



## Building CONNECTIONS Expanding HORIZONS

This Summary Financial Report 2009 only gives a summary of the information and particulars of MTR Corporation's Annual Report 2009 from which this Summary Financial Report is derived. Both documents are available (in both English and Chinese versions) in electronic form on the Company's website at [www.mtr.com.hk](http://www.mtr.com.hk).

You may obtain a printed copy of the Annual Report 2009 free of charge by writing to the Company's share registrar, Computershare Hong Kong Investor Services Limited, or our Corporate Relations Department. Their details are set out on page 80 of this Summary Financial Report.

You may at any time choose to receive summary financial reports or annual reports in printed form or to rely on their versions posted on the Company's website. You may also at any time choose to receive (a) summary financial reports or annual reports in place of the other and (b) the English version only, the Chinese version only or both the English and the Chinese versions of the Company's summary financial reports or annual reports. You may make the above choices notwithstanding any wish to the contrary has previously been conveyed to the Company. You may change your choice on these matters by writing to the Company's share registrar, Computershare Hong Kong Investor Services Limited, whose details are set out on page 80.

If you have already chosen to rely on the versions of the summary financial reports and annual reports posted on the Company's website or have difficulty in having access to those documents, you will, promptly upon written request, be sent those documents in printed form free of charge. Please send your request to the Company's share registrar, Computershare Hong Kong Investor Services Limited.



About this year's cover

### **Building Connections Expanding Horizons**

The growth of the Company's business continues to gather momentum in Hong Kong SAR, the Mainland of China and overseas, offering greater connectivity and building connections to new communities, and expanding the horizon of our customer reach worldwide with services that **care for their life journeys** and provide higher levels of convenience and reliability.

Through careful implementation of our growth strategy, our various new projects are transforming the Company's journey from being a local metro operator to an internationally recognised company with a much expanded local network and operations in major international cities such as Beijing and London.



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Since the opening of our first line in Hong Kong some 30 years ago, the size, scale, geographic coverage and diversity of the Company's business activities have steadily developed. Following the Rail Merger, our strategy for future growth has remained firmly on track with significant network expansion in Hong Kong and the capturing of growth opportunities in the Mainland of China and overseas.



**Hong Kong  
Passenger Services**



**Station Commercial and  
Rail Related Businesses**

### **Business Description**

We operate a pre-dominantly rail based transportation system in Hong Kong, comprising Domestic and Cross-boundary services, a dedicated high-speed Airport Express and a light rail system, which in total stretches 218.2 kilometres with 84 stations and 68 stops. Our network is one of the most intensively used systems in the world, known for its reliability, safety and efficiency. We also provide intercity services to the Mainland of China as well as a bus operation in Hong Kong offering convenient feeder services.

### **2009 Highlights**

- A series of Government approvals paved the way for significant progress in the planning and design of our five strategic rail projects in Hong Kong
- The new LOHAS Park and Austin stations were opened on 26 July 2009 and 16 August 2009 respectively
- Our regular surveys of customer satisfaction levels during the year remained high
- The high standard of achievement reached by our service performance was once more reflected in the winning of a large number of awards

### **Business Description**

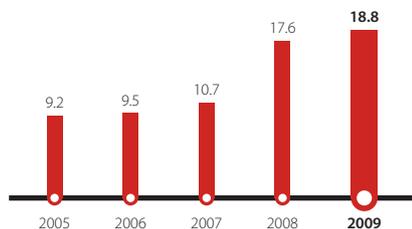
We leverage our railway assets and expertise into additional businesses, including rental of station retail space, advertising in trains and stations, telecommunications, and rail consultancy.

### **2009 Highlights**

- 23 retailers that are new to our network were added
- Advertising innovations included a Digital Panel Network of plasma TVs installed at ten strategic stations
- Full 3G mobile phone coverage was extended to our entire railway network upon completion of 3G coverage along the West Rail Line in August

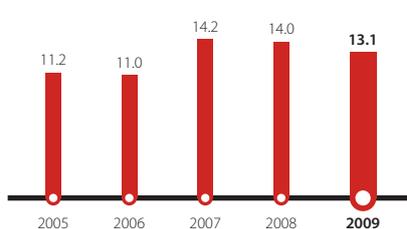
## ■ Turnover

(HK\$ billion)



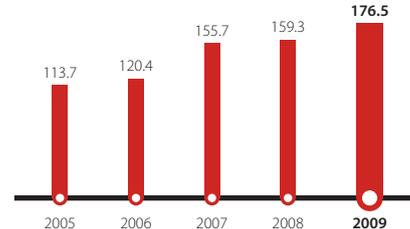
## ■ Operating Profit before Depreciation and Amortisation

(HK\$ billion)



## ■ Total Assets

(HK\$ billion)



## Property and Other Businesses

### Business Description

We develop mainly residential properties in conjunction with property developers. We own investment properties, principally shopping malls and offices, and manage our properties and those of others. Our investment portfolio includes primarily 12 shopping malls in Hong Kong, one shopping mall in Beijing and 18 floors of the Two International Finance Centre office tower in Hong Kong.

### 2009 Highlights

- Over 90% of the 2,169 units of Lake Silver at Wu Kai Sha were sold and all 1,688 units of Le Prestige at LOHAS Park Package Two were sold by August
- Elements, our premium shopping mall in Hong Kong, won several local and international marketing awards
- Ginza Mall, our first shopping mall in the Mainland of China, continued to raise the bar for service and quality standards in the retail sector in Beijing



## Mainland and Overseas Growth

### Business Description

We continue our strategy to grow outside of Hong Kong by investing in urban rail networks in the Mainland of China, and pursuing "asset-light" operating concessions in overseas markets that are privatised or opening to new entrants.

### 2009 Highlights

- Beijing Metro Line 4 (BJL4) was opened on 28 September 2009, while the Operation and Maintenance Concession Agreement for the Daxing Line, an extension of the BJL4, was signed in December
- Concession Agreements for the Shenzhen Metro Line 4 Build-Operate-Transfer (BOT) project and for the operation and maintenance of Shenyang Metro Lines 1 and 2 were signed in March and May respectively
- We took over the operation of the Stockholm Metro system on 2 November 2009 and the Melbourne metropolitan train network on 30 November 2009, both under eight-year concessions

“Despite uncertain economic conditions and the outbreak of human swine influenza, our financial performance remained steady.”



**Dear Stakeholders,**

I am pleased to report to you the annual results of MTR Corporation for 2009, a year which we celebrated our 30th anniversary of serving the people of Hong Kong.

Despite uncertain economic conditions and the outbreak of human swine influenza, our financial performance remained steady. Our recurrent businesses showed their resilience while our property development business performed well. Our strategy for future growth also remained firmly on track, with our projects for extending the Hong Kong network and for expanding our operations in the Mainland of China and overseas making good progress.



## Financial Results

We achieved satisfactory financial results for the year, with revenue rising by 6.6% to HK\$18,797 million, mainly due to the takeover of our new franchises in Stockholm and Melbourne, and operating profit from railway and related businesses before depreciation and amortisation increasing by 1.9% to HK\$9,502 million. Excluding the change in fair value of investment properties and the related deferred tax, net profit from underlying businesses attributable to equity shareholders decreased by 10.8% to HK\$7,303 million, mainly due to lower property development profit in 2009 when compared to 2008 as a result of the timing of development project bookings as well as the benefit from the Hong Kong Profits Tax rate reduction in 2008, which was not repeated in 2009. Including investment property revaluation, our net profit attributable to equity shareholders was HK\$9,639 million and earnings per share were HK\$1.69. Your Board has declared a final dividend of HK\$0.38 per share, giving a full year dividend of HK\$0.52 per share, which is an increase of 8.3% compared to the previous year. Going forward, subject to the financial conditions of the Company, the Board intends to follow a progressive dividend policy.

## Growth Strategy

Expansion of the network in Hong Kong forged ahead with the opening of two new lines, extending our services to even more communities, new catchment areas and new customers. Following Government approvals, construction has commenced on the West Island Line and the Hong Kong section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link, the first two of our five new strategic extensions. Planning and design of the remaining three extensions, the South Island Line (East), the Kwun Tong Line Extension and the Shatin to Central Link is well underway.

Our Mainland of China and overseas businesses continued to make steady progress. In September 2009, Beijing Metro Line 4 (BJL4), opened for passenger service. Concession Agreements for the Shenzhen Metro Line 4 Build-Operate-Transfer (BOT) project and for the operation and maintenance of Shenyang Metro Lines 1 and 2 were signed in March 2009 and May 2009 respectively. On 30 December 2009, our joint venture company Beijing MTR Corporation Limited signed the Concession Agreement for the operation and maintenance of the Daxing Line, an extension of BJL4. In March 2010, we signed the Concession Agreement for the Hangzhou Metro Line 1 Public-Private-Partnership (PPP)

project, which is subject to approval by relevant authorities in the Mainland of China. In November 2009, our wholly owned subsidiary began operation of the Stockholm Metro, and in the same month our 60% owned subsidiary, Metro Trains Melbourne, took over operation of the metropolitan train network in Melbourne. The route length of the metro lines in operation in Beijing, Stockholm and Melbourne referred to above totals 508 km with over 6,900 staff working for these lines.

### Sustainability and Corporate Responsibility

Sustainability drives how we develop and manage our business, grow our people, partner with our contractors and suppliers and engage our stakeholders. The Brundtland Commission, formally known as the World Commission on Environment and Development, defined sustainable development as development that "meets the needs of the present without compromising the ability of future generations to meet their own needs." It is in this same spirit that we maintain our commitment to the well-being of the communities that we serve by fostering sustainable development in all our activities. As our new rail lines reach out across Hong Kong and our operations expand into the Mainland of China and overseas, we continue to engage with the community and our stakeholders through listening and acting on society's aspirations and needs.

Guided by our corporate Climate Change Policy issued in 2006, our focus on managing carbon emissions remains strong. Several of the key actions under the Policy have been adopted and measured for impact under our internal Enterprise Risk Management Framework, particularly the control of electricity consumption. Over the past five years, we have successfully reduced our energy consumption from 5.94 kWh per revenue car-km in 2005 to 4.86 kWh in 2009. This reduction is mainly attributable to the implementation of various energy saving initiatives such as replacement of motor-alternators with static inverters for our trains and optimisation of station environmental control systems. Asset efficiency and energy efficiency have been introduced as key considerations in the design of our capital works projects. We also integrate life-cycle environmental concerns into the planning, design and construction of our new railway projects and property developments.

In 2009, we proactively managed our greenhouse gas emissions from operating railways and managed properties. As a founding member of the Hong Kong Green Purchasing Charter, we adopted a new Supplier Code of Practice that incorporates best practices arising from previous surveys and workshops with our main suppliers and contractors.

■ **Many factors have contributed to our past success, key amongst which are the soundness of our Board governance, the excellence of our management and staff that numbered 20,150 at the end of 2009, the loyalty of our customers and the trust of our shareholders.** ■

In a further initiative, we chaired the Best Practice Committee of Hong Kong's Climate Change Business Forum. The Forum is a leadership platform for influencing carbon-related policies and regulations in addition to encouraging understanding and informed responses to climate change impacts. In December, we participated in the 15th United Nations Climate Change Conference of Parties (COP15) in Copenhagen.

Our achievements in incorporating sustainable best practices into all our business decisions continue to attract international recognition. In May, Responsible Research, an independent research company, recognised MTR Corporation's commitment to sustainable development and environmental excellence by ranking the Company first in environmental, social and governance practices among the benchmarked Hong Kong companies and second among 50 listed companies in Asia. In January 2010, we were again recognised as a Sustainability Leader within the global travel and tourism industry sector, and we won a Gold Class award and a Sector Mover award from Sustainable Asset Management (SAM). We retained our inclusion in the Dow Jones Sustainability World Index (DJSI World), Dow Jones Sustainability Asia Pacific Index (DJSI Asia/Pacific) and the FTSE4Good Index for our excellence in sustainability and corporate responsibility. We were also included as the only Hong Kong company in the 2010 Global 100 Most Sustainable Corporations in the World (the Global 100).

A snapshot of the milestones tracking MTR Corporation's sustainable growth along with that of Hong Kong was a highlighted feature of our eighth annual Sustainability Report 2008, *Engagement*, published in June. Throughout its history, the Company has been committed to building and maintaining sustainable railways and properties that meet the needs of present and future generations, facilitating sustainable

development in Hong Kong and the Pearl River Delta region of the Mainland of China. The Sustainability Report 2008 focuses on how this engagement has shaped our vision, mission and values.

### Community Initiatives

Growing with and caring for the communities we serve has long been a tradition of the Company. For our new railway projects in Hong Kong, we have continued the process of extensive public consultation established for our previous rail projects and taken it further with the full-scale community engagement programme for the planning and design of the West Island Line. The experience gained in this project will help us to optimise engagement opportunities for other new railway projects, such as the Shatin to Central Link and the South Island Line (East).

In 2009, we continued to launch many volunteering initiatives and our "Art in MTR" programme was further extended through a series of cultural shows and local artists' exhibitions at selected stations to allow passengers to relax and enjoy new artistic experiences. As one of Hong Kong's oldest districts with a vibrant history, Wan Chai District was selected as the first district to be showcased in our new community initiative "History Alive – Hong Kong Journeys", an initiative aimed at enabling passengers of today to retrace Hong Kong's journeys of yesteryear.

We continue to encourage our colleagues to take part in community service. During the year, there were 167 volunteering community service projects under our "More Time Reaching Community" scheme involving over 3,500 volunteers. In April, MTR HONG KONG Race Walking 2009 was held in Central. Over 40 corporate teams took part, raising more than HK\$1 million for the Hospital Authority Health InfoWorld to promote healthy living.

The MTR \$2 fare promotion for the elderly on Wednesdays and public holidays was extended for an additional six months until 31 August 2010, with a view to encouraging seniors to participate more in community events and activities during the week. Senior citizens currently enjoy concessions of up to 50 percent off regular fares every day. In support of Senior Citizens' Day on 15 November 2009, free rides were also offered to Elder Octopus cardholders. Meanwhile, our fare concessions for children and students continued and the caring image of the Company was promoted through the launch of a new branding campaign "caring for life's journeys", expressing our close link with the life journeys of our passengers, moving them to their every destination, and adding convenience and value to daily living.

The Company marked its 30 years of serving the people of Hong Kong on 1 October 2009. To celebrate this momentous occasion, we launched two specially designed theme trains and a souvenir ticket set featuring a series of "30-something" iconic characters penned by a local artist. Our journey from a single rail line with nine stations in Hong Kong to a company with a rail network of 218.2 km together with significant property interests in Hong Kong and operations outside Hong Kong has paralleled the rapid development of Hong Kong into a global centre of culture, finance and tourism. The theme trains highlighted the past and the future as we continue to connect people in Hong Kong as well as in other cities outside Hong Kong where we operate.

### Conclusion

Many factors have contributed to our past success, key amongst which are the soundness of our Board governance, the excellence of our management and staff that numbered 20,150 at the end of 2009, the loyalty of our customers and the trust of our shareholders. As we continue to grow our business both within and outside Hong Kong in a sustainable manner, I would like to thank my fellow directors, our staff and all our stakeholders for their continued support in these challenging times. I would also like to welcome Mr Vincent Cheng Hoi-chuen who joined the Board in July 2009 as an independent non-executive Director of the Company and thank Mr Russell Black who retired in January 2010 as Projects Director. I would further welcome Mr TC Chew who became Projects Director on Russell's retirement.



