

# 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 2004.

## Principal Activities of the Group

The principal activities of the Company and its subsidiaries are:

- A** the operation of a mass transit railway system with lines from Central to Tsuen Wan (Tsuen Wan Line), from Yau Ma Tei to Tiu Keng Leng (Kwun Tong Line), from Po Lam to North Point (Tseung Kwan O Line), from Chai Wan to Sheung Wan (Island Line), from Hong Kong to Tung Chung (Tung Chung Line) and from Hong Kong to the Hong Kong International Airport at Chek Lap Kok (Airport Express Line);
- B** property development at locations relating to the railway system including the Tseung Kwan O Extension;
- C** related commercial activities, including the letting of advertising and retail space, bandwidth services on the railway telecommunication system, property management and leasing management of investment properties (including shopping centres and offices), property agency and Octopus Card Building Access System services;
- D** the construction of Disneyland Resort Line (formerly known as Penny's Bay Rail Link);
- E** the design, construction and operation of the Tung Chung Cable Car Project and related tourist development;
- F** the planning and construction of future extensions to the railway system and other related infrastructure projects;
- G** 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;
- H** the operation of a smart card system by Octopus Cards Limited, a subsidiary of the Company, for the collection of payments for both transport and non-transport applications; and
- I** equity investments and long term operation and maintenance contracts outside of Hong Kong.

## Dividend

The Directors have recommended a final dividend of HK\$0.28 per Ordinary Share to be payable to shareholders whose names appear on the Register of Members of the Company on 1 April 2005. Subject to the passing of the necessary resolution at the forthcoming Annual General Meeting, such dividend will be payable on or about 21 June 2005, in cash in Hong Kong dollars, with a scrip dividend alternative. The Company's majority shareholder, The Financial Secretary Incorporated, has agreed to elect to receive all or part of its entitlement to dividends in the form of scrip to the extent necessary to ensure that a maximum of 50% of the total dividend paid by the Company will be in the form of cash.

## Members of the Board

Members of the Board who served during the year were Raymond Ch'ien Kuo-fung (non-executive Chairman), Chow Chung-kong (Chief Executive Officer), Cheung Yau-kai, David Gordon Eldon, Christine Fang Meng-sang (appointed

on 1 January 2004), Edward Ho Sing-tin, Lo Chung-hing, T. Brian Stevenson, Frederick Ma Si-hang, the Secretary for the Environment, Transport and Works (Sarah Liao Sau-tung) and the Commissioner for Transport (Robert Charles Law Footman).

At the Annual General Meeting on 3 June 2004 and pursuant to the articles of association of the Company ("the Articles of Association"), Raymond Ch'ien Kuo-fung, Chow Chung-kong, David Gordon Eldon and Christine Fang Meng-sang retired under the Articles of Association and were re-elected as members of the Board.

At the forthcoming Annual General Meeting and in accordance with the Articles of Association, Cheung Yau-kai, Edward Ho Sing-tin and Lo Chung-hing will retire by rotation. All these three Board members will offer themselves for re-election at the forthcoming Annual General Meeting.

Brief biographical details for Board members are set out on pages 16 and 17.

## Alternate Directors

The Alternate Directors in office during the year were (i) Martin McKenzie Glass and Alan Lai Nin (both for Frederick Ma Si-hang), (ii) both the Permanent Secretary for the Environment, Transport & Works (Rita Lau Ng Wai-lan [who ceased to be the Permanent Secretary for the Environment, Transport & Works with effect from 2 January 2004], Margaret Fong Shun-man [with effect from 1 July 2004 and ceased to be the Permanent Secretary for the Environment, Transport & Works with effect from 15 August 2004] and Joshua Law Chi-kong [with effect from 23 August 2004]) and the Deputy Secretary for the Environment, Transport & Works (Arthur Ho Kin-wah [who ceased to be a Deputy Secretary for the Environment, Transport & Works with effect from 15 November 2004], Margaret Fong Shun-man [who ceased to be a Deputy Secretary for the Environment, Transport & Works with effect from 1 July 2004], Patrick Ho Chung-kei [with effect from 1 July 2004], Thomas Chow Tat-ming [with effect from 1 July 2004], Cathy Chu Man-ling [with effect from 15 November 2004] and Annie Choi Suk-han) (for the Secretary for the Environment, Transport & Works), and (iii) the Deputy Commissioner for Transport/Transport Services and Management (Judy Li Wu Wai-lok) (for the Commissioner for Transport).

