

# 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 2008.

## 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 an 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, offices and residential units), 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** the 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 including the West Island Line, the South Island Line, the Kwun Tong Line Extension, the Shatin to Central Link and the Express Rail Link, as the major projects for which the 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** worldwide 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.

For Shenzhen Metro Line 4 project, approval has been obtained from the National Development and Reform Commission. The Company is now completing final regulatory procedures to sign the Concession Agreement in the next few months.

An Agreement in Principle has been entered into between Shenyang Municipal Government, Shenyang Metro Group Company Limited and the Company for the operation and maintenance of Shenyang Metro Line 1 and 2 for a term of 30 years.

A Principle Agreement for a Public-Private Partnership project has been entered into between Hangzhou Municipal Government, Hangzhou Metro Group Company Limited and the Company for the investment in and the construction of electrical and mechanical works, and the operation of the entire Hangzhou Metro Line 1 for a period of 25 years.

## Dividend

The Directors have recommended a final dividend of HK\$0.34 per Ordinary Share to be payable to shareholders whose names appear on the Register of Members of the Company on 14 April 2009. Subject to the passing of the necessary resolutions at the forthcoming Annual General Meeting, such dividend will be payable on or about 17 June 2009, 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.

## 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 [resigned on 29 May 2008], Christine Fang Meng-sang, Edward Ho Sing-tin, Lo Chung-hing [retired by rotation on 29 May 2008], Ng Leung-sing, Abraham Shek Lai-him, T. Brian Stevenson, Chan Ka-keung, Ceajer, the Secretary for Transport and Housing (Eva Cheng) and the Commissioner for Transport (Alan Wong Chi-kong).

At the Annual General Meeting on 29 May 2008 and pursuant to the articles of association of the Company ("Articles of Association"), Chan Ka-keung, Ceajer, Ng Leung-sing, Abraham Shek Lai-him, Edward Ho Sing-tin and Lo Chung-hing retired under the Articles of Association. Lo Chung-hing did not offer himself for re-election, and the other four Directors were re-elected as Members of the Board.

At the forthcoming Annual General Meeting and in accordance with the Articles of Association, Raymond Ch'ien Kuo-fung, Cheung Yau-kai and T. Brian Stevenson will retire by rotation. Cheung Yau-kai will not offer himself for re-election, and that Raymond Ch'ien Kuo-fung and T. Brian Stevenson will offer themselves for re-election at that Meeting.

Biographical details for Board Members are set out on pages 47 to 49.

## Alternate Directors

The Alternate Directors in office during the year were:

- for Chan Ka-keung, Ceajer: Ying Yiu-hong and Leung Cheuk-man;
- for the office of the Secretary for Transport and Housing: (i) the Under Secretary for Transport and Housing (Yau Shing-mu [with effect from 28 November 2008]); (ii) the Permanent Secretary for Transport and Housing (Transport) (Ho Suen-wai); and (iii) the Deputy Secretary for Transport and Housing (Transport) (Chu Man Ling and Lee Lai-yee [who ceased to be Deputy Secretaries for Transport and Housing (Transport) and accordingly ceased to be alternate directors to the office of the Secretary for Transport and Housing, with effect from 10 June 2008 and 29 September 2008 respectively], Yung Wai-hung and Shirley Yuen [with effect from 10 June 2008]); 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 (retitled as Finance & Business Development Director with effect from 1 May 2008), Francois Lung Ka-kui (ceased to act as a Member of the Executive Directorate effective from 1 January 2009), Andrew McCusker and Leonard Bryan Turk.

Biographical details for Members of the Executive Directorate during the year are set out on pages 49 to 51.

## 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.

## Report of the Members of the Board

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 41.

### 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 2008 and of its results for the year are set out in the summary financial statements on pages 63 to 75.

### 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 30 to 31.

### 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 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.

During the year, the Company issued a total of 50,086,078 Ordinary Shares. Of this number:

- A** 1,644,500 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** 635,500 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\$15.45, HK\$15.97, HK\$18.30, HK\$19.404, HK\$20.66 and HK\$21.00 to the Company;
- C** 32,071,954 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 2007 (for which the cash dividend was HK\$0.31 per Ordinary Share); and
- D** 15,734,124 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 2008 (for which the cash dividend was HK\$0.14 per Ordinary Share).

As at 31 December 2008, the authorised share capital of the Company was HK\$6.5 billion, divided into 6.5 billion Ordinary Shares, 5,661,143,113 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 2008.

