

Report of the Members of the Board

The Members of the Board have pleasure in submitting their Report and the summary financial statements for the financial year ended 31 December 2007.

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 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 Line), from Sunny Bay to Disneyland Resort (Disneyland Resort Line), from East Tsim Sha Tsui 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 Nam Cheong 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 a freight railway system along East Rail Line from the boundary at Lo Wu to Sheung Shui Abattoir and Hung Hom;
- B** property development, either as owner or as agent for KCRC, at locations relating to the railway system including the Tseung Kwan O Line, the Ma On Shan Line, the East Rail Line, the Light Rail and the West Rail Line;
- C** related commercial activities, including the letting of advertising and retail space, bandwidth services on the railway telecommunication system, property management and leasing management of investment properties (including shopping centres and offices), and Octopus Card Building Access System services;
- D** the operation of the 7-year London Overground Concession, in which the Company has a 50% equity share, consisting of 107.2 route kilometres of commuter railway lines connecting London's suburbs into the London Underground network;
- E** the design and construction of a station at LOHAS Park (in Tseung Kwan O South) as an extension of the Tseung Kwan O Line;
- F** project management for the Kowloon Southern Link as an extension of the West Rail Line;
- G** the planning and construction of future extensions to the railway system and other related infrastructure projects, in particular the West Island Line and the South Island Line for which Government has confirmed policy support;

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

- I** consultancy services 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;

- J** 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 smart card system by its subsidiary Octopus Cards Limited for the collection of payments for both transport and non-transport applications in Hong Kong;

- K** equity investments and long term operation and maintenance contracts outside of Hong Kong;

- L** property management, shopping centre investment and railway related property development business in the Mainland of China; and

- M** the investment in, and construction of, Beijing Metro Line 4, in which the Company has a 49% equity interest, for future operations under a 30 year concession agreement with the Beijing Municipal Government.

In addition to the above, a Feasibility Study Report for Shenzhen Line 4 has been submitted to National Development and Reform Commission for approval. The Company continues the discussion of the Report with Shenzhen Municipal Government.

Dividend

The Directors have recommended a final dividend of HK\$0.31 per Ordinary Share to be payable to shareholders whose names appear on the Register of Members of the Company on 15 April 2008. Subject to the passing of the necessary resolutions at the forthcoming Annual General Meeting, such dividend will be payable on or about 18 June 2008, in cash in Hong Kong dollars, with a scrip dividend alternative. The Company's majority shareholder, The Financial Secretary Incorporated, has agreed to elect to receive all or part of its entitlement to dividends in the form of scrip to the extent necessary to ensure that a maximum of 50% of the total dividend paid by the Company will be in the form of cash.

Report of the Members of the Board

Members of the Board

Members of the Board who served during the year were Raymond Ch'ien Kuo-fung (non-executive Chairman), Chow Chung-kong (Chief Executive Officer), Cheung Yau-kai, David Gordon Eldon, Christine Fang Meng-sang, Edward Ho Sing-tin, Lo Chung-hing, Ng Leung-sing and Abraham Shek Lai-him [both appointed with effect from 18 December 2007], T. Brian Stevenson, Frederick Ma Si-hang [resigned with effect from 10 July 2007], Chan Ka-keung, Ceajer [appointed with effect from 10 July 2007], the Secretary for the Environment, Transport and Works (Sarah Liao Sau-tung) [ceased to be a Member of the Board with effect from 1 July 2007], the Secretary for Transport and Housing (Eva Cheng) [appointed by the Chief Executive of the HKSAR with effect from 1 July 2007] and the Commissioner for Transport (Alan Wong Chi-kong).

In July 2007, Raymond Ch'ien Kuo-fung was re-appointed as the non-executive Chairman of the Company with effect from 1 August 2007 for a term up to 31 December 2007 or the day to be appointed by the Secretary for Transport and Housing by notice published in the Gazette under the Rail Merger Ordinance, whichever was the earlier. The Rail Merger Ordinance relates to the Rail Merger between the Company and KCRC. On 8 August 2007, the Government of HKSAR appointed Raymond Ch'ien Kuo-fung as the non-executive Chairman for a term of 24 months and selected Chow Chung-kong as the Chief Executive Officer of the Company, with effect from the Rail Merger. The Rail Merger took effect on 2 December 2007.

At the Annual General Meeting on 7 June 2007 and pursuant to the Articles of Association, Chow Chung-kong, David Gordon Eldon and Christine Fang Meng-sang retired under the Articles of Association and were re-elected as Members of the Board.

