

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 2010.

Principal Activities of the Group

The principal activities of the Company and its subsidiaries are:

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

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

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

D the investment in a 50% equity share in the operation of the 7-year UK's London Overground Concession, consisting of 5 London railway lines (including the East London Line from Dalston Junction to West Croydon and Crystal Palace which was refurbished and extended, and commenced operation in May 2010), increasing the total route length to 110 kilometres;

E the investment in the operation (including rolling stock maintenance which is undertaken by a 50:50 joint venture) of the 8-year Sweden's Stockholm Metro Concession, consisting of three lines measuring a total of 108 kilometres, linking the Swedish capital's central areas with surrounding suburbs;

F the investment in a 60% equity share in the operation and maintenance of Australia's Melbourne train system, consisting of 15 lines measuring a total of 372 kilometres, linking Melbourne's central business district with surrounding suburbs, under a franchise agreement with an initial period of 8 years;

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

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

I the design of the Kwun Tong Line Extension and the South Island Line (East) as the railway system extensions for which scheme authorisation has been granted;

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

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

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

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

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

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

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

Q the investment in the design, construction and future operations of Phase 2, together with operations of Phase 1 (which started in July 2010) of Shenzhen Metro Line 4, a 20.5 kilometres double-track urban railway running from Futian Checkpoint at the boundary between Hong Kong and Shenzhen, Mainland of China, to Longhua New Town in Shenzhen with a total of 15 stations, under a 30-year Build-Operate-Transfer concession agreement with the Shenzhen Municipal Government.

A Concession Agreement for a Public-Private Partnership project for the investment, construction and operations of Hangzhou Metro Line 1 for a term of 25 years was entered into by MTR Hangzhou Line 1 Investment Company Limited (a wholly-owned subsidiary of the Company) and a subsidiary of Hangzhou Metro Group Company Limited together with Hangzhou Municipal Government. The Concession Agreement is pending for the regulatory Central Government approval.

The Company had wound down its freight business in June 2010 to better utilize train paths thus providing greater flexibility for passenger train services.

Dividend

The Directors have recommended a final dividend of HK\$0.45 per Ordinary Share to be payable to shareholders whose names appear on the Register of Members of the Company on 24 March 2011. Subject to the passing of the necessary resolutions at the forthcoming Annual General Meeting, such dividend will be payable on or about 18 May 2011, in cash in Hong Kong dollars, with a scrip dividend alternative.

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), Vincent Cheng Hoi-chuen, Christine Fang Meng-sang, Edward Ho Sing-tin, Allister George Morrison (also known as Alasdair George Morrison) [appointed on 9 July 2010], 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 (Joseph Lai Yee-tak).

In December 2010, Chow Chung-kong informed the Board that he would 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.

At the Annual General Meeting on 27 May 2010 and pursuant to the Articles of Association, Chow Chung-kong, Christine Fang Meng-sang and Vincent Cheng Hoi-chuen retired under the Articles of Association and were re-elected/elected as Members of the Board.

At the 2011 Annual General Meeting and in accordance with the Articles of Association, Edward Ho Sing-tin, Ng Leung-sing and Abraham Shek Lai-him will retire by rotation and will offer themselves for re-election. 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. Please also refer to page 24 of the Corporate Governance Report.

Biographical details for Board Members are set out on pages 38 to 40.

Alternate Directors

The Alternate Directors in office during the year were:

- for Chan Ka-keung, Ceajer: Ying Yiu-hong, Leung Cheuk-man [ceased on 25 October 2010] and Chu Man-ling [with effect from 25 October 2010];
- for the office of the Secretary for Transport and Housing: (i) the Under Secretary for Transport and Housing (Yau Shing-mu); (ii) the Permanent Secretary for Transport and Housing (Transport) (Ho Suen-wai); and (iii) the Deputy Secretary for Transport and Housing (Transport) (Yung Wai-hung and Shirley Yuen [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 1 February 2010 and 1 October 2010 respectively], Maisie Cheng Mei-sze [with effect from 1 February 2010] and Rebecca Pun Ting-ting [with effect from 1 October 2010]); 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 [retired on 1 February 2010], William Chan Fu-keung, Chew Tai Chong [appointed on 1 February 2010], Thomas Ho Hang-kwong, Lincoln Leong Kwok-kuen, Andrew McCusker [retired with effect from 1 January 2011] and Leonard Bryan Turk.

