided to the State of Victoria Government a joint and several parent company guarantee of AUD125 million (HK\$986 million) and a performance bond of AUD75 million (HK\$592 million) for MTM's performance and other obligations under the franchise agreement, with each shareholder bearing its share of liability based on its shareholdings in MTM

In respect of the Stockholm Metro Franchise, the Group has provided to the Stockholm transport authority a guarantee of SEK1,000 million (HK\$1,123 million), which can be called if the franchise is terminated early as a result of default by MTR Stockholm AB, the wholly owned subsidiary of the Group to undertake the franchise

In respect of the London Overground Franchise, London Overground Rail Operations Ltd ("LOROL"), the Group's 50% owned associate company to undertake the franchise, has provided to Transport for London (TfL) a performance bond of GBP12.0 million (HK\$144 million), which may be called by TfL if the franchise is terminated early as a result of default. The performance bond is guaranteed by Deutsche Bahn, the ultimate parent company of the other shareholder of LOROL, with the Group providing to Deutsche Bahn a counter indemnity that is further backed by a performance bond of GBP6.0 million (HK\$72 million) for the Group's share of the Guarantee

In respect of the construction of Shenzhen Longhua Line Phase 2, the Group has provided payment guarantees of RMB168 million (HK\$207 million) and performance guarantees of RMB48 million (HK\$59 million) to the counterparties of the construction contracts

E US Cross Border Lease ("CBL") Agreements

In connection with the Rail Merger, the Company entered into a number of agreements ("US CBL Assumption Agreements") with respect to the CBLs that KCRC had entered into with its CBL counterparties in relation to certain of its property and equipment ("CBL Property") between 1998 and 2003. Pursuant to the US CBL Assumption Agreements, the Company has undertaken to perform, on a joint and several basis with KCRC, the obligations of KCRC under the respective CBLs

In addition, the Company has entered into a US CBL Allocation Agreement with KCRC, whereby the rights, obligations and responsibility for risks relating to the CBLs are delineated and allocated between the Company and KCRC. Generally, the Company is responsible for operational matters, such as repair, maintenance and insurance of the CBL Property, and KCRC is responsible for all other obligations, including payment of periodic rents and collateral related obligations. Despite this allocation of obligations, the Company is prima facie jointly and severally liable to the CBL counterparties for any failure of KCRC to perform its obligations under the CBLs

KCRC and HKSAR Government have agreed to indemnify the Company for its reasonable costs incurred as a result of the due and proper performance by the Company of its obligations under the CBLs (unless such costs would have been incurred in any event). In addition, KCRC has agreed to indemnify the Company for losses and reasonable costs incurred arising from KCRC not complying with its obligations under the CBLs or from any breach of KCRC's representations, covenants and agreements provided for in relation to the CBLs

The Company has agreed to indemnify each of HKSAR Government and KCRC for losses and reasonable costs incurred arising from any breach of the Company's representations, covenants and agreements provided for in relation to the CBLs

F. Service Concession in respect of the Rail Merger

Pursuant to the Rail Merger, the Company is obliged under the Service Concession Agreement ("SCA") to pay an annual fixed payment of HK\$750 million to KCRC over the period of the service concession. Additionally, commencing after three years from the Appointed Day, the Company is obliged to pay a variable annual payment to KCRC based on the revenue generated from the KCRC system above certain thresholds. Furthermore, under the SCA, the Company is obliged to maintain, repair, replace and/or upgrade the KCRC system over the period of the service concession which is to be returned at the expiry of the service concession

59 Accounting Estimates and Judgements

A. Key sources of accounting estimates and estimation uncertainty include the following

(i) Estimated Useful Life and Depreciation and Amortisation of Property, Plant and Equipment and Service Concession Assets

The Group estimates the useful lives of the various categories of property, plant and equipment and service concession assets on the basis of their design lives, planned asset maintenance programme and actual usage experience. Depreciation is calculated using the straight-line method at rates sufficient to write off their cost or valuation over their estimated useful lives (note 2I).

(ii) Impairment of Long-lived Assets

The Group reviews its long-lived assets for indications of impairment at each balance sheet date according to accounting policies set out in note 2H(ii). In analysing potential impairments identified, the Group uses projections of future cash flows from the assets based on management's assignment of a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

(iii) Pension Costs

The Group employs independent valuation professionals to conduct annual assessment of the actuarial position of the Group's retirement plans. The determination of the Group's obligation and expense for the defined benefit element of these plans is dependent on certain assumptions and factors provided by the Company, which are disclosed in notes 54A(i) and 54A(ii).

(iv) Revenue Recognition on Property Development

Recognition of property development profits requires management's estimation of the final project costs upon completion, assessment of outstanding transactions and market values of unsold units and, in the case of sharing-in-kind properties, the properties' fair value upon recognition. The Group takes into account independent qualified surveyors' reports, past experience on sales and marketing costs when estimating final project costs on completion and makes reference to professionally qualified valuers' reports in determining the estimated fair value of sharing-in-kind properties.

(v) Properties Held for Sale

The Group values unsold properties at the lower of their costs and net realisable values (note 35) at the balance sheet date. In ascertaining the properties' net realisable values, which are represented by the estimated selling prices less costs to be incurred in relation to the sales, the Group employs independent valuation professionals to assess the properties' estimated selling prices and makes estimations on further selling and property holding costs to be incurred based on past experience and with reference to general market practice.

(vi) Valuation of Investment Properties

The valuation of investment properties requires management's input of various assumptions and factors relevant to the valuation. The Group conducts semi-annual revaluation of its investment properties by independent professionally qualified valuers based on these assumptions agreed with the valuers prior to adoption.

(vii) Franchise in Hong Kong

The current franchise under which the Group is operating in Hong Kong allows the Group to run the mass transit railway system in Hong Kong until 1 December 2057. Pursuant to the terms stipulated in the new Operating Agreement with HKSAR Government, the Company considers that it has the legal right to extend the franchise for further periods of 50 years upon expiry of each franchise term (note 57C). The Group's depreciation policies (note 2I) in respect of certain assets' lives which extend beyond 2057 are set on this basis.

(viii) Income Tax

Certain treatments adopted by the Group in its Hong Kong Profits Tax returns in the past years are yet to be finalised with the Hong Kong Inland Revenue Department. In assessing the Group's income tax and deferred taxation in the 2011 accounts, the Company has predominantly followed the tax treatments it has adopted in these tax returns, which may be different from the final outcome in due course.

(ix) Project Provisions

The Group establishes project provisions for the settlement of estimated claims that may arise due to time delays, additional costs or other unforeseen circumstances common to major construction contracts. The claims provisions are estimated based on an assessment of the Group's liabilities under each contract by professionally qualified personnel, which may differ from the actual claims settlement.

(x) Deferred Expenditure

As disclosed in note 2J(i), the Group capitalises proposed railway and property development project costs in deferred expenditure when the projects are at a detailed study stage and having been approved in principle by the Members of the Board. Such decision involves the Board's judgement on the outcome of the proposed project.

(xi) Fair Value of Derivatives and Other Financial Instruments

In determining the fair value of financial instruments, the Group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at each balance sheet date. For financial instruments that are not traded in active markets, the fair values were derived using the discounted cash flows method which discounts the future contractual cash flows at the current market interest or foreign exchange rates, as applicable, for similar financial instruments that were available to the Group at the time.

(xii) Obligations under Service Concession

In determining the present value of the obligations under service concession, the discount rate adopted was the relevant Group company's estimated long-term incremental cost of borrowing at inception after due consideration of the relevant Group company's existing fixed rate borrowing cost, future interest rate and inflation trends.

B. Critical accounting judgements in applying the group's accounting policies include the following

(i) Provisions and Contingent Liabilities

The Group recognises provisions for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as contingent liability. As at 31 December 2011, the Group considered that it had no disclosable contingent liabilities as there were neither pending litigations nor events with potential obligation which were probable to result in material outflow of economic benefits from the Group.

(ii) Non-controlled Subsidiaries

The Group regards Octopus Holdings Limited and its subsidiaries (the "OHL Group") as non-controlled subsidiaries. In determining whether the Group has control over these subsidiaries, the Group has taken into account its voting right conferred to it under the Shareholder's Agreement of OHL and the effective influence it may exercise over the decision of OHL's Board. Throughout the year ended 31 December 2011, the Group considered that its voting right in the OHL Group has been maintained at 49% despite an equity interest of 57.4%. As such, the OHL Group was accounted for as non-controlled subsidiaries in the Group's accounts.

60 Possible Impact of Amendments, New Standards and Interpretations Issued but Not Yet Effective for the Annual Accounting Period Ended 31 December 2011

Up to the date of issue of these accounts, the HKICPA has issued the following amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2011 and have not been adopted in these accounts.

	Effective for accounting periods beginning on or after
Amendments to HKFRS 1, <i>First-time adoption of Hong Kong Financial Reporting Standards – Severe hyperinflation and removal of fixed dates for first-time adopters</i>	1 July 2011
Amendments to HKFRS 7, <i>Financial instruments: Disclosures – Transfers of financial assets</i>	1 July 2011

Amendments to HKAS 12, <i>Income taxes – Deferred tax Recovery of underlying assets</i>	1 January 2012
Amendments to HKAS 1, <i>Presentation of financial statements – Presentation of items of other comprehensive income</i>	1 July 2012
Amendments to HKFRS 7, <i>Financial instruments Disclosures – Offsetting financial assets and financial liabilities</i>	1 January 2013
HKFRS 10, <i>Consolidated financial statements</i>	1 January 2013
HKFRS 11, <i>Joint arrangements</i>	1 January 2013
HKFRS 12, <i>Disclosure of interests in other entities</i>	1 January 2013
HKFRS 13, <i>Fair value measurement</i>	1 January 2013
HKAS 27, <i>Separate financial statements (2011)</i>	1 January 2013
HKAS 28, <i>Investments in associates and joint ventures</i>	1 January 2013
Revised HKAS 19, <i>Employee benefits</i>	1 January 2013
HK(IFRIC) 20, <i>Stripping costs in the production phase of a surface mine</i>	1 January 2013
Amendments to HKAS 32, <i>Financial instruments Presentation – Offsetting financial assets and financial liabilities</i>	1 January 2014
HKFRS 9, <i>Financial instruments</i>	1 January 2015

The Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. At this moment, the Group considers that the adoption of Amendments to HKAS 12, Revised HKAS 19, Amendments to HKAS 1, HKFRS 12, and HKFRS 13 will have impact on the Group's accounts.

Amendments to HKAS 12 introduce a rebuttable presumption on the measurement of deferred tax on investment properties carried at fair value and the adoption of it is expected to result in the retrospective derecognition of deferred tax liabilities in relation to the change in value of investment properties upon first adoption. Such derecognition, if measured at 31 December 2011, would amount to HK\$5,604 million. Revised HKAS 19 changes the accounting and disclosure requirements on defined benefit plans and therefore will affect the amounts recognised in the Group's financial statements and disclosure notes in respect of the MTRCL Retirement Scheme. Amendments to HKAS 1 will affect the presentation of items of other comprehensive income in the Statement of Comprehensive income while new HKFRS 12 and HKFRS 13 will affect the disclosures on information on non-controlling interests of subsidiaries and valuation on investment properties.