At the forthcoming Annual General Meeting and in accordance with the Articles of Association, Edward Ho Sing-tin and Lo Chung-hing will retire by rotation. Chan Ka-keung, Ceajer, Ng Leung-sing and Abraham Shek Lai-him, who were appointed by the Board after the 2007 Annual General Meeting, will retire under Article 85 of the Articles of Association.

Biographical details for Board Members are set out on pages 43 to 45.

Alternate Directors

The Alternate Directors in office during the year were:

- for Frederick Ma Si-hang (until he resigned as a Member of the Board on 10 July 2007): Alan Lai Nin, Martin McKenzie Glass [ceased on 19 April 2007] and Leung Cheuk-man [with effect from 19 April 2007];
- for Chan Ka-keung, Ceajer (who became a Member of the Board with effect from 10 July 2007): Alan Lai Nin [ceased on 5 November 2007], Ying Yiu-hong [with effect from 5 November 2007] and Leung Cheuk-man;
- for the office of the Secretary for the Environment, Transport and Works (until the office ceased to be a Member of the Board on 1 July 2007): (i) the Permanent Secretary for the Environment, Transport and Works (Joshua Law Chi-kong) and (ii) the Deputy Secretary for the Environment, Transport and Works (Patrick Ho Chung-kei, Chu Man-ling, Annie Choi Suk-han [who ceased to be the Deputy Secretary for the Environment, Transport and Works and accordingly ceased to be an alternate director to the office of the Secretary for the Environment, Transport and Works], Yung Wai-hung and Lee Lai-yee [with effect from 2 May 2007]);
- for the office of the Secretary for Transport and Housing (the office became a Member of the Board with effect from 1 July 2007): (i) the Permanent Secretary for Transport and Housing (Transport) (Joshua Law Chi-kong [who ceased to be the Permanent Secretary for Transport and Housing (Transport) and accordingly ceased to be an alternate director to the office of the Secretary for Transport and Housing] and Ho Suen-wai [with effect from 15 August 2007]) and (ii) the Deputy Secretary for Transport and Housing (Transport) (Patrick Ho Chung-kei [who ceased to be the Deputy Secretary for Transport and Housing (Transport) and accordingly ceased to be an alternate director to the office of the Secretary for Transport and Housing], Chu Man-ling, Yung Wai-hung and Lee Lai-yee); and
- for the Commissioner for Transport: the Deputy Commissioner for Transport/Transport Services and Management (Carolina Yip Lai-ching).

Executive Directorate

The Members of the Executive Directorate who served during the year were Chow Chung-kong (Chief Executive Officer and a Member of the Board), Russell John Black, William Chan Fu-keung, Thomas Ho Hang-kwong, Lincoln Leong Kwok-kuen, Francois Lung Ka-kui, Andrew McCusker and Leonard Bryan Turk.

Biographical details for Members of the Executive Directorate during the year are set out on pages 45 and 46.

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 page 38.

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 of Hong Kong Limited (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.

Summary Financial Statements

The state of affairs of the Group as at 31 December 2007 and of its results for the year are set out in the summary financial statements on pages 56 to 67.

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 28 to 29.

Fixed Assets and Railway Construction in Progress

Movements in fixed assets and railway construction in progress during the year are set out in note 5 to the summary financial statements.

Movements in Reserves

Movements in reserves during the year are set out in note 7 to the summary financial statements.

Share Capital

As at 31 December 2006, the authorised share capital of the Company was HK\$6.5 billion, divided into 6.5 billion Ordinary Shares, 5,548,613,951 of which were issued and credited as fully paid. During the year, the Company issued a total of 62,443,084 Ordinary Shares. Of this number:

- A** 2,562,500 Ordinary Shares were issued by the Company pursuant to the exercise of share options which had been granted under the Company's Pre-Global Offering Share Option Scheme. In respect of each Ordinary Share issued, the relevant exercise price per share of options is HK\$8.44 to the Company;
- B** 129,000 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. In respect of each Ordinary Share issued, the relevant exercise price per share of options are HK\$9.75, HK\$15.45 and HK\$19.104 to the Company;
- C** 39,183,554 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 2006 (for which the cash dividend was HK\$0.28 per Ordinary Share); and

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D 20,568,030 Ordinary Shares were issued by the Company in order to satisfy shareholders' scrip dividend elections in respect of the interim dividend of the Company for the six months ended 30 June 2007 (for which the cash dividend was HK\$0.14 per Ordinary Share).

As at 31 December 2007, the authorised share capital of the Company was HK\$6.5 billion, divided into 6.5 billion Ordinary Shares, 5,611,057,035 of which were issued and credited as fully paid.