## Donations

During the year, the Company donated a total of HK\$8.9 million to charitable organisations including the following:

**A** To show our care and concern, the Company donated HK\$1 million to the Hong Kong Red Cross in February 2008 to provide clothing and emergency supplies for the victims of snow falls in Central China, and HK\$1 million to the All-China Federation of Railway Trade Unions.

**B** The Sichuan earthquake was a natural disaster that evoked the deepest feelings of sympathy as well as a strong readiness to help in the hearts and minds of all in the Company, and indeed in Hong Kong as a whole. Following an initial early donation of HK\$1 million by the Company in May 2008 to help the victims, MTR staff raised another HK\$5.6 million, which was “dollar matched” in donation by the Company, bringing the total to HK\$11.27 million. In addition, various MTR offices in the Mainland of China raised a further RMB300,000, while in our shopping centres in Hong Kong, customers contributed a further HK\$2 million. Overall, donations from the Company, our employees and our customers topped more than HK\$14.6 million for those struggling in the aftermath of the earthquake.

In addition, the MTR HONG KONG Race Walking 2008 raised over HK\$1.3 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\$248,000 through different activities such as CARE Scheme, Green Day and Dress Special Day.

## 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 bonds and notes during the year ended 31 December 2008, details of which are set out in note 6 to the summary financial statements. Such bonds and 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 9001:2000. 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.

## Report of the Members of the Board

### Board Members' and Executive Directorate's Interests in Shares

As at 31 December 2008, 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:

Member of the Board or the 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	51,230	–	–	–	–	51,230	0.00090
Chow Chung-kong	–	–	–	1,190,000 (Note 1)	418,017 (Note 2)	1,608,017	0.02840
T. Brian Stevenson	4,871	–	–	–	–	4,871	0.00009
Christine Fang Meng-sang	1,712	–	–	–	–	1,712	0.00003
Russell John Black	56,095	–	–	340,000 (Note 1)	–	396,095	0.00700
William Chan Fu-keung	46,960	–	–	(i) 217,500 (Note 3) (ii) 340,000 (Note 1)	–	604,460	0.01068
Thomas Ho Hang-kwong	378,760	2,541	–	340,000 (Note 1)	–	721,301	0.01274
Lincoln Leong Kwok-kuen	23,000	–	23,000 (Note 4)	(i) 1,043,000 (Note 5) (ii) 340,000 (Note 1)	160,000 (Note 6)	1,589,000	0.02807
Francois Lung Ka-kui	346,500	2,500	–	(i) 355,500 (Note 5) (ii) 87,000 (Note 1)	–	791,500	0.01398
Andrew McCusker	–	–	–	340,000 (Note 1)	–	340,000	0.00601
Leonard Bryan Turk	–	–	–	340,000 (Note 1)	–	340,000	0.00601
Ho Suen-wai (Note 7)	691	1,393	–	–	–	2,084	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). Subsequent to 31 December 2008, all the shares were disposed of.

\* Interests as beneficial owner

† Interests of spouse or child under 18 as beneficial owner

## 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 2008	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 2008	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	–	–	321,000	8.44	–	26.05
Other eligible employees	20/9/2000	41,409,000	5/4/2001 – 11/9/2010	4,728,500	–	17,000	1,323,500	8.44	3,388,000	25.07

### Notes

- 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.
- 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 2008	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 2008	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	–	711,000	355,000	355,500	19.404	355,500	28.20
Other eligible employees	1/8/2003	495,200	14/7/2004 – 14/7/2013	202,200	–	–	–	–	9.75	202,200	–
	12/1/2006	94,000	9/1/2007 – 9/1/2016	62,500	–	31,500	31,000	31,500	15.45	–	31.35
	13/9/2005	94,000	9/9/2006 – 9/9/2015	94,000	–	31,000	–	45,000	15.97	49,000	27.05
	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	–	–	62,500	31,500	18.30	–	29.55
	17/11/2006	94,000	13/11/2007 – 13/11/2016	62,500	–	–	62,500	–	19.104	–	–
	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	–	30,000	20.66	183,000	31.60
	12/5/2006	213,000	2/5/2007 – 2/5/2016	213,000	–	71,000	71,000	142,000	21.00	–	25.13

### Notes

- 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.
- 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.

