

# Corporate Governance Report

## Corporate Governance Practices

The Company is committed to ensuring high standards of corporate governance in the interests of shareholders and devotes considerable effort to identifying and formalising best practices. This Report describes how the Company has applied the principles of the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 of the Listing Rules.

The Company has fully complied with the Code provisions throughout the year ended 31 December 2010.

## The Board of Directors

The overall management of the Company's business is vested in the Board. Pursuant to the Articles of Association and the Protocol adopted by the Board, the Board has delegated the day-to-day management of the Company's business to the Executive Committee, and focuses its attention on matters affecting the Company's overall strategic policies, finances and shareholders. These include financial statements, dividend policy, significant changes in accounting policy, annual operating budget, certain material contracts, strategies for future growth, major financing arrangements and major investments, risk management strategies, treasury policies and fare structures.

The Board comprises 12 Members, consisting of one executive Director (the Chief Executive Officer) and 11 non-executive Directors, of whom seven are independent non-executive Directors. In this regard, the Company *well exceeds* the requirement of the Listing Rules which requires every board of directors of a listed issuer to have at least three independent non-executive directors.

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 Government in November 2009 as the non-executive Chairman with effect from December 2009 until December 2012.

As announced by the Company on 29 December 2010, Mr. Chow Chung-kong, a Member of the Board and the Chief Executive Officer of the Company since 2003, will retire from the position of Chief Executive Officer and cease to be a Member of the Board when his current contract as the Chief Executive Officer expires on 31 December 2011. The Company is proceeding with a worldwide search including internal candidates to identify the right candidate for the post of the Chief Executive Officer.

Two of the non-executive Directors (being the office of the Secretary for Transport and Housing ("S for T&H") and the office of the Commissioner for Transport ("C for T")) are appointed by the Chief Executive of the HKSAR under Section 8 of the MTR Ordinance. During the year, Ms. Eva Cheng held the post of the S for T&H and Mr. Joseph Lai Yee-tak was the C for T. Another non-executive Director, Professor Chan Ka-keung, Ceajer, is the Secretary for Financial Services and the Treasury of the Government. The Government through the FSI, holds approximately 76.8% of the issued share capital of the Company.

At the 2010 Annual General Meeting on 27 May 2010 (the "2010 AGM"), Mr. Vincent Cheng Hoi-chuen retired from office pursuant to Article 85 of the Articles of Association and was elected as a Member of the Board. In addition, Mr. Chow Chung-kong and Ms. Christine Fang Meng-sang retired from office by rotation pursuant to Articles 87 and 88, and were re-elected as Members of the Board at the 2010 AGM.

Mr. Allister George Morrison (also known as Alasdair George Morrison), a businessman with international exposure through his holding of a number of senior executive positions in leading multinational enterprises particularly in Asia (Mr. Morrison's biography is set out on page 106), has been appointed as an independent non-executive Director with effect from 9 July 2010, thus increasing the number of independent non-executive Director of the Company to seven. Also, with effect from the same date, Mr. Morrison has been appointed as a Member of both the Audit Committee and the Remuneration Committee of the Board.

Coming from diverse business and professional backgrounds, the non-executive Directors actively bring their valuable experience to the Board for promoting the best interests of the Company and its shareholders. On the other hand, the independent non-executive Directors contribute to ensuring that the interests of all shareholders of the Company are taken into account by the Board and that relevant issues are subjected to objective and dispassionate consideration by the Board.

During the year, the Company has received confirmation from each independent non-executive Director about his/her independence under the Listing Rules, and continues to consider each of them to be independent.

Each Director ensures that he/she can give sufficient time and attention to the affairs of the Company. They are requested to disclose the number and nature of offices held in public companies or organisations and other significant commitments as well as their identity to the Company twice a year. At the July 2010 and January 2011 Board Meetings, Directors had been advised of the increased level of continuous disclosure of information about and by them, together with other matters relating to Directors, in the light of their duties under general law (common law and legislation) and the Listing Rules.

Biographies of the Members of the Board are set out on pages 104 to 107. Save as disclosed in this Annual Report, none of the Members of the Board and the Executive Directorate has any relationship (including financial, business, family or other material or relevant relationships) between each other, although the office of the S for T&H (Ms. Eva Cheng) and the office of the C for T (Mr. Joseph Lai Yee-tak) were both appointed by the Chief Executive of the HKSAR, and Professor Chan Ka-keung, Ceajer is the Secretary for Financial Services and the Treasury of the Government, and Ms. Christine Fang Meng-sang sits on various government advisory committees.

As permitted under its Articles of Association, the Company has arranged Directors' and Officers' Liability Insurance for which Members of the Board and officers of the Company do not have to bear any excess.

### Chairman and Chief Executive Officer

The posts of Chairman and Chief Executive Officer are distinct and separate (please refer to The Board of Directors section regarding their appointments on page 86). The non-executive Chairman is responsible for chairing and managing the operations of the Board, as well as monitoring the performance of the Chief Executive Officer and Members of the Executive Directorate. Apart from making sure that adequate information about the Company's business is provided to the Board on a timely basis, the Chairman provides leadership for the Board, and ensures views on all principal and appropriate issues are exchanged by all Directors (including the non-executive Directors) in a timely manner, by encouraging them to make a full and effective contribution to the discussion. Under the Chairman's guidance, all decisions have reflected the consensus of the Board. As head

of the Executive Directorate and chairman of the Executive Committee (which comprises six other Members of the Executive Directorate, General Manager – Corporate Relations, and General Manager – Marketing & Station Commercial), the Chief Executive Officer is responsible to the Board for managing the business of the Company. Biographies of the Members of the Executive Directorate and the other Members of the Executive Committee are set out on pages 107 to 109.

### Board Proceedings

The Board meets in person regularly, and all Members of the Board have full and timely access to relevant information and may take independent professional advice at the Company's expense, if necessary, in accordance with the approved procedures. The draft agenda for regular Board Meetings is prepared by the Legal Director & Secretary and approved by the Chairman of the Company. Members of the Board are advised to inform the Chairman or the Legal Director & Secretary not less than one week before the relevant Board Meeting if they wish to include a matter in the agenda of the Meeting. The Board Meeting dates for the following year are usually fixed by the Legal Director & Secretary and agreed by the Chairman some time in the third quarter of each year.

At each regular Board Meeting, Members of the Executive Directorate together with senior managers report to the Board on their respective areas of business, including the operations, progress of projects, property and other businesses, financial performance, legal issues, risk management, corporate governance, human resources and outlook. The Chief Executive Officer also submits his Executive Summary, which focuses on the overall strategies and principal issues of the Company, to the Board. These reports, together with the discussions at Board Meetings, provide information to enable all Members of the Board to make informed decisions for the benefit of the Company. The agenda together with Board papers are sent in full at least three days before the intended date of the Board Meeting.