Dr. Raymond Ch'ien Kuo-fung, *Chairman*  
Hong Kong, 9 March 2010

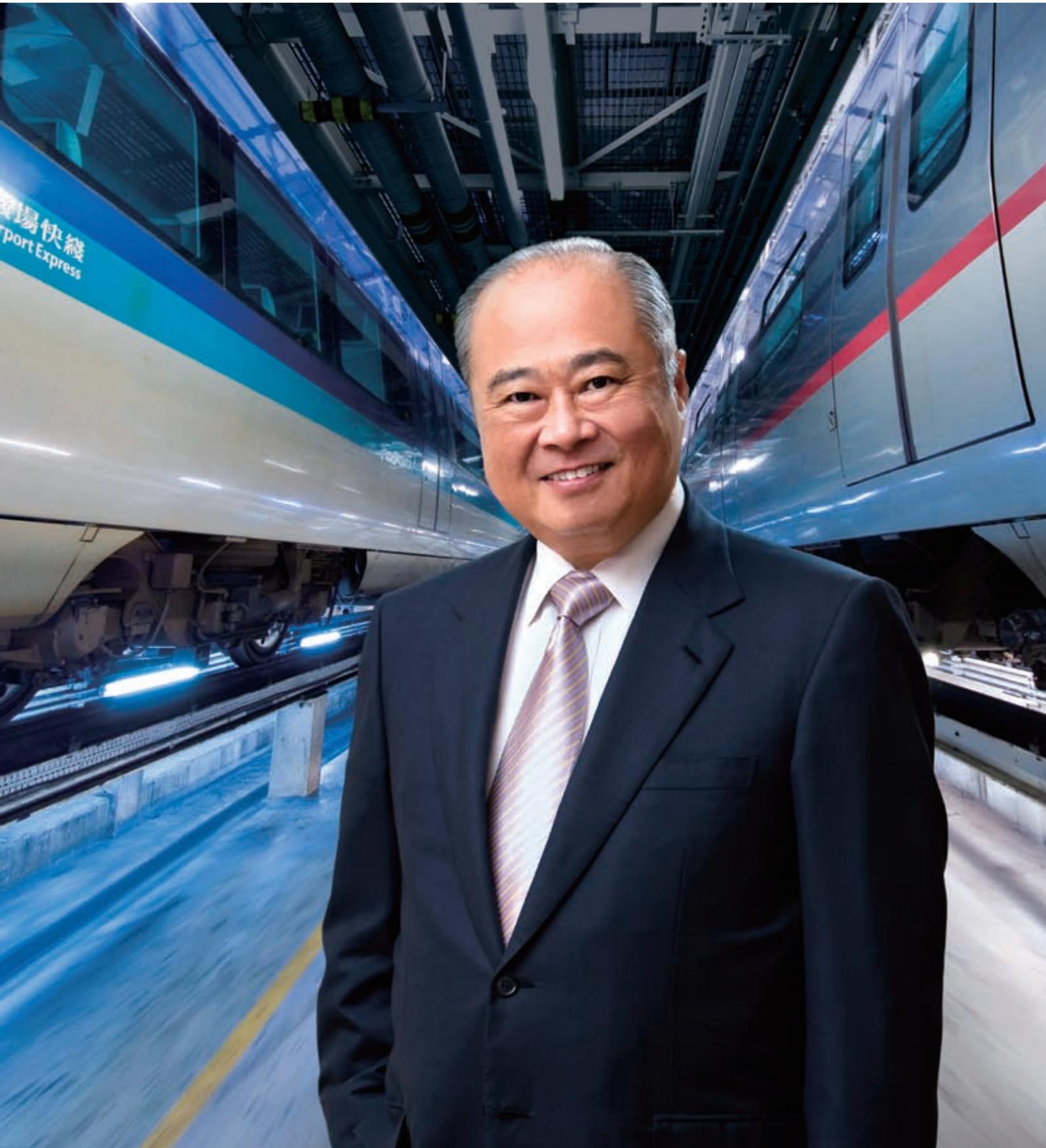
“The growth of our businesses in Hong Kong and overseas accelerated, with new milestones achieved.”

**Dear Stakeholders,**

I am pleased to report that 2009 was another successful year for MTR Corporation. Despite challenging economic conditions and the threat posed by human swine influenza, our recurrent businesses, comprising passenger transport services, station commercial and rail related businesses along with property rental and management, registered satisfactory performance while our property development business also achieved good results. The growth of our businesses in Hong Kong and overseas accelerated, with new milestones achieved.

Good progress was made during the year on the five new Hong Kong rail projects, which, together with the opening of both the Kowloon Southern Link and the final phase of the Tseung Kwan O Line, represent a new chapter in the Company's history. Through this extensive network expansion, we are building connections throughout Hong Kong and to the Mainland of China that will both strengthen the Company's growth opportunities and enhance connectivity for our customers.

In the Mainland of China, we signed Concession Agreements for the Shenzhen Metro Line 4 (SZL4) Build-Operate-Transfer (BOT) project in March 2009 and for the operation and maintenance of Shenyang Metro Lines 1 and 2 in May 2009. On 28 September 2009, our Public-Private-Partnership (PPP) project, Beijing Metro Line 4 (BJL4), opened for passenger service in the capital city. We were honoured that President Hu Jintao travelled on the line to personally experience the service. On 30 December 2009, our joint venture company Beijing MTR Corporation Limited signed a Concession Agreement for the operation and maintenance of the Daxing Line, an extension of BJL4. On 4 March 2010, our subsidiary, MTR Hangzhou Line 1 Investment Company Limited, together with a subsidiary of Hangzhou Metro Group Company Limited, entered into a Concession Agreement with Hangzhou Municipal Government under a PPP project for the investment, construction and operations of the Hangzhou Metro Line 1. The Concession Agreement with Hangzhou Municipal Government is subject to approval by relevant authorities in the Mainland.



Overseas, our wholly-owned subsidiary in Sweden commenced operation of the Stockholm Metro on 2 November 2009, while our 60% owned subsidiary, Metro Trains Melbourne (MTM), took over the operation of the Melbourne metropolitan train network in Australia on 30 November 2009.

The Company's results in 2009 reflected the defensive nature of our recurrent businesses. Revenue, which now includes revenue from our new overseas concessions, increased by 6.6% to HK\$18,797 million while operating profit from railway and related businesses before depreciation and amortisation increased by 1.9% to HK\$9,502 million. Excluding our overseas rail subsidiaries, revenues increased by 0.7%, operating profit increased by 1.8% and operating margin improved by 0.6 percentage point to 53.5%. Property development profit was HK\$3,554 million compared to HK\$4,670 million in 2008. The 2009 property development profit came mainly from final profit recognition relating to The Harbourside at Kowloon Station, recognition of profit from Lake Silver as well as additional profit recognition from The Capitol and The Palazzo. Excluding investment properties revaluation and the related deferred tax, net profit from underlying businesses attributable to equity shareholders decreased by 10.8% to HK\$7,303 million due to lower property development profit and the one-off reduction in deferred tax balances as a result of the reduction in Hong Kong Profits Tax rate in 2008. Gain in revaluation of investment properties was HK\$2,798 million pre-tax (HK\$2,336 million post-tax) compared with a property revaluation deficit of HK\$146 million pre-tax in 2008. Therefore, net profit attributable to equity shareholders was HK\$9,639 million, an increase of 16.4% from 2008, with reported earnings per share of HK\$1.28 before investment property revaluation and HK\$1.69 after such revaluation. Your Board has recommended a final dividend of HK\$0.38 per share, bringing the full year dividend to HK\$0.52 per share, an increase of 8.3% compared with the previous year.

### **Hong Kong Passenger Services**

Our Hong Kong fare revenue, including both rail and bus passenger services, was HK\$11,498 million in 2009, an increase of 0.3% over 2008.

#### **Patronage**

In 2009, total patronage for all of our rail and bus passenger services in Hong Kong increased by 1.4% to 1,506.6 million as compared to last year.

Our Domestic Service, comprising the Kwun Tong, Tsuen Wan, Island, Tung Chung, Tseung Kwan O, Disneyland Resort, East Rail (excluding Cross-boundary Service), West Rail and Ma On Shan

lines, recorded total patronage of 1,218.8 million. This represents an increase of 1.1% when compared with patronage in 2008, partly due to the opening of the LOHAS Park Station on 26 July 2009 and Kowloon Southern Link on 16 August 2009. Average weekday patronage for the Domestic Service in 2009 was 3.5 million, which represents an increase of 0.9% over 2008.

For the Cross-boundary Service at Lo Wu and Lok Ma Chau, patronage was 94.0 million in 2009, representing an increase of 0.7% compared to 2008.

Passengers using the Airport Express in 2009 fell by 6.9% to 9.9 million when compared with 2008, mainly due to a marked reduction in air travel as a result of the impact of human swine influenza and the economic downturn.

Passenger volume on Light Rail, Bus and Intercity was 183.9 million in 2009, an increase of 4.7% compared with 2008. Overall, average weekday patronage on the Hong Kong rail and bus passenger services was 4.3 million in 2009.

#### **Market Share**

Our overall share of the franchised public transport market in Hong Kong rose to 42.6% in 2009 as compared to 42.0% last year. Within this total, our share of cross-harbour traffic increased to 64.0% from 63.4% whilst our market share in the Cross-boundary business declined to 55.3% from 56.2% due to increased competition.

#### **Fare Revenue**

Of total Hong Kong fare revenue of HK\$11,498 million in 2009, Domestic Service revenue accounted for HK\$7,986 million, an increase of 0.7%. Average fare per passenger on our Domestic Service decreased by 0.4% to HK\$6.55 due to the full year impact of extending student half fares to the East Rail, West Rail and Ma On Shan lines in September 2008.

Fare revenue of the Cross-Boundary Service was HK\$2,327 million in 2009, which represents an increase of 1.9% when compared with 2008. Fare revenue of the Airport Express was HK\$617 million in 2009, which represents a decrease of 8.3% over 2008.

- **Our overall share of the franchised public transport market in Hong Kong rose to 42.6% in 2009 as compared to 42.0% last year. ■**

In our Cross-boundary Service, average fare per passenger was HK\$24.75 in 2009, an increase of 1.2% when compared with 2008. Average fare per passenger for the Airport Express decreased by 1.6% to HK\$62.48 mainly due to changes in passenger mix.

The first application of the Fare Adjustment Mechanism took place in July 2009. In accordance with the agreed methodology, the calculated fare increase of 0.7%, based on the change in Composite Consumer Price Index and Transport Wage Index in 2008, was below the trigger point for a fare adjustment of  $\pm 1.5\%$ . Hence fares were not changed and the 0.7% will be carried forward to the fare adjustment calculation in 2010.

### Attracting Patronage

During a year of slow economic activities, we continued to offer attractive promotions to stimulate patronage growth. Fare promotions included the provision of 28 fare saver machines offering discounts to attract more passengers, a Lucky Draw for Octopus users, discount flat fares for senior citizens on special days, MTR shop discounts, and a series of offers under the MTR Club Bonus Points Scheme. Several campaigns were also launched to increase ridership on the Cross-boundary Service, as well as discounted rides on the Airport Express. To further meet passenger demand following the opening of the Kowloon Southern Link, the first two of 22 new Light Rail vehicles began service in December. Also, refurbishment of the interior of all Airport Express trains was completed by the middle of the year. To further improve passenger service, at least one wide gate was installed at every East Rail Line station (except Racecourse Station). Passengers also enjoyed enhanced connectivity to our network with new pedestrian links at four other stations.

### Service and Performance

We continue to exceed both the minimum performance levels as stipulated in the Operating Agreement and our own more stringent Customer Service Pledges. Train service delivery, passenger journeys on time and train punctuality were at 99.7% level or above.

Our devotion to service excellence was once again reflected in the winning of a wide array of prestigious awards, including the Gold Award in The Hong Kong Association for Customer Service Excellence Limited's "Customer Service Excellence Award – Grand Award 2008". The effectiveness of our marketing efforts was recognised with our Rail Merger campaign winning the Gold Prize in the HKMA/TVB Awards for Marketing Excellence 2009.

### Station Commercial and Rail Related Businesses

Revenue from our station commercial and rail related businesses in 2009 was HK\$3,328 million representing a decrease of 3.5% over 2008 due mainly to lower advertising revenue as well as a one-off receipt in 2008 from an operator on termination of a telecommunications license, which was not repeated in 2009. Excluding this one-off impact, revenue would have decreased by 1.0%.

Station retail revenue in 2009 was HK\$1,605 million, 3.8% above the previous year. This improvement was largely due to expanded new retail areas, new rental contracts being awarded at higher rents, and the repartition and renovation of shop areas in the Airport Express, Tung Chung Line and East Rail Line stations. Renovation of 80 shops was completed during the period at 13 stations and 23 new retailers were also added. The total number of station shops at the end of 2009 was 1,228 with total retail area of 52,788 square metres.

Advertising revenue in 2009 was HK\$597 million, representing a decrease of 19.4% when compared with 2008. The main cause of this decrease was a marked reduction in advertising spending due to the economic downturn. To address this challenge, more aggressive sales packages and incentive schemes to advertisers were launched. A series of new advertising formats were also introduced in our system including a Digital Panel Network of plasma televisions installed at ten strategic stations in the first half of the year. In total, there are now 20,742 advertising points in our stations, 26,823 in trains (including 4,545 Liquid Crystal Displays) and 67 exhibition and display sites in 42 stations.

Revenue from our telecommunications services in 2009 was HK\$273 million, representing a reduction of 23.3% due to the one-off receipt in 2008 mentioned above. Excluding this one-off receipt in 2008, revenue from this business would have increased by 1.1%. In March 2009, an advanced 2G/3G mobile network was launched by one of Hong Kong's leading telecom operators, offering passengers high data transmission speed of up to 21Mbps in our railway system. In August 2009, 3G mobile phone coverage was fully enabled along all West Rail Line stations. In addition, 43 new contracts were concluded during the year for the renting of our railway premises' rooftops to house Mobile Phone, Global Positioning Systems and Microwave Antennae.

Revenue from external consultancy was HK\$159 million during 2009, an increase of 0.6% when compared with 2008, with consultancy projects in Hong Kong, the Mainland of China, Thailand, Taiwan, Dubai, Delhi and Brazil.

## Property and Other Businesses

In the beginning of 2009, the Hong Kong property market saw some consolidation. However, as confidence improved and with low interest rates, market sentiment returned by mid year and property activities rose.

### Property Development

Profit from property development for 2009 was HK\$3,554 million, with major contributors being final profit recognition relating to The Harbourside at Kowloon Station, additional profit bookings from The Palazzo and The Capitol, as well as surplus proceeds from Lake Silver at Wu Kai Sha Station.

As reported in our interim results, pre-sales of Lake Silver at Wu Kai Sha were launched in May 2009. Over 90% of the 2,169 units are now sold and the Occupation Permit was obtained in July 2009.

All 1,688 units of Le Prestige of LOHAS Park Package Two were sold by August 2009 with the Occupation Permit being issued on 29 January 2010. Pre-sales were also launched for Le Prime, also at LOHAS Park Package Two, in November 2009 with good results. We do not have any financial interest in Le Prime. In September, we sold all the units which we received as final profit sharing with the developer at The Harbourside in Kowloon Station.

Pre-sales will commence shortly for Phase 1 of Festival City in Tai Wai Maintenance Centre.

Along the Airport Railway, the sale of the town house development which is the last phase of Caribbean Coast shall commence shortly. In February 2009, unit sales were launched for The Cullinan. We have no financial interests in The Cullinan.

In our property tendering activity, we successfully awarded Austin Station Sites C and D to Fast New Limited, a consortium formed by New World Development Company Limited and Wheelock Properties Limited, on 2 March 2010. In this development, we will be contributing approximately HK\$3.9 billion as part of the land premium for the sites.

### Property Rental, Property Management and Other Businesses

Total revenue from property rental, property management and other businesses in 2009 was HK\$2,928 million, an increase of 8.0% over 2008.

Our property rental income increased by 8.6% to HK\$2,548 million, due mainly to the addition of another 988 square metres of space at Elements in November 2008 as well as an average increase on rental reversion of 7% across our retail shopping mall portfolio. At the end of December 2009, we maintained close to 100% occupancy of our shopping malls and the Company's 18 floors at Two International Finance Centre were fully leased out.

