

Corporate Governance and Other Information

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.

The Company has complied throughout the half-year ended 30 June 2008 with the Code Provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") except that, with respect to Code Provision A.4.1, non-executive Directors of the Company are not appointed for a specific term but are subject (save for those appointed pursuant to Section 8 of the Mass Transit Railway Ordinance (Cap. 556 of the Laws of Hong Kong) (the "MTR Ordinance")) to retirement by rotation and re-election at the Company's annual general meetings in accordance with Articles 87 and 88 of the Company's Articles of Association. As there are currently nine Directors subject to the requirement to retire by rotation, and one-third of them shall retire at each annual general meeting of the Company (subject to re-election by the shareholders), each of these Directors is effectively appointed for a term of approximately three years.

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 of 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 Hong Kong Special Administrative Region of the People's Republic of China ("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.

Dr. Raymond Ch'ien Kuo-fung, a Member of the Board since 1998, was appointed by the Government of the HKSAR (the "Government") on 8 August 2007 as the non-executive Chairman of the Company for a term of 24 months with effect from the Rail Merger which took effect from 2 December 2007. Dr. Ch'ien was first appointed as the non-executive Chairman of the Company with effect from 21 July 2003 for a term of three years, which was renewed in 2006 for a further term up to 31 July 2007. In July 2007, Dr. Ch'ien was re-appointed as the non-executive Chairman of the Company with effect from 1 August 2007 for a term up to 31 December 2007 or the day to be appointed by the Secretary for Transport and Housing ("S for T&H") by notice published in the Gazette under the Rail Merger Ordinance, whichever was the earlier. The Rail Merger Ordinance relates to the Rail Merger between the Company and KCRC.

Mr. Chow Chung-kong, a Member of the Board since 2003, was selected by the Government on 8 August 2007 as the Chief Executive Officer of the Company after the Rail Merger. Mr. Chow was first appointed as the Chief Executive Officer of the Company with effect from 1 December 2003 for a term of three years. His contract as the Chief Executive Officer of the Company was renewed for a further term of three years with effect from 1 December 2006.

With effect from the conclusion of the 2008 Annual General Meeting on 29 May 2008 (the "2008 AGM"), Mr. David Gordon Eldon resigned as an independent non-executive Director, while Mr. Lo Chung-hing retired as an independent non-executive Director by rotation pursuant to Articles 87 and 88 of the Articles of Association of the Company, and did not offer himself for re-election.

Mr. Patrick Ho Chung-kei and Miss Chu Man-ling ceased to hold the posts of Deputy Secretary for Transport and Housing (Transport) ("DS for T&H") and accordingly ceased to be Alternate Directors to the office of the S for T&H (held by Ms. Eva Cheng) on 1 January 2008 and 10 June 2008 respectively. Miss Shirley Yuen has, by virtue of her appointment to the post of DS for T&H, become an Alternate Director to the office of the S for T&H with effect from 10 June 2008.

Mr. Lincoln Leong Kwok-kuen, who joined the Company in February 2002 as the Finance Director, was re-titled the Finance and Business Development Director on 1 May 2008 to reflect his additional role in overseeing growth business in the Mainland of China and overseas.

Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code")

The Company has adopted the Model Code and, having made specific enquiry, confirms that Members of the Board and the Executive Directorate complied throughout the half-year ended 30 June 2008 with the Model Code set out in Appendix 10 to the Listing Rules. Senior managers and some 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.

Audit Committee

The Audit Committee normally meets four times each year with the purpose of monitoring the integrity of the Group's financial statements and to consider the nature and scope of internal and external audit reviews. It also assesses the effectiveness of the systems of internal control. The Terms of Reference of the Audit Committee were revised in December 2007 to increase the number of Committee members from three to four non-executive Directors. In April 2008 and for the purpose of improving clarity, the Terms of Reference were further revised. The updated Terms of Reference are available on the Company's website. All the Members of the Audit Committee are non-executive Directors, namely T. Brian Stevenson (chairman), Professor Cheung Yau-kai, Ng Leung-sing and the Commissioner for Transport (Alan Wong Chi-kong). Mr. Stevenson, Professor Cheung and Mr. Ng are also independent non-executive Directors.