Redemption of Listed Securities

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of its listed securities during the financial year 2007.

Donations

During the year, the Company donated a total of HK\$193,000 to charitable organisations.

The MTR HONG KONG Race Walking 2007 raised over HK\$1 million for the Hospital Authority Health InfoWorld health education campaign.

The Company helped raise funds for the Community Chest with a total cash donation of over HK\$1 million through different activities such as CARE Scheme, Skip Lunch Day and Dress Special Day.

In early 2008, the Company donated HK\$1 million to the Hong Kong Red Cross and HK\$1 million to the All-China Federation of Railway Trade Unions for the relief work in relation to the snowstorms on the Mainland. Charity counters were set up at its shopping malls to help raise funds for this cause.

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.

Syndicated Loan Raised

In October 2007, the Group signed a HK\$10 billion syndicated loan facility with a group of 19 major banks from Hong Kong, Mainland China, Japan, Europe and the US to meet the Group's general corporate funding requirements, including partial payment of the HK\$12.04 billion upfront payment to KCRC on the Appointed Day for the Rail Merger.

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 9001:2000. 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 2007, 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

Member of the Board or Executive Directorate	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		
Raymond Ch'ien Kuo-fung	50,369	–	–	–	–	50,369	0.00090
Chow Chung-kong	–	–	–	720,000 (Note 1)	418,017 (Note 2)	1,138,017	0.02028
T. Brian Stevenson	4,790	–	–	–	–	4,790	0.00009
Christine Fang Meng-sang	1,712	–	–	–	–	1,712	0.00003
Russell John Black	55,152	–	–	170,000 (Note 1)	–	225,152	0.00401
William Chan Fu-keung	46,960	–	–	(i) 217,500 (Note 3) (ii) 170,000 (Note 1)	–	434,460	0.00774
Thomas Ho Hang-kwong	55,037	2,541	–	(i) 321,000 (Note 3) (ii) 170,000 (Note 1)	–	548,578	0.00978
Lincoln Leong Kwok-kuen	23,000	–	23,000 (Note 4)	(i) 1,043,000 (Note 5) (ii) 170,000 (Note 1)	160,000 (Note 6)	1,419,000	0.02529
Francois Lung Ka-kui	46,000	2,500	–	(i) 1,066,000 (Note 5) (ii) 130,000 (Note 1)	–	1,244,500	0.02218
Andrew McCusker	–	–	–	170,000 (Note 1)	–	170,000	0.00303
Leonard Bryan Turk	–	–	–	170,000 (Note 1)	–	170,000	0.00303
Ho Suen-wai (Note 7)	681	1,371	–	–	–	2,052	0.00004

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.
- Chow Chung-kong has a derivative interest in respect of 418,017 shares in the Company within the meaning of Part XV of the SFO. That derivative interest represents Mr. Chow's entitlement to receive an equivalent value in cash of 418,017 shares in the Company on completion of his three-year contract (on 30 November 2009).
- 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 Pre-Global Offering Share Option Scheme.
- The 23,000 shares are held by Linsan Investment Ltd., a private limited company beneficially wholly owned by 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.
- Lincoln Leong Kwok-kuen has a derivative interest in respect of 160,000 shares in the Company within the meaning of Part XV of the SFO. That derivative interest represents Mr. Leong's entitlement to receive an equivalent value in cash of 160,000 shares in the Company on 9 April 2010.
- The office of the Permanent Secretary for Transport and Housing (Transport) is an Alternate Director to the office of the Secretary for Transport and Housing (Eva Cheng). The Secretary for Transport and Housing is a non-executive Director of the Company. Ho Suen-wai is the holder of the post of the Permanent Secretary for Transport and Housing (Transport).

* Interests as beneficial owner

† Interests of spouse or child under 18 as beneficial owner

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Options to Subscribe for Ordinary Shares Granted under the Pre-Global Offering Share Option Scheme, as Referred to in Note 3B(i) to the Summary Financial Statements

Executive Directorate and eligible employees	Date granted	No. of options granted	Period during which rights exercisable (day/month/year)	Options outstanding as at 1 January 2007	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 2007	Weighted average closing price of shares immediately before the date(s) on which options were exercised (HK\$)
William Chan Fu-keung	20/9/2000	1,066,000	5/4/2001 – 11/9/2010	217,500	–	–	–	8.44	217,500	–
Thomas Ho Hang-kwong	20/9/2000	1,066,000	5/4/2001 – 11/9/2010	321,000	–	–	–	8.44	321,000	–
Other eligible employees	20/9/2000	41,409,000	5/4/2001 – 11/9/2010	7,291,000	–	–	2,562,500	8.44	4,728,500	23.14