Russell John Black retired as Projects Director and a Member of the Executive Directorate, and Chew Tai Chong was appointed as Projects Director and a Member of the Executive Directorate, both with effect from 1 February 2010. Mr. Chew joined the Company as Deputy Projects Director – New Projects in May 2009.

As announced on 21 June 2010, Andrew McCusker retired as Operations Director and a Member of the Executive Directorate, and Jacob Kam Chak-pui was appointed as Operations Director and a Member of the Executive Directorate, both with effect from 1 January 2011. Dr. Kam joined the Company in 1995, and was appointed as Deputy Operations Director in July 2010.

Biographical details for Members of the Executive Directorate during the year are set out on pages 40 to 41.

Report of the Members of the Board

Internal Audit

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

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

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

Business Ethics

Please refer to page 31.

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 2010 and of its results for the year are set out in the summary financial statements on pages 53 to 66.

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 16 to 17.

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 the Consolidated Statement of Changes in Equity.

Share Capital

As at 31 December 2009, the authorised share capital of the Company was HK\$6.5 billion, divided into 6.5 billion Ordinary Shares, 5,727,833,692 of which were issued and credited as fully paid.

During the year, the Company issued a total of 44,729,339 Ordinary Shares. Of this number:

- A** 2,922,500 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** 195,000 Ordinary Shares were issued by the Company pursuant to the exercise of share options which had been granted under the Company's New Joiners Share Option Scheme. In respect of each Ordinary Share issued, the relevant exercise price per share of options are HK\$9.75, HK\$18.05 and HK\$20.66 to the Company;
- C** 1,573,500 Ordinary Shares were issued by the Company pursuant to the exercise of share options which had been granted under the Company's 2007 Share Option Scheme. In respect of each Ordinary Share issued, the relevant exercise price per share of options are HK\$18.30, HK\$24.50, HK\$26.52, HK\$26.85, and HK\$27.60 to the Company;
- D** 37,130,522 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 2009 (for which the cash dividend was HK\$0.38 per Ordinary Share); and
- E** 2,907,817 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 2010 (for which the cash dividend was HK\$0.14 per Ordinary Share).

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

Redemption of Listed Securities

The Company redeemed its US\$600 million global notes on 8 November 2010. The notes were listed on the Luxembourg Stock Exchange prior to the redemption.

Saved as disclosed above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of its listed securities during the financial year 2010.

Donations

During the year, the Company donated a total of HK\$2,401,000 to charitable and other organisations, including donations of HK\$1 million and HK\$500,000 to the victims of the Qinghai and Haiti earthquake respectively to help provide clothing, medical supplies and other emergency materials.

In addition, the MTR HONG KONG Race Walking 2010 raised over HK\$1.13 million (including over HK\$64,000 from MTR staff) for the Hospital Authority Health InfoWorld to promote good health.

The Company helped raise funds for the Community Chest and the Hong Kong Cancer Fund with a total cash donation of over HK\$310,000 through different activities such as CARE Scheme, Green Day, Love Teeth Day and Dress Special Day for the former organisation and Dress Pink Day for the latter.

Reporting and Monitoring

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

Treasury Management

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

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

Capital and Revenue Expenditure

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

Bonds and Notes Issued

The Group has not issued any bonds or notes during the financial year 2010.

Computer Processing

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

Interests in Contracts of Members of the Board and the Executive Directorate

There was no contract of significance, to which the Company or any of its subsidiaries was a party and in which a Member of the Board or a Member of the Executive Directorate had a material interest (whether direct or indirect), which subsisted at the end of the year or at any time during the year.