All Members of the Board have access to the advice and services of the Legal Director & Secretary, who is responsible for ensuring that the correct Board procedures are followed and advises the Board on all corporate governance matters. The Members of the Board also have full access to all Members of the Executive Directorate as and when they consider necessary.

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Unless specifically permitted by the Articles of Association, a Director cannot cast a vote on any contract, transaction, arrangement or any other kind of proposal in which he has an interest and which he knows is material. For this purpose, interests of a person who is connected with a Director (including any of his associates) are treated as the interests of the Director himself. Interests purely as a result of an interest in the Company's shares, debentures or other securities are disregarded. A Director may not be included in the quorum for such part of a meeting that relates to a resolution he is not allowed to vote on but he shall be included in the quorum for all other parts of that Meeting. This reduces potential conflicts which might otherwise arise between the Company's business and an individual Director's other interests or appointments.

Matters to be decided at Board Meetings are decided by a majority of votes from Directors allowed to vote although the usual practice is that decisions reflect the consensus of the Board.

### Board Meetings

The Board held seven regular Meetings and one ad hoc Meeting in 2010. In this regard, the Company again *well exceeds* the requirement of the Code which requires every listed issuer to hold Board Meetings at least four times a year.

During 2010 and in addition to the regular reports on the business and financial performance, examples of other key matters discussed at the Board Meetings included Hong Kong's train service (including operations of the Fare Adjustment Mechanism) and railway projects (such as West Island Line and Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link), Mainland of China's railway projects

(for example, Shenzhen Metro Line 4 and the Daxing Line) and Beijing Metro Line 4's operations, overseas train operations (London Overground, Stockholm's Metro and Melbourne's Metropolitan train system), property development, shareholders' analysis and investors' feedback, corporate governance, enterprise risk management, corporate sustainability, pay review, and staff relations. A special Board Meeting was held in July on Octopus Holdings Limited's management of personal data.

### Private/Other Board Meetings

In addition to the above regular Board Meetings, the Chairman held three private/other Board Meetings during the year.

The first Meeting was held on 30 April 2010 with all non-executive Directors and the Chief Executive Officer without the presence of other Members of Executive Directorate to discuss executive development and succession.

A Meeting on 9 July 2010 was with a majority of other non-executive Directors without the presence of the Chief Executive Officer and other Members of Executive Directorate, to discuss Executive Directorate performance and succession plan.

Another Meeting was held on 7 December 2010 with all non-executive Directors without the presence of the Chief Executive Officer and other Members of Executive Directorate. The Chief Executive Officer's succession planning, commencement of an international search for suitable candidates in 2011 to fill the Chief Executive Officer position, shareholder relations and key executive's pay matters were discussed.

The attendance record of each Member of the Board (and relevant Members of Executive Directorate who are Members of Corporate Responsibility Committee) is set out below:

### Meetings Held in 2010

| Directors  | Board           | Private/<br>Other<br>Board | Audit<br>Committee | Remuneration<br>Committee | Nominations<br>Committee | Corporate<br>Responsibility<br>Committee | Annual<br>General<br>Meeting |
|--|-----------------|----------------------------|--------------------|---------------------------|--------------------------|--|------------------------------|
| Number of Meetings   | 8               | 3                          | 4                  | 4                         | 1                        | 2  | 1                            |
| <b>Non-executive Directors</b>                               |                 |                            |                    |                           |                          |  |                              |
| Dr. Raymond Ch'ien Kuo-fung ( <i>Chairman</i> )              | 7/8             | 3/3                        |                    |                           | 1/1                      | 2/2                                      | 1/1                          |
| Commissioner for Transport (Joseph Lai Yee-tak)              | 8/8<br>(Note 2) | 3/3                        | 4/4                |                           |                          |  | 0/1                          |
| Secretary for Transport and Housing (Eva Cheng)              | 8/8<br>(Note 3) | 2/3<br>(Note 3)            |                    |                           | 1/1                      | 2/2<br>(Note 3)                          | 0/1                          |
| Professor Chan Ka-keung, Ceajer                              | 8/8<br>(Note 4) | 3/3<br>(Note 4)            |                    | 4/4<br>(Note 4)           | 1/1                      |  | 1/1<br>(Note 4)              |
| <b>Independent Non-executive Directors</b>                   |                 |                            |                    |                           |                          |  |                              |
| Vincent Cheng Hoi-chuen                                      | 6/8<br>(Note 5) | 2/3                        |                    | 3/4<br>(Note 5)           |                          | 1/2                                      | 1/1                          |
| Christine Fang Meng-sang                                     | 8/8             | 3/3                        |                    |                           | 1/1                      | 2/2                                      | 1/1                          |
| Edward Ho Sing-tin   | 8/8             | 3/3                        |                    | 4/4                       | 1/1                      |  | 1/1                          |
| T. Brian Stevenson   | 8/8             | 3/3                        | 4/4                | 4/4                       |                          |  | 1/1                          |
| Ng Leung-sing  | 6/8             | 3/3                        | 4/4                |                           | 1/1                      |  | 1/1                          |
| Abraham Shek Lai-him   | 7/8             | 2/3                        | 2/2                |                           | 1/1                      | 1/2                                      | 1/1                          |
| Alasdair George Morrison (Note 1)                            | 5/5             | 2/2                        | 1/2                | 1/2                       |                          |  |                              |
| <b>Executive Directors</b>                                   |                 |                            |                    |                           |                          |  |                              |
| Chow Chung-kong ( <i>Chief Executive Officer</i> )           | 8/8             | 1/1                        |                    |                           |                          |  | 1/1                          |
| Leonard Bryan Turk ( <i>Legal Director &amp; Secretary</i> ) |                 |                            |                    |                           |                          | 2/2                                      |                              |
| Thomas Ho Hang-kwong ( <i>Property Director</i> )            |                 |                            |                    |                           |                          | 2/2                                      |                              |

#### Notes

- 1 Mr. Alasdair George Morrison was appointed as an independent non-executive Director, as well as a member of the Audit Committee and the Remuneration Committee respectively, on 9 July 2010. 2 Board Meetings attended by Mr. Alasdair George Morrison were by teleconference.
- 2 2 Board Meetings were attended by the alternate director of Mr. Joseph Lai Yee-tak.
- 3 2 Board Meetings, 1 Private/Other Board Meeting and 1 Corporate Responsibility Committee Meeting were attended by an alternate director of Ms. Eva Cheng.
- 4 4 Board Meetings, 2 Private/Other Board Meetings, 2 Remuneration Committee Meetings and the Annual General Meeting were attended by an alternate director of Professor Chan Ka-keung, Ceajer.
- 5 2 Board Meetings and 1 Remuneration Committee Meeting attended by Mr. Vincent Cheng Hoi-chuen were by teleconference.