Elements, our premium shopping mall in Hong Kong, won the 2009 Distinguished Market Leadership Award and Award for Marketing Excellence from the Hong Kong Management Association. Elements continued to receive international recognition by winning the GOLD Direct Market Lotus Award in the Asia-Pacific Advertising Festival (AdFest) and an Official Honouree distinction in the 13th Annual Webby Awards while Telford Plaza's "Sichuan Relief Programme" won the Silver Award in the Community Relations Category of the 2009 Asia Shopping Centres Awards organised by the International Council of Shopping Centres (ICSC).

GINZA Mall in Beijing, with 18,720 square metres of lettable floor area, continues to raise the bar for service and quality standards in the capital city. Amongst the awards and honours received in its second full year of operation was an Outstanding Contribution Award for the 60th National Anniversary Celebration sponsored by the Beijing Dongcheng District People's Government Dongzhimen Jiedao Office.

At the end of December 2009, the Company's attributable share of Hong Kong investment properties included lettable floor area of 223,047 square metres of retail properties, 41,059 square metres of offices and 10,402 square metres of real estate for other usage.

Property management revenue in 2009 was HK\$207 million with the number of residential units under our management increasing to 79,449 as at the end of December, whilst commercial space under management was 742,414 square metres.

### Octopus

Octopus continued its expansion in the retail sector by recruiting more small-to medium-sized retail merchants. By the end of December, there were over 3,000 service providers in Hong Kong which utilised Octopus payment service. Cards in circulation were 20.6 million and average daily transaction volume and value were 10.9 million and HK\$97.6 million respectively. The Company's share of Octopus' net profit for 2009 was HK\$149 million, an increase of 9.6% from 2008.

### Ngong Ping 360

The Ngong Ping cable car and associated theme village on Lantau Island generated HK\$173 million of revenue in 2009, a 10.9% increase over 2008 despite the decline in tourist arrivals in Hong Kong. As a result of a series of innovative promotions, visitor numbers exceeded 1.4 million. In April 2009, Ngong Ping 360 launched the Crystal Cabins, the world's first cable car cabins to be fitted with a full-width transparent floor, which were met with enthusiastic responses. For the Mid-Autumn Festival on 3 October, Ngong Ping 360 introduced its first-ever night service.

## Future Growth

### Hong Kong

The Kowloon Southern Link with the new Austin Station opened for service on 16 August 2009, strategically connecting the existing East Rail Line with the West Rail Line at Hung Hom Station.

The final phase of the Tseung Kwan O Line was completed with the opening of LOHAS Park Station on 26 July 2009 to coincide with the occupancy of The Capitol at LOHAS Park. The opening marked the full completion of the Tseung Kwan O Line, enabling a growing young community to benefit from the railway service.

The West Island Line, a 3-km extension of our Island Line from Sheung Wan to Kennedy Town, is a "Community Railway" incorporating significant input from local district residents. It contains many features that preserve local heritage and provide urban renewal opportunities. On 13 July 2009, the Project Agreement was signed between the Company and Government and construction commenced shortly afterwards. The line is targeted to open in 2014, reducing travelling time from Kennedy Town to Sheung Wan to only eight minutes, and from Kennedy Town to Tsim Sha Tsui to fourteen minutes.

The planning and design of other new railway projects made good progress. The South Island Line (East) was gazetted under the Railways Ordinance on 24 July 2009, and further public consultations began in September in advance of Government authorisation of the scheme.

Preliminary design of the Kwun Tong Line Extension was completed in June 2009, with gazettal and commencement of detailed design following in November and December respectively. The 3-km Kwun Tong Line Extension will run from the existing Yau Ma Tei Station of the Kwun Tong Line to Whampoa via Ho Man Tin, which will be an interchange station with the East West Corridor of the Shatin to Central Link.

The Express Rail Link (Hong Kong section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link) was authorised by the Government on 20 October 2009. The 26-km Express Rail Link will provide high speed cross-boundary rail services connecting Hong Kong to Shenzhen, Guangzhou and the 16,000-km new high speed intercity rail network in the Mainland of China. Following funding approval on 16 January 2010, construction commenced in the same month. The Express Rail Link is expected to start service in 2015 and the Government has agreed to invite the Company to operate this service on a concessionary basis.

## ■ The Company's growth strategy in the Mainland of China and overseas achieved a number of milestones during the year. ■

The preliminary design of the Shatin to Central Link was completed in 2009. This rail project comprises two sections. The 11-km East West Corridor will extend the Ma On Shan Line from Tai Wai, via Diamond Hill, to Hung Hom where it will connect with the West Rail Line. The 6-km North South Corridor will form Hong Kong's

fourth rail harbour crossing, extending the East Rail Line from Hung Hom to Hong Kong Island.

### Hong Kong Project Funding

The funding model for these new rail projects will take different forms, each appropriately designed for the project. For the West Island Line, which will use the capital grant model, we received the initial part of this grant of HK\$400 million in February 2008 with the balance of HK\$12,252 million to be received in the first quarter of 2010.

The South Island Line (East) and the Kwun Tong Line Extension will likely follow the Company's traditional "Rail and Property" approach.

The Service Concession model used successfully in the Rail Merger was adopted for Kowloon Southern Link and will be adopted for the Shatin to Central Link and the Express Rail Link. On 26 January 2010, we signed an Entrustment Agreement with Government entrusting MTR Corporation with the construction of the Express Rail Link. The Company will act as the project manager in the construction phase and the Government will invite the Company to operate the railway after its completion. Operational requirements relating to the Express Rail Link are still under discussion with the Government and entities from the Mainland of China. For the Shatin to Central Link, we continue with further planning and design work funded by Government under an Entrustment Agreement signed in November 2008. Funding arrangements for the construction of this system will be subject to future agreement with Government.

### Mainland and Overseas Growth

The Company's growth strategy in the Mainland of China and overseas achieved a number of milestones during the year. Railway franchise revenue outside of Hong Kong was HK\$1,043 million, derived from the Stockholm and Melbourne rail concessions after we took over their operations in November 2009. Operating costs for these two franchises were HK\$1,035 million, with a resultant operating profit margin of 0.8% in line with our expectations for the early months after takeover. The business model for operation and maintenance franchises

such as those of the Stockholm and Melbourne train systems generally requires little capital investment. Their operating margins are therefore generally lower than other rail projects that require investment. However, due to the size of their businesses, they have significant revenue and operation costs. B JL4 (which started service on 28 September 2009), London Overground Rail Operations Ltd (LOROL) and the 50% owned rolling stock maintenance company in Sweden are accounted for as associates, and contributed a total of HK\$11 million post-tax profit (HK\$19 million pre-tax) in 2009. Our share of the profits of LOROL was HK\$17 million and B JL4 made a loss of HK\$5 million. The B JL4 loss is expected, as investment projects of this nature, with relatively large depreciation and interest cost, will take a few years to achieve profit.

#### Mainland of China

In Beijing, B JL4 successfully opened on 28 September 2009. The investment and construction of the line was undertaken by Beijing MTR Corporation Limited, a joint venture comprising MTR Corporation (49%), Beijing Infrastructure Investment Co. Ltd. (2%) and Beijing Capital Group Ltd. (49%). Initial reaction from the Beijing public and media to the train service, station design and customer service was positive and patronage has been very encouraging.

On 30 December 2009, Beijing MTR Corporation Limited signed a Concession Agreement with Beijing Metro Daxing Line Investment Company Limited, a wholly owned subsidiary of Beijing Municipal Government, for the operation and maintenance of the Daxing Line, a 22-km extension of B JL4 to the district of Daxing.

In Shenzhen, good progress has been made following the signing of the Concession Agreement for the SZL4 BOT project in March 2009. Our takeover of the operations of Phase 1 of SZL4, which is 4.5 km long, is expected to occur in mid-2010. Full line operations, including Phase 2, are expected to commence in the middle of 2011.

Our discussions with the Shenyang Municipal Government on the operation and maintenance of Shenyang Metro Lines 1 and 2 resulted in the signing of a Concession Agreement in May 2009. A management team for the joint venture has been established, and preparation works and training are now underway.

On 4 March 2010, our subsidiary, MTR Hangzhou Line 1 Investment Company Limited, together with a subsidiary of

Hangzhou Metro Group Company Limited, entered into a Concession Agreement with Hangzhou Municipal Government for a PPP project for the investment, construction and operations of Hangzhou Metro Line 1 for a term of 25 years. The Concession Agreement is subject to approval by relevant authorities in the Mainland.

The PPP project will be undertaken by a Joint Venture Company in which MTR Corporation has an effective interest of 49% with the balance owned by a subsidiary of the Hangzhou Metro Group Company Limited.

The 48-km Hangzhou Metro Line 1 project is divided into Part A and Part B, representing approximately 63% and 37% respectively of the total investment of approximately RMB22 billion. Part A involves the civil construction of the project which is being undertaken by Hangzhou Metro Group Company Limited, whilst Part B, which covers the electrical and mechanical system and rolling stock, will be provided by the Joint Venture Company. The Joint Venture Company will be funded by a combination of debt and equity with MTR Corporation's equity investment being approximately RMB2.2 billion.

Civil construction work commenced in March 2007 and the line is expected to open in 2012.

#### Overseas

In the UK, our 50:50 joint venture, LOROL, continues to meet targets and to introduce service improvements to the London Overground following takeover of the concession in November 2007.

In Sweden, on 21 January 2009, our wholly-owned subsidiary was selected as the operator of the Stockholm Metro system under an eight-year concession and we took over operation of the concession on 2 November 2009. For the maintenance of the rolling stock,

we formed a 50:50 joint venture company, Tunnelbanan Teknik Stockholm AB (TBT), with Mantena AS, a rolling stock maintainer in Norway. Operational performance has been good, and plans are in place to further improve performance.

Both London Overground and Stockholm Metro provided good service to passengers despite the exceptionally heavy snow falls experienced in Europe in January 2010.

### ■ In Beijing, B JL4 successfully opened on 28 September 2009. ■

In Australia, our 60% owned subsidiary MTM, comprising MTR Corporation (60%), John Holland Melbourne Rail Franchise Pty Ltd (20%) and United Group Rail Services Ltd (20%), signed an agreement with the State of Victoria on 31 August 2009 for the operation and maintenance of the Melbourne metropolitan train network for an initial period of eight years and MTM took over the operation of the concession on 30 November 2009.

## Financial Review

Total Hong Kong fare revenue from our rail and bus passenger services increased marginally by 0.3% to HK\$11,498 million while non-fare revenue, comprising station commercial and rail related businesses as well as rental, management and other revenue, increased by 1.5% to HK\$6,256 million. Hence, total revenue before accounting for the railway franchise revenue outside of Hong Kong, Stockholm and Melbourne rail concessions, both of which started towards the end of the year, increased by 0.7% to HK\$17,754 million. Including the revenues from the two franchises of HK\$1,043 million, total revenue in 2009 increased by 6.6% to HK\$18,797 million. Total operating costs increased by 11.9% to HK\$9,295 million due mainly to the operating costs of the two international railway franchises, excluding which total operating costs would have decreased by 0.5%. Operating profit from railway and related businesses before depreciation and amortisation increased by 1.9% to HK\$9,502 million (an increase of 1.8% to HK\$9,494 million if the international franchises are excluded). Excluding the international franchises, operating margin would have increased by 0.6 percentage point from 52.9% to 53.5% and, including the lower margin international franchises, operating margin was 50.6%.

Owing to the different timing of profit bookings, property development profit decreased by 23.9% to HK\$3,554 million. Operating profit before depreciation and amortisation therefore decreased by 6.7% to HK\$13,056 million. Depreciation and amortisation increased by 1.7% to HK\$2,979 million with additional depreciation on the newly opened LOHAS Park Station while the remaining expenses for merger integration were HK\$12 million. Interest and finance charges decreased by 24.7% to HK\$1,504 million, reflecting the decrease in average cost of borrowing and reduced level of debt outstanding. Including the non-cash revaluation gains on investment properties of HK\$2,798 million as well as the share of profits from Octopus Holdings Limited, LOROL, BJL4 and TBT totalling HK\$160 million, profit before taxation in 2009 increased by 27.6% to HK\$11,519 million. Income tax increased by 151.7% to HK\$1,880 million mainly due to the one-off reduction in deferred tax balances

resulting from the reduction in Hong Kong Profits Tax rate from 17.5% to 16.5% in 2008. Net profit attributable to shareholders of the Company in 2009 therefore increased by 16.4% to HK\$9,639 million, or HK\$1.69 per share as compared with HK\$1.47 per share in 2008.

Excluding investment property revaluation, the more representative net profit from underlying business attributable to shareholders of the Company decreased by 10.8% to HK\$7,303 million, or HK\$1.28 per share as compared with HK\$1.45 in 2008, primarily due to the reduction in property development profit and the prior year reduction in corporate tax rate.

The Group's balance sheet further strengthened with an 8.8% increase in net assets to HK\$106,453 million as at the end of 2009. Total assets increased from HK\$159,338 million to HK\$176,494 million mainly attributable to the funding support receivable from the Government for the West Island Line, investment property revaluation gains as well as further investment in SZL4. Total liabilities increased from HK\$61,516 million to HK\$70,041 million mainly due to the un-utilised funding support for the West Island Line set off against a reduction in debt. Including obligations under the service concession and loan from minority shareholders of a subsidiary as components of debt, the Group's net debt-to-equity ratio improved from 42.1% at 2008 year end to 25.8% at 2009 year end.

During the year, the Group generated substantial cash inflow. Although cash inflow from operating activities (excluding property development) after tax payments decreased by 9.1% to HK\$8,107 million as a result of higher cash tax paid following the full-utilisation of cumulative tax losses in 2008, cash received in respect of property development was substantial at HK\$13,784 million, including HK\$2,000 million of scheduled loan repayment from a property developer. Including the net cash receipts in respect of non-controlled subsidiaries and associates, the net sale of investment in securities as well as fixed asset disposal, total cash inflow generated in 2009 amounted to HK\$22,344 million. After netting off total cash outflows of HK\$8,690 million mainly for capital projects, property developments, settlement of the fixed annual payment to KCRC (Kowloon-Canton Railway Corporation) as well as interest and dividend payments, net cash inflow of HK\$13,654 million was generated, of which HK\$7,294 million was used to reduce debt.

The Board has recommended a final dividend of HK\$0.38 per share, which, when added to the interim dividend of HK\$0.14, will give a total dividend of HK\$0.52 per share for the year, representing an increase of HK\$0.04 or 8.3% as compared to last

year. Our financial year ended 31 December 2009 marks the last year in which the Financial Secretary Incorporated has agreed to receive its entitlement to dividends in the form of shares to the extent necessary to ensure that a maximum of 50% of the Company's total dividend will be paid in cash. Going forward, subject to the financial conditions of the Company, the Board intends to follow a progressive dividend policy.

### **Human Resources**

As the Company continues to grow, our ability to employ, retain and motivate staff to meet our strategic ambitions has become more important than ever.

Throughout the year, a carefully developed human resources plan was rolled out to meet the increase in manpower requirements for the new extensions in Hong Kong and our growth business beyond Hong Kong. At the same time, we strengthened our training and development programmes to develop future leaders who can take the Company to its next stage of development.

Although we have implemented vigorous cost control programmes in a year of economic recession, we continued to provide a stable employment environment for all of our colleagues and we continued with our annual intake programme of graduate trainees from Hong Kong, the Mainland of China and overseas universities.

### **Outlook**

Although economic conditions are improving, recovery may be slow and there remains the risk of further volatility in the global economy.

In Hong Kong, improvements in the economy and the full year impact of the Kowloon Southern Link and the LOHAS Park Station should benefit rail patronage. Fare review will be conducted in June 2010 in accordance with the Fare Adjustment Mechanism.

Our advertising business should benefit from economic recovery whilst our station retail and property rental businesses will be subject to market rates at the time of rental renewals and reversions.

2010 will see the full year impact of a number of our businesses in the Mainland of China and overseas which commenced operations in 2009. We will also take over the operation of Phase 1 of SZL4. As indicated previously, the investment projects generally

take a few years from commencement of operation to break even. Hence, we expect B JL4 and SZL4 to show small losses in 2010.