Board Members' and Executive Directorate's Interests in Shares

As at 31 December 2010, 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:

Report of the Members of the Board

Long Positions in Shares and Underlying Shares of the Company

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	51,499	–	–	–	–	51,499	0.00089
Chow Chung-kong	–	–	–	2,130,000 (Note 1)	222,161 (Note 2)	2,352,161	0.04075
Vincent Cheng Hoi-chuen	1,675	1,675	–	–	–	3,350	0.00006
Christine Fang Meng-sang	1,712	–	–	–	–	1,712	0.00003
T. Brian Stevenson	5,072	–	–	–	–	5,072	0.00009
William Chan Fu-keung	124,849	–	–	680,000 (Note 1)	–	804,849	0.01394
Chew Tai Chong	–	–	–	425,000 (Note 1)	–	425,000	0.00736
Thomas Ho Hang-kwong	148,850	2,541	–	637,500 (Note 1)	–	788,891	0.01367
Lincoln Leong Kwok-kuen	23,000	–	23,000 (Note 3)	(i) 417,500 (Note 4) (ii) 680,000 (Note 1)	–	1,143,500	0.01981
Andrew McCusker	–	–	–	453,000 (Note 1)	–	453,000	0.00785
Leonard Bryan Turk	–	–	–	637,500 (Note 1)	–	637,500	0.01104

Member of 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		
Jacob Kam Chak-pui (Note 5)	2,283	–	–	425,000 (Note 1)	–	427,283	0.00740

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 222,161 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 222,161 shares in the Company on completion of his existing contract (on 31 December 2011).
- 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.
- Jacob Kam Chak-pui became the Operations Director and a Member of the Executive Directorate on 1 January 2011.

* 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 2010	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 2010	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	117,500	–	–	117,500	8.44	–	28.65
Other eligible employees	20/9/2000	41,409,000	5/4/2001 – 11/9/2010	2,830,500	–	25,500	2,805,000	8.44	–	27.86

Notes

- The Pre-Global Offering Share Option Scheme ("Pre-IPO Option Scheme") was valid and effective for a period of ten years after 12 September 2000. No option might 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 ("Listing Date").
- The number of shares to which the option granted to each participant under the Pre-IPO Option Scheme did not exceed 25% of the number of the shares issued and issuable under the Pre-IPO Option Scheme.
- The above share options fully vested on 5 October 2003. The proportion of underlying shares in respect of which the share options had vested was as follows:

Date	Proportion of underlying shares in respect of which an option is vested
Before 5 October 2001	none
5 October 2001 to 4 October 2002	one-third
5 October 2002 to 4 October 2003	two-thirds
After 4 October 2003	all

Vesting of the share options might be accelerated to an earlier date in some circumstances. However, no such option should vest and become exercisable before 5 April 2001, i.e. the date falling six months after the Listing Date.

- The Pre-IPO Option Scheme expired on 11 September 2010.

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 2010	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 2010	Weighted average closing price of shares immediately before the date(s) on which options were exercised (HK\$)
Lincoln Leong Kwok-kuen	1/8/2003	1,066,000	14/7/2004 – 14/7/2013	417,500	–	–	–	–	9.75	417,500	–
Other eligible employees	1/8/2003	495,200	14/7/2004 – 14/7/2013	139,200	–	–	–	31,000	9.75	108,200	28.51
	23/9/2005	213,000	9/9/2006 – 9/9/2015	213,000	–	–	–	–	15.97	213,000	–
	31/3/2006	94,000	20/3/2007 – 20/3/2016	94,000	–	–	–	94,000	18.05	–	29.20
	5/10/2006	94,000	29/9/2007 – 29/9/2016	94,000	–	–	–	–	19.732	94,000	–
	12/5/2006	266,500	25/4/2007 – 25/4/2016	266,500	–	–	–	–	20.66	266,500	–
	15/5/2006	213,000	25/4/2007 – 25/4/2016	92,000	–	–	–	70,000	20.66	22,000	28.64

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.
- The proportion of underlying shares in respect of which the above share options will vest is as follows:

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

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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 2010	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 2010	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	–	157,000	–	–	18.30	470,000	–
	9/12/2009	470,000	8/12/2010 – 8/12/2016	470,000	–	157,000	–	–	26.85	470,000	–
	17/12/2010	470,000	16/12/2011 – 16/12/2017	–	470,000	–	–	–	28.84	470,000	–
William Chan Fu-keung	13/12/2007	170,000	10/12/2008 – 10/12/2014	170,000	–	56,000	–	–	27.60	170,000	–
	9/12/2008	170,000	8/12/2009 – 8/12/2015	170,000	–	57,000	–	–	18.30	170,000	–
	10/12/2009	170,000	8/12/2010 – 8/12/2016	170,000	–	57,000	–	–	26.85	170,000	–
	17/12/2010	170,000	16/12/2011 – 16/12/2017	–	170,000	–	–	–	28.84	170,000	–
Chew Tai Chong	18/6/2009	85,000	12/6/2010 – 12/6/2016	85,000	–	28,500	–	–	24.50	85,000	–
	10/12/2009	170,000	8/12/2010 – 8/12/2016	170,000	–	57,000	–	–	26.85	170,000	–
	17/12/2010	170,000	16/12/2011 – 16/12/2017	–	170,000	–	–	–	28.84	170,000	–
Thomas Ho Hang-kwong	12/12/2007	170,000	10/12/2008 – 10/12/2014	170,000	–	56,000	–	–	27.60	170,000	–
	11/12/2008	170,000	8/12/2009 – 8/12/2015	170,000	–	57,000	–	–	18.30	170,000	–
	14/12/2009	170,000	8/12/2010 – 8/12/2016	170,000	–	57,000	–	–	26.85	170,000	–
	17/12/2010	127,500	16/12/2011 – 16/12/2017	–	127,500	–	–	–	28.84	127,500	–
Lincoln Leong Kwok-kuen	12/12/2007	170,000	10/12/2008 – 10/12/2014	170,000	–	56,000	–	–	27.60	170,000	–
	9/12/2008	170,000	8/12/2009 – 8/12/2015	170,000	–	57,000	–	–	18.30	170,000	–
	10/12/2009	170,000	8/12/2010 – 8/12/2016	170,000	–	57,000	–	–	26.85	170,000	–
	17/12/2010	170,000	16/12/2011 – 16/12/2017	–	170,000	–	–	–	28.84	170,000	–
Andrew McCusker	12/12/2007	170,000	10/12/2008 – 10/12/2014	170,000	–	56,000	–	–	27.60	170,000	–
	12/12/2008	170,000	8/12/2009 – 8/12/2015	170,000	–	57,000	–	57,000	18.30	113,000	26.80
	10/12/2009	170,000	8/12/2010 – 8/12/2016	170,000	–	57,000	–	–	26.85	170,000	–
Leonard Bryan Turk	12/12/2007	170,000	10/12/2008 – 10/12/2014	170,000	–	56,000	–	–	27.60	170,000	–
	9/12/2008	170,000	8/12/2009 – 8/12/2015	170,000	–	57,000	–	–	18.30	170,000	–
	10/12/2009	170,000	8/12/2010 – 8/12/2016	170,000	–	57,000	–	–	26.85	170,000	–
	17/12/2010	127,500	16/12/2011 – 16/12/2017	–	127,500	–	–	–	28.84	127,500	–
Jacob Kam Chak-pui (Note 4)	13/12/2007	75,000	10/12/2008 – 10/12/2014	75,000	–	25,000	–	–	27.60	75,000	–
	8/12/2008	65,000	8/12/2009 – 8/12/2015	65,000	–	22,000	–	–	18.30	65,000	–
	14/12/2009	65,000	8/12/2010 – 8/12/2016	65,000	–	22,000	–	–	26.85	65,000	–
	21/7/2010	50,000	28/6/2011 – 28/6/2017	–	50,000	–	–	–	27.73	50,000	–
	17/12/2010	170,000	16/12/2011 – 16/12/2017	–	170,000	–	–	–	28.84	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	2,050,000	10/12/2008 – 10/12/2014	1,736,000	–	577,000	12,000	116,000	27.60	1,608,000	29.61
	13/12/2007	840,000	10/12/2008 – 10/12/2014	840,000	–	272,000	–	–	27.60	840,000	–
	14/12/2007	1,005,000	10/12/2008 – 10/12/2014	973,000	–	319,000	35,500	65,500	27.60	872,000	29.89
	15/12/2007	435,000	10/12/2008 – 10/12/2014	370,000	–	121,000	–	27,000	27.60	343,000	29.20
	17/12/2007	835,000	10/12/2008 – 10/12/2014	773,000	–	256,000	–	22,000	27.60	751,000	30.35
	18/12/2007	445,000	10/12/2008 – 10/12/2014	380,000	–	124,000	–	92,000	27.60	288,000	29.27
	19/12/2007	115,000	10/12/2008 – 10/12/2014	115,000	–	26,000	35,000	–	27.60	80,000	–
	20/12/2007	190,000	10/12/2008 – 10/12/2014	190,000	–	63,000	–	–	27.60	190,000	–
	21/12/2007	45,000	10/12/2008 – 10/12/2014	45,000	–	15,000	–	30,000	27.60	15,000	28.55
	22/12/2007	35,000	10/12/2008 – 10/12/2014	35,000	–	11,000	–	–	27.60	35,000	–
	24/12/2007	118,000	10/12/2008 – 10/12/2014	118,000	–	39,000	–	–	27.60	118,000	–