## Report of the Members of the Board

### 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 2008	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 2008	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	–	240,000	–	–	27.60	720,000	–
	9/12/2008	470,000	8/12/2009 – 8/12/2015	–	470,000	–	–	–	18.30	470,000	–
Russell John Black	12/12/2007	170,000	10/12/2008 – 10/12/2014	170,000	–	57,000	–	–	27.60	170,000	–
	9/12/2008	170,000	8/12/2009 – 8/12/2015	–	170,000	–	–	–	18.30	170,000	–
William Chan Fu-keung	13/12/2007	170,000	10/12/2008 – 10/12/2014	170,000	–	57,000	–	–	27.60	170,000	–
	9/12/2008	170,000	8/12/2009 – 8/12/2015	–	170,000	–	–	–	18.30	170,000	–
Thomas Ho Hang-kwong	12/12/2007	170,000	10/12/2008 – 10/12/2014	170,000	–	57,000	–	–	27.60	170,000	–
	11/12/2008	170,000	8/12/2009 – 8/12/2015	–	170,000	–	–	–	18.30	170,000	–
Lincoln Leong Kwok-kuen	12/12/2007	170,000	10/12/2008 – 10/12/2014	170,000	–	57,000	–	–	27.60	170,000	–
	9/12/2008	170,000	8/12/2009 – 8/12/2015	–	170,000	–	–	–	18.30	170,000	–
Francois Lung Ka-kui	12/12/2007	130,000	10/12/2008 – 10/12/2014	130,000	–	87,000	43,000	–	27.60	87,000	–
Andrew McCusker	12/12/2007	170,000	10/12/2008 – 10/12/2014	170,000	–	57,000	–	–	27.60	170,000	–
	12/12/2008	170,000	8/12/2009 – 8/12/2015	–	170,000	–	–	–	18.30	170,000	–
Leonard Bryan Turk	12/12/2007	170,000	10/12/2008 – 10/12/2014	170,000	–	57,000	–	–	27.60	170,000	–
	9/12/2008	170,000	8/12/2009 – 8/12/2015	–	170,000	–	–	–	18.30	170,000	–
Other eligible employees	11/12/2007	45,000	10/12/2008 – 10/12/2014	45,000	–	15,000	–	–	27.60	45,000	–
	12/12/2007	1,750,000	10/12/2008 – 10/12/2014	1,750,000	–	573,000	45,000	–	27.60	1,705,000	–
	13/12/2007	915,000	10/12/2008 – 10/12/2014	915,000	–	309,000	–	–	27.60	915,000	–
	14/12/2007	1,005,000	10/12/2008 – 10/12/2014	1,005,000	–	339,000	–	–	27.60	1,005,000	–
	15/12/2007	435,000	10/12/2008 – 10/12/2014	435,000	–	124,500	65,000	–	27.60	370,000	–
	17/12/2007	835,000	10/12/2008 – 10/12/2014	835,000	–	283,000	–	–	27.60	835,000	–
	18/12/2007	445,000	10/12/2008 – 10/12/2014	445,000	–	128,000	65,000	–	27.60	380,000	–
	19/12/2007	115,000	10/12/2008 – 10/12/2014	115,000	–	39,000	–	–	27.60	115,000	–
	20/12/2007	190,000	10/12/2008 – 10/12/2014	190,000	–	63,500	–	–	27.60	190,000	–
	21/12/2007	45,000	10/12/2008 – 10/12/2014	45,000	–	15,000	–	–	27.60	45,000	–
	22/12/2007	35,000	10/12/2008 – 10/12/2014	35,000	–	12,000	–	–	27.60	35,000	–
	24/12/2007	118,000	10/12/2008 – 10/12/2014	118,000	–	39,500	–	–	27.60	118,000	–
	28/12/2007	35,000	10/12/2008 – 10/12/2014	35,000	–	12,000	–	–	27.60	35,000	–
	31/12/2007	130,000	10/12/2008 – 10/12/2014	130,000	–	43,500	–	–	27.60	130,000	–
	2/1/2008	75,000	10/12/2008 – 10/12/2014	–	75,000	25,500	–	–	27.60	75,000	–
	3/1/2008	40,000	10/12/2008 – 10/12/2014	–	40,000	13,500	–	–	27.60	40,000	–
	4/1/2008	65,000	10/12/2008 – 10/12/2014	–	65,000	65,000	–	–	27.60	65,000	–
	7/1/2008	125,000	10/12/2008 – 10/12/2014	–	125,000	42,000	–	–	27.60	125,000	–
	28/3/2008	255,000	26/03/2009 – 26/03/2015	–	255,000	–	–	–	26.52	255,000	–
	31/3/2008	379,000	26/03/2009 – 26/03/2015	–	379,000	–	–	–	26.52	379,000	–
1/4/2008	261,000	26/03/2009 – 26/03/2015	–	261,000	–	–	–	26.52	261,000	–	
2/4/2008	296,000	26/03/2009 – 26/03/2015	–	296,000	–	–	–	26.52	296,000	–	
3/4/2008	171,000	26/03/2009 – 26/03/2015	–	171,000	–	–	–	26.52	171,000	–	
4/4/2008	23,000	26/03/2009 – 26/03/2015	–	23,000	–	–	–	26.52	23,000	–	