Though significant in revenue terms, operating margins of operation and maintenance franchises are lower as they do not require much investment. Hence on a consolidated basis, we would expect these businesses to contribute to operating profit but will also result in lower operating margins for MTR Corporation in 2010 as a result of the full year impact of these businesses. However, continual efficiency enhancement and patronage improvements should allow us to maintain healthy margins in our Hong Kong recurrent businesses.

In our property development business, the Occupation Permit for Le Prestige at LOHAS Park Package Two was issued in January 2010 allowing for booking of profit in 2010. We do not have any financial interests in the remaining phases of LOHAS Park Package Two, including Le Prime. Also in Tseung Kwan O, we would expect to receive the Occupation Permit for the small retail shopping mall in Area 56 in the second half of 2010 and since it is a "sharing in kind" project, we would book profit based on our share of that mall on receipt of such permit.

Pre-sales will commence shortly for Phase 1 of Tai Wai Maintenance Centre. However, as I have noted previously, we do not expect to book any profit on this development until 2011.

In our property tendering activities, following the successful award of the property tender for Austin Station sites C and D in March 2010, depending on market conditions, we will tender Nam Cheong Station site and LOHAS Park Package 4 over the next six months. The Nam Cheong Station site is a West Rail Property Development site where we only act as agent.

Finally, I take this opportunity to thank my fellow directors and all my colleagues for their dedication, energy and hard work in the past year. They are the heroes of MTR.



C K Chow, *Chief Executive Officer*  
Hong Kong, 9 March 2010

	2009	2008	% Increase/ (Decrease)
<b>Financial highlights</b> (HK\$ million)			
Revenue			
– Hong Kong Fare	11,498	11,467	0.3
– Non-fare	6,256	6,161	1.5
– Railway franchises outside of Hong Kong	1,043	–	N/A
Operating profit from railway and related businesses before depreciation and amortisation	9,502	9,325	1.9
Profit on property developments	3,554	4,670	(23.9)
Operating profit before depreciation and amortisation	13,056	13,995	(6.7)
Profit attributable to equity shareholders	9,639	8,284	16.4
Profit attributable to equity shareholders (excluding change in fair value of investment properties and related deferred tax)	7,303	8,185	(10.8)
Total assets	176,494	159,338	10.8
Loans, other obligations and bank overdrafts	23,868	31,289	(23.7)
Obligations under service concession	10,625	10,656	(0.3)
Total equity attributable to equity shareholders	106,387	97,801	8.8
<b>Financial ratios</b>			
Operating margin (%)	50.6	52.9	-2.3% pts.
Operating margin (excluding railway franchises outside of Hong Kong) (%)	53.5	52.9	0.6% pt.
Net debt-to-equity ratio (%)	25.8	42.1	-16.3% pts.
Return on average equity attributable to equity shareholders (%)	9.4	8.8	0.6% pt.
Return on average equity attributable to equity shareholders (excluding change in fair value of investment properties and related deferred tax) (%)	7.2	8.7	-1.5% pts.
Interest cover (times)	7.1	6.0	1.1 times
<b>Share information</b>			
Basic earnings per share (HK\$)	1.69	1.47	15.0
Basic earnings per share (excluding change in fair value of investment properties and related deferred tax) (HK\$)	1.28	1.45	(11.7)
Dividend per share (HK\$)	0.52	0.48	8.3
Share price at 31 December (HK\$)	26.80	17.96	49.2
Market capitalisation at 31 December (HK\$ million)	153,506	101,674	51.0
<b>Operations highlights</b>			
Total passenger boardings			
– Domestic Service (million)	1,218.8	1,205.4	1.1
– Cross-boundary Service (thousand)	94,016	93,401	0.7
– Airport Express (thousand)	9,869	10,601	(6.9)
– Light Rail (thousand)	143,489	137,730	4.2
Average number of passengers (thousand)			
– Domestic Service (weekday)	3,544	3,514	0.9
– Cross-boundary Service (daily)	257.6	255.2	0.9
– Airport Express (daily)	27.0	29.0	(6.6)
– Light Rail (weekday)	402.1	385.1	4.4
Fare revenue per passenger (HK\$)			
– Domestic Service	6.55	6.58	(0.4)
– Cross-boundary Service	24.75	24.45	1.2
– Airport Express	62.48	63.47	(1.6)
– Light Rail	2.68	2.81	(4.7)
Proportion of franchised public transport boardings (%)	42.6	42.0	0.6% pt.

## Hong Kong Passenger Services

Our Hong Kong fare revenue, including both rail and bus passenger services, was HK\$11,498 million in 2009, an increase of 0.3% over 2008.

### Patronage

For the year as a whole, total patronage for all of our rail and bus passenger services in Hong Kong increased by 1.4% to 1,506.6 million as compared to last year.

Our Domestic Service, comprising the Kwun Tong, Tsuen Wan, Island, Tung Chung, Tseung Kwan O, East Rail (excluding Cross-boundary Service), West Rail, Ma On Shan and Disneyland Resort lines, recorded total patronage of 1,218.8 million for 2009, an increase of 1.1% when compared with 2008.

For the Cross-boundary Service at Lo Wu and Lok Ma Chau, patronage was 94.0 million for 2009, representing an increase of 0.7% when compared with 2008 as a result of the growth in cross-boundary traffic.

Passengers using the Airport Express fell by 6.9% to 9.9 million in 2009 due to a decrease in air travellers as a result of the human swine influenza and the economic downturn. Passenger volume on Light Rail, Bus and Intercity was 183.9 million in 2009, an increase of 4.7% compared with 2008.

Our overall share of the franchised public transport market rose from 42.0% for 2008 to 42.6% for 2009. Our share of cross-harbour traffic rose to 64.0% in 2009 from 63.4% in 2008 whilst our market share in the Cross-boundary business declined to 55.3% in 2009 from 56.2% in 2008 due to increased competition.

### Service Promotions

The Company continues to launch well-targeted and innovative service promotions to generate incremental patronage growth. These included a new branding and customer service campaign "caring for life's journeys" and "Train for life's journeys", an educational programme for high school students.

To show the Company's commitment to building a better community and appreciating Hong Kong's heritage, the "Art in MTR" series was expanded with a series of exhibitions at MTR stations to share images of the role the railways have played in the community both past and present.

Ticket promotions continued to enhance customer loyalty. To support the Hong Kong Summer Spectacular 2009 organised by the Hong Kong Tourism Board, a tailor-made "MTR Summer Super Value Pack" consisting of 16 shopping and dining offers was distributed to tourists purchasing either an MTR Day Pass

or Airport Express Travel Pass. Also during the summer, Airport Express launched group ticket promotions in partnership with the movie "Transformers: Revenge of the Fallen".

In addition to the 26 popular fare saver machines serving domestic travellers, two new fare saver machines were installed at Shenzhen Metro Fu Tian Kou An Station and the restricted area of Hung Hom Station Intercity Through Train Arrival Hall to serve Cross-boundary passengers. Other fare promotions included the one-year extension of the Sheung Shui-East Tsim Sha Tsui Monthly Pass and the Tuen Mun-Nam Cheong Monthly Pass and the introduction of the Tuen Mun-Hung Hom Monthly Pass in August.

### Service Performance

Passenger safety, comfort and service reliability remain the cornerstone of our passenger service. We exceeded all the performance levels required by Government and our own more stringent Customer Service Pledges targets in 2009. Train service delivery, passenger journeys on time and train punctuality were at 99.7% level or above.

Customer satisfaction recorded by our regular surveys remained at high levels during the year. In 2009, the Service Quality Index for the Domestic/Cross-boundary services and Airport Express stood at 70 and 82 respectively while the Fare Index of the two segments, which measures the level of satisfaction of customers with our fares, stood at 61 and 63 respectively. In the benchmarking performed by the 12-member international Community of Metros (CoMET) for 2008, we maintained our leading position.

The high level of achievement reached by our service performance was once again recognised in our winning of numerous awards, including the Gold Award in The Hong Kong Association for Customer Service Excellence Limited's "Customer Service Excellence Award - Grand Award 2008" and "Top Service Award - Category Award of Public Transportation" presented by Next Magazine.

### Service Improvements

We continue to make improvements to our services and network infrastructure.

Following the opening of the Kowloon Southern Link, 22 new Light Rail Vehicles were ordered and the first two vehicles were put into service in December. In addition, 15 new double deck buses entered into service in August to replace retired vehicles and refurbishment of the interior of all Airport Express trains was completed in mid 2009.

The renovations at Mong Kok, Prince Edward and Mong Kok East stations were completed in October, and refurbishing of Tsing Yi Station was finished in December. Station ambience enhancements were completed and a wide gate for passengers with disabilities was installed at all East Rail Line stations (except Racecourse Station) by November. New integrated entrances were opened at Olympic, Tsim Sha Tsui, Tuen Mun and Tsing Yi stations.

We continue to provide additional value-added services for our frequent travellers. Following Wi-Fi coverage becoming fully available on all Airport Express trains in January, we extended 3G Mobile Phone coverage to all stations and tunnels on the line while also facilitating public Wi-Fi connectivity in 32 stations on the network, including all Airport Express stations.

### Human Swine Influenza

The human swine influenza pandemic remains a threat to public health. In response to the serious alert from May to July 2009, the Company took extensive measures to educate both customers and staff about taking precautions and implemented a series of risk mitigation initiatives. These included enhanced procedures to ensure the maintenance of a hygienic environment,

the provision of personal protective equipment and the establishment of a command team responsible for monitoring and managing the situation.

### Productivity

Improvement in efficiency and productivity continued to be a top priority for the Company in 2009. Over the past five years, we have successfully reduced our energy consumption by 18.2% from 5.94 kWh per revenue car-km in 2005 to 4.86 kWh in 2009, which is mainly attributable to the implementation of various energy saving initiatives such as the replacement of motor-alternators with static inverters for our trains, optimisation of train regulation, and optimisation of station environmental control systems. Overall, the operating costs per car-km were reduced by 7.5% from HK\$22.8 in 2005 to HK\$21.1 in 2009. Our staff productivity has also shown continuous improvement, with turnover per operating railway employee increasing from HK\$1.52 million in 2005 to HK\$1.62 million in 2009. Our environmental performance benefited from the replacement of diesel-powered locomotives with electric-powered locomotives on certain Guangzhou-Kowloon Through Trains.

## Station Commercial and Rail Related Businesses

### Revenue Performance

Revenue for our station commercial and rail related businesses in 2009 was HK\$3,328 million, representing a decrease of 3.5% over 2008 due mainly to lower advertising revenue as well as a one-off receipt in 2008 from an operator on termination of a telecommunications license, which was not repeated in 2009. Excluding this one-off impact, revenue would have decreased by 1.0%.

### Station Retail

Station retail revenue, comprising duty free shops and kiosk rental, increased to HK\$1,605 million, 3.8% more than the previous year. This increase was mainly due to growth in the number of shops, increase of rental rates upon contract renewals, and the repartition and renovation of shop areas in the Airport Express, Tung Chung Line and East Rail Line stations. Renovation works for 80 shops at 13 stations were completed and 23 new retailers were also added. The total number of shops, including Duty Free and other shops, was 1,228 as at 31 December 2009, with such retail area amounting to 52,788 square metres of which 9,540 square metres related to Duty Free businesses.

To celebrate the opening of LOHAS Park Station, coupon leaflets with discount offers from MTR shops at Tseung Kwan O Line stations were distributed to residents of major property estates along the rail line in mid-July 2009.

### Advertising

Advertising revenue decreased by 19.4% to HK\$597 million in 2009 when compared with 2008. The main cause of this decrease was a marked reduction in advertising spending due to the economic downturn. To address this challenge, more aggressive sales packages and incentive schemes to advertisers were launched. A series of new advertising formats were also introduced, including a Digital Panel Network at ten stations and enlarging and standardising escalator crown panels on the East Rail Line and West Rail Line. At the end of 2009, there were 20,742 advertising points in stations, 26,823 in trains (including 4,545 Liquid Crystal Displays) and 67 exhibition and display sites in 42 stations.

## Telecommunications

Revenue from telecommunications services decreased by 23.3% in 2009 to HK\$273 million due to the one-off receipt in 2008 mentioned above. Excluding this one-off receipt in 2008, revenue from this business would have increased by 1.1%. In January, all Airport Express trains were fully Wi-Fi enabled. One of Hong Kong's leading telecom operators launched an advanced 2G/3G mobile network in March, enabling passengers to enjoy high data speed of up to 21Mbps in our railway system. With the completion of installation of 3G infrastructure along the West Rail Line in August, passengers with 3G-enabled devices were able to access streaming audio, video, and other high-speed internet services anywhere in our system. Full 2G and 3G mobile phone coverage was also enabled in Austin and LOHAS Park stations.

## External Consultancy

In 2009, our external consultancy teams made good progress, enabling the Company to enhance skill-sets and to seek new investment opportunities abroad. Revenue from external consultancy activities was HK\$159 million during 2009, an increase of 0.6% when compared with 2008, with consultancy projects in Hong Kong, the Mainland of China, Thailand, Taiwan, Dubai, Delhi and Brazil.

In India, our consultancy team forged ahead with the HK\$128 million engineering and project management contract for the construction of the Delhi Airport Metro Express Line. Our consultancy team worked with Dubai Roads and Transport Authority on the retail outlets leasing for stations along the Red and Green lines of Dubai Metro and received high commendation from the Dubai Government for their work. Our consultancy project to provide technical advice to Metro Rio in Brazil for rolling stock procurement from China has also made good progress.

In 2009, we continued to operate the Automated People Mover at Hong Kong International Airport, whilst our consultancy work for Kaohsiung Rapid Transit Corporation in Taiwan came to a successful conclusion.

## Freight Services

Revenue from freight services was HK\$32 million during 2009, a decrease of 13.5% over 2008. The Company decided to wind down its freight business over the next several months to better utilise train paths currently used for the freight business to provide greater flexibility for passenger train services.

# Property and Other Businesses

Profit from property development for 2009 was HK\$3,554 million, while revenue from property rental, management and other businesses increased by 8.0% in 2009 to HK\$2,928 million.

## Property Development

Profit from property development for 2009 was HK\$3,554 million, a decrease from the HK\$4,670 million recognised in 2008 mainly due to timing of profit recognition. The major contributors to property development profit in 2009 were the final profit recognition relating to The Harbourside at Kowloon Station, additional profit bookings from The Palazzo and The Capitol, as well as surplus proceeds from Lake Silver at Wu Kai Sha Station.

Over 90% of the 2,169 units at Lake Silver in Wu Kai Sha were sold and all 1,688 units of Le Prestige at LOHAS Park Package Two were sold by August. Pre-sales were launched for Le Prime, also at LOHAS Park Package Two, in November 2009 with good results.

In our property tendering activity, we successfully awarded Austin Station Sites C and D to Fast New Limited, a consortium formed by New World Development Company Limited and Wheelock Properties Limited, on 2 March 2010. In this development, we will be contributing approximately HK\$3.9 billion as part of the land premium for the sites.

A major revision to the Nam Cheong Station scheme to provide a better living environment and amendments to the master plan for the Tai Wai Station site to achieve environmental benefits and value enhancement were approved by the Town Planning Board in May and December 2009 respectively.

## Property Rental, Property Management and Other Businesses

Total revenue from property rental, property management and other businesses increased by 8.0% in 2009 to HK\$2,928 million.

### Property Rental

Demand for both office and retail space remained subdued throughout 2009. However, property rental income rose to HK\$2,548 million, an increase of 8.6% over 2008, due mainly to the addition of another 988 square metres of rental space at Elements in November 2008 as well as an average increase in rental reversion of 7% across our retail shopping mall portfolio.

At the end of December 2009, the Company's attributable share of lettable floor area of investment properties in Hong Kong was 223,047 square metres of retail properties, 41,059 square metres of offices, and 10,402 square metres for other usage.