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The minutes of Board Meetings are prepared by Legal Manager – Company Secretarial, the Secretary of the Meetings with details of the matters considered by the Board and decisions reached, including any concerns raised by the Members of the Board or dissenting views expressed. The draft minutes are circulated to all Members of the Board for their comment within a reasonable time after the Meeting. The approved procedure is that the Board formally adopts the draft minutes at the subsequent Meeting. If Members of the Board have any comment on the draft minutes, they will discuss it at that Meeting, followed by a report on what has been agreed in the minutes of that Meeting. Minutes of Board Meetings are kept by the Legal Director & Secretary and open for inspection by all Members of the Board at the Company's registered office.

### Material Interests and Voting

All Directors are required to comply with their common law duty to act in the best interests of the Company and have particular regard to the interest of the shareholders as a whole.

Amongst others, all Directors are required to declare their interests, if any, in any transaction, arrangement or other proposal to be considered by the Board at Board Meetings and to abstain from voting on any related resolutions.

### Government's Representatives on the Board

The Government is a substantial shareholder of the Company and the Chief Executive of the HKSAR may, pursuant to Section 8 of the MTR Ordinance, appoint up to three persons as "additional directors". Out of a total of 12 Board Members, three are Government-nominated representatives (being the office of the S for T&H, the office of the C for T (both pursuant to Section 8 of the MTR Ordinance) and Professor Chan Ka-keung, Ceajer) and seven of them (being the *majority*) are independent non-executive Directors.

Each Director appointed by the Chief Executive of the HKSAR pursuant to Section 8 of the MTR Ordinance or by the Government through its shareholding must, like any other Director, act in the best interests of the Company.

On appointment to the Board and same as any other Director, each Government-nominated Director is given a comprehensive, formal and tailored induction programme highlighting, among other things, his/her duties under general law, statutes and the Listing Rules (including the fiduciary duty to act in good faith in the best interests of the Company as a whole, considering the interests of all its shareholders, majority or minority, present and future).

If a conflict arises between the interests of the Company and those of the Government, a Director appointed by the Chief Executive of the HKSAR pursuant to Section 8 of the MTR

Ordinance or by the Government through its shareholding, would not be included in the quorum of part of a Meeting that relates to the transaction, arrangement or other proposal being considered by the Board and would not be allowed to vote on the related resolution.

Please refer to pages 87 and 88 regarding the Board proceedings in 2010.

There are a number of contractual arrangements that have been entered into between the Company and the Government (and its related entities), some of which are continuing in nature. As the Government is a substantial shareholder of the Company, such contractual arrangements are connected transactions (and in some cases continuing connected transactions) for the purposes of the Listing Rules. The section headed "Connected Transactions" on pages 122 to 136 explains how, in accordance with the Listing Rules, these transactions are treated.

### Appointment, Re-election and Removal of Members of the Board

A person may be appointed as a Member of the Board at any time either by the shareholders in general meeting or by the Board upon recommendation by the Nominations Committee of the Company. Directors who are appointed by the Board must retire at the first annual general meeting after their appointment. A Director who retires in this way is eligible for election at that annual general meeting, but is not taken into account when deciding which and how many Directors should retire by rotation. In either case, the Directors so elected and appointed are eligible for re-election and re-appointment.

At each annual general meeting of the Company, one third of the Directors (or, if the number of Directors is not divisible by three, such number as is nearest to and less than one third) must retire as Directors by rotation.

The Chief Executive of the HKSAR may, pursuant to Section 8 of the MTR Ordinance, appoint up to three persons as "additional directors". Directors appointed in this way may not be removed from office except by the Chief Executive of the HKSAR. These Directors are not subject to any requirement to retire by rotation nor will they be counted in the calculation of the number of Directors who must retire by rotation. In all other respects, the "additional directors" are treated for all purposes in the same way as other Directors and are, therefore, subject to the normal common law duties of directors, including to act in the best interests of the Company. The Chief Executive of the HKSAR has appointed the office of the S for T&H and the office of the C for T as "additional directors".

The Company has a service contract with each of the non-executive Directors (including Dr. Raymond Ch'ien Kuo-fung

(non-executive Chairman) and Professor Chan Ka-keung, Ceajer (Secretary for Financial Services and the Treasury of the Government)) (save for the "additional directors") specifying the terms of his/her continuous appointment as a non-executive Director and a Member of the relevant Board Committees, for a period not exceeding three years.

At the 2011 Annual General Meeting and in accordance with Articles 87 and 88 of the Articles of Association, Messrs. Edward Ho Sing-tin, Ng Leung-sing and Abraham Shek Lai-him will retire by rotation and will offer themselves for re-election.

Mr. Edward Ho Sing-tin, an independent non-executive Director and the chairman of both the Nominations Committee and the Remuneration Committee of the Board, joined the Board of the Mass Transit Railway Corporation in 1991. As an architect and the Group Chairman of Wong Tung Group of companies, as well as the only current independent non-executive Director on the Board since the Company's listing in 2000 (hence, has served the Board for more than nine years as contemplated in the Recommended Best Practices of the Code), Mr. Ho brings his valuable business and professional experience to the Board for promoting the best interests of the Company and its shareholders. Under his leadership as the chairman of the Independent Board Committee (which was established in connection with the Rail Merger between the Company and the Kowloon-Canton Railway Corporation), the Rail Merger was successfully implemented in 2007. At the 2008 Annual General Meeting, over 99.9% of the votes were in favour of the re-election of Mr. Ho as a Member of the Board.

The Company entered into a service contract with Mr. Ho for three years with effect from 2008, and has continued to receive written confirmation from him annually on his independence in accordance with the Listing Rules.

Accordingly, the Board has resolved that Mr. Ho continues to be independent and should be re-elected as a Director at the 2011 Annual General Meeting.

The re-appointment of Mr. Ho will be in accordance with the Recommended Best Practices of the Code.

At the 2011 Annual General Meeting and in relation to the retirement by rotation of directors, the Company will continue to comply with its Articles of Association which require one third of the current Directors who are subject to Articles 87 and 88 must retire as directors (i.e. three out of the nine Directors (excluding two Directors appointed pursuant to Section 8 of the MTR Ordinance)). The re-organisation in the Government of the HKSAR and the Rail Merger of the Company with Kowloon-Canton Railway Corporation have brought an increase in the number of Directors last elected/re-elected in the 2008 Annual General Meeting three years ago. For this reason, the Company

will, for the first time, not also meet Code provision A.4.2 (which requires every director to be subject to retirement by rotation at least once every three years) in 2011. For Directors retiring and standing for election/re-election at the 2011 Annual General Meeting, please refer to page 112.