Other than the above, it has concluded so far that the adoption of other new issues or amendments is unlikely to have a material impact on the Group's results of operations and financial position.

61 Approval of Accounts

The accounts were approved by the Board on 8 March 2012.

REPORT OF THE MEMBERS OF THE BOARD

The Members of the Board have pleasure in submitting their Report and the audited statement of Accounts for the financial year ended 31 December 2011

PRINCIPAL ACTIVITIES OF THE GROUP

The principal activities of the Company and its subsidiaries are

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

REPORT OF THE MEMBERS OF THE BOARD

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

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

DIVIDEND

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

MEMBERS OF THE BOARD

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

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

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

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

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

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

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

ALTERNATE DIRECTORS

The Alternate Directors in office during the year were

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

EXECUTIVE DIRECTORATE

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

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

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

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

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

INTERNAL AUDIT

The Company's Internal Audit Department provides independent, objective assurance and consulting services designed to add value and improve the Company's operations. Key responsibilities of the Department include:

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

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

BUSINESS ETHICS

Please refer to pages 104 to 105

POLICIES

The Board has adopted the following risk management strategies and policies:

- A Construction and Insurance Risk Management Strategy,
- B Finance Risk Management Strategy,
- C Treasury Risk Management Strategy,
- D Safety Risk Management Strategy,
- E Enterprise Risk Management Strategy,
- F Security Risk Management Policy, and
- G Environmental Risk Management Policy

PUBLIC FLOAT

The Stock Exchange granted to the Company, at the time of its listing on the Main Board of the Stock Exchange in 2000, a waiver from strict compliance with Rule 8.08(1) of the Listing Rules ("Public Float Waiver"). Pursuant to the Public Float Waiver, the Company's prescribed minimum percentage of shares which must be in the hands of the public must not be less than 10% of the total issued share capital of the Company. Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained the prescribed amount of public float during the year and up to the date of this report as required by the Public Float Waiver.

BANK OVERDRAFTS, BANK LOANS AND OTHER BORROWINGS

The total borrowings of the Group as at 31 December 2011 amounted to HK\$23,168 million (2010: HK\$21,057 million). Particulars of borrowings are set out in note 42 to the accounts.

ACCOUNTS

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

TEN-YEAR STATISTICS

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

FIXED ASSETS AND RAILWAY CONSTRUCTION IN PROGRESS

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

OF THE MEMBERS OF THE BOARD

MOVEMENTS IN RESERVES

Movements in reserves during the year are set out in the Consolidated Statement of Changes in Equity and notes 50 and 51 to the accounts

SHARE CAPITAL

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

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

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

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

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

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

PROPERTIES

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

DONATIONS

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

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

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

REPORTING AND MONITORING

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

TREASURY MANAGEMENT

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

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

CAPITAL AND REVENUE EXPENDITURE

There are defined procedures for the appraisal, review and approval of major capital and revenue expenditures. All project expenditure over 0.2% of the net assets of the Company and the employment of consultancy services over 0.1% of the net assets of the Company require the approval of the Board.

BONDS AND NOTES ISSUED

The Group issued notes amounting to HK\$2,206 million equivalent during the year ended 31 December 2011, details of which are set out in note 42C to the accounts. Such notes were issued in order to meet the Group's general corporate

funding requirements, including the financing of new capital expenditure and the refinancing of maturing debts

COMPUTER PROCESSING

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

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

There was no contract of significance, to which the Company

or any of its subsidiaries was a party and in which a Member of the Board or a Member of the Executive Directorate had a material interest (whether direct or indirect), which subsisted at the end of the year or at any time during the year.

BOARD MEMBERS' AND EXECUTIVE DIRECTORATE'S INTERESTS IN SHARES

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

LONG POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

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

THE MEMBERS OF THE BOARD

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

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

Notes

- Further details of the above share options are set out in the table below showing details of the options to subscribe for ordinary shares granted under the 2007 Share Option Scheme
- Mr Chow Chung-kong had a derivative interest in respect of 222,161 shares in the Company within the meaning of Part XV of the SFO. That derivative interest represented Mr Chow's entitlement to receive an equivalent value in cash of 222,161 shares in the Company on completion of his contract on 31 December 2011. An amount of HK\$5,556,802.01 was paid to him on 4 January 2012 (at a price of HK\$25.0125 per share derived in accordance with the terms of the grant by reference to the average closing price of the Company's shares on the 20 business days immediately preceding 31 December 2011).
- The 23,000 shares are held by Linsan Investment Ltd., a private limited company beneficially wholly owned by Mr Lincoln Leong Kwok-kuen.
- Further details of the above share options are set out in the table below showing details of the options to subscribe for ordinary shares granted under the New Joiners Share Option Scheme.
- Ms Jenny Yeung Mei-chun became the Commercial Director and a Member of the Executive Directorate on 1 September 2011.
- Ms Gillian Elizabeth Meller became the Legal Director and Secretary and a Member of the Executive Directorate on 1 September 2011.
- Mr David Tang Chi-fai became the Property Director and a Member of the Executive Directorate on 1 October 2011.
- Mr Jay Herbert Walder became Chief Executive Officer, a Member of the Board and a Member of the Executive Directorate on 1 January 2012. Mr Walder was granted a derivative interest in respect of 300,000 shares in the Company within the meaning of Part XV of the SFO. That derivative interest represents Mr Walder's entitlement to be paid an equivalent value in cash of 300,000 shares in the Company following 30 June 2014, being the date on which his initial term of office is expected to expire (35% of which shall be deemed to be earned at 31 October 2013 subject to certain conditions specified in his employment contract).

* Interests as beneficial owner

† Interests of spouse or child under 18 as beneficial owner

**OPTIONS TO SUBSCRIBE FOR ORDINARY SHARES GRANTED UNDER THE NEW JOINERS SHARE OPTION SCHEME,
AS REFERRED TO IN NOTES 11B(i) AND 53A(i) TO THE ACCOUNTS**

Executive Directorate and eligible employees	Date granted	Options granted	Period during which rights exercisable (day/month/year)	Options outstanding as at 1 January 2011	Options granted during the year	Options vested during the year	Options lapsed during the year	Options exercised during the year	Exercise price per share of options (HK\$)	Options outstanding as at 31 December 2011	Weighted average closing price of shares immediately before the date(s) on which options were exercised (HK\$)
Lincoln Leong Kwok-kuen	1/8/2003	1 066 000	14/7/2004 – 14/7/2013	417 500	–	–	–	417 500	9.75	–	25.55
David Tang Chi-fai	15/5/2006	213,000	25/4/2007 – 25/4/2016	22 000	–	–	–	–	20.66	22 000	–
Other eligible employees	1/8/2003	495,200	14/7/2004 – 14/7/2013	108,200	–	–	–	108 200	9.75	–	29.16
	23/9/2005	213,000	9/9/2006 – 9/9/2015	213,000	–	–	–	–	15.97	213,000	–
	5/10/2006	94,000	29/9/2007 – 29/9/2016	94 000	–	–	–	–	19.732	94 000	–
	12/5/2006	266,500	25/4/2007 – 25/4/2016	266,500	–	–	–	266,500	20.66	–	28.77

Notes

- 1 No option may be exercised later than ten years after its date of offer and no option may be offered to be granted more than five years after the adoption of the New Joiners Share Option Scheme ("New Option Scheme") on 16 May 2002
- 2 Unless approved by shareholders in the manner as required by the Listing Rules, the total number of shares issued and issuable upon exercise of the options granted to any eligible employee under the New Option Scheme together with the total number of shares issued and issuable upon the exercise of any option granted to such eligible employee under any other share option scheme of the Company (including, in each case, both exercised and outstanding options) in any 12-month period must not exceed 1% of the shares of the Company in issue at the date of offer in respect of such option under the New Option Scheme
- 3 The proportion of underlying shares in respect of which the above share options will vest is as follows

Date	Proportion of underlying shares in respect of which an option is vested
Before the first anniversary of the date of offer of the option (the "Offer Anniversary")	none
From the first Offer Anniversary to the date immediately before the second Offer Anniversary	one-third
From the second Offer Anniversary to the date immediately before the third Offer Anniversary	two-thirds
From the third Offer Anniversary and thereafter	all

FOOT OF THE MEMBERS OF THE BOARD

OPTIONS TO SUBSCRIBE FOR ORDINARY SHARES GRANTED UNDER THE 2007 SHARE OPTION SCHEME, AS REFERRED TO IN NOTES 11B(ii) AND 53A(ii) TO THE ACCOUNTS

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

**OPTIONS TO SUBSCRIBE FOR ORDINARY SHARES GRANTED UNDER THE 2007 SHARE OPTION SCHEME,
AS REFERRED TO IN NOTES 11B(ii) AND 53A(ii) TO THE ACCOUNTS (CONTINUED)**

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

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OPTIONS TO SUBSCRIBE FOR ORDINARY SHARES GRANTED UNDER THE 2007 SHARE OPTION SCHEME, AS REFERRED TO IN NOTES 11B(ii) AND 53A(ii) TO THE ACCOUNTS (CONTINUED)

Executive Directorate and eligible employees	Date granted	Options granted	Period during which rights exercisable (day/month/year)	Options outstanding as at 1 January 2011	Options granted during the year	Options vested during the year	Options lapsed during the year	Options exercised during the year	Exercise price per share of options (HK\$)	Options outstanding as at 31 December 2011	Weighted average closing price of shares immediately before the date(s) on which options were exercised (HK\$)
Other eligible employees	19/12/2009	70 000	8/12/2010 – 8/12/2016	70 000	–	23,500	–	–	26.85	70,000	–
	20/12/2009	75,000	8/12/2010 – 8/12/2016	75 000	–	25,500	–	–	26.85	75,000	–
	21/12/2009	520,000	8/12/2010 – 8/12/2016	520,000	–	169,500	12,500	6,500	26.85	501 000	29.85
	22/12/2009	256 000	8/12/2010 – 8/12/2016	237,000	–	80 500	22,000	–	26.85	215 000	–
	21/7/2010	305 000	28/6/2011 – 28/6/2017	305 000	–	94 000	25 000	–	27.73	280 000	–
	16/12/2010	194 000	16/12/2011 – 16/12/2017	194 000	–	65 500	–	–	28.84	194,000	–
	17/12/2010	4 097,000	16/12/2011 – 16/12/2017	4 097 000	–	1,347 000	140,500	–	28.84	3,956,500	–
	18/12/2010	673,000	16/12/2011 – 16/12/2017	673 000	–	227,500	–	–	28.84	673,000	–
	19/12/2010	174 000	16/12/2011 – 16/12/2017	174 000	–	59 000	–	–	28.84	174,000	–
	20/12/2010	4,854,500	16/12/2011 – 16/12/2017	4 854,500	–	1 627 000	126 500	–	28.84	4 728 000	–
	21/12/2010	3 020 000	16/12/2011 – 16/12/2017	3 020,000	–	1 015,500	19 000	–	28.84	3 001 000	–
	22/12/2010	975 000	16/12/2011 – 16/12/2017	975,000	–	322,000	19 000	–	28.84	956 000	–
	23/12/2010	189 000	16/12/2011 – 16/12/2017	189 000	–	64,000	–	–	28.84	189 000	–
	7/7/2011	215 000	27/6/2012 – 27/6/2018	–	215 000	–	–	–	26.96	215 000	–