Our shopping malls were once again honoured with a variety of local and international awards. Our premium shopping mall Elements won the 2009 Distinguished Market Leadership Award and Award for Marketing Excellence from the Hong Kong Management Association. Elements continued to receive international recognition by winning the GOLD Direct Market Lotus Award in the Asia-Pacific Advertising Festival (AdFest) and an Official Honouree distinction in the 13th Annual Webby Awards.

Ginza Mall in Beijing, our first shopping mall in Mainland China, continues to set new standards for service and quality in the retail sector in the capital city. Average rental increment on lease renewals and re-lettings rose 0.6% compared to 2008 and occupancy was close to 100%. Amongst the many awards and honours received in its second full year of operation was an Outstanding Contribution Award for the 60th National Anniversary Celebration sponsored by the Beijing Dongcheng District People's Government Dongzhimen Jiedao Office.

A number of attractive promotions were launched in our shopping malls to attract more shoppers. Elements introduced some of the most innovative tactical promotions in town including the exclusive presentation of the Sarah Brightman concert to Elements' shoppers. Various promotion campaigns were launched across MTR Malls including "21st Century Dr. Slump Exhibition", featuring the classic popular characters Dr. Slump and his friends, at Maritime Square and Paradise Mall during summer.

New tenants in our shopping malls included world-renowned luxury brands Louis Vuitton and Hermès. Both opened for business at Elements in the last quarter in 2009 enhancing Elements' range of exclusive luxury offerings.

#### **Property Management**

Our property management revenue in 2009 was HK\$207 million, a slight decrease of 1.4% over 2008. During the year, 1,375

residential units were added to our property management portfolio from The Palazzo, 524 units from Le Bleu Deux, 2,096 units from The Capitol and 2,169 units from Lake Silver, bringing the total number of residential units under our management to 79,449 as at the end of December, whilst total commercial space under management was 742,414 square metres. Our managed property portfolio in the Mainland of China amounted to 973,254 square metres.

#### **Other Businesses**

##### **Octopus**

The Company's share of Octopus' net profit for 2009 was HK\$149 million, a 9.6% increase from 2008 largely due to the ongoing increases in non-transport retail payments. Octopus continued its expansion in the retail sector by recruiting more small-to medium-sized retail merchants and introducing new application solutions to provide greater convenience to consumers and businesses. By the end of December, there were over 3,000 service providers (including those serviced by Octopus-appointed acquirers) in Hong Kong that utilised Octopus payment service. Cards in circulation were 20.6 million and average daily transaction volume and value were 10.9 million and HK\$97.6 million respectively.

##### **Ngong Ping 360**

The Ngong Ping cable car and associated theme village on Lantau Island generated HK\$173 million of revenue in 2009 with visitor numbers exceeding 1.4 million despite a challenging market.

A series of vigorous promotion initiatives included the launch of Crystal Cabins, the world's first cable car cabins to be fitted with a full-width transparent floor. Awards received included "Best Creative Search Award – Outstanding" from Yahoo! Hong Kong Limited and the Prime Award for Corporate Social Responsibility sponsored by Prime magazine. In April, Ngong Ping's cable car operations department received ISO 9001:2008 certification.

## **Hong Kong Network Expansion**

Following Government approvals, construction has commenced on the West Island Line and the Express Rail Link (Hong Kong section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link), the first two of our five new strategic extensions. Planning and design of the remaining three extensions, the South Island Line (East), the Kwun Tong Line Extension and the Shatin to Central Link is well underway.

#### **Completed Projects**

On 16 August 2009, the Kowloon Southern Link with the new Austin Station opened for service. The final phase of the Tseung

Kwan O Line was completed with the opening of LOHAS Park Station on 26 July 2009 to coincide with occupancy of The Capitol at LOHAS Park.

#### **On-going Projects**

The Project Agreement with the Government was signed on 13 July 2009 for the financing, design, construction and operation of the West Island Line Project and a ground breaking ceremony was held in August. The West Island Line is a "Community Railway" with many features incorporating the results of detailed consultation with local stakeholders. The Company has awarded contracts for the first stage of construction with completion targeted in 2014.

The South Island Line (East) was gazetted on 24 July 2009, and a further period of public consultation began in September with the local communities, district councils and other stakeholders to integrate their needs in the railway's planning and design. The environmental impact assessment study is due to be completed in early 2010, followed by commencement of works in early 2011.

Preliminary design of the Kwun Tong Line Extension was completed in June 2009, with gazettal and commencement of detailed design in the following November and December respectively. Construction is expected to commence in 2011.

The Express Rail Link will be one of the most significant infrastructure developments in the history of Hong Kong, bringing Guangzhou within 48 minutes' travelling time, Shanghai eight hours and Beijing ten hours. Following the Government's decision to proceed with the planning and design in April 2008, public consultations were held, which resulted in an amended scheme being authorised by the Government on 20 October 2009. The Legislative Council approved funding on 16 January 2010, and the first major civil contracts were awarded.

Following funding approval from the Legislative Council in May 2008 for the further planning and design of the Shatin to Central Link, the Company carried out a series of activities to gather views from the public. Preliminary design was completed in 2009 and the draft environmental impact assessment will be submitted to the Government in early 2010.

### Project Funding

The funding model for these new rail projects will take different forms, each appropriately designed for the project. The West Island Line will use the capital grant model. The South Island Line (East) and the Kwun Tong Line Extension will likely follow the Company's traditional "Rail and Property" approach whereby property development rights will be granted to us.

The Service Concession model used successfully in the Rail Merger was adopted for Kowloon Southern Link and will be adopted for the Shatin to Central Link and the Express Rail Link. Under this model, the Kowloon-Canton Railway Corporation or Government will pay all the capital cost of the line with the Company being responsible for operations, maintenance and asset renewals and replacement.

### Subways and Pedestrian Links

All structural works for the Middle Road Subway Extension were completed during the year. Electrical and mechanical works made good progress, with all six travelators delivered and installed, and the extension opened on 10 February 2010. Construction of the integrated entrances within the new development at No. 63 Nathan Road at Tsim Sha Tsui Station were completed and the entrances were opened on 17 December 2009. Civil construction of the new subway connection to Liberte, the residential property in Lai Chi Kok, and the new entrances at Cheung Lai Street at Lai Chi Kok Station progressed well with the opening date scheduled for mid-2010.

## ○ Mainland and Overseas Growth ○

Our growth strategy outside of Hong Kong remained firmly on track in 2009. Railway franchise revenue outside of Hong Kong was HK\$1,043 million derived from the Stockholm and Melbourne rail concessions after we took over their operations in November 2009. Operating costs for these two franchises were HK\$1,035 million, with a resultant operating profit margin of 0.8% in line with our expectations for the early months after takeover. Beijing Metro Line 4 (BJL4), London Overground Rail Operations Ltd (LOROL) and the 50% owned rolling stock maintenance company in Sweden are accounted for as associates, and contributed a total of HK\$11 million post-tax profit (HK\$19 million pre-tax) in 2009. Our share of the profits of LOROL was HK\$17 million and BJL4 made a loss of HK\$5 million.

### Mainland of China

In Beijing, a ceremony was held to mark the commencement of operations of BJL4 on 28 September 2009. The response from the Beijing public and media to the line's performance, comfort and customer service was positive.

On 30 December 2009, Beijing MTR Corporation Limited signed a Concession Agreement with Beijing Metro Daxing Line Investment Company Limited, a wholly-owned subsidiary of Beijing Municipal Government, for the operation and maintenance of the Daxing Line, a 22-km extension of BJL4, to the district of Daxing. The concession covers a period of ten years and is renewable for further terms of ten years until the expiry of the concession period for BJL4.

In Shenzhen, the Concession Agreement for the Shenzhen Metro Line 4 (SZL4) Build-Operate-Transfer (BOT) project was signed in March 2009 with the Shenzhen Municipal Government. By the end of 2009, approximately 93% of civil works for the 16-km SZL4 Phase 2 were finished and all electrical and mechanical contracts were awarded.

In Shenyang, a Concession Agreement was signed in May 2009 with Shenyang Metro Group Company Limited and Shenyang Municipal Government for the operation and maintenance of the 50-km Shenyang Metro Lines 1 and 2 for a term of 30 years.

On 4 March 2010, our subsidiary, MTR Hangzhou Line 1 Investment Company Limited, together with a subsidiary of Hangzhou Metro Group Company Limited, entered into a Concession Agreement with Hangzhou Municipal Government

for a Public-Private-Partnership (PPP) project for the investment, construction and operations of the Hangzhou Metro Line 1 for a term of 25 years. The Concession Agreement is subject to approval by relevant authorities in the Mainland.

### Overseas

We continue to develop our "asset light" strategy overseas. In the UK, our 50:50 joint venture, LOROL, brought an ongoing series of service improvements to the London Overground. In Sweden, we took over the operations of the Stockholm Metro for eight years beginning on 2 November 2009. In Australia, our 60% owned subsidiary signed an agreement with the State of Victoria on 31 August 2009 for the operation and maintenance of the Melbourne metropolitan train network for an initial period of eight years beginning on 30 November 2009.

## Human Resources

Our people are the key to our success both now and in the future. The aim of all our manpower resourcing, staff development, knowledge management and employee volunteering projects is to nurture both our staff and the community they serve.

In view of the significant manpower needs in the coming years arising from the anticipated growth of our businesses both in Hong Kong and overseas as well as succession planning, we continued with proactive planning and recruitment through the establishment of an integrated manpower resourcing mechanism. In order to support our business expansion in the Mainland of China in 2009, we launched a Mainland Graduate Engineer Scheme and a Mainland Operating Management Associate Scheme.

Supporting the health, quality of life and environment of the people of Hong Kong has long been one of the Company's key priorities. During the year, our colleagues took part in 167 volunteering projects involving the elderly, the physically and mentally challenged, young people and families in need, as well

as the environment. In recognition of the Company's excellent performance in contributing to society, we received three Caring Company Logos from the Hong Kong Council of Social Service.

With the Corporation's expansion plans both in Hong Kong and offshore, proactive people development continues to be a vital element to sustain the Company's business growth. During the year, a full range of railway and safety training was implemented successfully and in a timely manner for the opening of LOHAS Park Station, Austin Station in Hong Kong and BJL4 in Beijing.

A number of international and local professional associations extended their recognition of our strong performance in training and development. These recognitions included an American Society for Training and Development (ASTD) BEST Award, in which the Company finished first in Asia Pacific, second among 93 global competing entries, and was the only transportation company on the list. The Company also won an ASTD Excellence in Practice Award, a Gold Prize in the Hong Kong Management Association (HKMA) Award for Excellence in Training, and the Hong Kong Most Admired Knowledge Enterprise (MAKE) Award.

## Financial Review

### Review of 2009 Financial Results

#### Profit and Loss

With the commencement of international railway concessions in Stockholm and Melbourne, total revenues in 2009 grew by 6.6% to HK\$18,797 million while operating profit from railway and related businesses rose 1.9% to HK\$9,502 million.

Total Hong Kong fare revenue for 2009 increased marginally by 0.3% to HK\$11,498 million. Fare revenue from Domestic Service grew 0.7% to HK\$7,986 million with patronage growth of 1.1% to 1,218.8 million partly offset by a drop in average fare of 0.4% to HK\$6.55. Fare revenue from Cross-boundary Service increased by 1.9% to HK\$2,327 million with patronage and average fare increasing by 0.7% to 94 million and 1.2% to HK\$24.75 respectively. Airport Express recorded a revenue decline of 8.3% to HK\$617 million attributable to a 6.9% drop in patronage to 9.9 million and a 1.6% decrease in average fare to HK\$62.48. Fare revenues from Light Rail, Bus and Intercity totaled HK\$568 million.

Revenue from station commercial and rail related businesses decreased 3.5% to HK\$3,328 million in 2009. Advertising revenue dropped by 19.4% to HK\$597 million while revenue from station retail business increased by 3.8% to HK\$1,605 million. Telecommunication income dropped by 23.3% to HK\$273 million. Consultancy revenue was at a similar level to 2008 at HK\$159 million while miscellaneous income grew 7.1% to HK\$694 million.

Rental, management and other revenue in 2009 increased by 8.0% to HK\$2,928 million, with revenue from property rental and management rising 7.8% to HK\$2,755 million and revenue from Ngong Ping 360 increasing by 10.9% to HK\$173 million.

The takeover of Stockholm Metro and Melbourne Train operations and maintenance in November 2009 generated additional revenue from these franchises of HK\$494 million and HK\$549 million respectively in 2009. Excluding these two revenue streams, total revenue in 2009 was marginally higher than last year by 0.7%.

Total operating costs before depreciation and amortisation in 2009 were HK\$9,295 million, an increase of 11.9% mainly due to the costs incurred in the operations of Stockholm Metro and Melbourne Train. Excluding the operating costs of these

two international franchises, total operating expenses would have shown a decrease of 0.5%, mainly due to lower station commercial and rail related businesses expenditure. Cost control measures in place during the year limited the increases in a number of expenses such as staff costs and related expenses.

Operating profit from railway and related businesses before depreciation and amortisation therefore increased by 1.9% to HK\$9,502 million. Owing to the inclusion of the asset-light, hence lower profit margin railway franchises of Stockholm Metro and Melbourne Train, operating margin decreased from 52.9% in 2008 to 50.6% in 2009. Excluding these two franchises, operating margin would have increased to 53.5%.

Profits from property development were lower in 2009 by 23.9% when compared to 2008 due mainly to the timing of profit bookings. Property development profits in the year were HK\$3,554 million mainly comprising profits relating to The Harbourside at Kowloon Station, The Palazzo, The Capitol as well as Lake Silver at Wu Kai Sha Station.

Depreciation and amortisation charges increased by 1.7% to HK\$2,979 million while remaining expenses relating to merger integration were HK\$12 million.

Interest and finance charges decreased by 24.7% to HK\$1,504 million, reflecting the decrease in average borrowing cost from 4.8% per annum in 2008 to 3.7% and the reduced level of debt outstanding. In light of positive sentiments on the property market, a net pre-tax gain in investment property revaluation of HK\$2,798 million was recorded as compared with a net loss of HK\$146 million in 2008. The Group's share of net profit from non-controlled subsidiaries and associates was HK\$160 million, mainly comprising HK\$149 million from Octopus Holdings Limited, HK\$17 million from the London Overground Concession and a loss of HK\$5 million from Beijing Metro Line 4.

Excluding investment property revaluation and the related deferred tax provision, the underlying profit attributable to equity shareholders decreased by 10.8% from HK\$8,185 million to HK\$7,303 million.

With good results and strong cash flow in our businesses the Board has recommended a final dividend of HK\$0.38 per share, which, when added to the interim dividend of HK\$0.14 per share,

will bring full year dividend to HK\$0.52 per share, an increase of HK\$0.04 per share or 8.3% compared with 2008. The final dividend, amounting to HK\$2,177 million in total, offers a scrip dividend option to all shareholders except those with registered addresses in the United States of America or any of its territories or possessions. Our financial year ending 31 December 2009 marks the last year in which the Financial Secretary Incorporated ("FSI") has agreed to receive its entitlement to dividends in the form of shares to the extent necessary to ensure that a maximum of 50% of the Company's total dividend will be paid in cash. Going forward, subject to the financial conditions of the Company, the Board intends to follow a progressive dividend policy.

### Balance Sheet

The Group's balance sheet strengthened further with an 8.8% increase in net assets from HK\$97,822 million as at 31 December 2008 to HK\$106,453 million as at 31 December 2009.

Total fixed assets increased from HK\$131,004 million in 2008 to HK\$137,634 million as at 31 December 2009 mainly due to further investment in SZL4 and the revaluation gain in investment properties.

Railway construction in progress had no balance at the end of 2009 as construction costs incurred in the West Island Line were netted off by the Government funding support and the total costs for LOHAS Park Station were transferred to fixed assets upon opening.