**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 2010	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 2010	Weighted average closing price of shares immediately before the date(s) on which options were exercised (HK\$)
Other eligible employees	28/12/2007	35,000	10/12/2008 – 10/12/2014	35,000	–	11,000	–	–	27.60	35,000	–
	31/12/2007	130,000	10/12/2008 – 10/12/2014	130,000	–	43,000	–	–	27.60	130,000	–
	2/1/2008	75,000	10/12/2008 – 10/12/2014	75,000	–	24,000	27,000	–	27.60	48,000	–
	3/1/2008	40,000	10/12/2008 – 10/12/2014	40,000	–	13,000	–	–	27.60	40,000	–
	7/1/2008	125,000	10/12/2008 – 10/12/2014	125,000	–	41,000	–	–	27.60	125,000	–
	28/3/2008	255,000	26/3/2009 – 26/3/2015	255,000	–	87,500	–	51,000	26.52	204,000	29.25
	31/3/2008	379,000	26/3/2009 – 26/3/2015	379,000	–	131,000	–	30,000	26.52	349,000	29.32
	1/4/2008	261,000	26/3/2009 – 26/3/2015	261,000	–	91,000	–	12,000	26.52	249,000	30.55
	2/4/2008	296,000	26/3/2009 – 26/3/2015	296,000	–	103,000	6,000	14,000	26.52	276,000	28.40
	3/4/2008	171,000	26/3/2009 – 26/3/2015	171,000	–	59,500	–	12,000	26.52	159,000	29.15
	4/4/2008	23,000	26/3/2009 – 26/3/2015	23,000	–	8,000	–	–	26.52	23,000	–
	5/4/2008	17,000	26/3/2009 – 26/3/2015	17,000	–	6,000	–	–	26.52	17,000	–
	7/4/2008	390,000	26/3/2009 – 26/3/2015	358,000	–	124,000	–	16,000	26.52	342,000	30.55
	8/4/2008	174,000	26/3/2009 – 26/3/2015	155,000	–	54,000	23,000	16,000	26.52	116,000	30.70
	9/4/2008	85,000	26/3/2009 – 26/3/2015	85,000	–	29,500	–	–	26.52	85,000	–
	10/4/2008	58,000	26/3/2009 – 26/3/2015	58,000	–	20,000	–	–	26.52	58,000	–
	11/4/2008	134,000	26/3/2009 – 26/3/2015	117,000	–	40,500	–	–	26.52	117,000	–
	12/4/2008	48,000	26/3/2009 – 26/3/2015	48,000	–	16,500	–	–	26.52	48,000	–
	14/4/2008	40,000	26/3/2009 – 26/3/2015	40,000	–	14,000	–	–	26.52	40,000	–
	15/4/2008	34,000	26/3/2009 – 26/3/2015	34,000	–	12,000	–	–	26.52	34,000	–
	16/4/2008	57,000	26/3/2009 – 26/3/2015	40,000	–	14,000	–	–	26.52	40,000	–
	17/4/2008	147,000	26/3/2009 – 26/3/2015	124,000	–	43,000	–	–	26.52	124,000	–
	18/4/2008	32,000	26/3/2009 – 26/3/2015	15,000	–	5,000	–	–	26.52	15,000	–
	19/4/2008	25,000	26/3/2009 – 26/3/2015	25,000	–	8,500	–	–	26.52	25,000	–
	21/4/2008	66,000	26/3/2009 – 26/3/2015	66,000	–	23,000	–	–	26.52	66,000	–
	23/4/2008	34,000	26/3/2009 – 26/3/2015	19,000	–	6,500	–	–	26.52	19,000	–
	8/12/2008	90,000	8/12/2009 – 8/12/2015	45,000	–	15,500	–	–	18.30	45,000	–
	9/12/2008	483,000	8/12/2009 – 8/12/2015	483,000	–	154,500	16,500	13,500	18.30	453,000	27.46
	10/12/2008	2,176,400	8/12/2009 – 8/12/2015	2,161,400	–	734,000	–	120,500	18.30	2,040,900	28.92
	11/12/2008	2,294,200	8/12/2009 – 8/12/2015	2,294,200	–	772,500	–	173,000	18.30	2,121,200	29.28
	12/12/2008	1,311,500	8/12/2009 – 8/12/2015	1,305,000	–	442,000	–	126,000	18.30	1,179,000	28.35
	13/12/2008	84,500	8/12/2009 – 8/12/2015	84,500	–	28,500	–	–	18.30	84,500	–
	14/12/2008	88,200	8/12/2009 – 8/12/2015	79,700	–	30,000	–	–	18.30	79,700	–
	15/12/2008	1,084,700	8/12/2009 – 8/12/2015	1,084,700	–	351,500	44,000	110,500	18.30	930,200	27.92
	16/12/2008	581,500	8/12/2009 – 8/12/2015	581,500	–	180,000	41,500	52,500	18.30	487,500	28.84
	17/12/2008	513,500	8/12/2009 – 8/12/2015	513,500	–	173,000	–	28,000	18.30	485,500	27.86
	18/12/2008	611,500	8/12/2009 – 8/12/2015	611,500	–	206,500	21,000	107,500	18.30	483,000	28.97
	19/12/2008	198,000	8/12/2009 – 8/12/2015	198,000	–	67,000	–	–	18.30	198,000	–
	20/12/2008	19,000	8/12/2009 – 8/12/2015	19,000	–	6,500	–	–	18.30	19,000	–
	22/12/2008	772,500	8/12/2009 – 8/12/2015	767,500	–	259,500	–	78,000	18.30	689,500	29.85
	23/12/2008	306,000	8/12/2009 – 8/12/2015	299,500	–	97,000	14,000	39,000	18.30	246,500	29.02
	24/12/2008	500,500	8/12/2009 – 8/12/2015	485,500	–	168,500	–	30,000	18.30	455,500	29.59
	25/12/2008	45,000	8/12/2009 – 8/12/2015	45,000	–	15,000	–	–	18.30	45,000	–
	29/12/2008	148,000	8/12/2009 – 8/12/2015	148,000	–	50,000	15,000	–	18.30	133,000	–
	30/12/2008	19,000	8/12/2009 – 8/12/2015	19,000	–	6,500	–	–	18.30	19,000	–
	18/6/2009	170,000	12/6/2010 – 12/6/2016	170,000	–	57,000	53,000	27,000	24.50	90,000	30.45