Notes

- No option may be exercised later than seven years after its date of offer and no option may be offered to be granted more than seven years after the adoption of the 2007 Share Option Scheme ("2007 Option Scheme") on 7 June 2007
- Unless approved by shareholders in the manner as required by the Listing Rules, the total number of shares issued and issuable upon exercise of the options granted to any eligible employee under the 2007 Option Scheme together with the total number of shares issued and issuable upon the exercise of any option granted to such eligible employee under any other share option scheme of the Company (including, in each case both exercised and outstanding options) in any 12-month period must not exceed 0.2% of the shares of the Company in issue at the date of offer in respect of such option under the 2007 Option Scheme
- The proportion of underlying shares in respect of which the above share options will vest is as follows

Date	Proportion of underlying shares in respect of which an option is vested
Before the first anniversary of the date of offer of the option (the "Offer Anniversary")	none
From the first Offer Anniversary to the date immediately before the second Offer Anniversary	one-third
From the second Offer Anniversary to the date immediately before the third Offer Anniversary	two-thirds
From the third Offer Anniversary and thereafter	all

- Ms Jeny Yeung Mei-chun became the Commercial Director and a Member of the Executive Directorate on 1 September 2011
- Ms Gillian Elizabeth Meller became the Legal Director and Secretary and a Member of the Executive Directorate on 1 September 2011
- Mr David Tang Chi-fai became the Property Director and a Member of the Executive Directorate on 1 October 2011

During the year ended 31 December 2011, 215,000 options to subscribe for shares of the Company were granted to 5 employees under the 2007 Share Option Scheme. Details of the grant are set out in the tables above. The closing price per share immediately before the date of grant of the options is set out below. Pursuant to the terms of the Scheme, each grantee undertakes to pay HK\$1.00, on demand, to the

Company, in consideration for the grant of the options. The share options granted are recognised on an accrued vesting basis in the accounts. The weighted average value per option granted, estimated at the date of grant using the Black-Scholes pricing model is as follows:

Date granted	Closing price per share immediately before the date of grant (HK\$)	Estimated risk-free interest rate (%)	Expected life (Years)	Estimated Volatility	Expected dividend per share (HK\$)	Weighted average value per option granted (HK\$)
7/7/2011	27.70	0.84	3.5	0.28	0.70	5.01

The Black-Scholes option pricing model was developed for use in estimating the fair value of traded options and requires input of highly subjective assumptions, including the expected life and stock price volatility. Since the Company's share options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimates, the Black-Scholes option pricing model does not necessarily provide a reliable measure of the fair value of the share options.

Save as disclosed above:

A none of the Members of the Board or the Executive Directorate of the Company had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), and

B during the year ended 31 December 2011, no Member of the Board or the Executive Directorate nor any of their spouses or children under 18 years of age held any rights to subscribe for equity or debt securities of the Company nor had there been any exercises of any such rights by any of them,

as recorded in the register kept by the Company under section 352 of the SFO or otherwise notified to the Company and the HKSE pursuant to the Model Code.

DIRECTORS' SERVICE CONTRACTS

No director proposed for election or re-election at the forthcoming Annual General Meeting has a service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than statutory compensation.

No Director has a service contract with the Company or any of its subsidiaries which is for a duration which may exceed three years or which requires the Company to, in order to terminate such contract, give a notice period in excess of one year or pay or make other payments equivalent to more than one year's emoluments.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

Set out below is the name of the party which was interested in 5% or more of the nominal value of the share capital of the Company and the number of shares in which it was interested as at 31 December 2011 as recorded in the register kept by the Company under section 336 of the SFO:

Name	No. of Ordinary Shares	Percentage of Ordinary Shares to total issued share capital
The Financial Secretary Incorporated (in trust on behalf of the Government)	4,434,552,207	76.66

The Company has been informed by the Government that, as at 31 December 2011, approximately 0.47% of the shares of the Company were held for the account of the Exchange Fund. The Exchange Fund is a fund established under the Exchange Fund Ordinance (Cap. 66 of the Laws of Hong Kong) under the control of the Financial Secretary.

LOAN AGREEMENTS WITH COVENANT RELATING TO SPECIFIC PERFORMANCE OF THE CONTROLLING SHAREHOLDER

As at 31 December 2011, the Group had borrowings of HK\$19,543 million with maturities ranging from 2012 to 2020 and available uncommitted banking and other facilities of HK\$10,469 million, which were subject to the condition that the Government, being the Company's controlling shareholder, owns more than half in nominal value of the voting share capital of the Company during the lives of the borrowings and the undrawn facilities. Otherwise, immediate repayment of borrowings may be demanded and cancellation of the undrawn facilities may result.

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MAJOR SUPPLIERS AND CUSTOMERS

Less than 30% in value of supplies (which were not of a capital nature) purchased during the year ended 31 December 2011 was attributable to the Company's five largest suppliers. Less than 30% in value of the Company's turnover during the year ended 31 December 2011 was attributable to the Company's five largest customers combined by value.

GOING CONCERN

The accounts on pages 147 to 238 have been prepared on a going concern basis. The Board has reviewed the Company's budget for 2012, together with the longer-term forecast for the following five years and is satisfied that the Company has sufficient resources to continue as a going concern for the foreseeable future.

CONTINUING CONNECTED TRANSACTIONS

During the year under review, the following transactions and arrangements described below involved the provision of goods or services on an ongoing basis with the Government and/or KCRC, the Airport Authority (the "AA"), United Group Rail Services Limited ("UGL"), Leighton Contractors (Asia) Limited ("LCAL") and John Holland Pty Limited ("JHL"). The Government is a substantial shareholder of the Company for the purposes of the Listing Rules. KCRC and the AA are both associates of the Company as defined in the Listing Rules. As explained under Section III below, UGL and John Holland Melbourne Rail Franchise Pty Ltd ("John Holland") are substantial shareholders of a subsidiary of the Company and John Holland, JHL and LCAL are indirect wholly-owned subsidiaries of Leighton Holdings Limited. On this basis, JHL and LCAL are both associates of John Holland for the purposes of the Listing Rules. The Government, KCRC, the AA, UGL, LCAL and JHL are therefore each "connected persons" for the purposes of the Listing Rules and each transaction set out at paragraphs I, II and III below constitutes a continuing connected transaction for the Company under the Listing Rules.

I Merger-related Continuing Connected Transactions
Each of the transactions listed in paragraphs A to D below and which formed part of the Rail Merger, was approved by the independent shareholders of the Company at an Extraordinary General Meeting held on 9 October 2007. These paragraphs should be read in conjunction with the paragraphs contained in the section below headed "Additional Information in respect of the Rail Merger".

As disclosed in the circular issued by the Company on 3 September 2007 in connection with the Rail Merger, the Stock Exchange granted a waiver to the Company from strict compliance with the requirements under Chapter 14A of the Listing Rules which would otherwise apply to continuing connected transactions between the Company, the Government and/or KCRC arising as a result of the Rail Merger, subject to certain conditions (the "Merger-related Waiver").

A Merger Framework Agreement

The Merger Framework Agreement was entered into on 9 August 2007 between the Company, KCRC and the Secretary for Transport and Housing and the Secretary for Financial Services and the Treasury for and on behalf of the Government.

The Merger Framework Agreement contains provisions for the overall structure and certain specific aspects of the Rail Merger, including in relation to

- a seamless interchange programme,
- corporate governance of the Company Post-Rail Merger,
- payments relating to property enabling works,
- arrangements relating to the establishment of a rolling programme on the level of flat production arising from tenders for railway property development,
- arrangements in relation to the assessment of land premium amounts,
- arrangements in relation to the employees of the Company and KCRC, including provisions preventing the Company from terminating the employment of relevant frontline staff for any reason that relates to the process of integrating the operations of the Company and KCRC,
- the implementation of certain fare reductions,
- arrangements in relation to the proposed Shatin to Central Link,
- KCRC's continuing responsibility for its existing financial arrangements,
- treatment of KCRC's cross border leases,
- the payment of HK\$7.79 billion in respect of the Property Package (as described on pages 131 to 133 and in paragraph D below),
- the allocation of liability for any Pre-Rail Merger and Post-Rail Merger claims by third parties, and
- the Company's retention of its English name and (pursuant to the Rail Merger Ordinance) the change of its Chinese name to "香港鐵路有限公司".

B West Rail Agency Agreement

The West Rail Agency Agreement and related agreements were entered into on 9 August 2007 between the Company, KCRC and certain KCRC subsidiary companies ("West Rail Subsidiaries"). Pursuant to the terms of the West Rail Agency Agreement, the Company was appointed

- to act as KCRC's agent, and donee under powers of attorney, to exercise certain rights and perform certain obligations relating to specified development sites along West Rail, and

- to act as agent for, and donee under powers of attorney from, each of the West Rail Subsidiaries to exercise certain rights and perform certain obligations relating to specified development sites along West Rail

The Company will receive an agency fee of 0.75% of the gross sale proceeds in respect of the unawarded West Rail development sites and 10% of the net profits accrued to the West Rail Subsidiaries under the development agreements in respect of the awarded West Rail development sites. The Company will also recover from the West Rail Subsidiaries its costs (including internal costs) incurred in respect of the West Rail development sites plus 16.5% on-cost, together with interest accrued thereon.

C KCRC Cross Border Lease Agreements

US CBL Assumption Agreements

Separate US CBL Assumption Agreements were entered into on 30 November 2007 between the Company, KCRC and, variously, Wilmington Trust Company, Buoyant Asset Limited, BA Leasing & Capital Corporation, Utrecht-America Finance Co., Cooperatieve Centrale Raiffeisen-Boerenleenbank B.A., Advanced Asset Limited, Washoe Asset Management Company, Quality Asset Limited, Kasey Asset Limited, Key Equipment Finance Inc., Mercantile Leasing Company (No 132) Limited, Landesbank Sachsen Aktiengesellschaft, Barclays Bank PLC, Bayerische Landesbank Girozentrale, U.S. Bank National Association, Circuit Asset Limited, Citicorp USA Inc., Shining Asset Limited, Banc of America FSC Holdings Inc., Fluent Asset Limited, Anzeif Limited, Societe Generale, Australia and New Zealand Banking Group Limited, Statesman Asset Limited, State Street Bank and Trust Company and Bowman Asset Limited and became effective on 3 December 2007, with respect to each of the US cross border leases originally entered into between KCRC and certain counterparties (each, a "CBL"). Pursuant to each US CBL Assumption Agreement, the Company undertakes to perform, on a joint and several basis with KCRC, the obligations of KCRC under the respective CBLs. As a result thereof, the Company is generally liable to the CBL counterparties in respect of KCRC's obligations under the CBLs and has the right to exercise certain of KCRC's rights under the CBLs.