Property development in progress decreased from HK\$7,895 million in 2008 to HK\$6,718 million as the acquisition costs for the development rights of Lake Silver were taken to the profit and loss account upon development completion. Properties held for sale increased from HK\$2,228 million to HK\$3,783 million as unsold residential units at Lake Silver were added to inventory.

Investment in securities decreased from HK\$471 million to HK\$227 million due to disposal of investments. Derivative financial assets and liabilities were recorded at HK\$370 million and HK\$237 million respectively as at 31 December 2009 as compared to HK\$528 million and HK\$305 million in 2008. Stores and spares increased from HK\$690 million in 2008 to HK\$1,040 million as higher levels of critical spares were maintained and additional stores and spares were taken up for the Stockholm Metro and Melbourne Train.

Debtors, deposits and payments in advance decreased from HK\$7,190 million in 2008 to HK\$2,428 million as at 31 December

2009 following cash receipts from purchasers of units at The Capitol and The Palazzo. Loan to a property developer decreased from HK\$3,720 million in 2008 to HK\$1,916 million due to a scheduled repayment of HK\$2,000 million in 2009. Amounts due from the Government and other related parties increased from HK\$426 million in 2008 to HK\$12,788 million due mainly to the Government funding support for the West Island Line of HK\$12,252 million to be received later in March 2010.

Total loans outstanding decreased from HK\$31,289 million in 2008 to HK\$23,868 million as surplus cash generated from our businesses was applied to repayment of loans.

Creditors and accrued charges increased from HK\$5,334 million to HK\$20,497 million, attributable to the un-utilised portion of the Government funding support for the West Island Line and the deposits received from the sale of property development units at Le Prestige.

Amounts due to the Government and a related party increased from HK\$882 million in 2008 to HK\$923 million as at 31 December 2009 mainly due to interest accrued on the costs of property enabling works reimbursable to KCRC.

Loan from minority shareholders of a subsidiary at the end of 2009 of HK\$136 million represented the portion of shareholders' loan provided to MTM by the 40% minority shareholders of MTM.

Deferred income increased from HK\$156 million in 2008 to HK\$167 million as at 31 December 2009, comprising HK\$124 million relating to property development and HK\$43 million relating to the telecommunication business.

Current tax liabilities decreased from HK\$450 million to HK\$430 million as at 31 December 2009. Deferred tax liabilities increased from HK\$12,220 million in 2008 to HK\$12,804 million mainly due to deferred tax provision on investment property revaluation.

Share capital, share premium and capital reserve increased by HK\$1,378 million to HK\$42,497 million at the end of 2009. Together with the increases in retained earnings net of dividends paid, fixed assets revaluation reserve and other reserves, total equity attributable to shareholders of the Company increased by HK\$8,586 million to HK\$106,387 million as at 31 December 2009. Including obligations under the service concession and loan from minority shareholders of a subsidiary as components of debt, the Group's net debt-to-equity ratio decreased from 42.1% at 2008 year end to 25.8% at 2009 year end.

### Cash Flow

Net cash inflow from railway and related activities after tax payments decreased by 9.1% to HK\$8,107 million due to higher tax paid following the full-utilisation of cumulative tax losses in 2008. During the year, substantial amounts of cash in respect of property developments were received, including HK\$11,784 million from property purchasers coupled with HK\$2,000 million of scheduled loan repayment from the developer of LOHAS Park Package Two. Including net proceeds from sales of investment in securities, dividend income, net cash receipts in respect of investments in non-controlled subsidiaries and associates as well as proceeds from disposal of fixed assets, total cash inflow for 2009 was HK\$22,344 million.

Cash outflows for capital projects and property developments were HK\$5,391 million, principally for the purchase of railway operational assets and railway extension projects in Hong Kong, construction of SZL4 as well as property renovation and development projects. After settlement of fixed annual payment on service concession, equity injection to the associates for Shenyang Metro Lines 1 and 2 and the Stockholm rolling stock maintenance company, interest and dividend payments as well as change in working capital, a net cash inflow of HK\$13,654 million was generated before loan repayment and borrowings. After a net loan repayment of HK\$7,294 million, cash balance of the Group increased by HK\$6,360 million to HK\$7,094 million as at 31 December 2009.

### Financing Activities

#### New Financings

Corporate borrowing activities in Hong Kong were slow in the first half of the year with credits being extended mostly to top-rated borrowers as major banks remained cautious. As economic conditions continued to improve, loan and debt issuance volume grew significantly in the second half.

Throughout the year, the Group remained in a very strong liquidity position, enjoying significant operating cash surplus from operations and property development activities. With strong cash flows and substantial committed undrawn banking facilities, we did not undertake any significant debt issuance during the year, with the HK\$500 million 5-year fixed rate medium term note issued earlier in the year being our only debt issuance in 2009.

In the Mainland of China, following the signing of the Concession Agreement for SZL4, the Group in May formally concluded a RMB4.0 billion financing agreement for the project that comprises a RMB3.6 billion 20-year term loan and other facilities.

### Cost of Borrowing

The Group's average borrowing cost for 2009 fell to 3.7% from 4.8% in 2008. Net interest expense charged to the Profit and Loss Account, after interest capitalised of HK\$139 million, fell to HK\$1,504 million in 2009 from HK\$1,998 million in 2008 due to reduced borrowings and lower interest rates.

### Treasury Risk Management

The Group's well established Preferred Financing Model (the "Model") is an integral part of these risk management policies. The Model specifies the preferred mix of fixed and floating rate debts, sources of funds from capital and loan markets, and debt maturity profile as well as a permitted level of foreign currency debts and an adequate length of financing horizon for coverage of forward funding requirements, against which the Group's financing related liquidity, interest rate and currency risk exposures are measured, monitored and controlled. During 2009, in accordance with the Model, the Group maintained a well diversified debt portfolio with adequate forward coverage of funding requirements.

The use of derivative financial instruments to control and hedge against interest rate and foreign exchange risk exposures forms an integral part of the Group's risk management strategy. All of the derivative instruments used by the Group are over-the-counter derivatives comprising principally interest rate swaps, cross currency swaps and foreign exchange forward contracts.

To control and diversify counterparty risks, the Group limits its exposure to credit risk by placing deposits and transacting derivative financial instruments only with financial institutions with acceptable investment grade credit ratings.

All derivative financial instruments are subject to a maximum counterparty limit based on the respective counterparty's credit ratings in accordance with policy approved by the Board. Credit exposure in terms of estimated fair market value of and largest potential loss arising from these instruments based on the "value-at-risk" concept is measured, monitored and controlled against their respective counterparty limits.

The Group adopts a prudent approach to managing liquidity risk, and will maintain sufficient cash balance and undrawn committed banking facilities to provide forward coverage of at least 6 to 15 months of all projected cash requirements, including debt repayments and capital expenditures, as specified by the Model. The Group also conducts stress testing of its projected cash flow to analyse liquidity risk, and would arrange additional banking facilities or debt issuance or otherwise take appropriate actions if necessary should such stress tests reveal significant risk of material cash flow shortfall.

### Credit Ratings

The Company was the first Hong Kong corporate entity to obtain internationally recognised credit ratings and has since maintained strong investment grade ratings on a par with the Hong Kong SAR Government, reflecting its strong financial position and support from the Government.

In June, Standard & Poor's placed the Company's AA+ long-term corporate and issue ratings on CreditWatch upon announcement of a revised methodology for rating government-related entities. In October, after further analysis, our AA+ ratings were affirmed by the agency with a stable outlook, which is the same as the Hong Kong SAR Government sovereign ratings.

In November, Moody's upgraded their outlook on the Company's Aa2 foreign currency issuer and senior unsecured debt ratings to positive from stable, following a similar decision to change the outlook on Hong Kong SAR Government's Aa2 sovereign bond ratings to positive.

Rating & Investment Inc. of Japan maintained the Company's issuer rating at AA+ and short-term debts rating at a + 1+, with a stable outlook.

### Financing Capacity

The Group's capital expenditure programme consists mainly of three parts – railway projects in Hong Kong, property investment and development in Hong Kong, and investments outside of Hong Kong.

Capital expenditure for railway projects in Hong Kong comprises mainly investment in and expenditures relating to new railway

projects, including ownership projects such as the West Island Line, South Island Line (East) and the Kwun Tong Line Extension, as well as outlays for maintaining and upgrading the existing rail lines. Concession projects such as the Shatin to Central Link and Express Rail Link will be fully funded by the Government.

Capital expenditure for property investment and development comprises mainly investments in shopping centres, including renovation works, investments for property development such as part payment of land premiums and payment for infrastructure and enabling works. Expenditure for investments outside of Hong Kong consists primarily of capital expenditure for SZL4 and equity injection for Hangzhou Metro Line 1.

Based on current programmes and before netting off the Government funding support for the West Island Line, total net capital expenditures for the next three years of 2010, 2011 and 2012 are estimated at HK\$32.5 billion for railway projects in Hong Kong, HK\$8.2 billion for property investment and development in Hong Kong, and HK\$6.8 billion for investments outside of Hong Kong, totalling HK\$47.5 billion. Out of this total, an estimated amount of HK\$17.6 billion is expected to be incurred in 2010, HK\$16.5 billion in 2011, and HK\$13.4 billion in 2012.

With forward financing coverage extending to the second half of 2012, it is estimated that funding for capital expenditures estimated for 2010, 2011 and most of 2012 as well as for debt refinancing during the period would be adequately covered by the Group's existing cash surplus and undrawn committed facilities as well as future projected cash flows and the Government's funding support for the West Island Line.

	2009	2008	2007 <sup>†</sup>	2006	2005	2004	2003	2002	2001	2000
<b>Financial</b>										
<b>Profit and Loss Account (HK\$ million)</b>										
Turnover	18,797	17,628	10,690	9,541	9,153	8,351	7,594	7,686	7,592	7,577
Operating profit before depreciation and amortisation	13,056	13,995	14,216	11,018	11,246	9,097	9,116	7,769	7,301	7,290
Depreciation and amortisation	2,979	2,930	2,739	2,674	2,682	2,499	2,402	2,470	2,178	2,091
Interest and finance charges	1,504	1,998	1,316	1,398	1,361	1,450	1,539	1,125	874	1,143
Change in fair value (net of deferred tax) on investment properties	2,336	99	6,609	1,797	2,310	2,051	–	–	–	–
Profit	9,639	8,280	15,182	7,758	8,463	6,543	4,450	3,579	4,278	4,069
Profit from underlying businesses attributable to equity shareholders <sup>†</sup>	7,303	8,185	8,571	5,962	6,140	4,492	4,450	3,579	4,278	4,069
Dividend proposed and declared	2,977	2,715	2,522	2,328	2,299	2,259	2,215	2,161	2,118	500
Earnings per share (HK\$)	1.69	1.47	2.72	1.41	1.55	1.23	0.85	0.70	0.85	0.81
<b>Balance Sheet (HK\$ million)</b>										
Total assets	176,494	159,338	155,668	120,421	113,666	106,674	102,366	101,119	98,126	92,565
Loans, other obligations and bank overdrafts	23,868	31,289	34,050	28,152	28,264	30,378	32,025	33,508	31,385	27,203
Obligations under service concession	10,625	10,656	10,685	–	–	–	–	–	–	–
Deferred income	167	156	515	1,682	3,584	4,638	5,061	6,226	8,411	10,403
Total equity attributable to equity shareholders	106,387	97,801	91,014	76,767	69,875	61,892	57,292	53,574	53,893	50,355
<b>Financial Ratios</b>										
Operating margin (%)	50.6	52.9	55.3	54.5	55.7	54.2	49.3	52.2	53.4	51.7
Operating margin (excluding railway franchises outside of Hong Kong) (%)	53.5	52.9	55.3	54.5	55.7	54.2	49.3	52.2	53.4	51.7
Non-fare revenue as a percentage of turnover (excluding railway franchises outside of Hong Kong) (%)	35.2	35.0	33.4	31.6	31.4	29.0	27.7	25.6	24.6	24.6
Net debt-to-equity ratio (%)	25.8	42.1	48.5	36.3	39.9	48.6	55.2	59.3	57.8	53.7
Net debt-to-equity ratio (excluding revaluation reserves) (%)	26.1	42.5	49.2	36.7	40.3	48.9	62.6	67.4	66.0	61.8
Interest cover (times)	7.1	6.0	9.0	6.7	7.6	6.1	5.6	4.5	3.8	3.8
<b>Employees</b>										
Corporate management and support departments	1,319	1,235	1,530	823	810	792	793	824	870	911
Station commercial and rail related businesses	294	293	305	82	82	67	61	62	60	55
Operations	8,632	8,540	8,770	4,521	4,600	4,669	4,730	4,836	4,756	4,943
Projects	1,365	995	942	260	242	362	398	546	973	898
Property and other businesses	1,242	1,170	1,141	832	688	660	642	618	567	519
China and international businesses	239	197	135	112	83	–	–	–	–	–
Offshore employees	7,059	1,646	1,311	733	486	5	5	5	5	6
Total	20,150	14,076	14,134	7,363	6,991	6,555	6,629	6,891	7,231	7,332

<sup>†</sup> Excluding change in fair value of investment properties net of related deferred tax

	2009	2008	2007 <sup>#</sup>	2006	2005	2004	2003	2002	2001	2000
<b>Hong Kong Passenger Services</b>										
<b>Revenue car km operated (thousand)</b>										
Domestic and Cross-boundary services	247,930	245,856	128,041	115,784	114,449	114,364	112,823	103,318	96,751	92,199
Airport Express	19,643	19,891	19,956	20,077	17,122	16,081	15,227	19,467	19,458	19,557
Light Rail	8,950	8,984	755	–	–	–	–	–	–	–
<b>Total number of passengers (thousand)</b>										
Domestic Service	1,218,796	1,205,448	915,755	866,754	857,954	833,550	770,419	777,210	758,421	767,416
Cross-boundary Service	94,016	93,401	8,243	–	–	–	–	–	–	–
Airport Express	9,869	10,601	10,175	9,576	8,493	8,015	6,849	8,457	9,022	10,349
Light Rail	143,489	137,730	11,100	–	–	–	–	–	–	–
Bus	37,522	34,736	2,757	–	–	–	–	–	–	–
Intercity	2,921	3,220	285	–	–	–	–	–	–	–
<b>Average number of passengers (thousand)</b>										
Domestic Service – weekday average	3,544	3,514	2,662 <sup>§</sup>	2,523	2,497	2,403	2,240	2,261	2,231	2,240
Cross-boundary Service – daily average	258	255	– <sup>@</sup>	–	–	–	–	–	–	–
Airport Express – daily average	27	29	28	26	23	22	19	23	25	28
Light Rail – weekday average	402	385	– <sup>@</sup>	–	–	–	–	–	–	–
Bus – weekday average	107	99	– <sup>@</sup>	–	–	–	–	–	–	–
Intercity – daily average	8	9	– <sup>@</sup>	–	–	–	–	–	–	–
<b>Average passenger km travelled</b>										
Domestic and Cross-boundary services	10.7	10.4	7.9	7.7	7.6	7.7	7.7	7.6	7.4	7.3
Airport Express	29.5	29.4	29.5	29.7	30.4	30.2	29.7	29.9	29.8	29.7
Light Rail	2.9	3.0	3.0	–	–	–	–	–	–	–
Bus	4.6	4.6	4.6	–	–	–	–	–	–	–
<b>Average car occupancy (number of passengers)</b>										
Domestic and Cross-boundary services	57	55	58	58	57	56	53	57	58	61
Airport Express	15	16	15	14	15	15	13	13	14	16
Light Rail	46	46	45	–	–	–	–	–	–	–
<b>Proportion of franchised public transport boardings (%)</b>										
	42.6	42.0	26.7	25.0	25.2	24.8	24.3	23.5	23.5	24.1
<b>HK\$ per car km operated (all services)</b>										
Fare revenue	40.2	40.3	47.6	48.0	47.7	45.5	42.9	46.6	49.3	51.1
Operating costs	21.1	21.0	21.5	22.1	22.8	22.3	22.5	22.8	24.6	26.8
Operating profit	19.1	19.3	26.1	25.9	24.9	23.2	20.4	23.8	24.7	24.3
<b>HK\$ per passenger carried (all services)</b>										
Fare revenue	7.63	7.72	7.50	7.44	7.25	7.05	7.06	7.28	7.46	7.35
Operating costs	4.01	4.02	3.39	3.43	3.47	3.45	3.70	3.57	3.72	3.85
Operating profit	3.62	3.70	4.11	4.01	3.78	3.60	3.36	3.71	3.74	3.50
<b>Safety Performance</b>										
<b>Domestic service, Cross-boundary service and Airport Express</b>										
Number of reportable events <sup>^</sup>	1,539	1,514	989	826	748	701	641	690	686	748
Reportable events per million passengers carried <sup>^</sup>	1.16	1.16	1.05	0.94	0.86	0.83	0.82	0.88	0.89	0.96
Number of staff and contractors' staff accidents	60	42	26	23	31	25	33	24	39	36
<b>Light Rail</b>										
Number of reportable events <sup>^</sup>	146	136	6	–	–	–	–	–	–	–
Reportable events per million passengers carried <sup>^</sup>	1.02	0.99	0.54	–	–	–	–	–	–	–
Number of staff and contractors' staff accidents	11	5	0	–	–	–	–	–	–	–

# After the Rail Merger on 2 December 2007, our Domestic Service comprised Kwun Tong Line, Tsuen Wan Line, Island Line, Tung Chung Line, Tseung Kwan O Line, Disneyland Resort Line, as well as East Rail Line excluding Cross-boundary Service, West Rail Line and Ma On Shan Line (which we gained after the Rail Merger). Also after the Rail Merger we gained new passenger services for Cross-boundary Service, Light Rail, Bus and Intercity.