## Executive Directorate

The members of the Executive Directorate who served during the year were Chow Chung-kong (Chief Executive Officer and a member of the Board), Russell John Black, William Chan Fu-keung, Philip Gaffney, Thomas Ho Hang-kwong, Lincoln Leong Kwok-kuen and Leonard Bryan Turk.

Brief biographical details for members of the Executive Directorate during the year are set out on page 17.

## Corporate Governance

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 Board of Directors

The overall management of the Company's business is vested in the Board of Directors (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 Directorate, 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, the 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 eleven members, consisting of one executive Director (the Chief Executive Officer) and ten non-executive Directors, of which six are independent non-executive Directors. Following the Board's decision to split the roles of Chairman and Chief Executive Officer, Dr. Raymond Ch'ien Kuo-fung, already a member of the Board, was appointed non-executive Chairman for three years with effect from 21 July 2003, and Mr. Chow Chung-kong was appointed Chief Executive Officer and a member of the Board on 1 December 2003. Two of the other non-executive Directors (being the Secretary for the Environment, Transport and Works and the Commissioner for Transport) are appointed by the Chief Executive of The Hong Kong Special Administrative Region of the People's Republic of China ("HKSAR"). Another non-executive Director, Mr. Frederick Ma Si-hang, is the Secretary for Financial Services and the Treasury of the Government of the HKSAR. The Government of the HKSAR through The Financial Secretary Incorporated, holds approximately 76% of the issued share capital of the Company. 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, independent non-executive Directors contribute to ensuring that 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. The Company has received confirmation from each independent non-executive Director about his/her independence under The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), and continues to consider each of them to be independent. None of the Directors or members of the Executive Directorate is related to each other.

The posts of Chairman and Chief Executive Officer are distinct and separate. 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 ensuring adequate information about the Company's business is provided to the Board on a timely basis, the Chairman also facilitates effective contribution of non-executive Directors at Board meetings. As head of the Executive Directorate, the Chief Executive Officer is responsible to the Board for managing the business of the Company.

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, if necessary. In year 2004, the Board held eight meetings, of which the possible merger between the Company and Kowloon-Canton Railway Corporation ("KCRC") was discussed at seven meetings by members of the Board who did not have conflicts of interest. In addition, two meetings solely on the possible merger were held during the year by those members who did not have conflicts of interest.

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. Directors who are appointed by the Board must retire at the first annual general meeting after their appointment. 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 such number as is nearest to and less than one third) are required to retire from office by rotation.

The Chief Executive of the HKSAR may, pursuant to Section 8 of the Mass Transit Railway Ordinance ("MTR Ordinance"), appoint up to three persons as "additional directors." Unless the Chief Executive of the HKSAR otherwise directs, the Directors appointed in this way may not be removed from office and they are not subject to any requirement to retire by rotation stated in the preceding paragraph. In all other respects, "additional directors" are treated for all purposes in the same way as other Directors. The Chief Executive has appointed the Office for the Secretary for Environment, Transport and Works and the Office for Commissioner for Transport as "additional directors."

Each of the Directors, on appointment to the Board, is given a comprehensive induction program on key areas of business operations and practices of the Company, as well as a Directors' Manual. Amongst other things, the Manual not only sets out general and specific duties of Directors under general law (common law and legislation) and the Listing Rules, but also the Terms of Reference of Board Committees. The Directors' Manuals are updated from time to time to reflect developments in those areas.

#### **Board Committees**

As an integral part of good corporate governance, the Board have established the following Board Committees to oversee particular aspects of the Company's affairs. Each of these Committees comprise entirely non-executive Directors who have been invited to serve as members. The Committees are governed by their respective Terms of Reference.