## 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 (Continued)

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 2008	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 2008	Weighted average closing price of shares immediately before the date(s) on which options were exercised (HK\$)
Other eligible employees	5/4/2008	17,000	26/03/2009 – 26/03/2015	–	17,000	–	–	–	26.52	17,000	–
	7/4/2008	390,000	26/03/2009 – 26/03/2015	–	390,000	–	32,000	–	26.52	358,000	–
	8/4/2008	174,000	26/03/2009 – 26/03/2015	–	174,000	–	19,000	–	26.52	155,000	–
	9/4/2008	85,000	26/03/2009 – 26/03/2015	–	85,000	–	–	–	26.52	85,000	–
	10/4/2008	58,000	26/03/2009 – 26/03/2015	–	58,000	–	–	–	26.52	58,000	–
	11/4/2008	134,000	26/03/2009 – 26/03/2015	–	134,000	–	17,000	–	26.52	117,000	–
	12/4/2008	48,000	26/03/2009 – 26/03/2015	–	48,000	–	–	–	26.52	48,000	–
	14/4/2008	40,000	26/03/2009 – 26/03/2015	–	40,000	–	–	–	26.52	40,000	–
	15/4/2008	34,000	26/03/2009 – 26/03/2015	–	34,000	–	–	–	26.52	34,000	–
	16/4/2008	57,000	26/03/2009 – 26/03/2015	–	57,000	–	17,000	–	26.52	40,000	–
	17/4/2008	147,000	26/03/2009 – 26/03/2015	–	147,000	–	23,000	–	26.52	124,000	–
	18/4/2008	32,000	26/03/2009 – 26/03/2015	–	32,000	–	–	–	26.52	32,000	–
	19/4/2008	25,000	26/03/2009 – 26/03/2015	–	25,000	–	–	–	26.52	25,000	–
	20/4/2008	23,000	26/03/2009 – 26/03/2015	–	23,000	–	–	–	26.52	23,000	–
	21/4/2008	66,000	26/03/2009 – 26/03/2015	–	66,000	–	–	–	26.52	66,000	–
	23/4/2008	34,000	26/03/2009 – 26/03/2015	–	34,000	–	15,000	–	26.52	19,000	–
	8/12/2008	155,000	8/12/2009 – 8/12/2015	–	155,000	–	–	–	18.30	155,000	–
	9/12/2008	313,000	8/12/2009 – 8/12/2015	–	313,000	–	–	–	18.30	313,000	–
	10/12/2008	2,176,400	8/12/2009 – 8/12/2015	–	2,176,400	–	–	–	18.30	2,176,400	–
	11/12/2008	2,294,200	8/12/2009 – 8/12/2015	–	2,294,200	–	–	–	18.30	2,294,200	–
	12/12/2008	1,311,500	8/12/2009 – 8/12/2015	–	1,311,500	–	–	–	18.30	1,311,500	–
	13/12/2008	84,500	8/12/2009 – 8/12/2015	–	84,500	–	–	–	18.30	84,500	–
	14/12/2008	88,200	8/12/2009 – 8/12/2015	–	88,200	–	–	–	18.30	88,200	–
	15/12/2008	1,084,700	8/12/2009 – 8/12/2015	–	1,084,700	–	–	–	18.30	1,084,700	–
	16/12/2008	581,500	8/12/2009 – 8/12/2015	–	581,500	–	–	–	18.30	581,500	–
	17/12/2008	513,500	8/12/2009 – 8/12/2015	–	513,500	–	–	–	18.30	513,500	–
	18/12/2008	611,500	8/12/2009 – 8/12/2015	–	611,500	–	–	–	18.30	611,500	–
	19/12/2008	198,000	8/12/2009 – 8/12/2015	–	198,000	–	–	–	18.30	198,000	–
	20/12/2008	19,000	8/12/2009 – 8/12/2015	–	19,000	–	–	–	18.30	19,000	–
	22/12/2008	772,500	8/12/2009 – 8/12/2015	–	772,500	–	–	–	18.30	772,500	–
	23/12/2008	306,000	8/12/2009 – 8/12/2015	–	306,000	–	–	–	18.30	306,000	–
	24/12/2008	500,500	8/12/2009 – 8/12/2015	–	500,500	–	–	–	18.30	500,500	–
	25/12/2008	45,000	8/12/2009 – 8/12/2015	–	45,000	–	–	–	18.30	45,000	–
	29/12/2008	148,000	8/12/2009 – 8/12/2015	–	148,000	–	–	–	18.30	148,000	–
	30/12/2008	19,000	8/12/2009 – 8/12/2015	–	19,000	–	–	–	18.30	19,000	–