§ The figure includes one month's post-merger passenger numbers of East Rail Line excluding Cross-boundary, West Rail Line and Ma On Shan Line. For the full year of 2007 including pre-merger operations, comparable combined passenger for Domestic Service (as adjusted for interchange passengers) would have been 3,364,000.

@ No figure is shown as there was only one month's post-merger passenger numbers. For the full year of 2007 including pre-merger operations, passenger numbers of the services were 252,000 for Cross-boundary Service, 377,000 for Light Rail, 92,000 for Bus and 9,000 for Intercity.

<sup>^</sup> Reportable events are occurrences affecting railway premises, plant and equipment, or directly affecting persons (with or without injuries), that are reportable to the Secretary for Transport and Housing, Government of the Hong Kong SAR under the Mass Transit Railway Regulations, ranging from suicides/attempted suicides, trespassing onto tracks, to accidents on escalators, lifts and moving paths.

The Company has established an Enterprise Risk Management (“ERM”) framework for the strategic management of business risks to ensure the continued and long term success of the Company.

**The ERM Framework**

The framework covers all key business areas of the Company and provides a useful forum for communicating risk issues at different levels of the organisation and thereby promotes and improves awareness and understanding of risk. Structured cross-discipline processes and organisations are in place at corporate and divisional levels for risk identification, assessment, mitigation and monitoring. A standard risk rating system is employed across the Company to prioritise risks for mitigation, effective monitoring and reporting. A risk will be rated (E1 to E4) according to the combination of its likelihood of occurrence and consequence on financial, safety, business operational performance, legal/regulatory and/or political/reputational aspects. The ERM Manual that governs the working of the ERM framework has been regularly enhanced, and regular briefing sessions are conducted to invigorate and ensure consistent understanding of ERM.



The operation of the ERM framework, which is overseen by the Enterprise Risk Committee (“ERC”), is underpinned by line management taking direct risk management responsibilities as risk owners. There are approximately 150 risk owners within the 19 business units monitoring around 700 identified risks.

**Systematic Risk Assessment and Reporting**

Changes to existing and emerging risks are regularly reviewed by line management. The ERC reviews the operation of the ERM framework and key business risks every three months. The risk reviews cover changes in business environments, the key internal and external risks facing the Company, and the risk perspectives of the Executive Committee, business managers and outside stakeholders. The ERC promotes a proactive risk culture by

learning from risk events and failures. The ERC is also supported by risk co-ordinators from different divisions and departments who have been appointed to review risks and processes and share lessons throughout the organisation.



Risk assessment is part of the Company’s everyday management processes. Risks associated with major changes and new businesses such as local and overseas railway construction, investment and consultancy projects are assessed at key stages and project milestones to support decision making. The Enterprise Risk Management Department plays a central role in facilitating risk assessments and reviewing existing and emerging business risks.

The Executive Committee reviews key enterprise risks and “hot spots” half-yearly and the Board annually to ensure that such risks are under satisfactory control. The Audit Committee also reviews annually the implementation of the ERM framework and the organisation and processes that have been put in place to support it.

**Continuous Improvement**

The ERM framework has been in operation since early 2006 and its application has been enhanced through annual reviews of the framework, user feedback surveys every two years and experience sharing with leading UK ERM-practising companies and major Hong Kong companies. The Company commissioned the first external review of the ERM framework in 2009 by a renowned global company based in the UK. The review revealed that the Company has a strong culture of risk management and is positioning ERM as one of its competitive advantages. Some potential improvement opportunities were also indentified, which are under further evaluation.

## Corporate Governance Practices

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

As at 31 December 2009, the Company has *fully* complied with the Code provisions.

During the year ended 31 December 2009, the Company has complied with the Code provisions except as described below. Regarding the Code provision A.4.1 which requires non-executive directors to be appointed for a specific term subject to re-election, the Company already reported in the 2008 Annual Report that as there were nine Directors (i.e. excluding those appointed pursuant to Section 8 of The Mass Transit Railway Ordinance (Chapter 556 of the Laws of Hong Kong) ("MTR Ordinance")) subject to retirement by rotation and one-third of them should retire at each annual general meeting of the Company (subject to re-election by the shareholders) in accordance with Articles 87 and 88 of the Company's Articles of Association ("Articles of Association"), each of these Directors was effectively appointed for a term of approximately three years.

In 2009 and to further enhance good corporate governance practices, in the light of Code provision A.4.1, the Company entered into a service contract with each of the non-executive Directors (including Dr. Raymond Ch'ien Kuo-fung (non-executive Chairman) and Professor Chan Ka-keung, Ceajer (Secretary for Financial Services and the Treasury of the Government of The Hong Kong Special Administrative Region of the People's Republic of China ("HKSAR"))) (save for those appointed pursuant to Section 8 mentioned above) specifying the terms of his/her continuous appointment as a non-executive Director and a Member of the relevant Board Committees, for a period not exceeding three years.

## The Board of Directors

The overall management of the Company's business is vested in the Board. Pursuant to the Articles of Association and the Protocol adopted by the Board, the Board has delegated the day-to-day management of the Company's business to the Executive 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, 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 whom six are independent non-executive Directors. In this regard, the Company *well exceeds* the requirement of the Listing Rules which requires every board of directors of a listed issuer to have at least three independent non-executive directors.

Dr. Raymond Ch'ien Kuo-fung, a Member of the Board since 1998, was re-appointed by the Government of the HKSAR in November 2009 as the non-executive Chairman of the Company with effect from December 2009 until December 2012. 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 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 (Ordinance No. 11 of 2007), whichever was the earlier. The Rail Merger Ordinance relates to the Rail Merger between the Company and KCRC. On 8 August 2007, Dr. Ch'ien was re-appointed by the Government of the HKSAR as the non-executive Chairman for a term of 24 months with effect from the Rail Merger, which took effect from 2 December 2007.

Mr. Chow Chung-kong, a Member of the Board and the Chief Executive Officer since 2003, was re-appointed as the Chief Executive Officer of the Company with effect from 1 December 2009 to 31 December 2011. 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. He was also appointed as a Member of the Board on the same date. His contract as the Chief Executive Officer was renewed for a further term of three years with effect from 1 December 2006. On 8 August 2007, Mr. Chow was selected by the Government of the HKSAR as the Chief Executive Officer after the Rail Merger.

Two of the non-executive Directors (being the office of the S for T&H and the office of the Commissioner for Transport ("C for T")) are appointed by the Chief Executive of the HKSAR under Section 8 of the MTR Ordinance. During the year, Ms. Eva Cheng held the post of the S for T&H, and Mr. Alan Wong Chi-kong who was the C for T, was succeeded by Mr. Joseph Lai Yee-tak with effect from 17 August 2009. Another non-executive Director, Professor Chan Ka-keung, Ceajer, 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 76.8% of the issued share capital of the Company.

At the 2009 Annual General Meeting on 4 June 2009 (the "2009 AGM"), Dr. Raymond Ch'ien Kuo-fung and Mr. T. Brian Stevenson retired from office by rotation pursuant to Articles 87 and 88 of the Articles of Association of the Company, and were re-elected as Members of the Board.

With effect from the conclusion of the 2009 AGM, Professor Cheung Yau-kai also retired by rotation pursuant to Articles 87 and 88, and due to personal commitments, he did not offer himself for re-election.

Mr. Vincent Cheng Hoi-chuen, a career banker with extensive international business experience particularly in Asia (Mr. Cheng's biography is set out on page 49), has been appointed as an independent non-executive Director of the Company with effect from 10 July 2009. Also, with effect from the same date, Mr. Cheng has been appointed as a Member of both the Remuneration Committee and the Corporate Responsibility Committee of the Board.

Coming from diverse business and professional backgrounds, the non-executive Directors actively bring their valuable experience to the Board for promoting the best interests of the Company and its shareholders. On the other hand, the independent non-executive Directors contribute to ensuring that the interests of all shareholders of the Company are taken into account by the Board and that relevant issues are subjected to objective and dispassionate consideration by the Board. During the year, the Company has received confirmation from each independent non-executive Director about his/her independence under the Listing Rules, and continues to consider each of them to be independent.

Each Director ensures that he/she can give sufficient time and attention to the affairs of the Company. They are requested to disclose the number and nature of offices held in public companies or organisations and other significant commitments as well as their identity to the Company twice a year. At the January 2009 Board Meeting, Directors had been advised of the increased level of continuous disclosure of information about and by them, together with other matters relating to Directors, in the light of the amendments to the Listing Rules which came into effect on 1 January 2009.

Biographies of the Members of the Board are set out on pages 48 to 50. None of the Members of the Board and the Executive Directorate has any relationship (including financial, business, family or other material or relevant relationships) between each other, although the office of the S for T&H (Ms. Eva Cheng) and the office of the C for T (Mr. Alan Wong Chi-kong up to and including 16 August 2009 and Mr. Joseph Lai Yee-tak with effect from 17 August 2009) were both appointed by the

Chief Executive of the HKSAR, and Professor Chan Ka-keung, Ceajer is the Secretary for Financial Services and the Treasury of the Government of the HKSAR, and Ms. Christine Fang Meng-sang sits on various government advisory committees.

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

Headed by the Chief Executive Officer, the Executive Directorate comprises six other Members. Biographies of the Members of the Executive Directorate are set out on pages 51 to 52.

### **Chairman and Chief Executive Officer**

The posts of Chairman and Chief Executive Officer are distinct and separate (please refer to the respective appointment of Dr. Raymond Ch'ien Kuo-fung as the non-executive Chairman of the Company, and Mr. Chow Chung-kong as the Chief Executive Officer of the Company and a Member of the Board on page 31). 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 that adequate information about the Company's business is provided to the Board on a timely basis, the Chairman also ensures that the non-executive Directors make an effective contribution at Board Meetings. As head of the Executive Directorate and chairman of the Executive Committee (which comprises all other Members of the Executive Directorate, General Manager – Corporate Relations, and General Manager – Marketing & Station Commercial), the Chief Executive Officer is responsible to the Board for managing the business of the Company. Biographies of the Members of the Executive Committee are set out on page 52.

### **Board Proceedings**

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

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

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

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

Matters to be decided at Board Meetings are decided by a majority of votes from Directors allowed to vote.

### **Board Meetings**

The Board held seven Meetings in 2009. In this regard, the Company *exceeds* the requirement of the Code which requires every listed issuer to hold Board Meetings at least four times a year. When matters which might result in conflicts of interest between the Company and Government of the HKSAR who is a substantial shareholder of the Company, were discussed at Board Meetings, the Government-nominated Members of the Board,

i.e. the office of the S for T&H (Ms. Eva Cheng), Professor Chan Ka-keung, Ceajer (the Secretary for Financial Services and the Treasury), and the office of the C for T (Mr. Alan Wong Chi-kong up to and including 16 August 2009 and Mr. Joseph Lai Yee-tak with effect from 17 August 2009) (or their respective alternates) did not attend the relevant parts of the Board Meetings.

During 2009 and in addition to the regular reports on the business performance, examples of other key matters discussed at the Board Meetings included train service, West Island Line, Express Rail Link and Shenzhen Line 4 projects, Melbourne Metropolitan Train Franchise, property development, corporate governance, procurement, pay review and staff relations.

### **Private/Other Board Meetings**

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

A Meeting on 12 May 2009 was with *all* the non-executive Directors without the presence of the Chief Executive Officer and other Members of Executive Directorate. Matters discussed included contract renewal of the Chief Executive Officer. The non-executive Directors endorsed the Remuneration Committee's recommendations as to the salient features of the new employment contract for the Chief Executive Officer. General remuneration issues as well as variable incentive scheme were also discussed and it was decided that the Human Resources Director would be invited to provide a briefing on the variable incentive scheme to the non-executive Directors before the following Board Meeting.

Accordingly and before the commencement of the Board Meeting on 10 July 2009, the Human Resources Director made a presentation on the variable incentive scheme to the majority of the non-executive Directors without the presence of the Chief Executive Officer and other Members of Executive Directorate.

A Meeting was held on 19 October 2009 with *all* the non-executive Directors and the Chief Executive Officer, without the presence of other Members of Executive Directorate to discuss the development and succession planning of senior executives of the Company.

Another Meeting with *all* the non-executive Directors without the presence of the Chief Executive Officer and other Members of Executive Directorate, has been scheduled to be held by the Chairman in April 2010.

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

### ■ Meetings Held in 2009

Directors	Board	Private/ Other Board	Audit Committee	Remuneration Committee (Note 9)	Nominations Committee	Corporate Responsibility Committee	Annual General Meeting
Number of Meetings	7	3	4	4	1	2	1
<b>Non-executive Directors</b>							
Dr. Raymond Ch'ien Kuo-fung ( <i>Chairman</i> )	7/7	3/3			1/1	2/2	1/1
Commissioner for Transport (Alan Wong Chi-kong (up to and including 16 August 2009))	5/5 (Note 3)	2/2	3/3				0/1
(Joseph Lai Yee-tak (with effect from 17 August 2009))	2/2	1/1	1/1				
Secretary for Transport and Housing (Eva Cheng)	7/7 (Note 4)	3/3 (Note 7)			1/1	2/2	0/1
Professor Chan Ka-keung, Ceajer	6/7 (Note 5)	2/3 (Note 8)		4/4 (Note 5)	1/1		1/1 (Note 5)
<b>Independent Non-executive Directors</b>							
Vincent Cheng Hoi-chuen (Note 1)	3/4	1/1		0/1		1/1	
Professor Cheung Yau-kai (Note 2)	3/3	1/1	2/2				0/1
Christine Fang Meng-sang	6/7	3/3			1/1	2/2	1/1
Edward Ho Sing-tin	7/7	3/3		4/4	1/1		1/1
T. Brian Stevenson	7/7	3/3	4/4	4/4			1/1
Ng Leung-sing	6/7	3/3	3/4		1/1		1/1
Abraham Shek Lai-him	6/7 (Note 6)	2/3			1/1	2/2	1/1
<b>Executive Directors</b>							
Chow Chung-kong ( <i>Chief Executive Officer</i> )	7/7	1/1					1/1
Leonard Bryan Turk ( <i>Legal Director &amp; Secretary</i> )						2/2	
Thomas Ho Hang-kwong ( <i>Property Director</i> )						2/2	

#### Notes

- 1 Mr. Vincent Cheng Hoi-chuen was appointed as independent non-executive Director on 10 July 2009.
- 2 Professor Cheung Yau-kai ceased to be independent non-executive Director from the conclusion of the 2009 AGM on 4 June 2009.
- 3 2 Board Meetings were attended by the alternate director of Mr. Alan Wong Chi-kong.
- 4 Each of the 2 Board Meetings was attended by an alternate director of Ms. Eva Cheng.
- 5 5 Board Meetings, 1 Remuneration Committee Meeting and the Annual General Meeting were attended by an alternate director of Professor Chan Ka-keung, Ceajer.
- 6 1 Board Meeting attended by Mr. Abraham Shek Lai-him was by teleconference.
- 7 1 out of the 3 Private/Other Board Meetings was attended by an alternate director of Ms. Eva Cheng.
- 8 1 out of the 2 Private/Other Board Meetings was attended by an alternate director of Professor Chan Ka-keung, Ceajer.
- 9 1 Remuneration Committee Meeting was conducted by teleconference.