#### **Audit Committee**

The Audit Committee consists of three non-executive Directors, two of whom are independent non-executive Directors. The members of the Committee are T. Brian Stevenson (chairman), Professor Cheung Yau-kai and the Commissioner for Transport (Robert Charles Law Footman). The Finance Director, the Head of Internal Audit Department and representatives of the external auditors 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 normally meets four times a year, and the external auditors or the Finance Director may request a meeting if they consider it necessary.

The duties of the Audit Committee include financial and efficiency aspects. Amongst other things, the Committee reviews the truth and fairness of the Group's annual and interim financial statements, and discusses with the external auditors the nature and scope of audit before the audit commences. It also reviews and approves non-audit services. The Audit Committee conducts an assessment, at least annually, of the effectiveness of the Company's systems of internal control. These systems allow the Board to monitor the Company's overall financial position and to protect its assets. In addition, the Committee reviews the internal audit function. The Audit Committee selects, in consultation with the Chairman and Members of Executive Directorate (or otherwise to approve) any topic to be the subject of an audit into the efficiency, effectiveness or value for money of any of the activities or operations of the Company. It then reviews reports of such audit and puts forward recommendations to the Board. The chairman of the Committee summarizes activities of the Committee for the year and highlights issues arising therefrom in a report to the Board.

In year 2004, the Audit Committee held four meetings. Representatives of the external auditors, the Finance Director and the Head of Internal Audit Department attended all those meetings for reporting and answering questions about their work. Further to that and by invitation, Managing Director – Operations and Business Development and Property Director had respectively provided an overview of the Company's railway operations and property business to the members at a meeting.

**Remuneration Committee**

The Remuneration Committee consists of three non-executive Directors, two of whom are independent non-executive Directors. The members of the Remuneration Committee are Edward Ho Sing-tin (chairman), T. Brian Stevenson and Frederick Ma Si-hang. The Remuneration Committee makes recommendation to the Board on executive Directors' remuneration packages and terms of employment. The Committee also determines relevant remuneration policy for executive Directors and their participation in incentive schemes operated by the Company. In 2004, the Remuneration Committee held two meetings.

**Nominations Committee**

The Nominations Committee consists of three non-executive Directors, two of whom are independent non-executive Directors. The members of the Nominations Committee are David Gordon Eldon (chairman), Lo Chung-hing and the Secretary for the Environment, Transport and Works (Dr. Sarah Liao Sau-tung). The Nominations Committee nominates and recommends to the Board candidates for filling vacancies on the Board. The Committee held no meeting in year 2004.

**Independent Committee**

The Board is committed to looking after the interests of independent shareholders of the Company, and for this purpose, an independent committee of the Board (the "Independent Committee"), chaired by Edward Ho Sing-tin, together with Professor Cheung Yau-kai, Christine Fang Meng-sang, Lo Chung-hing and T. Brian Stevenson, has been established to consider and review terms of any possible merger between the Company and KCRC, and advise independent shareholders whether they are fair and reasonable. All members of the Independent Committee are independent non-executive Directors of the Company.

**Code of Best Practice**

The Company has complied throughout the year with the Code of Best Practice set out in Appendix 14 to the Listing Rules except that 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 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 Articles of Association. Dr. Raymond Ch'ien Kuo-fung, a member of the Board, was appointed as the non-executive Chairman of the Company with effect from 21 July 2003 for a term of three years.

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

The Company, having made specific enquiry, confirms that members of the Board and the Executive Directorate complied throughout the year with the Model Code set out in Appendix 10 to the Listing Rules. Senior managers 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.

**U.S. Sarbanes-Oxley Act 2002**

This legislation, which seeks to enhance the transparency and accountability of companies in the areas of corporate governance and financial reporting, was signed into law by the President of the United States on 30 July 2002.

As the Company is a U.S. Securities and Exchange Commission reporting company, it is generally bound by this legislation.

The Company has been, and will continue its process of, reviewing its internal systems and practices and implementing new requirements under this legislation in line with applicable compliance dates.

**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:

- > Assessments on the adequacy and effectiveness of the Company's system of internal control for controlling its activities and managing its risks.
- > Identification of opportunities for improving management control, resources utilisation and profitability.
- > Special reviews and/or investigations as commissioned by Company management.