Remuneration Committee

The Remuneration Committee meets regularly to consider remuneration issues and its principal responsibilities 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. All the Members of the Remuneration Committee are non-executive Directors, namely Edward Ho Sing-tin (chairman), T. Brian Stevenson and Professor Chan Ka-keung, Ceajer. Mr. Ho and Mr. Stevenson are also independent non-executive Directors.

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).

The Committee consists of seven non-executive Directors, four of whom are independent non-executive Directors. As mentioned on page 19, both Mr. David Gordon Eldon (chairman) and Mr. Lo Chung-hing served the Committee up to the conclusion of the 2008 AGM. Mr. Edward Ho Sing-tin succeeded Mr. Eldon as chairman and a Member of the Committee, while Mr. Ng Leung-sing was appointed as a Member of the Committee in place of Mr. Lo, both with effect from the conclusion of the 2008 AGM. The other five Members of the Nominations Committee are Dr. Raymond Ch'ien Kuo-fung, Christine Fang Meng-sang, Abraham Shek Lai-him, Professor Chan Ka-keung, Ceajer and the S for T&H (Ms. Eva Cheng). Mr. Ho, Mr. Ng, Ms. Fang, and Mr. Shek are also independent non-executive Directors.

Independent Committee

Following the completion of the Rail Merger, the Independent Committee of the Board which was established for the purpose of Rail Merger was formally disbanded in May 2008.

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. 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.

The Company has established an Enterprise Risk Management ("ERM") framework for the strategic management of business risks. The framework covers all key business areas of the Company and provides a useful forum for communicating risk issues at different levels of the organization and thereby improves visibility on risk. The framework has been in operation since early 2006 and its application at divisional level has been further refined in 2007. Structured cross-discipline processes and organizations have been put in place at corporate and divisional levels for risk identification, mitigation and monitoring. A standard rating system is employed to establish a consistent set of risk measurement criteria across the Company and to prioritise risks for effective monitoring and reporting to the Executive Committee and the Board. A manual that governs the working of the ERM framework has been issued, and regular briefing sessions are conducted, to promulgate the application and ensure consistent understanding of ERM.

The operation of the ERM framework, which is overseen by the Enterprise Risk Committee, is underpinned by line management taking direct risk management responsibilities as risk owners. Changes to existing risks and the emergence of new risks are

regularly reviewed by line management. Risks associated with major changes and new businesses such as the merger and local and overseas railway construction and investment projects have been assessed. The Enterprise Risk Management Department plays a central role in facilitating the risk workshops and reviewing existing and emerging business risks. The Enterprise Risk Committee reviews the operation of the ERM framework and key risks every three months.

The Executive Committee reviews significant risks half-yearly and the Board annually to ensure that such risks are under satisfactory control.

The Board also periodically reviews the implementation and the ERM organization and processes that have been put in place.

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 behalf of the Board, the Audit Committee evaluates annually 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.

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 2007, covering all material financial, operational and compliance controls, and risk management functions, and concluded that adequate and effective internal controls were 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 2007 which might affect shareholders.

Board Members' and Executive Directorate's Interests in Shares

As at 30 June 2008, the interests or short positions of the Members of the Board and the Executive Directorate in the shares, underlying shares and debentures of the Company (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) ("SFO")) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited ("HKSE") pursuant to the Model Code were as follows:

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 | 50,945 | – | – | – | – | 50,945 | 0.00090 |
| Chow Chung-kong | – | – | – | 720,000 (Note 1) | 418,017 (Note 2) | 1,138,017 | 0.02016 |
| T. Brian Stevenson | 4,844 | – | – | – | – | 4,844 | 0.00009 |
| Christine Fang Meng-sang | 1,712 | – | – | – | – | 1,712 | 0.00003 |
| Russell John Black | 55,783 | – | – | 170,000 (Note 1) | – | 225,783 | 0.00400 |
| William Chan Fu-keung | 46,960 | – | – | (i) 217,500 (Note 3) (ii) 170,000 (Note 1) | – | 434,460 | 0.00770 |
| Thomas Ho Hang-kwong | 376,658 | 2,541 | – | 170,000 (Note 1) | – | 549,199 | 0.00973 |
| Lincoln Leong Kwok-kuen | 23,000 | – | 23,000 (Note 4) | (i) 1,043,000 (Note 5) (ii) 170,000 (Note 1) | 160,000 (Note 6) | 1,419,000 | 0.02514 |
| Francois Lung Ka-kui | 346,500 | 2,500 | – | (i) 710,500 (Note 5) (ii) 130,000 (Note 1) | – | 1,189,500 | 0.02107 |
| Andrew McCusker | – | – | – | 170,000 (Note 1) | – | 170,000 | 0.00301 |
| Leonard Bryan Turk | – | – | – | 170,000 (Note 1) | – | 170,000 | 0.00301 |
| Ho Suen-wai (Note 7) | 688 | 1,386 | – | – | – | 2,074 | 0.00004 |