US CBL Allocation Agreement

The US CBL Allocation Agreement was entered into between the Company, KCRC and the subsidiaries of KCRC (the "KCRC Subsidiaries") on 2 December 2007. Pursuant to the US CBL Allocation Agreement, rights, obligations and responsibility for risks relating to the CBLs are delineated and allocated between KCRC and the Company (each of which is jointly and severally liable to specified CBL counterparties, as referred to in the paragraph above headed "US CBL Assumption Agreements"). Under the terms of the US CBL Allocation Agreement, as between the Company and KCRC, the Company is responsible for specified obligations. The Company and KCRC each made representations under the US CBL Allocation Agreement, which include, in the case of those

made by KCRC, representations with respect to the status of the CBLs. The Company and KCRC agreed to indemnify each other for certain losses in relation to the CBLs.

D Property Package Agreements

Category 2A Properties

On 9 August 2007, the Government entered into an undertaking that it would, within twelve months of the Merger Date or such further period of time as the Government and the Company may agree, issue to KCRC an offer for the grant at nil premium of Government leases in respect of the land upon which certain properties (the "Category 2A Properties") are situated (the "said Government Leases"). The Category 2A Properties were held by KCRC as vested land under the Kowloon-Canton Railway Corporation Ordinance (Cap. 372 of the Laws of Hong Kong) ("KCRC Ordinance"). On 9 August 2007, KCRC entered into an undertaking that it would, immediately after the grant of the said Government Leases referred to in the preceding sentence, enter into agreements for sale and purchase to sell the Category 2A Properties to the Company (the "said Agreements for Sale and Purchase"). Assignments of the Category 2A Properties to the Company shall then take place pursuant to the said Agreements for Sale and Purchase (the said "Assignments"). Pursuant to the KCRC undertaking and as interim arrangements until the grant of the Government leases, on 9 August 2007 the following agreements were entered into between KCRC and the Company:

- an agreement that KCRC (as lessor) shall enter into tenancy agreements with the Company (as lessee) at market rent in respect of the Category 2A Properties' vacant units (with the intention that the Company will then sub-let the vacant units to sub-tenants),
- two licence agreements in respect of the common areas within the Category 2A Properties, pursuant to which KCRC granted the Company the right to use certain common areas until the execution of the Category 2A Properties assignment referred to above,
- a lease enforcement agency agreement appointing the Company as its enforcement agent to enforce KCRC's current Category 2A Properties tenancy agreements against tenants, and
- an assignment of rental proceeds whereby the proceeds received under KCRC's current Category 2A Properties tenancy agreements with tenants are assigned to the Company.

The said Government Leases were issued to KCRC respectively on 27 March 2009 and 31 March 2009. The said Agreements for Sale and Purchase were entered into between KCRC and the Company on 27 March 2009 and 31 March 2009 respectively and the said Assignments to the Company were executed on 27 March 2009 and 31 March 2009 respectively.

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Deeds of Mutual Grant were also entered into between the Company and KCRC on 27 March 2009 and 31 March 2009 respectively setting out the easements, rights, entitlements, privileges and liberties of the Company and KCRC in the land on which the Category 2A Properties are situated

Category 2B Property

On 9 August 2007, the Government entered into an undertaking that it would, within twenty four months of the Merger Date or such further period of time as the Government and the Company may agree, issue to the Company an offer for the grant of a Government Lease of a certain property (the "Category 2B Property") on terms to be agreed. The Category 2B Property is currently held by KCRC as vested land under the KCRC Ordinance for use as staff quarters and a recreational club

On 9 August 2007, KCRC entered into an undertaking relating to interim arrangements to ensure that, as from the Merger Date, the Company shall be responsible for KCRC's obligations under licence agreements relating to the Category 2B Property, and for enforcing such agreements. The Company is entitled to proceeds received by KCRC in respect of those licence agreements. The interim arrangements include, inter alia, as from the Merger Date

- an agreement that KCRC (as licensor) shall grant to the Company (as licensee) possession of the Category 2B Property (without payment of any licence fee or premium), subject to existing licences and the Second Schedule of the KCRC Ordinance, with the right of the Company to sub-license all or any part of the Category 2B Property (subject to it being used as staff quarters and a recreation club),
- until the grant of the Government lease of the Category 2B Property, KCRC has appointed the Company as its enforcement agent to enforce KCRC's current Category 2B Property licence agreements against licensees, and
- KCRC has assigned to the Company the proceeds received under KCRC's current Category 2B Property licence agreements with licensees

The basic terms offer for the Category 2B Property (i.e. Trackside Villas) was issued and accepted by the Company on 31 December 2009 and the Government Lease in respect of Tai Po Town Lot No. 199 dated 29 March 2010 was issued for a term of 50 years from 2 December 2007

Category 3 Properties

On 9 August 2007, the Company entered into three agreements (the "Category 3 Agreements") and related powers of attorney with KCRC. Each Category 3 Agreement relates to a certain property (each a "Category 3 Property"). KCRC has previously entered into a development agreement in respect of each Category 3 Property. None of the rights and obligations granted to or undertaken by the Company under the Category 3 Agreements may be exercised or performed

by the Company if they relate exclusively to concession property situate on any Category 3 Property. Matters affecting the concession property situate on any Category 3 Property are dealt with under the terms of the Service Concession Agreement (as defined and summarised on pages 142 to 143)

Pursuant to the terms of each Category 3 Agreement, the Company has been appointed to act as KCRC's agent, and donee under powers of attorney, to exercise rights and to perform obligations of KCRC which relate to the Category 3 Property (but excluding the right or obligation to dispose of the relevant Category 3 Property)

The Company is required at all times to comply with statutory restrictions and obligations binding on KCRC which relate to the Category 3 Property, and shall pay all amounts due and payable from KCRC which have been incurred by KCRC as a result of the Company's actions

In acting as KCRC's agent, the Company is required to act according to prudent commercial principles, and aim to maximise gross profits under the Category 3 Property and to run a safe and efficient railway. In order to assist the Company in performing its agency functions, KCRC has granted powers of attorney to the Company. The Company may only use the powers of attorney to exercise rights and perform obligations conferred or undertaken by it under the relevant Category 3 Agreement. As well as acting as KCRC's agent, the Company has the right to give KCRC instructions in respect of any action or matter relating to each Category 3 Property (including its related development agreement) which the Company is unable to take by reason of the limitation of the scope of its agency powers. KCRC is required to comply promptly with those instructions provided that it is permitted under law, and under the relevant Government grant, to carry out those instructions

KCRC is required to account for revenue received in respect of a Category 3 Property by way of balance sheet movement (rather under its profit and loss account), provided that such treatment is permitted under law and accounting principles and practices

KCRC shall not take any action in respect of a Category 3 Property which is not carried out by the Company (acting as KCRC's agent), or according to the Company's instructions, or otherwise in accordance with the terms of the Category 3 Agreement

As consideration for acting as KCRC's agent, the Company shall be paid a fee which is expected to be similar in quantum to the profits made by KCRC in respect of the relevant Category 3 Property (after deducting certain initial and upfront payments and consultant contribution costs, in each case paid or to be paid by the relevant developer to KCRC). Generally, the Company's fee shall be payable in instalments promptly following receipt of relevant funds by KCRC (but subject to specified deductions of amounts due from KCRC to the relevant Category 3 Property developer)

The Company has agreed to give certain indemnities to KCRC in respect of each Category 3 Property

The Company shall be the first manager, or shall ensure that a manager is appointed in respect of, each Category 3 Property (once developed)

The Company's appointment as agent shall terminate when KCRC ceases to have any undivided share in the relevant Category 3 Property, other than concession property, and neither KCRC nor the developer nor the guarantors have any further rights to exercise, or obligations to perform, under the development agreement relating to the relevant Category 3 Property

In relation to the Merger Framework Agreement, the West Rail Agency Agreement (and related powers of attorney), the US CBL Assumption Agreements, the US CBL Allocation Agreement and the agreements in relation to Category 2A, Category 2B and Category 3 Properties (together the "Merger-related Continuing Connected Transactions") and in accordance with paragraph 8(l)(i) of the Merger-related Waiver, the Company confirms that the Independent Non-executive Directors of the Company have reviewed each of the Merger-related Continuing Connected Transactions and confirmed that the Merger-related Continuing Connected Transactions were entered into

- (1) in the ordinary and usual course of business of the Company,
- (2) on normal commercial terms or on terms which are no less favourable to the Company than terms available to or from independent third parties, and
- (3) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole

The Company has engaged the auditors of the Company to carry out a review of each of the Merger-related Continuing Connected Transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. In accordance with paragraph 8(l)(ii) of the Merger-related Waiver, the auditors have provided a letter to the Board confirming that

- (a) nothing has come to their attention that causes them to believe that the Merger-related Continuing Connected Transactions have not been approved by the Board, and
- (b) nothing has come to their attention that causes them to believe that the Merger-related Continuing Connected Transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions

II Non Merger-related Continuing Connected Transactions with Government and/or its Associates

As disclosed in the announcement of the Company dated 13 January 2005, the Stock Exchange has granted a waiver to the Company from strict compliance with the requirements under Chapter 14A of the Listing Rules which would otherwise apply to connected transactions and continuing connected transactions between the Company and the Government, subject to certain conditions (the "Waiver")

The following disclosures are made in accordance with paragraph (B)(l) of the Waiver and Rule 14A.46 of the Listing Rules

A1 Entrustment Agreement for Design and Site Investigation in Relation to the Shatin to Central Link

The Entrustment Agreement for Design and Site Investigation in Relation to the Shatin to Central Link (the "First SCL Agreement") was entered into on 24 November 2008 between the Company and the Secretary for Transport and Housing for and on behalf of the Government

The First SCL Agreement contains provisions for the design of and site investigation and procurement activities in relation to the proposed Shatin to Central Link, including in relation to

- the Government's obligation to pay the Company up to a maximum aggregate amount of HK\$1,500 million in respect of certain costs incurred by the Company pursuant to the First SCL Agreement, including the Company's in-house design costs and certain on-costs and preliminary costs,
- the Government's obligation to bear and finance the total cost of the design and site investigation activities under the First SCL Agreement (subject to the limit noted above in respect of payments to the Company) and arrangements for the payment of these costs directly by the Government,
- the Company's obligation to carry out or procure the carrying out of the design and site investigation activities in relation to the proposed Shatin to Central Link,
- the limitation of the Company's liability to the Government under the First SCL Agreement, except in respect of death or personal injury caused by the negligence of the Company, to HK\$600 million, and
- should the railway scheme for the Shatin to Central Link be authorised under the Railways Ordinance (Cap 519 of the Laws of Hong Kong), the execution of a further agreement by the Government and the Company setting out each of their rights, obligations, duties and powers with respect to the financing, construction, completion, testing, commissioning and putting into service the works necessary for the construction and operation of the Shatin to Central Link

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A2 Entrustment Agreement for Advance Works Relating to the Shatin to Central Link

The Entrustment Agreement for Advance Works Relating to the Shatin to Central Link (the "Second SCL Agreement") was entered into on 17 May 2011 between the Company and the Secretary for Transport and Housing for and on behalf of the Government