The Company's Internal Auditor reports directly to the Chief Executive Officer and has direct access to the Audit Committee.

**Business Ethics**

The Company is committed to a high standard of business ethics and integrity.

The 2002 Code of Conduct on the ethical and behavioral framework for all staff was reviewed and reissued to all staff in June 2004 to align it with the latest developments in corporate governance standards, including corporate governance standards under the Sarbanes-Oxley Act of 2002. A new "Corporate Guidebook for All Staff on Code of Conduct" was issued to all staff at the same time. The Guidebook provides specific guidelines for employees in respect of behaviour within and outside the workplace. Communication sessions were held to brief employees on the changes in the Code of Conduct and the contents of the new Corporate Guidebook.

**Policies**

The Board has adopted risk management strategies on the following matters:

- A Construction and insurance;
- B Finance;
- C Treasury risk management;
- D Safety risk management;
- E Security management.

No changes to such policies may be made without the approval of the Board.

**Summary Financial Statements**

The state of affairs of the Group as at 31 December 2004 and of its results for the year are set out in the summary financial statements on pages 24 to 30.

**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 14 and 15.

**Fixed Assets and Railway Construction in Progress**

Movements in fixed assets and railway construction in progress during the year are set out in notes 4A and 4B to the summary financial statements respectively.

## Movements in Reserves

Movements in reserves during the year are set out in note 6 to the summary financial statements.

## Share Capital

As at 31 December 2003, the authorised share capital of the Company was HK\$6.5 billion, divided into 6.5 billion Ordinary Shares, 5,288,695,393 of which were issued and credited as fully paid. During the year, the Company issued a total of 101,304,581 Ordinary Shares. Of this number:

**A** 8,023,500 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 exercising share option holder paid HK\$8.44 to the Company;

**B** 62,069,342 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 2003 (for which the cash dividend was HK\$0.28 per Ordinary Share); and

**C** 31,211,739 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 2004 (for which the cash dividend was HK\$0.14 per Ordinary Share).

As at 31 December 2004, the authorised share capital of the Company was HK\$6.5 billion, divided into 6.5 billion Ordinary Shares, 5,389,999,974 of which were issued and credited as fully paid.

## Redemption of Listed Securities

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of its listed securities during the financial year 2004.

## Donations

During the year, the Company donated a total of HK\$581,724 to charitable organisations, out of which HK\$381,724 went to the Community Chest of Hong Kong for the Community Chest Green Day. The remaining HK\$200,000 raised from the launching ceremony of the Doraemon MTR Souvenir Ticket went to the Kelly Chen Children Education Fund Limited.

## Internal Control

The Board is responsible for ensuring that there is in place a satisfactory system of internal control. The main objectives are to ensure adherence to management policies, the safeguarding of assets, the efficiency and effectiveness of operation, the prevention and detection of fraud and error, the accuracy and completeness of the accounting records, and the timely preparation of reliable financial information.

A function of the Audit Committee is to review the effectiveness of the system of internal control from information provided by the Executive Directorate and management of the Company and by the auditors.

## 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 interest rate and currency risks. Prudent guidelines and procedures are in place to control the Company's derivatives activities, including a comprehensive credit risk management system for monitoring counterparty credit exposure using the Value-at-Risk approach. There is also appropriate segregation of duties within the Company's Treasury Department.

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

## Capital and Revenue Expenditure

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

## Bonds and Notes Issued

The Group issued bonds and notes during the year ended 31 December 2004, details of which are set out in note 5 to the summary financial statements. Such bonds and notes were issued in order to meet the Group's general corporate funding requirements, including the financing of new capital expenditure and the refinancing of maturing debts.

## Computer Processing

There are defined procedures 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 has been certified under ISO 9001:2000. Disaster recovery rehearsal on critical applications is conducted annually.