Notes

- 1 The Pre-Global Offering Share Option Scheme ("Pre-IPO Option Scheme") is valid and effective for a period of ten years after 12 September 2000. No option may be offered to be granted under the Pre-IPO Option Scheme on or after the commencement of dealings in shares of the Company on Stock Exchange on 5 October 2000.
- 2 The number of shares to which the option granted to each participant under the Pre-IPO Option Scheme does not exceed 25% of the number of the shares issued and issuable under the Pre-IPO Option Scheme.

Options to Subscribe for Ordinary Shares Granted under the New Joiners Share Option Scheme, as Referred to in Note 3B(ii) to the Summary Financial Statements

Executive Directorate and eligible employees	Date granted	No. of options granted	Period during which rights exercisable (day/month/year)	Options outstanding as at 1 January 2007	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 2007	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	1,043,000	–	–	–	–	9.75	1,043,000	–
Francois Lung Ka-kui	22/3/2007	1,066,000	19/3/2008 – 19/3/2017	–	1,066,000	–	–	–	19.404	1,066,000	–
Other eligible employees	1/8/2003	495,200	14/7/2004 – 14/7/2013	268,200	–	–	–	66,000	9.75	202,200	21.51
	12/1/2006	94,000	9/1/2007 – 9/1/2016	94,000	–	31,500	–	31,500	15.45	62,500	22.90
	13/9/2005	94,000	9/9/2006 – 9/9/2015	94,000	–	31,500	–	–	15.97	94,000	–
	23/9/2005	213,000	9/9/2006 – 9/9/2015	213,000	–	71,000	–	–	15.97	213,000	–
	31/3/2006	94,000	20/3/2007 – 20/3/2016	94,000	–	31,500	–	–	18.05	94,000	–
	4/7/2006	94,000	19/6/2007 – 19/6/2016	94,000	–	31,500	–	–	18.30	94,000	–
	17/11/2006	94,000	13/11/2007 – 13/11/2016	94,000	–	31,500	–	31,500	19.104	62,500	24.20
	5/10/2006	94,000	29/9/2007 – 29/9/2016	94,000	–	31,500	–	–	19.732	94,000	–
	12/5/2006	266,500	25/4/2007 – 25/4/2016	266,500	–	89,000	–	–	20.66	266,500	–
	15/5/2006	213,000	25/4/2007 – 25/4/2016	213,000	–	71,000	–	–	20.66	213,000	–
	12/5/2006	213,000	2/5/2007 – 2/5/2016	213,000	–	71,000	–	–	21.00	213,000	–

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.

Options to Subscribe for Ordinary Shares Granted under the 2007 Share Option Scheme, as Referred to in Note 3B(iii) to the Summary Financial Statements

Executive Directorate and eligible employees	Date granted	No. of options granted	Period during which rights exercisable (day/month/year)	Options outstanding as at 1 January 2007	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 2007	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	–
Russell John Black	12/12/2007	170,000	10/12/2008 – 10/12/2014	–	170,000	–	–	–	27.60	170,000	–
William Chan Fu-keung	13/12/2007	170,000	10/12/2008 – 10/12/2014	–	170,000	–	–	–	27.60	170,000	–
Thomas Ho Hang-kwong	12/12/2007	170,000	10/12/2008 – 10/12/2014	–	170,000	–	–	–	27.60	170,000	–
Lincoln Leong Kwok-kuen	12/12/2007	170,000	10/12/2008 – 10/12/2014	–	170,000	–	–	–	27.60	170,000	–
Francois Lung Ka-kui	12/12/2007	130,000	10/12/2008 – 10/12/2014	–	130,000	–	–	–	27.60	130,000	–
Andrew McCusker	12/12/2007	170,000	10/12/2008 – 10/12/2014	–	170,000	–	–	–	27.60	170,000	–
Leonard Bryan Turk	12/12/2007	170,000	10/12/2008 – 10/12/2014	–	170,000	–	–	–	27.60	170,000	–
Other eligible employees	11/12/2007	45,000	10/12/2008 – 10/12/2014	–	45,000	–	–	–	27.60	45,000	–
	12/12/2007	1,750,000	10/12/2008 – 10/12/2014	–	1,750,000	–	–	–	27.60	1,750,000	–
	13/12/2007	915,000	10/12/2008 – 10/12/2014	–	915,000	–	–	–	27.60	915,000	–
	14/12/2007	1,005,000	10/12/2008 – 10/12/2014	–	1,005,000	–	–	–	27.60	1,005,000	–
	15/12/2007	435,000	10/12/2008 – 10/12/2014	–	435,000	–	–	–	27.60	435,000	–
	17/12/2007	835,000	10/12/2008 – 10/12/2014	–	835,000	–	–	–	27.60	835,000	–
	18/12/2007	445,000	10/12/2008 – 10/12/2014	–	445,000	–	–	–	27.60	445,000	–
	19/12/2007	115,000	10/12/2008 – 10/12/2014	–	115,000	–	–	–	27.60	115,000	–
	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	–	45,000	–	–	–	27.60	45,000	–
	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	–	75,000	–	–	–	27.60	75,000	–	
3/1/2008	40,000	10/12/2008 – 10/12/2014	–	40,000	–	–	–	27.60	40,000	–	
4/1/2008	65,000	10/12/2008 – 10/12/2014	–	65,000	–	–	–	27.60	65,000	–	
7/1/2008	125,000	10/12/2008 – 10/12/2014	–	125,000	–	–	–	27.60	125,000	–	