Mr. Alasdair George Morrison, who was appointed by the Board after the 2010 Annual General Meeting, will retire under Article 85 of the Articles of Association and will offer himself for election at the 2011 Annual General Meeting.

On appointment to the Board, each of the Directors (including alternate directors) is given a comprehensive, formal and tailored induction programme on key areas of business operations and practices of the Company, as well as the general and specific duties of the directors under general law (common law and legislation) and the Listing Rules. All Directors (including alternate directors) are also given a Directors' Manual on their appointment which sets out, amongst other things, the Directors' duties and the Terms of Reference of the Board Committees. The Directors' Manual is updated from time to time to reflect developments in those areas, following a report on the same at relevant Board Meeting(s).

To assist Directors' continuing professional development, the Legal Director & Secretary recommends Directors to attend relevant seminars and courses. The costs of such training are borne by the Company. In addition, the Company is in the course of exploring an annual development programme for Directors. During 2010 and in preparing for succeeding Mr. Andrew McCusker as the Operations Director with effect from 1 January 2011, a one to one training programme covering the roles of a director from the strategic, planning and management perspective, as well as the legal and practical aspects of corporate governance and the trends, had been arranged for Dr. Jacob Kam Chak-pui.

## Accountability

The Members of the Board are responsible for preparing the accounts of the Company and of the Group. The accounts are prepared on a going concern basis and give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2010, and of the Group's profit and cash flow for the year then ended. In preparing the accounts for the year ended 31 December 2010, the Members of the Board have selected appropriate accounting policies and, apart from those new and amended accounting policies as disclosed in the notes to the accounts for the year ended 31 December 2010, have applied them consistently with previous financial periods. Judgments and estimates have been made that are prudent and reasonable. The reporting responsibilities of the External Auditor are set out on page 138.

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In support of the above, the accounts presented to the Board have been reviewed by the Members of the Executive Directorate. For both the annual and interim reports and accounts, the Finance Division is responsible for clearing them with the External Auditor and then the Audit Committee. In addition, all new and amended accounting standards and requirements, as well as changes in accounting policies adopted by the Company have been discussed and approved at the Audit Committee before adoption by the Company.

### Board Committees

As an integral part of good corporate governance, the Board has established a total of *four* Board Committees to oversee particular aspects of the Company's affairs. Each of these Committees is governed by its respective Terms of Reference which are available on the Company's website: [www.mtr.com.hk](http://www.mtr.com.hk).

The Audit Committee, Remuneration Committee and Nominations Committee comprise *only* non-executive Directors (with the *majority* being independent non-executive Directors). The Corporate Responsibility Committee has seven Members with the *majority* being non-executive Directors. There are two Members of the Executive Directorate on that Board Committee to facilitate discussion and implementation of policies.

All Committees are provided with sufficient resources to discharge their duties.

### Audit Committee

The Audit Committee consists of four non-executive Directors, three of whom are independent non-executive Directors. The Members of the Committee are Mr. T. Brian Stevenson (chairman), Mr. Ng Leung-sing, the C for T (Mr. Joseph Lai Yee-tak), and Mr. Alasdair George Morrison (effective from 9 July 2010). Mr. Abraham Shek Lai-him served the Committee during the period from 1 February to 9 July 2010. Mr. Stevenson, Mr. Ng, Mr. Morrison and Mr. Shek are also independent non-executive Directors. None of the Committee Members is a partner or former partner of KPMG, the Company's External Auditor. The Finance & Business Development Director, the Head of Internal Audit and representatives of the External Auditor of the Company are expected to attend Meetings of the Committee. At the discretion of the Committee, others may also be invited to attend Meetings. The Committee meets regularly, and the External Auditor or the Finance & Business Development Director may request a Meeting if they consider it necessary.

### Duties of Audit Committee

Under its Terms of Reference, the duties of the Audit Committee include financial and efficiency aspects as described below. Amongst other things, the Committee is required to oversee the relationship with the Company's External Auditor, to review the financial information of the Company, and to oversee the Company's financial reporting system and internal control procedures. The Committee discusses with the External Auditor the nature and scope of audit and reporting obligations before the audit commences. Apart from giving pre-approval of all audit services, the Committee also pre-approves any non-audit services for complying with relevant legal requirements. The Committee is primarily responsible for making recommendations to the Board on the appointment and removal of the External Auditor, and approving the remuneration and terms of such engagement.

With respect to financial information of the Company, the Committee monitors the integrity of financial statements, annual and interim reports and accounts, together with the preliminary announcement of results and other announcements regarding the Company's financial information to be made public. In dealing with the financial information, the Committee liaises with the Board and the Executive Directorate (including the Finance & Business Development Director), and the chairman of the Committee further meets on an ad hoc basis with the Head of Internal Audit, representatives of the External Auditor, and Management. Apart from considering issues arising from the audit, the Committee discusses any matters that auditor(s) may wish to raise either privately or together with executive Director(s) and any other person.

The Committee is required to review, at least annually, the effectiveness of the Company's financial controls, internal control and risk management systems and to report to the Board that such a review has been carried out. These controls and systems allow the Board to monitor the Company's overall financial position and to protect its assets. The Committee's review for 2010 also covered its role in overseeing the Management's review of the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget. (Please refer to the section headed "Internal Controls" below.) The Committee reviews and approves the annual Internal Audit Plan which includes audits on the efficiency of chosen activities or operations of the Company. In addition, the Committee reviews periodic reports from the Head of Internal Audit and the follow-up of major action plans recommended, and puts forward recommendations to the Board where appropriate.

The chairman of the Committee summarises activities of the Committee and highlights issues arising therefrom by a report to the Board after each Audit Committee Meeting.

The minutes of the Audit Committee Meetings are prepared by the secretary of the meeting with details of the matters considered by the Committee Members and decisions reached, including any concerns raised by the Committee Members and dissenting views expressed. The draft minutes are circulated to the Committee Members for comments and the final version of the minutes is sent to the Committee Members for their records within a reasonable time after the Meeting and the minutes are open for inspection by the Committee Members at the Company's registered office. With reference to the Agenda Framework, the chairman of the Committee makes final determination on the agenda for the regular Committee Meetings.