### 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.



## Report of the Members of the Board

During the year ended 31 December 2008, 1,490,000 and 14,276,000 options to subscribe for shares of the Company were granted to 7 Members of the Executive Directorate and 358 employees respectively under the 2007 Share Option Scheme during the period from 2 January 2008 to 30 December 2008. Details of the grant are set out in the tables above. The respective closing price per share immediately before the respective date of grant of the options are 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 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\$)
2/1/2008	28.70	2.82	3.5	0.22	0.45	5.49
3/1/2008	30.80	2.71	3.5	0.22	0.45	6.88
4/1/2008	31.80	2.77	3.5	0.22	0.45	7.65
7/1/2008	32.00	2.77	3.5	0.22	0.45	7.79
28/3/2008	25.90	1.69	3.5	0.22	0.45	3.80
31/3/2008	26.10	1.68	3.5	0.22	0.45	3.90
1/4/2008	26.70	1.66	3.5	0.23	0.45	4.39
2/4/2008	26.70	1.75	3.5	0.23	0.45	4.42
3/4/2008	27.35	1.83	3.5	0.23	0.45	4.84
4/4/2008	27.25	1.83	3.5	0.23	0.45	4.78
5/4/2008	27.25	1.83	3.5	0.23	0.45	4.78
7/4/2008	27.25	1.79	3.5	0.23	0.45	4.76
8/4/2008	27.10	1.84	3.5	0.23	0.45	4.69
9/4/2008	27.20	1.76	3.5	0.23	0.45	4.72
10/4/2008	26.90	1.65	3.5	0.23	0.45	4.49
11/4/2008	26.90	1.72	3.5	0.23	0.45	4.52
12/4/2008	27.10	1.72	3.5	0.23	0.45	4.63
14/4/2008	27.10	1.65	3.5	0.23	0.45	4.60
15/4/2008	26.65	1.74	3.5	0.23	0.45	4.37
16/4/2008	27.05	1.81	3.5	0.23	0.45	4.63
17/4/2008	26.65	1.88	3.5	0.23	0.45	4.42
18/4/2008	26.80	1.91	3.5	0.23	0.45	4.52
19/4/2008	26.85	1.91	3.5	0.23	0.45	4.54
20/4/2008	26.85	1.91	3.5	0.23	0.45	4.54
21/4/2008	26.85	1.91	3.5	0.23	0.45	4.54
23/4/2008	27.35	1.99	3.5	0.23	0.45	4.88
8/12/2008	16.90	1.35	3.5	0.27	0.45	2.31

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\$)
9/12/2008	18.30	1.28	3.5	0.27	0.45	3.03
10/12/2008	18.02	1.26	3.5	0.27	0.45	2.87
11/12/2008	18.98	1.22	3.5	0.27	0.45	3.41
12/12/2008	18.68	1.17	3.5	0.27	0.45	3.22
13/12/2008	18.00	1.17	3.5	0.27	0.45	2.84
14/12/2008	18.00	1.17	3.5	0.27	0.45	2.84
15/12/2008	18.00	1.20	3.5	0.27	0.45	2.84
16/12/2008	18.50	1.21	3.5	0.27	0.45	3.12
17/12/2008	18.48	1.04	3.5	0.27	0.45	3.07
18/12/2008	18.90	1.05	3.5	0.27	0.45	3.32
19/12/2008	19.06	1.01	3.5	0.27	0.45	3.40
20/12/2008	18.36	1.01	3.5	0.27	0.45	3.00
22/12/2008	18.36	0.99	3.5	0.27	0.45	2.99
23/12/2008	17.86	1.01	3.5	0.27	0.45	2.72
24/12/2008	17.64	0.98	3.5	0.27	0.45	2.60
25/12/2008	17.96	0.98	3.5	0.27	0.45	2.77
29/12/2008	17.96	0.97	3.5	0.27	0.45	2.76
30/12/2008	18.16	0.92	3.5	0.27	0.45	2.86

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

## Report of the Members of the Board

**B** during the year ended 31 December 2008, 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 2008 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)	4,344,710,490	76.75

The Company has been informed by the Government that, as at 31 December 2008, approximately 0.77% 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 2008 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 2008 was attributable to the Company's five largest customers combined by value.

### Going Concern

The summary financial statements on pages 63 to 75 have been prepared on a going concern basis. The Board has reviewed the Company's budget for 2009, 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, 10 March 2009