The Second SCL Agreement contains the following provisions

- in consideration of the Company executing or procuring the execution of certain entrustment activities as set out in the Second SCL Agreement and carrying out its other obligations under the Second SCL Agreement, the Government shall pay to the Company the Company's project management cost. The amount of such project management cost is to be agreed between the Company and the Government and prior to such agreement, the project management cost shall be paid by the Government to the Company on a provisional basis calculated in accordance with the Second SCL Agreement,
- the Company and the Government may agree that the Company will carry out (or procure the carrying out of) certain additional works for the Government (such agreed additional works being "miscellaneous works"). Miscellaneous works (if any) are to be carried out by the Company in the same manner as if they had formed part of the activities specified to be carried out under the Second SCL Agreement and in consideration of the Company executing or procuring the execution of such miscellaneous works (if any) and carrying out its other obligations under the Second SCL Agreement in relation to such miscellaneous works (if any), the Government shall pay to the Company an amount to be agreed between the Company and the Government as being the project management fee payable to the Company for designing and constructing such miscellaneous works,
- the Government shall bear all of the "Works Cost" (as defined in the Second SCL Agreement). In this connection, the Government will make payments to the Company in respect of the Works Cost on a provisional basis, subject to adjustments when the final outturn cost of the Works Cost is determined,
- the Government shall bear land acquisition, clearance and related costs and those costs which are incurred by the Lands Department in connection with the Shatin to Central Link project,
- the maximum aggregate amount payable by the Government to the Company under the Second SCL Agreement is limited to approximately HK\$3,000 million per annum and a total in aggregate of approximately HK\$15,000 million,
- the Company shall carry out or procure the carrying out of certain enabling works on the expanded Admiralty Station and the to be constructed Ho Man Tin Station, the reprovisioning of the International Mail Centre from Hung Hom to Kowloon Bay and other works as described under the Second SCL Agreement,
- the Company's total liability to the Government under the First SCL Agreement and the Second SCL Agreement, except in respect of death or personal injury caused by the negligence of the Company, is limited to the aggregate fees that have been and will be received by the Company from the Government under the First SCL Agreement and the Second SCL Agreement,
- the Company will provide to Government by the end of each calendar month, a progress report on the activities under the Second SCL Agreement that were carried out in the immediately preceding calendar month and, within three months following the completion of the relevant works, a final report on the activities required to be carried out under the Second SCL Agreement,
- the Company shall be responsible for the care of all works constructed under the Shatin to Central Link project from the commencement of construction until the date of handover of those works to the Government and for completing or procuring the completion of any outstanding works and/or defective works identified prior to the handover of the works,
- during the period of twelve years following the issue of a certificate of completion by the Company in respect of work carried out under any contract with any third party, the Company shall be responsible for the repair of any defects in such work that are identified following the expiry of any defects liability period under the relevant contract,
- the Company warrants that
 - in the case of those activities under the Second SCL Agreement that relate to the provision of project management services, such activities shall be carried out with the skill and care reasonably to be expected of a professional and competent project manager,
 - in the case of those activities under the Second SCL Agreement that relate to the provision of design services, such activities shall be carried out with the skill and care reasonably to be expected of a professional and competent design engineer, and
 - in the case of those activities under the Second SCL Agreement that relate to the carrying out of construction activities, such activities shall be carried

out with the skill and care reasonably to be expected of, and by utilising such plant, goods and materials reasonably to be expected from, a competent and workmanlike construction contractor, and

- the Government further undertakes to use reasonable endeavours to provide the Company with assistance of a non-financial nature, including taking all reasonable steps to procure that all necessary licences and consents, required in connection with the design, construction and operation of the Shatin to Central Link are given or granted

B1 Entrustment Agreement for Design and Site Investigation in Relation to the Express Rail Link (Hong Kong Section of the Guangzhou Shenzhen-Hong Kong Express Rail Link)

The Entrustment Agreement for Design and Site Investigation in Relation to the Express Rail Link (the "First XRL Agreement") was entered into on 24 November 2008 between the Company and the Secretary for Transport and Housing for and on behalf of the Government

The First XRL Agreement contains provisions for the design of and site investigation and procurement activities in relation to the proposed Express Rail Link, including in relation to

- the Government's obligation to pay the Company, up to a maximum aggregate amount of HK\$1,500 million, in respect of certain costs incurred by the Company pursuant to the First XRL Agreement, including the Company's in-house design costs and certain on-costs, preliminary costs and recruited staff costs,
- the Government's obligation to bear and finance the total cost of the design and site investigation activities under the First XRL Agreement (subject to the limit noted above in respect of payments to the Company) and arrangements for the payment of these costs directly by the Government,
- the Company's obligation to carry out or procure the carrying out of the design and site investigation activities in relation to the proposed Express Rail Link,
- the limitation of the Company's liability to the Government under the First XRL Agreement, except in respect of death or personal injury caused by the negligence of the Company, to HK\$700 million, and
- should the railway scheme for the Express Rail Link be authorised under the Railways Ordinance (Cap 519 of the Laws of Hong Kong), the execution of a further agreement by the Government and the Company setting out each of their rights, obligations, duties and powers with respect to the financing, construction, completion, testing, commissioning and putting into service the works necessary for the construction and operation of the Express Rail Link.

B2 Entrustment Agreement for Construction, Testing and Commissioning of the Express Rail Link

The Entrustment Agreement for the construction and commissioning of the Express Rail Link was entered into on 26 January 2010 between the Company and the Secretary for Transport and Housing for and on behalf of the Government (the "Second XRL Agreement")

The scheme in respect of the Express Rail Link was first gazetted under the Railways Ordinance (Cap 519 of the Laws of Hong Kong) on 28 November 2008, with amendments and corrections gazetted on 30 April 2009. The scheme, as amended with such minor modifications as deemed necessary, was authorised by the Chief Executive in Council on 20 October 2009 and funding support approved by the Finance Committee on 16 January 2010

The Second XRL Agreement contains the following provisions

- in consideration of the Company executing or procuring the execution of certain entrustment activities as set out in the Second XRL Agreement and carrying out its other obligations under the Second XRL Agreement and the First XRL Agreement, the Government shall pay to the Company HK\$4,590 million, to be paid in cash quarterly in advance on a scheduled basis as such sum may be varied in accordance with the Second XRL Agreement, subject to the maximum payment limits stated in the Second XRL Agreement (being HK\$2,000 million annually and HK\$10,000 million in total) (the "Maximum Payment Limits"),
- the Company and the Government may agree that the Company will carry out (or procure the carrying out of) certain additional works for the Government (such as agreed additional works being "miscellaneous works") Miscellaneous works (if any) are to be carried out by the Company in the same manner as if they had formed part of the activities specified to be carried out under the Second XRL Agreement and in consideration of the Company executing or procuring the execution of the miscellaneous works (if any) and carrying out its other obligations under the Second XRL Agreement in relation to the miscellaneous works (if any), the Government shall pay to the Company an amount equal to an agreed fixed percentage of third party costs attributable to the miscellaneous works from time to time subject to the Maximum Payment Limits,
- the Company will provide to the Government by the end of each calendar month, a progress report on the activities under the Second XRL Agreement that were carried out in the immediately preceding calendar month and, within three months following the earlier of handover of the Express Rail Link project to the Government or termination of the Second XRL Agreement, a final report on the activities required to be carried out under the Second XRL Agreement,

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- the Company shall be responsible for the care of all works constructed under the Express Rail Link project from the commencement of construction until the date of handover of those works to the Government (or to a third party directed by the Government) and for completing or procuring the completion of any outstanding works and/or defective works identified prior to the handover of the works,
- during the period of twelve years following the issue of a certificate of completion by the Company in respect of work carried out under any contract with any third party, the Company shall be responsible for the repair of any defects in such work that are identified following the expiry of any defects liability period under the relevant contract,
- the Company warrants that
 - in the case of those activities under the Second XRL Agreement that relate to the provision of project management services, such activities shall be carried out with the skill and care reasonably to be expected of a professional and competent project manager,
 - in the case of those activities under the Second XRL Agreement that relate to the provision of design services, such activities shall be carried out with the skill and care reasonably to be expected of a professional and competent design engineer, and
 - in the case of those activities under the Second XRL Agreement that relate to the carrying out of construction activities, such activities shall be carried out with the skill and care reasonably to be expected of, and by utilising such plant, goods and materials reasonably to be expected from, a competent and workmanlike construction contractor,
- the Government is required to bear (i) any costs payable to third parties, (ii) any charges, costs or amounts payable to any Government department, bureau, agency or body in relation to the activities to be carried out under the Second XRL Agreement, (iii) any and all amounts payable to KCRC as compensation for damage arising as a result of the Company and/or a third party contractor carrying out activities under the Second XRL Agreement, and (iv) all land acquisition, clearance and related costs (including all amounts arising as a result of any claim for compensation by any third party) and those costs which are incurred by the Lands Department in connection with the Express Rail Link project, and

- the Government further undertakes to use reasonable endeavours to provide the Company with assistance of a non-financial nature, including taking all reasonable steps to procure that all necessary licences and consents, required in connection with the design, construction and operation of the Express Rail Link are given or granted

The Government has agreed that the Company has been asked to proceed with the construction, testing and commissioning of the Express Rail Link (pursuant to and on the terms of the Second XRL Agreement) on the understanding that the Company will be invited to undertake the operation of the Express Rail Link under the concession approach

The Second XRL Agreement remains in full force and effect until the completion of the activities set out in the Second XRL Agreement or until terminated earlier in accordance with the terms of the Second XRL Agreement. The Company expects that the substantial majority of the activities to be carried out under the Second XRL Agreement will be complete by the time of the projected handover of the completed Express Rail Link in mid-2015. However certain activities involve the provision of specified administrative services to the Government, the Company expects to provide these services for a number of years following the completion of the Express Rail Link project. Notwithstanding this, certain provisions will remain in force following completion of the activities set out in the Second XRL Agreement, for example, provisions regarding confidentiality and dispute resolution

C Renewal of the existing Maintenance Agreement for the Automated People Mover System at the Hong Kong International Airport

The Company has had entered into a Maintenance Agreement with the AA for the maintenance of the Automated People Mover system at the Hong Kong International Airport since 2002. It was signed on 18 March 2002 for a period of three years, which expired on 6 July 2005. A Supplemental Agreement was agreed with the AA, and approved by the Board in June 2005, to extend the Maintenance Agreement for another three years until 6 July 2008, which also included options for the Automated People Mover serving the Sky Plaza and Sky Pier terminal buildings

On 21 August 2008, the Company entered into a new Maintenance Agreement with the AA, for the renewal of the then expired Maintenance Agreement for the Automated People Mover system for a five year period (the "New Maintenance Agreement"), effective from 6 July 2008. It is expected that the highest amount per year receivable from the AA under the New Maintenance Agreement will be HK\$37 million

The New Maintenance Agreement contains provisions relating to the operation and maintenance by the Company of the automated people mover system installed at Hong Kong International Airport (the "System") and the carrying out by

the Company of certain specified services in respect of the System, they including the following