#### Work Performed by Audit Committee

In 2010, the Audit Committee held four Meetings and, based on the Agenda Framework pre-agreed with the chairman of the Committee, a total of four Meetings had been scheduled for 2011. Among the four Meetings held in 2010, the Audit Committee had two separate Meetings for reviewing the annual results for the year ended 31 December 2009. The first Meeting concentrated on the operational, compliance and risk management related items while the second Meeting focused on the accounting and financial reporting matters.

The attendance record of each Audit Committee Member is set out on page 89 under the section "Board Proceedings". The major work performed by the Committee in 2010 included:

- Review of and recommendation for the Board's approval the draft 2009 Annual Report and Accounts and 2010 Interim Report and Accounts;
- Approval of the 2011 Internal Audit Plan;
- Pre-approval of the audit and non-audit services provided by KPMG, the External Auditor, for 2010;
- Approval of the remuneration and terms of engagement of KPMG for the 2010 audit;
- Review of KPMG's ethical and independence policies and procedures;
- Preview of 2010 annual accounting and financial reporting issues;
- Review of the effectiveness of the Company's internal control systems;
- Review of the effectiveness of the Internal Audit Department for 2009;
- Review of a report on staff complaints for 2009;

- Review of enterprise risk management for 2009;
- Review of the outstanding litigation and compliance with statutes and regulations relevant to the business of the Company; and
- Confirmation of the financial figures for the 2009 payout under '2008 Variable Incentive Scheme'.

Representatives of the External Auditor, the Finance & Business Development Director and the Head of Internal Audit attended all those Meetings for reporting and answering questions about their work. Further to that and by invitation, the Operations Director, the Property Director and the Legal Director & Secretary (or their representatives) had respectively provided an overview of the Company's railway operations, property business as well as outstanding litigation, compliance and enterprise risk management matters to the Members at the Meetings. The Finance & Business Development Director also provided an overview of the business development and expansion outside of Hong Kong.

#### Remuneration Committee

The Remuneration Committee consists of five non-executive Directors, four of whom are independent non-executive Directors. The Members of the Remuneration Committee are Mr. Edward Ho Sing-tin (chairman), Mr. T. Brian Stevenson, Mr. Vincent Cheng Hoi-chuen, Professor Chan Ka-keung, Ceajer and Mr. Alasdair George Morrison (effective from 9 July 2010). Mr. Ho, Mr. Stevenson, Mr. Cheng and Mr. Morrison are independent non-executive Directors.

#### Duties of Remuneration Committee

The principal responsibilities of the Remuneration Committee include formulating a remuneration policy and practices that facilitate the employment of top quality personnel, recommending to the Board the remuneration of the Members of the Board who are non-executive Directors, determining the remuneration packages of the Members of the Board who are executive Directors and other Members of the Executive Directorate, and reviewing and approving performance-based remuneration by reference to the Company's goals and objectives.

#### Work Performed by Remuneration Committee

In 2010, the Remuneration Committee held four Meetings. The attendance record of each Committee Member is set out on page 89 under the section "Board Proceedings". In accordance with its Terms of Reference, the Committee performed the following work during the year:

- Approved the 2009 Remuneration Report as incorporated in the 2009 Annual Report;



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- Reviewed and approved payouts under the Company's performance-based variable incentive scheme for the 2009 performance period;
- Conducted an annual review of the remuneration packages for Members of the Executive Directorate, which took effect in July 2010;
- Reviewed and approved share options awards for Members of the Executive Directorate and other eligible employees; and
- Reviewed and approved the remuneration package for Dr. Jacob Kam Chak-pui, the new Operations Director whose appointment took effect from 1 January 2011.

The Remuneration Committee also met on 25 February 2011 to approve the 2010 Remuneration Report, which is set out on pages 100 to 103 and includes a description of the remuneration policy of the Company.

### Nominations Committee

The Nominations Committee consists of seven non-executive Directors, four of whom are independent non-executive Directors. Members of the Nominations Committee are Mr. Edward Ho Sing-tin (chairman), Dr. Raymond Ch'ien Kuo-fung, Ms. Christine Fang Meng-sang, Mr. Abraham Shek Lai-him, Mr. Ng Leung-sing, Professor Chan Ka-keung, Ceajer and the S for T&H (Ms. Eva Cheng). Mr. Ho, Ms. Fang, Mr. Shek and Mr. Ng are also independent non-executive Directors.

### Duties of Nominations Committee

The Nominations Committee nominates and recommends to the Board candidates for filling vacancies on the Board, and the positions of Chief Executive Officer ("CEO"), Finance Director ("FD") and Chief Operating Officer ("COO") (provided that the COO position exists). For the positions of FD and COO, the Committee may consider candidates recommended by the CEO, or any other candidates (provided that the CEO shall have the right to first agree to such other candidates).

### Work Performed by Nominations Committee

In 2010, the Nominations Committee held one Meeting. Attended by all Members of the Committee at the Meeting on 9 July 2010 and after discussion, the Committee agreed to recommend to the Board the appointment of Mr. Alasdair George Morrison, a businessman with international exposure through his holding of a number of senior executive positions in leading multinational enterprises particularly in Asia (Mr. Morrison's biography is set out on page 106), as a Member of the Board, and as a Member of the Audit Committee and the Remuneration Committee respectively, all to take effect from 9 July 2010. Mr. Morrison was invited by chairman of the Committee to meet a majority of the Members on 10 May 2010. The appointment was approved by the Board on 9 July 2010.

Attendance record of each Committee Member is shown on page 89 under the section "Board Proceedings".

### Corporate Responsibility Committee

The Corporate Responsibility Committee consists of five non-executive Directors (three of whom are independent non-executive Directors) and two Members of the Executive Directorate. The Chairman of the Company is the chairman of the Committee. Current Members of the Committee are Dr. Raymond Ch'ien Kuo-fung (Chairman), S for T&H (Ms. Eva Cheng), Ms. Christine Fang Meng-sang, Mr. Abraham Shek Lai-him, Mr. Vincent Cheng Hoi-chuen, Mr. Leonard Bryan Turk (Legal Director & Secretary) and Mr. Thomas Ho Hang-kwong (Property Director). Ms. Fang, Mr. Shek and Mr. Cheng are independent non-executive Directors.

### Duties of Corporate Responsibility Committee

The duties of the Committee are to recommend a corporate responsibility policy to the Board for approval, monitor and oversee the implementation of the Company's corporate responsibility policy and initiatives, identify emerging corporate responsibility issues arising from external trends, review annual Sustainability Report and recommend endorsement by the Board, and provide updates to the Board as required. Please also refer to the "Corporate Responsibility" section on pages 83 to 84 of this Annual Report.