Notes:

- Further details of the above share options are set out in the table below showing details of the options to subscribe for ordinary shares granted under the 2007 Share Option Scheme.
 - Chow Chung-kong has a derivative interest in respect of 418,017 shares in the Company within the meaning of Part XV of the SFO. That derivative interest represents Mr. Chow's entitlement to receive an equivalent value in cash of 418,017 shares in the Company on completion of his three-year contract (on 30 November 2009).
 - Further details of the above share options are set out in the table below showing details of the options to subscribe for ordinary shares granted under the Pre-Global Offering Share Option Scheme.
 - The 23,000 shares are held by Linsan Investment Ltd., a private limited company beneficially wholly owned by Lincoln Leong Kwok-kuen.
 - Further details of the above share options are set out in the table below showing details of the options to subscribe for ordinary shares granted under the New Joiners Share Option Scheme.
 - Lincoln Leong Kwok-kuen has a derivative interest in respect of 160,000 shares in the Company within the meaning of Part XV of the SFO. That derivative interest represents Mr. Leong's entitlement to receive an equivalent value in cash of 160,000 shares in the Company on 9 April 2010.
 - The office of the Permanent Secretary for Transport and Housing (Transport) is an Alternate Director to the office of the Secretary for Transport and Housing (Eva Cheng). The Secretary for Transport and Housing is a non-executive Director of the Company. Ho Suen-wai is the holder of the post of the Permanent Secretary for Transport and Housing (Transport).
- * Interests as beneficial owner
† Interests of spouse or child under 18 as beneficial owner

Options to subscribe for Ordinary Shares granted under the Pre-Global Offering Share Option Scheme

| Executive Directorate and eligible employees | Date granted | No. of options granted | Period during which rights exercisable (day/month/year) | Options outstanding as at 1 January 2008 | Options vested during the period | Options lapsed during the period | Options exercised during the period | Exercise price per share of options (HK\$) | Options outstanding as at 30 June 2008 | Weighted average closing price of shares immediately before the date(s) on which options were exercised (HK\$) |
|--|--------------|------------------------|---|--|----------------------------------|----------------------------------|-------------------------------------|--|--|--|
| William Chan Fu-keung | 20/9/2000 | 1,066,000 | 5/4/2001 – 11/9/2010 | 217,500 | – | – | – | 8.44 | 217,500 | – |
| Thomas Ho Hang-kwong | 20/9/2000 | 1,066,000 | 5/4/2001 – 11/9/2010 | 321,000 | – | – | 321,000 | 8.44 | – | 26.05 |
| Other eligible employees | 20/9/2000 | 41,409,000 | 5/4/2001 – 11/9/2010 | 4,728,500 | – | 17,000 | 962,000 | 8.44 | 3,749,500 | 27.87 |

Note:

All of the above share options were vested on 5 October 2003. The proportion of underlying shares in respect of which the share options have vested is 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 |

Options to subscribe for Ordinary Shares granted under the New Joiners Share Option Scheme