- provisions stating that the duration of the New Maintenance Agreement shall be five years from 6 July 2008 up to and including 5 July 2013,
- provisions relating to the performance of scheduled maintenance works and overhaul of the System by the Company,
- provisions relating to monitoring the System for any breakdown and the Company providing repair services where necessary,
- provisions relating to the standards to which the Company must operate the System, and
- provisions relating to the carrying out by the Company (as additional services), in certain circumstances, of upgrade work on the System

D Project Agreement for the Financing, Design, Construction and Operation of the West Island Line
The Project Agreement for the Financing, Design, Construction and Operation of the West Island Line (the "WIL Project Agreement") was entered into on 13 July 2009 between the Company and the Secretary for Transport and Housing for and on behalf of the Government

The WIL Project Agreement contains provisions for the financing of and the carrying out, or procuring the carrying out, of the design, construction, completion, testing and commissioning by the Company of the railway works required in order to bring the West Island Line into operation in accordance with the MTR Ordinance, the Operating Agreement between the Company and the Secretary for Transport and Housing for and on behalf of the Government dated 9 August 2007 and the WIL Project Agreement. The West Island Line will be owned, operated and maintained by the Company for its own account for the period of the Company's railway franchise. The WIL Project Agreement includes provisions in relation to

- payment by the Government of HK\$12,252 million to the Company in consideration of the Company's obligations under the WIL Project Agreement, such sum constituting funding support from the Government for the Company to implement the West Island Line project,
- within 24 months of commercial operations commencing on the West Island Line on a revenue earning basis and providing scheduled transport for the public, payment by the Company to the Government of any "Repayment Amounts" for any over-estimation of certain capital expenditure, price escalation costs, land costs and the amount of contingency in relation to the railway works and reprovisioning, remedial and improvement works (together with interest),

- the design, construction and completion of the associated reprovisioning, remedial and improvement works (the cost of which shall be the responsibility of the Company) and the associated essential public infrastructure works (the cost of which shall be the responsibility of the Government),
- the Company's responsibility for costs relating to land acquisition, clearance and related costs arising from the implementation of the West Island Line project (save for costs arising from certain claims for compensation by third parties) and all costs, expenses and other amounts incurred or paid by the Lands Department pursuant to the involvement of the Lands Department in connection with the implementation of the West Island Line project, and
- the Company carrying out measures specified in the environmental impact assessment and the environmental permit issued by the Government to the Company in relation to the West Island Line on 12 January 2009

The construction of the West Island Line is scheduled to take place between the date of the WIL Project Agreement and 2014

In relation to the First SCL Agreement, the Second SCL Agreement, the First XRL Agreement, the Second XRL Agreement, the New Maintenance Agreement and the WIL Project Agreement (together the "Non Merger-related Continuing Connected Transactions") and in accordance with paragraph B(I)(iii)(a) of the Waiver, the Company confirms that the Independent Non-executive Directors of the Company have reviewed each of the Non Merger-related Continuing Connected Transactions and confirmed that the Non Merger-related Continuing Connected Transactions were entered into

- (1) in the ordinary and usual course of business of the Company,
- (2) on normal commercial terms or on terms which are no less favourable to the Company than terms available to or from independent third parties, and
- (3) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole

The Company has engaged the auditors of the Company to carry out a review of each of the Non Merger-related Continuing Connected Transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. In accordance with paragraph B(I)(iii)(b) of the Waiver, the auditors have provided a letter to the Board confirming that

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(a) nothing has come to their attention that causes them to believe that the Non Merger-related Continuing Connected Transactions have not been approved by the Board, and

(b) nothing has come to their attention that causes them to believe that the Non Merger-related Continuing Connected Transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions

III Non Merger-related Continuing Connected Transactions with parties other than Government and/or its Associates

The following disclosures are made in accordance with Rule 14A 46 of the Listing Rules

A Pre-Existing UGL Contract and Pre-Existing Supplemental UGL Contract for the provision of maintenance and other services for certain trains

Metro Trains Melbourne Pty Ltd ("MTM") is a joint venture company incorporated in Australia. The Company controls 60% of the voting power at any general meeting of MTM and each of UGL and John Holland controls 20% of the voting power at any general meeting of MTM. Accordingly, subsequent to the Company entering into the Pre-Existing UGL Contract as amended by the Pre-Existing Supplemental UGL Contract (each, as defined below), UGL is treated as a substantial shareholder of MTM (a subsidiary of the Company) and therefore a "connected person" of the Company within the meaning of Chapter 14A of the Listing Rules. The Pre-Existing UGL Contract (as amended by the Pre-Existing Supplemental UGL Contract) is therefore a "continuing connected transaction" within the meaning of Rule 14A 14 of the Listing Rules.

On 11 January 2002, the Company entered into a contract with UGL for the provision of maintenance and other services in respect of trains at certain depots for a period of seven years commencing on or around 1 October 2002 to 30 September 2009 (the "Pre-Existing UGL Contract"). The commencement date was subsequently advanced by three months. On 14 April 2009, the Company entered into a supplemental agreement with UGL for the extension of the Pre-Existing UGL Contract for a further period of seven years from 1 August 2009 and for the transfer of the provision of certain services to the Kowloon depot (the "Pre-Existing Supplemental UGL Contract").

The Pre-Existing UGL Contract (as amended by the Pre-Existing Supplemental UGL Contract) provides for the provision of maintenance and other services by UGL in respect of 15 G/H stock trains used by the Company on the Kwun Tong Line, the Island Line, the Tsuen Wan Line and the Tseung Kwan O Line, in each case at the Tseung Kwan O depot and the Kowloon depot, including provisions in relation to

- payment by the Company of a total sum of approximately HK\$171,966,450 to UGL (including for variations and additional works) in consideration of UGL providing certain services between 1 August 2002 and 31 July 2009 and payment by the Company of HK\$152,940,000 to UGL for the extended term of seven years pursuant to the Pre-Existing Supplemental UGL Contract (which amount is to be paid on a scheduled basis), subject to certain adjustments, including for the level of performance by the relevant trains,
- indemnification by UGL of the Company against certain losses and expenses sustained by the Company arising out of or in connection with UGL carrying out its obligations under the Pre-Existing UGL Contract (as amended by the Pre-Existing Supplemental UGL Contract),
- maintenance by UGL of insurance in relation to certain liabilities to the Company,
- the Company effecting and maintaining third party insurance covering the legal liability of both UGL and the Company for accidental death or injury to persons or accidental loss of or damage to property, in each case, arising out of the UGL's obligations under the Pre-Existing UGL Contract (as amended by the Pre-Existing Supplemental UGL Contract), and
- the Company maintaining "Contractors All Risks" insurance covering loss or damage to certain goods, equipment and temporary buildings at the Tseung Kwan O depot and the Kowloon depot.

The terms of the Pre-existing UGL Contract were agreed upon subsequent to a tender process that invited submissions from a number of contractors, including UGL. UGL was selected by the Company in accordance with the Company's established procedures for the assessment of tenders.

The Company regularly outsources certain services to third parties that specialise in the type of work outsourced, thereby improving the efficiency of the Company's operations and allowing the Company to concentrate its resources on its core business areas. UGL is a specialist in the provision of construction, refurbishment and maintenance services to the railway industry.

B Supplemental Agreement for the extension of the Original Contract for the Mid-Life Refurbishment of Phase 1 Light Rail Vehicles

The Supplemental Agreement for the extension of the Original Contract (defined below) for the Mid-Life Refurbishment of Phase 1 Light Rail Vehicles ("Phase 1 LRVs"), was entered into on 26 February 2010 between the Company and UGL (the "Supplemental Agreement").

On 30 November 2007, KCRC entered into the Original Contract with UGL (the "Original Contract"), for the refurbishment of the Phase 1 LRVs for a period of 45 months from 30 November 2007 to 31 August 2011. On 2 December 2007, the rights and obligations of KCRC under the Original Contract were vested in the Company pursuant to section 52(B) of the MTR Ordinance. The Supplemental Agreement extends the Original Contract for a further period of 16 months from 31 August 2011 until 31 December 2012. The Original Contract (as amended and supplemented by the Supplemental Agreement) is in substantially the same form as KCRC's standard conditions of contract for engineering works and contains the following provisions:

- in consideration of UGL providing the Refurbishment Works (defined below) under the Original Contract, the Company is obliged to pay UGL a total sum of approximately HK\$48,260,000 (excluding amounts for variations and additional works). The Supplemental Agreement, inter alia, extended the scope of the Refurbishment Works of the Original Contract and the consideration payable by the Company to UGL for such extension is HK\$83,736,143, as adjusted by an additional HK\$14,435,327 (the "Contract Sum"). The total sum under the Original Contract plus the Contract Sum is to be paid progressively based on materials delivered and on works completed as set out in the Supplemental Agreement, subject to adjustments to take account of variations made by the Company's Chief Electrical and Mechanical Engineer (the "Engineer") to the scope of the Refurbishment Works. The maximum aggregate amount payable annually by the Company under the Original Contract plus the Contract Sum is approximately HK\$78,632,000,
- the Company is obliged to effect "Contractor's All Risks" and "Third Party Liability" insurance with a third party liability limit of not less than HK\$30 million,
- UGL shall carry out a carbody structure review to assess the mechanical condition of the Phase 1 LRVs, refurbish the drivers' consoles, the operators' seats and the passenger saloons of the Phase 1 LRVs, conduct a brake software upgrade of the Phase 1 LRVs, and carry out further miscellaneous repairs to the Phase 1 LRVs (together the "Refurbishment Works"),
- UGL shall indemnify the Company against any certain losses or expenses which may arise out of or in connection with the Refurbishment Works, subject to any proportionate reduction in liability on account of any related negligence by the Company, its employees or agents, the Engineer or those appointed by the Engineer,
- UGL shall indemnify the Company against certain damages, compensation, costs and expenses in respect of any damages or compensation payable at law in respect of or in consequence of any accident, injury or illness to any person in the employment of UGL arising out of and in the course of such employment,
- UGL shall effect and maintain insurance with a limit of not less than HK\$100 million in relation to certain of its liabilities for the period commencing on 30 November 2007 until the date of the completion of the Refurbishment Works,
- UGL's liability to indemnify the Company is reduced proportionally to the extent that any act or omission of the Company, its employees or agents, the Engineer or those appointed by the Engineer, caused or contributed to the relevant death, illness, injury, loss or damage and the total liability of UGL shall not exceed 100% of the total sum payable under the Original Contract, save and except for UGL's liability for death, personal injury, wilful misconduct, fraud and infringement of third party intellectual property rights, and
- the total liability of UGL to the Company for liquidated damages arising as a result of delay is limited to 10% of the total sum payable under the Original Contract and, subject to the provisions regarding liquidated damages, UGL is not liable for any kind of economic, financial, indirect or consequential loss or damage, including but not limited to loss of profit, loss of use, loss of production, loss of any contract and the like, suffered by the Company.

Pursuant to the Original Contract, a bank guarantee issued by HSBC Bank Australia Limited has been provided to the Company in respect of the obligations of UGL under the Original Contract.

If UGL fails to complete the Refurbishment Works within the contract period, the Engineer may terminate the contract by notice in writing to UGL.