### Work Performed by Corporate Responsibility Committee

In 2010, the Corporate Responsibility Committee held two Meetings. The attendance record of each Committee Member is set out on page 89 under the section "Board Proceedings". The major work performed by the Committee in 2010 included:

- Review of the implementation of the Company's community and staff engagement and communication programmes;
- Review of the sustainability development and environmental management of the Company;
- Review of corporate responsibility development of the Company; and
- Review of and recommendation for the Board's approval the draft 2009 Sustainability Report.

### Internal Controls

The Board is responsible for the system of internal controls of the Company and its subsidiaries, setting appropriate policies and reviewing the effectiveness of such controls. Internal control is defined as a process effected by the Board, Management and other personnel, designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable, and not absolute assurance of the following:

- effectiveness and efficiency of operations
- reliability of financial reporting
- compliance with applicable laws and regulations
- effectiveness of risk management functions

Pursuant to the Protocol adopted by the Board, the Board has delegated the day-to-day management of the Company's business to the Executive Committee, and focuses its attention on matters affecting the Company's overall strategic policies, finances and shareholders.

Supported by the Members of the Executive Committee, the Chief Executive Officer who chairs the Executive Committee is responsible to the Board for the conduct of the business of the Company.

A number of committees have been established to assist the Executive Committee in the day-to-day management and control of the various core businesses and functions of the Company and its subsidiaries. Key committees include:

- Operations Executive Management Committee
- Operations Business Meeting
- Property Executive Management Committee
- Project Control Group
- Railway Development Steering Group
- Consultancy Services Management Committee
- European Business Executive Committee
- China Business Executive Committee
- Information Technology Executive Management Committee
- Financial Planning Committee
- Investment Committee
- Corporate Safety Management Committee
- Enterprise Risk Committee
- Code of Conduct Steering Committee
- Tender Board
- Executive Tender Panel
- Corporate Responsibility Steering Committee

The Executive Committee is responsible for implementing the Board's policies on risk and control. In fulfilling its responsibilities, the Executive Committee identifies and evaluates the risks faced by the Company for consideration by the Board, and designs, operates and monitors a suitable system of internal controls which implements the policies adopted by the Board. The Executive Committee is accountable to the Board for monitoring the system of internal controls and providing assurance to the Board that it has done so. Additionally, all employees have responsibility for internal controls within their areas of accountability.

Various risk management strategies have been established by the Board as advised by the Executive Committee to identify, assess and reduce risks, including construction, business operations, finance, treasury, safety and enterprise risks as well as to ensure appropriate insurance coverage.

## **Risk Assessment and Management**

The Company's Enterprise Risk Management framework is an essential and integral part of corporate governance to help in sustaining business success and creating value for stakeholders. It is a corporate-wide systematic risk management process which aims to assist the Executive Committee and individual business areas to manage the key risks and support the Board in discharging its corporate governance responsibilities.

More details of the framework and process are given in the section headed Risk Management on page 85.

## **Control Activities and Processes**

To ensure the efficient and effective operation of business units and functions, and safety of operating railway and construction works in railway projects, Corporate General Instructions ("CGIs"), divisional/departmental procedures and manuals, committees, working groups and quality assurance units are established to achieve, monitor and enforce internal controls and evaluate their effectiveness.

CGIs and various departmental procedures and manuals are established for preventing or detecting unauthorised expenditures/payments, safeguarding the Company's assets, ensuring the accuracy and completeness of accounting records and timely preparation of reliable financial information.

All Department Heads, including Business and Project Managers for overseas projects, are responsible for ensuring the compliance with statutes and regulations applicable to their own functional units. They are required to identify any new or updated statutes, to assess their impact on the Company's operations, and to review at least once a year that relevant statutes/regulations are complied with. Potential and actual non-compliances are also reported and followed up by Department Heads and significant cases are reported to the respective Divisional Directors and the Executive Committee. Issues relating to compliance with statutes and regulations including potential and actual non-compliances, if any, and the status of rectification and actions taken to prevent recurrence are reported annually to the Executive Committee and Audit Committee.

The Internal Audit Department plays a major role, independent of the Company's management, in assessing and monitoring the internal controls of the Company. The Head of Internal Audit reports to the Chief Executive Officer and has direct access to the Audit Committee. The Department has unrestricted access to information that allows it to review all aspects of the Company's risk management, control and governance processes. On a regular basis, it conducts audits on financial, operational and compliance controls, and effectiveness of risk management functions of all business and functional units as well as subsidiaries. Management is responsible for ensuring that

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control deficiencies highlighted in internal audits are rectified within a reasonable period. The Department produces an annual internal audit plan derived from risk assessment for the Audit Committee's approval. On a half-yearly basis, the Head of Internal Audit reports the audit findings and opinion on the system of internal controls to the Audit Committee.

On behalf of the Board, the Audit Committee evaluates the effectiveness of the Company's system of internal controls, including the reliability of financial reporting, effectiveness and efficiency of operations, compliance with applicable laws and regulations and effectiveness of risk management functions. This is achieved primarily through approving the annual internal audit plan and reviewing the findings of internal audit work, in addition to reviewing the annual and interim financial statements, and the nature, scope of work, and report of the external auditors, and consideration of the following:

- the changes in the nature and extent of significant risks since the previous review and the Company's ability to respond to changes in its business and external environment;
- the scope and quality of management's ongoing monitoring of risks and the system of internal controls, the work of the Internal Audit Department, and the assurance provided by the Executive Committee;
- the extent and frequency with which the results of monitoring are communicated, enabling the Audit Committee to build up a cumulative assessment of the state of control in the Company and the effectiveness with which risk is being managed;
- the incidence of any significant control failings or weaknesses that have been identified at any time during the period and the extent to which they have resulted in unforeseen outcomes or contingencies that have had, could have had, or may in the future have, a material impact on the Company's financial performance or condition; and
- the effectiveness of the Company's processes in relation to financial reporting and statutory and regulatory compliance.

The processes for assessing internal controls by the Audit Committee have included: regular interviews with Members of the Executive Committee in relation to key business operations, internal control and compliance issues, both financial and non-financial; review of significant issues arising from internal audit reports and external audit report, private sessions with internal and external auditors, and review of annual assessment and certification of internal controls from Members of the Executive Committee and department heads within their areas of responsibility. The Audit Committee has also reviewed the

papers prepared by the Executive Committee and Internal Audit Department covering: 2009 Annual Report and Accounts, Preview of 2010 Annual Accounting issues, 2010 Interim Accounts, 2011 Internal Audit Plan, Internal Audit Department's Half-yearly Reports, Annual Report on Staff Complaints, Report on the Company's Internal Control System, Reporting of Outstanding Litigation and Compliance Issues, Enterprise Risk Management Report 2009 and Evaluation of Effectiveness of Internal Audit Department. The chairman of the Committee meets on an ad hoc basis with the Head of Internal Audit, representatives of the External Auditor and Management of the Company as appropriate. He summarizes activities of the Committee and highlights issues arising therefrom by a report to the Board after each Audit Committee Meeting.