| Executive Directorate and eligible employees | Date granted | No. of options granted | Period during which rights exercisable (day/month/year) | Options outstanding as at 1 January 2008 | Options granted during the period | Options vested during the period | Options lapsed during the period | Options exercised during the period | Exercise price per share of options (HK\$) | Options outstanding as at 30 June 2008 | Weighted average closing price of shares immediately before the date(s) on which options were exercised (HK\$) |
|--|--------------|------------------------|---|--|-----------------------------------|----------------------------------|----------------------------------|-------------------------------------|--|--|--|
| Lincoln Leong Kwok-kuen | 1/8/2003 | 1,066,000 | 14/7/2004 – 14/7/2013 | 1,043,000 | – | – | – | – | 9.75 | 1,043,000 | – |
| Francois Lung Ka-kui | 22/3/2007 | 1,066,000 | 19/3/2008 – 19/3/2017 | 1,066,000 | – | 355,500 | – | 355,500 | 19.404 | 710,500 | 28.20 |
| Other eligible employees | 1/8/2003 | 495,200 | 14/7/2004 – 14/7/2013 | 202,200 | – | – | – | – | 9.75 | 202,200 | – |
| | 12/1/2006 | 94,000 | 9/1/2007 – 9/1/2016 | 62,500 | – | 31,500 | 31,000 | 31,500 | 15.45 | – | 31.35 |
| | 13/9/2005 | 94,000 | 9/9/2006 – 9/9/2015 | 94,000 | – | – | – | 45,000 | 15.97 | 49,000 | 27.05 |
| | 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 | – | 31,500 | – | – | 18.05 | 94,000 | – |
| | 4/7/2006 | 94,000 | 19/6/2007 – 19/6/2016 | 94,000 | – | – | 62,500 | 31,500 | 18.30 | – | 29.55 |
| | 17/11/2006 | 94,000 | 13/11/2007 – 13/11/2016 | 62,500 | – | – | – | – | 19.104 | 62,500 | – |
| | 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 | – | 89,000 | – | – | 20.66 | 266,500 | – |
| | 15/5/2006 | 213,000 | 25/4/2007 – 25/4/2016 | 213,000 | – | 71,000 | – | 30,000 | 20.66 | 183,000 | 31.60 |
| | 12/5/2006 | 213,000 | 2/5/2007 – 2/5/2016 | 213,000 | – | 71,000 | – | – | 21.00 | 213,000 | – |

Notes:

- The exercise price of the share options is determined upon the offer of grant of the options and which should not be less than the greatest of (a) the average closing price per share of the Company for the five business days immediately preceding the date of offer of such options; (b) the closing price per share of the Company on the date of offer of such options, which must be a business day; and (c) the nominal value per share of the Company.

Corporate Governance and Other Information

Notes: (continued)

2 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 |

Options to subscribe for Ordinary Shares granted under the 2007 Share Option Scheme