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

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

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

As at 31 December 2004, 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 ("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 (the "HKSE") pursuant to the Model Code were as follows:

## Long Positions in Shares and Underlying Shares of the Company

Member of the Board or Executive Directorate	Number of Ordinary Shares held			Derivatives		Total interests	Percentage of aggregate interests to total issued share capital
	Personal* interests	Family† interests	Corporate interests	Share Options	Other		
Chow Chung-kong	–	–	–	–	700,000 (Note 1)	700,000	0.01299
T. Brian Stevenson	4,443	–	–	–	–	4,443	0.00008
Christine Fang Meng-sang	1,675	–	–	–	–	1,675	0.00003
Philip Gaffney	46,553	614	–	416,000 (Note 2)	–	463,167	0.00859
Russell John Black	51,132	–	–	–	–	51,132	0.00095
William Chan Fu-keung	46,233	–	–	317,500 (Note 2)	–	363,733	0.00675
Thomas Ho Hang-kwong	51,075	2,524	–	321,000 (Note 2)	–	374,599	0.00695
Lincoln Leong Kwok-kuen	–	–	23,000 (Note 3)	1,066,000 (Note 4)	–	1,089,000	0.02020

## Notes

1. Chow Chung-kong has a derivative interest in respect of 700,000 shares in the Company within the meaning of Part XV of the SFO. That derivative interest represents Mr. Chow's entitlement to receive 700,000 shares in the Company (or their equivalent value in cash) on completion of his three-year contract (on 30 November 2006).
2. 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.
3. The 23,000 shares are held by Linsan Investment Ltd., a private limited company beneficially wholly owned by Lincoln Leong Kwok-kuen.
4. 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.

## Notes of MTR Corporation (C.I.) Limited

Member of the Executive Directorate	Personal interests*
William Chan Fu-keung	HK\$50,000 MTR 301 4.50% Notes due 2005

\* 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 2B (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 2004	Options vested during the year	Options lapsed during the year	Options exercised during the year	Price per share paid on exercise of options (HK\$)	Options outstanding as at 31 December 2004	Weighted average closing price of shares immediately before the date(s) on which options were exercised (HK\$)
Philip Gaffney	20/9/2000	1,066,000	5/4/2001 – 11/9/2010	1,022,000	–	–	606,000	8.44	416,000	11.80
William Chan Fu-keung	20/9/2000	1,066,000	5/4/2001 – 11/9/2010	822,000	–	–	504,500	8.44	317,500	12.14
Thomas Ho Hang-kwong	20/9/2000	1,066,000	5/4/2001 – 11/9/2010	621,000	–	–	300,000	8.44	321,000	12.25
Other eligible employees	20/9/2000	40,343,000	5/4/2001 – 11/9/2010	22,764,500	–	–	6,613,000	8.44	16,151,500	12.00

## Notes

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

### Options to subscribe for Ordinary Shares granted under the New Joiners Share Option Scheme, as referred to in Note 2B (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 2004	Options vested during the year	Options lapsed during the year	Options exercised during the year	Price per share paid on exercise of options (HK\$)	Options outstanding as at 31 December 2004	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	1,066,000	355,500	–	–	–	1,066,000	–
Other eligible employees	1/8/2003	495,200	14/7/2004 – 14/7/2013	495,200	165,500	–	–	–	495,200	–

#### Notes

1. No option may be exercised later than ten years after its date of offer and no option may be offered to be granted more than five years after the adoption of the New Joiners Share Option Scheme ("New Option Scheme") on 16 May 2002.

2. Unless approved by shareholders in the manner as required by the Listing Rules, the total number of shares issued and issuable upon exercise of the options granted to any eligible employee under the New Option Scheme together with the total number of shares issued and issuable upon the exercise of any option granted to such eligible employee under any other share option scheme of the Company (including, in each case, both exercised and outstanding options) in any 12-month period must not exceed 1% of the shares of the Company in issue at the date of offer in respect of such option under the New Option Scheme.

Save as disclosed above:

**A** none of the members of the Board or 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 2004, no member of the Board or 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 respective relevant numbers of shares in which it was interested as at 31 December 2004 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)	4,121,262,921	76.46

The Company has been informed by the Government that, as at 31 December 2004, approximately 1.37% 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 2004 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 2004 was attributable to the Company's five largest customers combined by value.

### Going Concern

The summary financial statements on pages 24 to 30 have been prepared on a going concern basis. The Board has reviewed the Company's budget for 2005, 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, 1 March 2005