C Contract 903 between the Company and LCAL relating to certain works on the South Island Line (East)

As mentioned above, MTM is a joint venture company incorporated in Australia. MTM is a non-wholly owned subsidiary of the Company and each of UGL and John Holland controls 20% of the voting power at any general meeting of MTM.

Accordingly, John Holland is treated as a substantial shareholder of MTM. John Holland, JHL and LCAL are indirect wholly-owned subsidiaries of Leighton Holdings Limited. On this basis, JHL and LCAL are both associates of John Holland under the Listing Rules. Therefore, each of John Holland, JHL and LCAL is a "connected person" of the Company within the meaning of Chapter 14A of the Listing Rules. Contract 903 (as defined below) is therefore a "continuing connected transaction" within the meaning of Rule 14A.14 of the Listing Rules.

REPORT OF THE MEMBERS OF THE BOARD

On 17 May 2011, the Company and LCAL entered into Contract 903 ("Contract 903") for the construction of certain works relating to the Aberdeen Channel Bridge, Wong Chuk Hang Station and Ocean Park Station in respect of the South Island Line (East) (the "Contract 903 Works")

Contract 903 is in substantially the same form as the Company's standard conditions of contract for engineering works and contains the following provisions

- the principal obligation of LCAL under Contract 903 is the construction of the Contract 903 Works,
- LCAL shall indemnify the Company against any loss or expense sustained by the Company and against all losses and claims in respect of death or injuries or damage to any person or property whatsoever which may arise out of or in consequence of the execution of the Contract 903 Works and against all claims, proceedings, damages, costs, charges and expenses whatsoever in respect of or in relation thereto, except for compensation or damages related to the permanent use or occupation of land by the Contract 903 Works, or the right of the Company to execute the Contract 903 Works on any part of the land, or on account of any negligence by the Company, its agents, servants or other contractors, not being employed by LCAL,
- LCAL shall indemnify the Company against all damages and compensation and against all claims, demands, proceedings, costs, charges and expenses whatsoever in respect of any damages or compensation payable at law in respect of or in consequence of any accident, injury or illness to any workman or other person in the employment of LCAL or its sub-contractors or suppliers arising out of and in the course of such employment,
- LCAL shall effect and maintain insurance with a limit of not less than HK\$200 million in relation to certain of its liabilities for the period commencing on 29 April 2011 until 30 June 2016,
- a bond issued by Chartis Insurance Hong Kong Limited will be provided to the Company in respect of the obligations of LCAL under Contract 903,
- LCAL's liability to indemnify the Company is reduced proportionally to the extent that any act or neglect of the Company, the Engineer or any other person employed by the Company in connection with the Contract 903 Works, their respective agents, employees or representatives, may have contributed to the relevant death, illness, or damage. The total liability of LCAL to the Company for all damages (liquidated damages and general) for delay shall not exceed 10% of the target cost plus fees as calculated under Contract 903,
- the total amount payable by the Company to LCAL under Contract 903 is HK\$2,513,394,379, which includes the target cost for the Contract 903 Works and fees to LCAL. From time to time the scope of the Contract 903 Works may vary and the Company will be obliged to revise the fees payable to LCAL in accordance with the terms of the Contract,
- the Company is obliged to pay the target cost for the Contract 903 Works to LCAL on a scheduled basis set out in Contract 903. If the final total cost of the Contract 903 Works exceeds or is less than the target cost for the Works, the deficit or, as the case may be, the excess will be borne by or, as the case may be, distributed to the Company and LCAL on a basis calculated in accordance with Contract 903,
- the maximum aggregate amount payable annually by the Company under Contract 903 is approximately HK\$1,400 million. As payments by the Company to LCAL are paid on a scheduled basis as set out in Contract 903, the maximum aggregate annual amount is set by reference to the highest amount payable by the Company in any given year under such schedule,
- the Company is obliged to effect "Contractor's All Risks" and "Third Party Liability" insurance with a third party liability limit of not less than HK\$700 million, and
- the Company may at any time, by giving 30 days' notice in writing to LCAL, terminate Contract 903 but without prejudice to any claims by the Company for breach of contract.

D Contract 904 between the Company, LCAL and JHL relating to certain works on the South Island Line (East)
On 17 May 2011, the Company, LCAL and JHL (LCAL and JHL being "the Contractors") entered into Contract 904 ("Contract 904") for the construction of certain works relating to Lei Tung Station and South Horizons Station in respect of the South Island Line (East) (the "Contract 904 Works")

As explained above, as the Contractors are "connected persons" under the Listing Rules, Contract 904 is a "continuing connected transaction" within the meaning of Rule 14A 14 of the Listing Rules

Contract 904 is in substantially the same form as the Company's standard conditions of contract for engineering works and contains the following provisions

- the principal obligation of the Contractors is the construction of the Contract 904 Works. The obligations of the Contractors under Contract 904 are joint and several,

- the Contractors shall indemnify the Company against any loss or expense sustained by the Company and against all losses and claims in respect of death or injuries or damage to any person or property whatsoever which may arise out of or in consequence of the execution of the Contract 904 Works and against all claims, proceedings, damages, costs, charges and expenses whatsoever in respect of or in relation thereto, except for compensation or damages related to the permanent use or occupation of land by the Contract 904 Works, or the right of the Company to execute the Contract 904 Works on any part of the land, or on account of any negligence by the Company, its agents, servants or other contractors, not being employed by the Contractors,
 - the Contractors shall indemnify the Company against all damages and compensation and against all claims, demands, proceedings, costs, charges and expenses whatsoever in respect of any damages or compensation payable at law in respect of or in consequence of any accident, injury or illness to any workman or other person in the employment of the Contractors or their sub-contractors or suppliers arising out of and in the course of such employment,
 - the Contractors shall effect and maintain insurance with a limit of not less than HK\$200 million in relation to certain of its liabilities for the period commencing on 29 April 2011 until 30 June 2016,
 - a bond issued by Chartis Insurance Hong Kong Limited will be provided to the Company in respect of the obligations of the Contractors under Contract 904,
 - the Contractors' liability to indemnify the Company is reduced proportionally to the extent that any act or neglect of the Company, the Engineer or any other person employed by the Company in connection with the Contract 904 Works, their respective agents, employees or representatives, may have contributed to the relevant death, illness, or damage,
 - the total liability of the Contractors to the Company for all damages (liquidated damages and general) for delay shall not exceed 10% of the contract sum under the Contract (the contract sum being HK\$1,755,018,490),
 - the total amount payable by the Company to the Contractors under Contract 904 is the Contract Sum. From time to time the scope of Works may vary and the Company will be obliged to revise the Contract Sum in accordance with the terms of Contract 904,
 - the maximum aggregate amount payable annually by the Company under Contract 904 is approximately HK\$1,400 million. As payments by the Company to the Contractors are paid on a scheduled basis as set out in Contract 904, the maximum aggregate annual amount is set by reference to the highest amount payable by the Company in any given year under such schedule,
 - the Company is obliged to effect "Contractor's All Risks" and "Third Party Liability" insurance with a third party liability limit of not less than HK\$700 million. In addition, the Contractors have agreed to separately purchase additional cover for "Third Party Liability" insurance in the amount of AU\$485 million, and
 - the Company may at any time, by giving 30 days' notice in writing to the Contractors, terminate Contract 904 but without prejudice to any claims by the Company for breach of contract.
- In relation to the Pre-Existing UGL Contract as amended by the Pre-Existing Supplemental UGL Contract, the Original Contract (as amended), Contract 903 and Contract 904 (together the "Continuing Connected Transactions with Parties other than Government and/or its Associates") and in accordance with Rule 14A 37 of the Listing Rules, the Company confirms that the Independent Non-executive Directors of the Company have reviewed the Continuing Connected Transactions with Parties other than Government and/or its Associates and confirmed that each of the Continuing Connected Transactions with Parties other than Government and/or its Associates was entered into
- (1) in the ordinary and usual course of business of the Company,
 - (2) on normal commercial terms or on terms which are no less favourable to the Company than terms available to or from independent third parties, and
 - (3) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.
- The Company has engaged the auditors of the Company to carry out a review of the Continuing Connected Transactions with Parties other than Government and/or its Associates in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. In accordance with Rule 14A 38 of the Listing Rules, the auditors have provided a letter to the Board confirming that

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(a) nothing has come to their attention that causes them to believe that the Continuing Connected Transactions with Parties other than Government and/or its Associates have not been approved by the Board,

(b) for transactions involving the provision of goods or services by the Group, nothing has come to their attention that causes them to believe that the Continuing Connected Transactions with Parties other than Government and/or its Associates were not, in all material respects, in accordance with the pricing policies of the Group,

(c) nothing has come to their attention that causes them to believe that the Continuing Connected Transactions with Parties other than Government and/or its Associates were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions, and

(d) with respect to the aggregate amount of each of the Continuing Connected Transactions with Parties other than Government and/or its Associates, nothing has come to their attention that causes them to believe that the Continuing Connected Transactions with Parties other than Government and/or its Associates have exceeded the maximum aggregate annual value disclosed in the previous announcements dated 1 September 2009, 26 February 2010, 18 May 2011 and 18 May 2011 made by the Company in respect of each of the Continuing Connected Transactions with Parties other than Government and/or its Associates

Additional Information in respect of the Rail Merger

The Rail Merger consisted of a number of separate agreements, each of which was detailed in the circular issued by the Company on 3 September 2007 in connection with the Rail Merger, and which together formed a complete package deal which was approved by the independent shareholders of the Company at an Extraordinary General Meeting held on 9 October 2007. The information set out at paragraph A below describes the payment framework adopted in respect of the Rail Merger and paragraphs B to H below set out, summaries of the various agreements entered into by the Company in respect of the Rail Merger in addition to those agreements disclosed above under the heading "Merger-related Continuing Connected Transactions"

A Payments in connection with Merger-related Agreements
In connection with the Rail Merger, the following initial payments were made by the Company to KCRC on 2 December 2007 (being the Merger Date)

- an upfront payment of HK\$4.25 billion, payable under the Service Concession Agreement (as described in paragraph B below), being the upfront fee for the right to operate the Service Concession (as defined in paragraph B below) and the consideration for the purchased rail assets, and
 - an upfront payment of HK\$7.79 billion payable under the Merger Framework Agreement (as described on page 130) in consideration for the execution of the Property Package Agreements (as described on pages 131 to 133 and in paragraph E below) and the sale of the shares in the KCRC Subsidiaries (as defined on page 131) that were transferred to the Company under the Sale and Purchase Agreement which was entered into on 9 August 2007 between the Company and KCRC
- In addition to the initial payments above, the Company is also required to make the following payments to KCRC going forward
- fixed annual payments of HK\$750 million payable under the Service Concession Agreement, for the right to use and operate the concession property for the operation of the service concession, in arrears on the day immediately preceding each anniversary of the Merger Date which falls during the concession period in respect of the 12 month period up to and including the date on which such payment falls due, and
 - variable annual payments payable under the Service Concession Agreement, for the right to use and operate the concession property for the operation of the service concession, in each case, calculated on a tiered basis by reference to the amount of revenue from the KCRC system (as determined in accordance with the Service Concession Agreement) for each financial year of the Company. No variable annual payment is payable in respect of the first 36 months following the Merger Date
- As a complete package deal, other than the payment elements described above and unless stated otherwise in the relevant paragraph below, no specific allocation was made between the various elements of the Rail Merger
- B Service Concession Agreement**
The Service Concession Agreement was entered into on 9 August 2007 between the Company and KCRC
- The Service Concession Agreement contains provisions in relation to the grant and operation of a service concession and licence granted by KCRC to the Company ("Service Concession"), including in relation to
- the grant of the Service Concession to the Company to access, use and operate the concession property (other than KCRC railway land referred to immediately below) to certain specified standards,
 - the grant of a licence to access and use certain KCRC railway land,

- the term (being an initial period of 50 years from the Merger Date) of the Service Concession and redelivery of the KCRC system upon expiry or termination of the concession period. The Service Concession will end if the Company's franchise relating to the KCRC railway is revoked,
- the payments of an upfront payment of HK\$4.25 billion and fixed annual payments and variable annual payments (as described in paragraph A above),
- KCRC remaining the legal and beneficial owner of the concession property as at the Merger Date and the Company being the legal and beneficial owner of certain future concession property ("Additional Concession Property"),
- the regime for compensation payable by KCRC to the Company if Additional Concession Property is returned to KCRC at the end of the concession period,
- the rights and restrictions of the Company and KCRC in relation to the concession property, and
- subject to certain conditions, the Company bearing all risks, liabilities and/or costs whatsoever associated with or arising from the concession property and the land on which any of the concession property is located during the concession period.