| Executive Directorate and eligible employees | Date granted | No. of options granted | Period during which rights exercisable (day/month/year) | Options outstanding as at 1 January 2008 | Options granted during the period | Options vested during the period | Options lapsed during the period | Options exercised during the period | Exercise price per share of options (HK\$) | Options outstanding as at 30 June 2008 | Weighted average closing price of shares immediately before the date(s) on which options were exercised (HK\$) |
|--|--------------|------------------------|---|--|-----------------------------------|----------------------------------|----------------------------------|-------------------------------------|--|--|--|
| Chow Chung-kong | 13/12/2007 | 720,000 | 10/12/2008 – 10/12/2014 | 720,000 | – | – | – | – | 27.60 | 720,000 | – |
| Russell John Black | 12/12/2007 | 170,000 | 10/12/2008 – 10/12/2014 | 170,000 | – | – | – | – | 27.60 | 170,000 | – |
| William Chan Fu-keung | 13/12/2007 | 170,000 | 10/12/2008 – 10/12/2014 | 170,000 | – | – | – | – | 27.60 | 170,000 | – |
| Thomas Ho Hang-kwong | 12/12/2007 | 170,000 | 10/12/2008 – 10/12/2014 | 170,000 | – | – | – | – | 27.60 | 170,000 | – |
| Lincoln Leong Kwok-kuen | 12/12/2007 | 170,000 | 10/12/2008 – 10/12/2014 | 170,000 | – | – | – | – | 27.60 | 170,000 | – |
| Francois Lung Ka-kui | 12/12/2007 | 130,000 | 10/12/2008 – 10/12/2014 | 130,000 | – | – | – | – | 27.60 | 130,000 | – |
| Andrew McCusker | 12/12/2007 | 170,000 | 10/12/2008 – 10/12/2014 | 170,000 | – | – | – | – | 27.60 | 170,000 | – |
| Leonard Bryan Turk | 12/12/2007 | 170,000 | 10/12/2008 – 10/12/2014 | 170,000 | – | – | – | – | 27.60 | 170,000 | – |
| Other eligible employees | 11/12/2007 | 45,000 | 10/12/2008 – 10/12/2014 | 45,000 | – | – | – | – | 27.60 | 45,000 | – |
| | 12/12/2007 | 1,750,000 | 10/12/2008 – 10/12/2014 | 1,750,000 | – | – | – | – | 27.60 | 1,750,000 | – |
| | 13/12/2007 | 915,000 | 10/12/2008 – 10/12/2014 | 915,000 | – | – | – | – | 27.60 | 915,000 | – |
| | 14/12/2007 | 1,005,000 | 10/12/2008 – 10/12/2014 | 1,005,000 | – | – | – | – | 27.60 | 1,005,000 | – |
| | 15/12/2007 | 435,000 | 10/12/2008 – 10/12/2014 | 435,000 | – | – | – | – | 27.60 | 435,000 | – |
| | 17/12/2007 | 835,000 | 10/12/2008 – 10/12/2014 | 835,000 | – | – | – | – | 27.60 | 835,000 | – |
| | 18/12/2007 | 445,000 | 10/12/2008 – 10/12/2014 | 445,000 | – | – | 65,000 | – | 27.60 | 380,000 | – |
| | 19/12/2007 | 115,000 | 10/12/2008 – 10/12/2014 | 115,000 | – | – | – | – | 27.60 | 115,000 | – |
| | 20/12/2007 | 190,000 | 10/12/2008 – 10/12/2014 | 190,000 | – | – | – | – | 27.60 | 190,000 | – |
| | 21/12/2007 | 45,000 | 10/12/2008 – 10/12/2014 | 45,000 | – | – | – | – | 27.60 | 45,000 | – |
| | 22/12/2007 | 35,000 | 10/12/2008 – 10/12/2014 | 35,000 | – | – | – | – | 27.60 | 35,000 | – |
| | 24/12/2007 | 118,000 | 10/12/2008 – 10/12/2014 | 118,000 | – | – | – | – | 27.60 | 118,000 | – |
| | 28/12/2007 | 35,000 | 10/12/2008 – 10/12/2014 | 35,000 | – | – | – | – | 27.60 | 35,000 | – |
| | 31/12/2007 | 130,000 | 10/12/2008 – 10/12/2014 | 130,000 | – | – | – | – | 27.60 | 130,000 | – |