The Company is committed to recruit, train and develop a team of qualified and competent accountants in order to oversee its financial reporting and other accounting-related issues. A process to capture and update relevant laws, rules and regulations applicable to the reporting and accounting function is in place. Designated officers will ensure relevant standards and ordinances including Hong Kong Financial Reporting Standards, the Listing Rules and the Companies Ordinance under their responsibility are complied with. Resources and provisions required to deliver accounting and financial reporting function are critically reviewed during the annual budgeting exercise. Company-wide recruitment process and staff development programmes are in place to address the competency, qualifications and experience required. Adherence to the process is confirmed on an annual basis by the designated officers to the Finance & Business Development Director who will conduct a formalized annual review and report to the Audit Committee for the review results. Confirmation of the process is also monitored by the Internal Audit Department. Based on the above, the Audit Committee considered the resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget were adequate.

The Board has, through the Audit Committee, conducted the review of the effectiveness of the Company's system of internal controls for the year ended 31 December 2010, covering all material financial, operational and compliance controls, and risk management function, and concluded that adequate and effective internal controls are maintained to safeguard the shareholders' investment and the Company's assets. There were no significant control failings, weaknesses or significant areas of concern identified during the year which might affect shareholders.

### **Crisis Management Committee**

To uphold the reputation of being one of the best companies in Hong Kong and in order to help ensure that the Company will respond to and recover from crises in an organised and effective manner, including timely communications with principal stakeholders such as shareholders, the Company established a Crisis Management Committee in 1995. The Committee comprises relevant Members of the Executive Directorate and Executive Managers, and its operation is governed by a Crisis Management Manual which, among other things, sets out the duties of respective members. The Manual is kept up-to-date through regular reviews. The Crisis Management Committee conducts regular exercises to validate the crisis management organisation and arrangements and to provide practices for members. The latest exercise was conducted in December 2010.

### **Continuous Disclosure Obligations regarding Price Sensitive Information**

The Company has developed a system with established policies, processes and procedures across all relevant Division(s) and Department(s) for complying with the disclosure obligations regarding price sensitive information. Further, a task force comprising all relevant heads of department reviewed the system in detail and thoroughly went through the checklist sent by the Stock Exchange to all issuers in late 2008. The recommendation that the Company has an effective system in dealing with the disclosure obligations was reported to the Executive Committee, and then to the Board of Directors in December 2008. The system continues to be effective throughout 2010. Efforts to further enhance the system in the light of the business operation and development of the Company will continue.

### **Governance of Subsidiaries and Affiliate Companies**

The Company has a number of subsidiaries and affiliate companies which operate independent businesses in Hong Kong, the Mainland of China and overseas. Notwithstanding these subsidiaries and affiliate companies are separate legal entities, the Company has implemented a new management governance structure ('Governance Structure') to ensure that it exercises an appropriate level of control and oversight as a shareholder of these subsidiaries and affiliate companies.

Pursuant to the Governance Structure, the Company exercises its control and oversight in a number of forms: imposition of internal controls, requirements for consent or consultation, reporting requirements and assurance. The management of each subsidiary or affiliate company is responsible for the adoption of management practices and policies that are appropriate to

the business nature and local situation, taking into account the management governance requirements of the Company, and developing a corporate governance manual for the entity which reflects both such management practices and policies as well as management governance requirements for approval by the relevant board of directors. Ongoing compliance with the manual is reported on a regular basis.

The Executive Committee will review the Governance Structure and compliance by the subsidiaries and affiliate companies with it on an annual basis.

### **Model Code for Securities Transactions by Directors of Listed Issuers**

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules ('Model Code'). After having made specific enquiry, the Company confirms that Members of the Board and the Executive Directorate complied throughout the year with the Model Code. Senior managers, other nominated managers and staff who, because of their office in the Company, are likely to be in possession of unpublished price sensitive information, have been requested to comply with the provisions of the Model Code. In addition, every employee is bound by the Code of Conduct issued by the Company, amongst other things, to keep unpublished price sensitive information in strict confidence.

### **Business Ethics**

The Company is committed to upholding a high standard of integrity and business ethics. The Company's Code of Conduct, Corporate Guidebook for All Staff and Corporate Guidebook for Managers ('Guidebooks') are important tools to help employees understand and follow requirements on ethical practices. The Code of Conduct and the Guidebooks are reviewed and updated every two years to ensure they are appropriate and in compliance with legislation. The Company also requires all employees to acknowledge their understanding of and agreement to comply with the Code of Conduct and the Guidebooks every two years. All employees are encouraged to report existing or potential violations and malpractices. Staff who have genuine suspicions about wrongdoings are also provided with proper procedures and a safe environment to speak up pursuant to the Speaking Up policy in place. New recruits are briefed on the Code of Conduct and the Guidebooks, and such briefings form an integral part of the staff induction and orientation programmes. The Code of Conduct is available on the Company's website: [www.mtr.com.hk](http://www.mtr.com.hk).

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A similar biennial certification programme is enforced in the Company's subsidiaries in the Mainland of China and overseas with a view to upholding the ethical culture in these subsidiaries. For other joint venture companies, guidelines on business ethics have been published for staff's observation and compliance.

### External Auditor

The Company engages KPMG as its External Auditor. In order to maintain KPMG's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards, the Audit Committee, under its Terms of Reference, pre-approves all audit services to be provided by KPMG and discusses with KPMG the nature and scope of their audit and reporting obligations before the audit commences.

The Audit Committee also reviews and pre-approves the engagement of KPMG to provide any non-audit services for complying with relevant legal requirements and seeks to balance the maintenance of objectivity with value for money.

The nature of audit and non-audit services provided by KPMG and fees paid to KPMG (including any entity that is under common control, ownership or management with the audit firm or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as part of the audit firm nationally or internationally) are set out in note 8D to the accounts on page 160.

On the part of KPMG, for maintaining integrity and objectivity, KPMG implements policies and procedures to comply with professional ethics and independence policies and requirements applicable to the work KPMG performs. In addition, KPMG requires its audit partner serving the Group to rotate off the audit engagement with the Company at least once every seven years.