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 (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 2010	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 2010	Weighted average closing price of shares immediately before the date(s) on which options were exercised (HK\$)
Other eligible employees	6/7/2009	45,000	12/6/2010 – 12/6/2016	45,000	–	15,000	–	–	24.50	45,000	–
	9/7/2009	45,000	12/6/2010 – 12/6/2016	45,000	–	15,000	–	15,000	24.50	30,000	31.20
	9/12/2009	200,000	8/12/2010 – 8/12/2016	200,000	–	39,000	85,000	–	26.85	115,000	–
	10/12/2009	2,001,000	8/12/2010 – 8/12/2016	2,001,000	–	661,000	73,000	24,000	26.85	1,904,000	29.76
	11/12/2009	2,362,000	8/12/2010 – 8/12/2016	2,362,000	–	788,000	25,000	15,000	26.85	2,322,000	28.55
	12/12/2009	610,000	8/12/2010 – 8/12/2016	610,000	–	205,500	–	–	26.85	610,000	–
	13/12/2009	19,000	8/12/2010 – 8/12/2016	19,000	–	6,500	–	6,500	26.85	12,500	28.50
	14/12/2009	2,273,000	8/12/2010 – 8/12/2016	2,273,000	–	745,500	64,000	–	26.85	2,209,000	–
	15/12/2009	2,838,000	8/12/2010 – 8/12/2016	2,838,000	–	953,500	19,000	15,000	26.85	2,804,000	28.58
	16/12/2009	1,550,000	8/12/2010 – 8/12/2016	1,550,000	–	518,000	35,500	23,500	26.85	1,491,000	28.74
	17/12/2009	1,000,000	8/12/2010 – 8/12/2016	1,000,000	–	329,500	25,000	–	26.85	975,000	–
	18/12/2009	389,000	8/12/2010 – 8/12/2016	389,000	–	131,500	–	8,500	26.85	380,500	28.10
	19/12/2009	70,000	8/12/2010 – 8/12/2016	70,000	–	23,500	–	–	26.85	70,000	–
	20/12/2009	75,000	8/12/2010 – 8/12/2016	75,000	–	25,500	–	–	26.85	75,000	–
	21/12/2009	520,000	8/12/2010 – 8/12/2016	520,000	–	176,000	–	–	26.85	520,000	–
	22/12/2009	256,000	8/12/2010 – 8/12/2016	256,000	–	80,500	19,000	–	26.85	237,000	–
	21/7/2010	305,000	28/6/2011 – 28/6/2017	–	305,000	–	–	–	27.73	305,000	–
	16/12/2010	194,000	16/12/2011 – 16/12/2017	–	194,000	–	–	–	28.84	194,000	–
	17/12/2010	4,062,000	16/12/2011 – 16/12/2017	–	4,062,000	–	–	–	28.84	4,062,000	–
	18/12/2010	673,000	16/12/2011 – 16/12/2017	–	673,000	–	–	–	28.84	673,000	–
	19/12/2010	174,000	16/12/2011 – 16/12/2017	–	174,000	–	–	–	28.84	174,000	–
	20/12/2010	4,854,500	16/12/2011 – 16/12/2017	–	4,854,500	–	–	–	28.84	4,854,500	–
	21/12/2010	3,020,000	16/12/2011 – 16/12/2017	–	3,020,000	–	–	–	28.84	3,020,000	–
22/12/2010	975,000	16/12/2011 – 16/12/2017	–	975,000	–	–	–	28.84	975,000	–	
23/12/2010	189,000	16/12/2011 – 16/12/2017	–	189,000	–	–	–	28.84	189,000	–	