Options to subscribe for Ordinary Shares granted under the 2007 Share Option Scheme (continued)

| Executive Directorate and eligible employees | Date granted | No. of options granted | Period during which rights exercisable (day/month/year) | Options outstanding as at 1 January 2008 | Options granted during the period | Options vested during the period | Options lapsed during the period | Options exercised during the period | Exercise price per share of options (HK\$) | Options outstanding as at 30 June 2008 | Weighted average closing price of shares immediately before the date(s) on which options were exercised (HK\$) |
|--|--------------|------------------------|---|--|-----------------------------------|----------------------------------|----------------------------------|-------------------------------------|--|--|--|
| Other eligible employees | 2/1/2008 | 75,000 | 10/12/2008 – 10/12/2014 | – | 75,000 | – | – | – | 27.60 | 75,000 | – |
| | 3/1/2008 | 40,000 | 10/12/2008 – 10/12/2014 | – | 40,000 | – | – | – | 27.60 | 40,000 | – |
| | 4/1/2008 | 65,000 | 10/12/2008 – 10/12/2014 | – | 65,000 | – | – | – | 27.60 | 65,000 | – |
| | 7/1/2008 | 125,000 | 10/12/2008 – 10/12/2014 | – | 125,000 | – | – | – | 27.60 | 125,000 | – |
| | 28/3/2008 | 255,000 | 26/3/2009 – 26/3/2015 | – | 255,000 | – | – | – | 26.52 | 255,000 | – |
| | 31/3/2008 | 379,000 | 26/3/2009 – 26/3/2015 | – | 379,000 | – | – | – | 26.52 | 379,000 | – |
| | 1/4/2008 | 261,000 | 26/3/2009 – 26/3/2015 | – | 261,000 | – | – | – | 26.52 | 261,000 | – |
| | 2/4/2008 | 296,000 | 26/3/2009 – 26/3/2015 | – | 296,000 | – | – | – | 26.52 | 296,000 | – |
| | 3/4/2008 | 171,000 | 26/3/2009 – 26/3/2015 | – | 171,000 | – | – | – | 26.52 | 171,000 | – |
| | 4/4/2008 | 23,000 | 26/3/2009 – 26/3/2015 | – | 23,000 | – | – | – | 26.52 | 23,000 | – |
| | 5/4/2008 | 17,000 | 26/3/2009 – 26/3/2015 | – | 17,000 | – | – | – | 26.52 | 17,000 | – |
| | 7/4/2008 | 390,000 | 26/3/2009 – 26/3/2015 | – | 390,000 | – | – | – | 26.52 | 390,000 | – |
| | 8/4/2008 | 174,000 | 26/3/2009 – 26/3/2015 | – | 174,000 | – | – | – | 26.52 | 174,000 | – |
| | 9/4/2008 | 85,000 | 26/3/2009 – 26/3/2015 | – | 85,000 | – | – | – | 26.52 | 85,000 | – |
| | 10/4/2008 | 58,000 | 26/3/2009 – 26/3/2015 | – | 58,000 | – | – | – | 26.52 | 58,000 | – |
| | 11/4/2008 | 134,000 | 26/3/2009 – 26/3/2015 | – | 134,000 | – | – | – | 26.52 | 134,000 | – |
| | 12/4/2008 | 48,000 | 26/3/2009 – 26/3/2015 | – | 48,000 | – | – | – | 26.52 | 48,000 | – |
| | 14/4/2008 | 40,000 | 26/3/2009 – 26/3/2015 | – | 40,000 | – | – | – | 26.52 | 40,000 | – |
| | 15/4/2008 | 34,000 | 26/3/2009 – 26/3/2015 | – | 34,000 | – | – | – | 26.52 | 34,000 | – |
| | 16/4/2008 | 57,000 | 26/3/2009 – 26/3/2015 | – | 57,000 | – | – | – | 26.52 | 57,000 | – |
| | 17/4/2008 | 147,000 | 26/3/2009 – 26/3/2015 | – | 147,000 | – | – | – | 26.52 | 147,000 | – |
| | 18/4/2008 | 32,000 | 26/3/2009 – 26/3/2015 | – | 32,000 | – | – | – | 26.52 | 32,000 | – |
| | 19/4/2008 | 25,000 | 26/3/2009 – 26/3/2015 | – | 25,000 | – | – | – | 26.52 | 25,000 | – |
| 20/4/2008 | 23,000 | 26/3/2009 – 26/3/2015 | – | 23,000 | – | – | – | 26.52 | 23,000 | – | |
| 21/4/2008 | 66,000 | 26/3/2009 – 26/3/2015 | – | 66,000 | – | – | – | 26.52 | 66,000 | – | |
| 23/4/2008 | 34,000 | 26/3/2009 – 26/3/2015 | – | 34,000 | – | – | – | 26.52 | 34,000 | – | |

Notes:

- The exercise price of the share options is determined upon the offer of grant of the options and which should not be less than the greatest of (a) the average closing price per share of the Company for the five business days immediately preceding the date of offer of such options; (b) the closing price per share of the Company on the date of offer of such options, which must be a business day; and (c) the nominal value per share of the Company.
- 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 |

Corporate Governance and Other Information

During the six months ended 30 June 2008, 3,054,000 options to subscribe for shares of the Company were granted to 142 employees under the 2007 Share Option Scheme. Pursuant to the terms of this Scheme, each grantee undertakes to pay HK\$1.00, on demand, to the Company, in consideration for the grant of the options (the respective closing price per share immediately before the respective date of grant of the options are set out below). The share options granted are recognised on an accrued vesting basis in the accounts. The weighted average value per option granted, estimated at the date of grant using the Black-Scholes pricing model is as follows:

| Date granted | Closing price per share immediately before the date of grant (HK\$) | Estimated risk-free interest rate (%) | Expected life (Years) | Estimated Volatility | Expected dividend per share (HK\$) | Weighted average value per option granted (HK\$) |
|--------------|---|---------------------------------------|-----------------------|----------------------|------------------------------------|--|
| 2/1/2008 | 28.70 | 2.82 | 3.5 | 0.22 | 0.45 | 5.49 |
| 3/1/2008 | 30.80 | 2.71 | 3.5 | 0.22 | 0.45 | 6.88 |
| 4/1/2008 | 31.80 | 2.77 | 3.5 | 0.22 | 0.45 | 7.65 |
| 7/1/2008 | 32.00 | 2.77 | 3.5 | 0.22 | 0.45 | 7.79 |
| 28/3/2008 | 25.90 | 1.69 | 3.5 | 0.22 | 0.45 | 3.80 |
| 31/3/2008 | 26.10 | 1.68 | 3.5 | 0.22 | 0.45 | 3.90 |
| 1/4/2008 | 26.70 | 1.66 | 3.5 | 0.23 | 0.45 | 4.39 |
| 2/4/2008 | 26.70 | 1.75 | 3.5 | 0.23 | 0.45 | 4.42 |
| 3/4/2008 | 27.35 | 1.83 | 3.5 | 0.23 | 0.45 | 4.84 |
| 4/4/2008 | 27.25 | 1.83 | 3.5 | 0.23 | 0.45 | 4.78 |
| 5/4/2008 | 27.25 | 1.83 | 3.5 | 0.23 | 0.45 | 4.78 |
| 7/4/2008 | 27.25 | 1.79 | 3.5 | 0.23 | 0.45 | 4.76 |
| 8/4/2008 | 27.10 | 1.84 | 3.5 | 0.23 | 0.45 | 4.69 |
| 9/4/2008 | 27.20 | 1.76 | 3.5 | 0.23 | 0.45 | 4.72 |
| 10/4/2008 | 26.90 | 1.65 | 3.5 | 0.23 | 0.45 | 4.49 |
| 11/4/2008 | 26.90 | 1.72 | 3.5 | 0.23 | 0.45 | 4.52 |
| 12/4/2008 | 27.10 | 1.72 | 3.5 | 0.23 | 0.45 | 4.63 |
| 14/4/2008 | 27.10 | 1.65 | 3.5 | 0.23 | 0.45 | 4.60 |
| 15/4/2008 | 26.65 | 1.74 | 3.5 | 0.23 | 0.45 | 4.37 |
| 16/4/2008 | 27.05 | 1.81 | 3.5 | 0.23 | 0.45 | 4.63 |
| 17/4/2008 | 26.65 | 1.88 | 3.5 | 0.23 | 0.45 | 4.42 |
| 18/4/2008 | 26.80 | 1.91 | 3.5 | 0.23 | 0.45 | 4.52 |
| 19/4/2008 | 26.85 | 1.91 | 3.5 | 0.23 | 0.45 | 4.54 |
| 20/4/2008 | 26.85 | 1.91 | 3.5 | 0.23 | 0.45 | 4.54 |
| 21/4/2008 | 26.85 | 1.91 | 3.5 | 0.23 | 0.45 | 4.54 |
| 23/4/2008 | 27.35 | 1.99 | 3.5 | 0.23 | 0.45 | 4.88 |

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 six months ended 30 June 2008, no Member of the Board or the Executive Directorate nor any of their spouses or children under 18 years of age held any rights to subscribe for equity or debt securities of the Company nor had there been any exercises of any such rights by any of them,

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

Substantial Shareholders' Interests

Set out below is the name of the party which was interested in 5% or more of the nominal value of the share capital of the Company and the number of shares in which it was interested as at 30 June 2008 as recorded in the register kept by the Company under section 336 of the SFO:

| Name | No. of Ordinary Shares | Percentage of Ordinary Shares to total issued share capital |
|---|------------------------|---|
| The Financial Secretary Incorporated (in trust on behalf of the Government) | 4,330,527,786 | 76.72 |

The Company has been informed by the Government that, as at 30 June 2008, approximately 0.72% of the shares of the Company were held for the account of the Exchange Fund. The Exchange Fund is a fund established under the Exchange Fund Ordinance (Cap. 66 of the Laws of Hong Kong) under the control of the Financial Secretary.

Loan Agreements with Covenant Relating to Specific Performance of the Controlling Shareholder

As at 30 June 2008, the Group had facilities of HK\$49,852 million in aggregate with maturities ranging from 2008 to 2020, which were subject to a condition that the Government, being the Company's controlling shareholder, owns more than half in nominal value of the voting share capital of the Company during the terms of these facilities. Otherwise, the outstanding borrowings may be subject to immediate repayment upon demand or the undrawn facilities may be cancelled as a result.

Purchase, Sale or Redemption of Own Securities

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of its listed securities during the six months ended 30 June 2008.

Closure of Register of Members

The Register of Members of the Company will be closed from 20 August 2008 to 22 August 2008 (both dates inclusive), during which period no transfer of shares can be registered. In order to qualify for the interim dividend, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration no later than 4:30 p.m. on 19 August 2008. The 2008 interim dividend is expected to be paid on or about 17 October 2008 to shareholders whose names appear on the Register of Members of the Company on 22 August 2008.