### Communication with Shareholders

#### Annual General Meeting ("AGM")

The Company's AGM is one of the principal channels of communication with its shareholders. It provides an opportunity for shareholders to communicate face to face with the Directors about the Company's performance and operations. The Chairman of the Company, the chairmen of the Board Committees, all Members of the Executive Committee and the Auditors of the Company were present at the 2010 AGM to answer shareholders' questions. The AGM for 2010 was held on 27 May at Rotunda 3 (6/F), Hongkong International Trade & Exhibition Centre (renamed as Kowloonbay International Trade & Exhibition Centre), Kowloon Bay, Hong Kong. The 2011 AGM has been scheduled for 6 May, approximately three weeks earlier than 2010. This is the second consecutive year of bringing forward the date of AGM in order to

facilitate a direct dialogue between shareholders and Directors/ Management on annual results and other performance of the Company of the preceding year.

#### Chairman's Statement

The Chairman started the formal business of the AGM by reporting an overall good year for MTR, despite the challenging economic conditions and the threat posed by human swine influenza in 2009.

The Chairman then gave an overview of the Company's business performance including the ridership, train service performance, station commercial and rail related businesses, property development, property rental and management, Ngong Ping Cable Car and associated theme village and Octopus Cards. Early months of operations of rail franchises in Stockholm and Melbourne as well as Beijing Metro Line 4 were reported.

On business development, the Chairman reported the good progress of the five new railway projects in Hong Kong including the construction of the West Island Line (since 2009) and Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link (from 2010), and the status of detailed design for the South Island Line (East), the Kwun Tong Line Extension and Shatin to Central Link respectively.

The Chairman then gave a brief account of the growth strategy in the Mainland of China and overseas which was gaining momentum step by step. In addition to the rail franchises in Stockholm, Melbourne, London Overground and Beijing Metro Line 4, he covered the signing of a Concession Agreement for the operation and maintenance of the Daxing Line as an extension of Beijing Metro Line 4, the expected take over of the operation of the Shenzhen Metro Line 4 Phase 1 in 2010 and full operations (i.e. with Phase 2 together) sometime in 2011, and the signing of a Concession Agreement for Hangzhou Metro Line 1.

The important roles of corporate governance, sustainability, corporate responsibility and community involvement, in the continued success of the Company, were recognised by the Chairman.

Looking ahead, the Chairman said it was expected that patronage in Hong Kong would be benefited from improvements in the economy and the full year impact of the Kowloon Southern Link and the LOHAS Park Station. Apart from being the first full year for operating the Stockholm and Melbourne railway franchises, he said 2010 was also the first time in 13 years that MTR fares would be adjusted according to the Fare Adjustment Mechanism. Regarding other recurrent businesses, advertising, station retail and property rental businesses were market driven. For property development, the Chairman expected to make profit booking of Le Prestige and

the small retail shopping mall in Area 56 of Tseung Kwan O, in 2010. As announced, he said Austin Sites C and D were awarded to a consortium about two months before the AGM.

Before closing, the Chairman thanked Mr. Russell Black who retired in January 2010 as the Projects Director. He also welcomed Mr. Vincent Cheng joining the Board as an independent non-executive director (since July 2009) and Mr. T C Chew who succeeded Mr. Black as the Projects Director with effect from January 2010.

### Resolutions passed at the 2010 AGM

After the Chairman's Statement, separate resolutions were proposed for each substantially separate issue at that AGM. Before the resolutions were considered, the Chairman exercised his right as the Chairman of the Meeting under Article 67 of the Articles of Association to call a poll on all resolutions. Being the first listed company in Hong Kong to conduct electronic poll voting since 2007, the Company conducted electronic poll voting at the AGM.

A total of nine resolutions were passed at the 2010 AGM (with resolution no. 3 comprising three separate resolutions), each by over 97% of the votes cast at the Meeting. The full text of the resolutions is set out in the AGM Circular (which comprised Notice of the AGM) to shareholders dated 24 April 2010. For the benefit of those shareholders who did not attend the 2010 AGM, below is a succinct summary of the resolutions passed:

- (1) Adoption of the audited Statement of Accounts and the Reports of the Directors and the Auditors of the Company for the year ended 31 December 2009;
- (2) Declaration of a final dividend of HK\$0.38 per share for the year ended 31 December 2009;
- (3) (a) Election of Mr. Vincent Cheng Hoi-chuen as a Member of the Board of Directors of the Company;  
(b) Re-election of Mr. Chow Chung-kong as a Member of the Board of Directors of the Company; and  
(c) Re-election of Ms. Christine Fang Meng-sang as a Member of the Board of Directors of the Company.
- (4) Re-appointment of KPMG as Auditors of the Company and authorisation of the Board of Directors to determine their remuneration;
- (5) Grant of a general mandate to the Board of Directors to allot, issue, grant, distribute and otherwise deal with additional shares in the Company, not exceeding ten per cent. of the Company's issued share capital as at the date of this resolution\*;

- (6) Grant of a general mandate to the Board of Directors to purchase shares in the Company, not exceeding ten per cent. of the Company's issued share capital as at the date of this resolution\*; and
- (7) Conditional on the passing of resolutions 5 and 6, authorisation of the Board of Directors to exercise powers to allot, issue, grant, distribute and otherwise deal with additional shares in the Company under resolution 5 in respect of the aggregate nominal amount of share capital in the Company purchased by the Company\*.

\* (The full text of the resolution is set out in the Notice of the AGM.)

The poll results were posted on the websites of both the Company and the Stock Exchange on the same day after the AGM. The webcast of the AGM was also posted on the Company's website in the same evening after the AGM.

### Extraordinary General Meeting ("EGM")

The Company may also communicate with its shareholders through EGMs if and when appropriate.

If shareholders want to convene an EGM of the Company, those shareholders may requisition the Directors of the Company to do so, provided that at the date of requisition they hold, in aggregate, not less than one-twentieth of the paid-up capital of the Company. The shareholders' requisition must state the objects of the meeting requested and must be deposited at the registered office of the Company. The requisition may consist of several documents in like form, each signed by one or more of the shareholders concerned.

If, within 21 days from the date of the deposit of the requisition, the Directors of the Company do not proceed duly to convene an EGM for a day not more than 28 days after the date on which the notice convening the EGM is given, the relevant shareholders, or any of them representing more than one-half of the total voting rights of all of them, may themselves convene an EGM, provided that any EGM so convened is held within three months from the date of the original requisition.

### Procedures for Shareholders Putting Forward Proposals

Shareholders may put forward proposals for consideration at a general meeting according to the Companies Ordinance and the Company's Articles of Association.

### Enquiries from Shareholders

Details of other means of communication with shareholders are set out in the section of Investor Relations on pages 80 and 81.