Notes

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

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

- Jacob Kam Chak-pui became the Operations Director and a Member of the Executive Directorate on 1 January 2011.

During the year ended 31 December 2010, 1,235,000 and 14,666,500 options to subscribe for shares of the Company were granted to 6 Members of the Executive Directorate and 411 employees respectively under the 2007 Share Option Scheme. 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 is set out below. Pursuant to the terms of the

Scheme, each grantee undertakes to pay HK\$1.00, on demand, to the Company, in consideration for the grant of the options. The share options granted are recognised on an accrued vesting basis in the accounts. The weighted average value per option granted, estimated at the 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\$)
21/7/2010	27.35	0.89	3.5	0.32	0.52	5.53
16/12/2010	28.55	1.21	3.5	0.32	0.52	5.86
17/12/2010	28.35	1.28	3.5	0.32	0.52	5.77
18/12/2010	28.45	1.28	3.5	0.32	0.52	5.83
19/12/2010	28.45	1.28	3.5	0.32	0.52	5.83
20/12/2010	28.45	1.20	3.5	0.32	0.52	5.79
21/12/2010	28.05	1.21	3.5	0.32	0.52	5.56
22/12/2010	28.40	1.20	3.5	0.32	0.52	5.76
23/12/2010	28.50	1.20	3.5	0.32	0.52	5.81

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

Save as disclosed above:

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

B during the year ended 31 December 2010, 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.

Report of the Members of the Board

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 2010 as recorded in the register kept by the Company under section 336 of the SFO:

Name	No. of Ordinary Shares	Percentage of Ordinary Shares to total issued share capital
The Financial Secretary Incorporated (in trust on behalf of the Government)	4,434,552,207	76.82

The Company has been informed by the Government that, as at 31 December 2010, approximately 0.56% 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 2010 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 2010 was attributable to the Company's five largest customers combined by value.

Going Concern

The summary financial statements on pages 53 to 66 have been prepared on a going concern basis. The Board has reviewed the Company's budget for 2011, 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, 3 March 2011