Notes

- 1 No option may be exercised later than seven years after its date of offer and no option may be offered to be granted more than seven years after the adoption of the 2007 Share Option Scheme ("2007 Option Scheme") on 7 June 2007.
- 2 Unless approved by shareholders in the manner as required by the Listing Rules, the total number of shares issued and issuable upon exercise of the options granted to any eligible employee under the 2007 Option Scheme together with the total number of shares issued and issuable upon the exercise of any option granted to such eligible employee under any other share option scheme of the Company (including, in each case, both exercised and outstanding options) in any 12-month period must not exceed 0.2% of the shares of the Company in issue at the date of offer in respect of such option under the 2007 Option Scheme.
- 3 Share options granted during the period from 11 December 2007 to 7 January 2008 were offered to Members of the Executive Directorate and selected employees of the Company on 10 December 2007. Under the 2007 Option Scheme, the date of grant is defined as the date of acceptance of the offer to grant the option. Options granted in January 2008 have not been accounted for in the accounts for the year ended 31 December 2007.

Report of the Members of the Board

During the year ended 31 December 2007, 1,066,000 options to subscribe for shares of the Company were granted to a Member of the Executive Directorate under the New Joiners Share Option Scheme. In addition, 1,870,000 and 6,403,000 options to subscribe for shares of the Company were granted to 8 Members of the Executive Directorate and 131 employees respectively under the 2007 Share Option Scheme during the period from 11 December 2007 to 7 January 2008. Details of the grant under these two Schemes are set out in the tables above.

The respective closing price per share immediately before the respective date of grant of the options under the two Schemes are set out below. Pursuant to the terms of both Schemes, 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 respective 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\$)
22/3/2007	19.32	3.96	5	0.21	0.42	3.79
11/12/2007	27.60	2.44	3.5	0.22	0.42	4.65
12/12/2007	27.90	2.48	3.5	0.22	0.42	4.85
13/12/2007	28.00	2.53	3.5	0.22	0.42	4.93
14/12/2007	27.30	2.67	3.5	0.22	0.42	4.55
15/12/2007	27.35	2.74	3.5	0.22	0.42	4.61
17/12/2007	27.35	2.74	3.5	0.22	0.42	4.61
18/12/2007	26.85	2.72	3.5	0.22	0.42	4.29
19/12/2007	27.00	2.73	3.5	0.22	0.42	4.39
20/12/2007	27.60	2.68	3.5	0.22	0.42	4.73
21/12/2007	27.95	2.78	3.5	0.22	0.42	4.99
22/12/2007	28.25	2.83	3.5	0.22	0.42	5.20
24/12/2007	28.25	2.83	3.5	0.22	0.42	5.20
28/12/2007	28.05	2.90	3.5	0.22	0.42	5.09
31/12/2007	28.05	2.86	3.5	0.22	0.42	5.07

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 2007, 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 Stock Exchange pursuant to the Model Code.

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 2007 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)	4,301,750,382	76.67

The Company has been informed by the Government that, as at 31 December 2007, approximately 0.90% 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.

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 2007 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 2007 was attributable to the Company's five largest customers combined by value.

Going Concern

The summary financial statements on pages 56 to 67 have been prepared on a going concern basis. The Board has reviewed the Company's budget for 2008, 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.

By order of the Board

Leonard Bryan Turk
Secretary to the Board
Hong Kong, 11 March 2008