C Sale and Purchase Agreement

The Sale and Purchase Agreement was entered into on 9 August 2007 between the Company and KCRC.

The Sale and Purchase Agreement provides the terms pursuant to which the Company acquired certain assets and contracts (the "Purchased Rail Assets") from KCRC.

The consideration for the sale of the Purchased Rail Assets (excluding the shares in the KCRC Subsidiaries) formed part of the upfront payment of HK\$4.25 billion. The consideration for the sale of the shares in the KCRC Subsidiaries (which own the Category 1A Properties referred to at paragraph E below and act as property managers) formed part of the payment of HK\$7.79 billion for the property package (as described in paragraph A above and in paragraph E below).

D Operating Agreement

The Operating Agreement was entered into on 9 August 2007 between the Company and the Secretary for Transport and Housing for and on behalf of the Government as contemplated in the MTR Ordinance.

The Operating Agreement is based on the previous Operating Agreement which was signed on 30 June 2000. The Operating Agreement differs from the previous Operating Agreement to provide for, amongst other things, the nature of the combined MTRC railway and KCRC railway. The Operating Agreement includes terms relating to

- the extension of the Company's franchise under the MTR Ordinance,
- the design, construction and maintenance of the railway,
- passenger services,
- a framework for the award of new projects and the operation and ownership structure of new railways,
- the adjustment mechanism to be applied to certain of the Company's fares, and
- compensation which may be payable under the MTR Ordinance to the Company in relation to a suspension, expiry or termination of the franchise.

E Additional Property Package Agreements

Category 1A Properties

The Category 1A Properties are held by the KCRC Subsidiaries. Under the terms of the Sale and Purchase Agreement, the Company acquired from KCRC the shares in the KCRC Subsidiaries (and thereby indirectly acquired the "Category 1A Properties").

Category 1B Properties

On 9 August 2007, KCRC and the Company entered into an agreement for sale of purchase under which KCRC agreed to assign certain properties (the "Category 1B Properties") to the Company on the Merger Date. The relevant assignment was executed between KCRC and the Company on 2 December 2007.

Category 4 Properties

On 9 August 2007, the Government entered into an undertaking that it would, within periods to be agreed between the Company and the Government, offer to the Company a private treaty grant in respect of certain development sites ("Category 4 Properties"). The terms of each private treaty grant shall generally be determined by the Government, and the premium for each private treaty grant shall be assessed on a full market value basis ignoring the presence of the railway other than the Tin Shui Wai Terminus, Light Rail, Yuen Long, New Territories.

On 9 August 2007, the Company issued a letter to KCRC confirming that, if there should be any railway premises on the Category 4 Properties, the Company would assign the railway premises to KCRC.

T OF THE MEMBERS OF THE BOARD

Metropolis Equity Sub-participation Agreement

The Metropolis Equity Sub-participation Agreement was entered into on 9 August 2007 between KCRC and the Company. KCRC is obliged to act on the Company's instructions, and pay to the Company any distributions, or proceeds of sale, relating to its shareholding in the property management company The Metropolis Management Company Limited ("Metropolis"). The issued share capital of Metropolis is 25,500 A shares (which are held by KCRC) and 24,500 B shares (which are held by Cheung Kong Property Management Limited). Metropolis' business is property management.

F Liaison Committee Letter

The Liaison Committee Letter was issued on 9 August 2007 by KCRC, the terms of which were acknowledged and agreed to by the Company and the Government.

The letter sets out the agreement between the parties regarding a "Liaison Committee" established for the purposes of governing certain matters of KCRC between 9 August 2007 and the Merger Date. Upon the completion of the Rail Merger, the Liaison Committee was dissolved.

G Outsourcing Agreement

An Outsourcing Agreement was entered into on 9 August 2007 between the Company and KCRC. For the period from 2 December 2007 to 2 December 2009 (subsequently extended to 31 December 2009), KCRC, pursuant to the terms of the Outsourcing Agreement, outsourced certain financial and administrative functions to the Company for an annual fee of not more than HK\$20 million from KCRC. On 6 November 2009, a new Outsourcing Agreement was entered into for the period from 2 December 2009 to 1 December 2011.

H KSL Project Management Agreement

The KSL Project Management Agreement was entered into between the Company and KCRC on 9 August 2007.

Pursuant to the terms of the KSL Project Management Agreement (as amended), the Company was appointed, inter alia, to manage the performance of KCRC's principal obligations to the Government in relation to the design and construction of the Kowloon Southern Link (other than obligations relating to payment).

In return for the performance of these services under the KSL Project Management Agreement (as amended), the Company has received a project management fee of approximately HK\$710.8 million. In addition, given that the final outturn cost of the KSL was under budget, the Company received an incentive payment (calculated with reference to the amount by which the final outturn cost of the project was under budget) of HK\$110 million.

I Application of Merger-related Waiver

In relation to the Operating Agreement and the Service Concession Agreement, pursuant to paragraph A of the Merger-related Waiver, the Stock Exchange granted a waiver to the Company from strict compliance with all the continuing connected transaction requirements of Chapter 14A of the Listing Rules.

AUDITORS

The retiring auditors, KPMG, have signified their willingness to continue in office. A resolution will be proposed at the Annual General Meeting to reappoint them and to authorise the Directors to fix their remuneration.

By order of the Board



Gillian Elizabeth Meller
Secretary to the Board
Hong Kong, 8 March 2012

003575/20.

In accordance with
Regulation 32 of the
Overseas Companies
Regulations 2009

OS AA01

Statement of details of parent law and other information for an overseas company



☒ **What this form is for**
You may use this form to
accompany your accounts
disclosed under parent law

☒ **What this form is NOT for**
You cannot use this form to
an alteration of manner of c
with accounting requiremen

COMPANIES HOUSE

Part 1 Corporate company name

Corporate name of
overseas company ①

MTR CORPORATION LIMITED

If the company has already been registered in the UK, please enter the
establishment number below

UK establishment
number ②

B R 0 1 2 3 6 4

→ **Filling in this form**
Please complete in typescript or in
bold black capitals

All fields are mandatory unless
specified or indicated by *

① This is the name of the company in
its home state

② This should only be completed if
the company has already been
registered in the UK

Part 2 Statement of details of parent law and other information for an overseas company

A1**Legislation**

Please give the legislation under which the accounts have been prepared and,
if applicable, the legislation under which the accounts have been audited

Legislation ③

Companies Ordinance of the Laws of Hong Kong

③ This means the relevant rules or
legislation which regulates the
preparation and, if applicable, the
audit of accounts

A2**Accounting principles**

Accounts

Have the accounts been prepared in accordance with a set of generally accepted
accounting principles?

Please tick the appropriate box

☐ **No** Go to **Section A3**

☒ **Yes** Please enter the name of the organisation or other
body which issued those principles below, and then go to **Section A3**

Name of organisation
or body ④

Hong Kong Institute of Certified Public Accountants

④ Please insert the name of the
appropriate accounting organisation
or body

A3**Accounts**

Accounts

Have the accounts been audited? Please tick the appropriate box

☐ **No** Go to **Section A5**

☒ **Yes** Go to **Section A4**

w

OS AA01

Statement of details of parent law and other information for an overseas company

A4**Audited accounts**

Audited accounts

Have the accounts been audited in accordance with a set of generally accepted auditing standards?

Please tick the appropriate box

☐ No Go to Part 3 'Signature'☒ Yes Please enter the name of the organisation or other body which issued those standards below, and then go to Part 3 'Signature'

① Please insert the name of the appropriate accounting organisation or body

Name of organisation or body ①

Hong Kong Institute of Certified Public Accountants

A5**Unaudited accounts**

Unaudited accounts

Is the company required to have its accounts audited?

Please tick the appropriate box

☐ No☐ Yes**Part 3****Signature**

I am signing this form on behalf of the overseas company

Signature

Signature



11 May 2012

This form may be signed by Gillian Elizabeth Meller
Director, Secretary, Permanent representative

OS AA01

Statement of details of parent law and other information for an overseas company



Presenter information

You do not have to give any contact information, but if you do it will help Companies House if there is a query on the form. The contact information you give will be visible to searchers of the public record.

Contact name	Mr Trevor Yeomans
Company name	MTR Corporation Limited
Address	Suite 5, Eleven Arches House, Leicester Road, Rugby
Post town	
County/Region	
Postcode	C V 2 1 1 F D
Country	U K
DX	
Telephone	44 1788 820104



Checklist

We may return forms completed incorrectly or with information missing

Please make sure you have remembered the following

- ☐ The company name and, if appropriate, the registered number, match the information held on the public Register
- ☐ You have completed all sections of the form, if appropriate
- ☐ You have signed the form



Important information

Please note that all this information will appear on the public record



Where to send

You may return this form to any Companies House address

England and Wales

The Registrar of Companies, Companies House,
Crown Way, Cardiff, Wales, CF14 3UZ
DX 33050 Cardiff

Scotland

The Registrar of Companies, Companies House,
Fourth floor, Edinburgh Quay 2,
139 Fountainbridge, Edinburgh, Scotland, EH3 9FF
DX ED235 Edinburgh 1
or LP - 4 Edinburgh 2 (Legal Post)

Northern Ireland

The Registrar of Companies, Companies House,
Second Floor, The Linenhall, 32-38 Linenhall Street,
Belfast, Northern Ireland, BT2 8BG
DX 481 N R Belfast 1



Further information

For further information, please see the guidance notes on the website at www.companieshouse.gov.uk or email enquiries@companieshouse.gov.uk

This form is available in an alternative format. Please visit the forms page on the website at www.companieshouse.gov.uk

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