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

### Material Interests and Voting

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

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

### Government's Representatives on the Board

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

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

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

If a conflict arises between the interests of the Company and those of the Government of the HKSAR, a Director appointed by the Chief Executive of the HKSAR pursuant to Section 8 of the MTR Ordinance or by the Government of the HKSAR through its shareholding, would not be included in the quorum of part

of a Meeting that relates to the transaction, arrangement or other proposal being considered by the Board and would not be allowed to vote on the related resolution.

Please refer to pages 32 and 33 regarding the Board proceedings in 2009.

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

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

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

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

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

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.

In 2009 and to further enhance good corporate governance practices, the Company entered into a service contract with each of the non-executive Directors (including Dr. Raymond Ch'ien Kuo-fung (non-executive Chairman) and Professor Chan Ka-keung, Ceajer (Secretary for Financial Services and the Treasury of the Government of the HKSAR)) (save for the "additional directors") specifying the terms of his/her continuous appointment as a non-executive Director and a Member of the relevant Board Committees, for a period not exceeding three years.

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

To assist their continuous professional development, the Legal Director & Secretary recommends Directors to attend relevant seminars and courses. The costs for such training are borne by the Company.

### **Accountability**

The Members of the Board are responsible for preparing the accounts of the Company and of the Group. The accounts are prepared on a going concern basis and give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2009, and of the Group's profit and cash flow for the year then ended. In preparing the accounts for the year ended 31 December 2009, the Members of the Board have selected appropriate accounting policies and, apart from those new and amended accounting policies as disclosed in the notes to the accounts for the year ended 31 December 2009, have applied them consistently with previous financial periods. Judgments and estimates have been made that are prudent and reasonable. The reporting responsibilities of the External Auditor are set out on page 79.

In support of the above, the accounts presented to the Board have been reviewed by the Members of the Executive Directorate. For both the annual and interim reports and

accounts, the Finance Division is responsible for clearing them with the External Auditor and then the Audit Committee. In addition, all new and amended accounting standards and requirements, as well as changes in accounting policies adopted by the Company have been discussed and approved at the Audit Committee before adoption by the Company.

### **Board Committees**

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

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

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

### **Audit Committee**

The Audit Committee consists of four non-executive Directors, three of whom are independent non-executive Directors. The Members of the Committee are Mr. T. Brian Stevenson (chairman), Mr. Ng Leung-sing, the C for T (Mr. Joseph Lai Yee-tak succeeded Mr. Alan Wong Chi-kong with effect from 17 August 2009), and Mr. Abraham Shek Lai-him (effective from 1 February 2010). Professor Cheung Yau-kai served the Committee up to the conclusion of the 2009 AGM (please refer to page 32). Mr. Stevenson, Mr. Ng and Mr. Shek are also independent non-executive Directors. None of the Committee Members is a partner or former partner of KPMG, the Company's External Auditor. The Finance & Business Development Director, the Head of Internal Audit and representatives of the External Auditor of the Company are expected to attend Meetings of the Committee. At the discretion of the Committee, others may also be invited to attend Meetings. The Committee meets regularly, and the External Auditor or the Finance & Business Development Director may request a Meeting if they consider it necessary.

The Terms of Reference of the Audit Committee were revised and approved by the Board in January 2009 in the light of the amendments to the Listing Rules which became effective on 1 January 2009, to reflect the new oversight role of the Audit Committee in the review of the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget, as well as the removal of the requirement for a qualified accountant.

Further, the Terms of Reference were revised and approved by the Board in March 2009 to permit the Secretary of the Committee shall either be the Company Secretary of the Company or his designate.

The updated Terms of Reference are available on the Company's website.

#### **Duties of Audit Committee**

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

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

The Committee is required to review, at least annually, the effectiveness of the Company's financial controls, internal control and risk management systems and to report to the Board that such a review has been carried out. These controls and systems allow the Board to monitor the Company's overall financial position and to protect its assets. In the light of the changes of the Terms of Reference pursuant to the Listing Rules amendments as mentioned above, the Committee's review for 2009 had made specific reference to its role in overseeing the Management's review of the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget. (Please refer to the section headed "Internal Controls" below.) The Committee reviews and approves the annual Internal Audit Plan which includes audits on the efficiency of chosen activities or operations of the Company. In addition, the Committee reviews periodic reports from the Head of Internal Audit and the follow-up of major action plans recommended, and puts forward recommendations to the Board where appropriate.

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

The minutes of the Audit Committee Meetings are prepared by the secretary of the meeting with details of the matters considered by the Committee Members and decisions reached, including any concerns raised by the Committee Members and dissenting views expressed. The draft minutes are circulated to the Committee Members for comments and the final version of the minutes is sent to the Committee Members for their records within a reasonable time after the Meeting and the minutes are open for inspection by the Committee Members at the Company's registered office. A framework of the agenda items for the Meetings for the following year is usually set out for the Committee Members' reference and comment in the last quarter of each year. The chairman of the Committee makes the final determination on the agenda for the regular Committee Meetings.

#### **Work Performed by Audit Committee**

In 2009, the Audit Committee held four Meetings and, based on the Agenda Framework pre-agreed with the chairman of the Committee, a total of four Meetings had been scheduled for 2010. The attendance record of each Audit Committee Member is set out on page 34 under the section "Board Proceedings". The major work performed by the Committee in 2009 included:

- Review of and recommendation for the Board's approval the draft 2008 Annual Report and Accounts and 2009 Interim Report and Accounts;
- Approval of the 2010 Internal Audit Plan;
- Pre-approval of the audit and non-audit services provided by KPMG, the External Auditor, for 2009;
- Approval of the remuneration and terms of engagement of KPMG for the 2009 audit;
- Preview of 2009 annual accounting issues;
- Review of the effectiveness of the Company's internal control systems;
- Review of the effectiveness of the Internal Audit Department;
- Review of a report on staff complaints;
- Review of enterprise risk management;
- Review of the outstanding litigation and compliance with statutes and regulations relevant to the business of the Company;
- Review of the revised Terms of Reference in the light of the amendments to the Listing Rules effective from 1 January 2009, and to permit the Secretary of the Committee to be either the Company Secretary of the Company or his designate (Please refer to page 37); and
- Review of the Company's processes and structures put in place to control and monitor its exposures in the Mainland of China and overseas investments.

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

### Remuneration Committee

The Remuneration Committee consists of four non-executive Directors, three of whom are independent non-executive Directors. The Members of the Remuneration Committee are Mr. Edward Ho Sing-tin (chairman), Mr. T. Brian Stevenson, Mr. Vincent Cheng Hoi-chuen (effective from 10 July 2009) and Professor Chan Ka-keung, Ceajer. Mr. Ho, Mr. Stevenson and Mr. Cheng are independent non-executive Directors.

In the light of the appointment of Mr. Cheng as a Member of the Remuneration Committee, the Terms of Reference of the Committee were revised and approved by the Board in July 2009, such that the Committee shall consist of *at least* three Members with a *majority* of them being independent non-executive Directors, and that the quorum necessary for the transaction of the business of the Committee shall be *three* non-executive Directors of the Committee, provided that a *majority* of them shall be independent non-executive Directors. The updated Terms of Reference are available on the Company's website.

### Duties of Remuneration Committee

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

### Work Performed by Remuneration Committee

In 2009, the Remuneration Committee held four Meetings. The attendance record of each Committee Member is set out on page 34 under the section "Board Proceedings". In accordance with its Terms of Reference, the Committee performed the following work during the year:

- Approved the 2008 Remuneration Report as incorporated in the 2008 Annual Report;
- Reviewed and approved payouts under the Company's performance-based variable incentive scheme for the 2008 performance period;
- Reviewed and approved the remuneration package for the Chief Executive Officer under his renewed contract;
- Conducted an annual review of the remuneration packages for the Chief Executive Officer and other Members of the Executive Directorate, which took effect in July 2009;
- Reviewed the revised Terms of Reference of the Remuneration Committee following the appointment of Mr. Cheng as a Member of the Committee;
- Reviewed and approved share options awards for Members of the Executive Directorate and other eligible employees; and
- Reviewed and approved the remuneration package for Mr. Chew Tai Chong, the new Projects Director.

The Remuneration Committee also met on 4 March 2010 to approve the 2009 Remuneration Report, which is set out on pages 45 to 47 and includes a description of the remuneration policy of the Company.

### **Nominations Committee**

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

The Terms of Reference of the Committee were revised and approved by the Board in March 2009 to permit the Secretary of the Committee shall either be the Company Secretary of the Company or his designate. Further revisions were made and approved by the Board in May and December 2009 to change the quorum necessary for the transaction of the Committee's business to *five* (instead of all) Members, provided that at least one Member shall be a non-executive Director representing the Government of the HKSAR and that the majority of them shall be independent non-executive Directors.

### **Duties of Nominations Committee**

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

### **Work Performed by Nominations Committee**

In 2009, the Nominations Committee held one Meeting. Attended by all Members of the Committee at the Meeting on 22 June 2009 and after discussion, the Committee agreed to recommend to the Board the appointment of Mr. Vincent Cheng Hoi-chuen, a career banker with extensive international business experience particularly in Asia (Mr. Cheng's biography is set out on page 49), as a Member of the Board, and as a Member of the Remuneration Committee and the Corporate Responsibility Committee respectively, all to take effect from 10 July 2009. Mr. Cheng was invited to join part of the Meeting and share views with the Members. This took place prior to the Committee reaching the recommendation decision. The appointment was approved by the Board on 10 July 2009.

Attendance record of each Committee Member is shown on page 34 under the section "Board Proceedings".

On 1 April 2009 and amongst other things, all Members approved a Written Resolution to note the following:

- the retirement of Dr. Raymond Ch'ien Kuo-fung, Professor Cheung Yau-kai and Mr. T. Brian Stevenson from the office by rotation pursuant to the Articles of Association of the Company;
- Professor Cheung would not offer himself for re-election; and
- Dr. Ch'ien and Mr. Stevenson would offer themselves for re-election, at the 2009 AGM.

In view of the practical difficulty in convening Meetings of the Committee (this was due to the then Terms of Reference of the Committee required presence of *all* (i.e. seven) Members for constituting a quorum), the Written Resolution further agreed for the Company Secretary to take steps to amend the quorum to five Members provided that at least one Member shall be a non-executive Director representing the Government of the HKSAR and that the majority of them shall be independent non-executive Directors. The revised Terms of Reference was approved by the Board to take effect on 22 September 2009.

### **Corporate Responsibility Committee**

The Corporate Responsibility Committee consists of five non-executive Directors (three of whom are independent non-executive Directors) and two Members of the Executive Directorate. The Chairman of the Company is the chairman of the Committee. Current Members of the Committee are Dr. Raymond Ch'ien Kuo-fung (Chairman), S for T&H (Ms. Eva Cheng), Ms. Christine Fang Meng-sang, Mr. Abraham Shek Lai-him, Mr. Vincent Cheng Hoi-chuen (with effect from 10 July 2009), Mr. Leonard Bryan Turk (Legal Director & Secretary) and Mr. Thomas Ho Hang-kwong (Property Director). Ms. Fang, Mr. Shek and Mr. Cheng are independent non-executive Directors.

### **Duties of Corporate Responsibility Committee**

The duties of the Committee are to recommend a corporate responsibility policy to the Board for approval, monitor and oversee the implementation of the Company's corporate responsibility policy and initiatives, identify emerging corporate responsibility issues arising from external trends, review annual Sustainability Report and recommend endorsement by the Board, and provide updates to the Board as required.

**Work Performed by Corporate Responsibility Committee**

In 2009, the Corporate Responsibility Committee held two Meetings. The attendance record of each Committee Member is set out on page 34 under the section "Board Proceedings". The major work performed by the Committee in 2009 included:

- Review of and recommendation for the Board's approval the draft Corporate Responsibility Policy;
- Review of the implementation of the Company's community and staff engagement programmes;
- Review of the sustainability development and environmental management of the Company; and
- Review of and recommendation for the Board's approval the draft 2008 Sustainability Report.

**Internal Controls**

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

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

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

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

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

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

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

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

**Risk Assessment and Management**

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

More details of the framework and process are given in the section headed Risk Management on page 30.

### Control Activities and Processes

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

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

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

The Internal Audit Department plays a major role, independent of the Company's management, in assessing and monitoring the internal controls of the Company. The Head of Internal Audit reports to the Chief Executive Officer and has direct access to the Audit Committee. The Department has unrestricted access to information that allows it to review all aspects of the Company's risk management, control and governance processes. On a regular basis, it conducts audits on financial, operational and compliance controls, and effectiveness of risk management functions of all business and functional units as well as subsidiaries. Management is responsible for ensuring that control deficiencies highlighted in internal audits are rectified within a reasonable period. The Department produces an annual internal audit plan derived from risk assessment for the Audit Committee's approval. On a half-yearly basis, the Head of Internal Audit reports to the Audit Committee his audit findings and his opinion on the system of internal controls.

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

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

The processes for assessing internal controls by the Audit Committee have included: regular interviews with Members of the Executive Committee in relation to key business operations, internal control and compliance issues, both financial and non-financial; review of significant issues arising from internal audit reports and external audit report, and private sessions with internal and external auditors. The Audit Committee has also reviewed the papers prepared by the Executive Committee and Internal Audit Department covering: 2008 Annual Report and Accounts, Preview of 2009 Annual Accounting issues, 2009 Interim Accounts, 2010 Internal Audit Plan, Internal Audit Department's Half-yearly Reports, Annual Report on Staff Complaints, Report on the Company's Internal Control System, Reporting of Outstanding Litigation and Compliance Issues, Enterprise Risk Management Report 2008 and Evaluation of

Effectiveness of Internal Audit Department. The chairman of the Committee meets on an ad hoc basis with the Head of Internal Audit, representatives of the External Auditor and Management of the Company as appropriate. He summarizes activities of the Committee and highlights issues arising therefrom by a report to the Board after each Audit Committee Meeting.

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

The Board has, through the Audit Committee, conducted the review of the effectiveness of the Company's system of internal controls for the year ended 31 December 2009, covering all material financial, operational and compliance controls, and risk management function, and concluded that adequate and effective internal controls are maintained to safeguard the shareholders' investment and the Company's assets. There were no significant control failings, weaknesses or significant areas of concern identified during the year which might affect shareholders.

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

The Company has developed a system with established policies, processes and procedures across all relevant Division(s) and Department(s) for complying with the disclosure obligations regarding price sensitive information. Further, a taskforce comprising all relevant heads of department reviewed the system in detail and thoroughly went through the checklist from the Stock Exchange to all issuers in late 2008. The recommendation that the Company has an effective system

in dealing with the disclosure obligations was reported to the Executive Committee, and then to the Board of Directors in December 2008. Efforts to enhance the system in the light of the business operation and development of the Company continued in 2009.

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

The Company has adopted the Model Code. After having made specific enquiry, the Company confirms that, save as disclosed in the following paragraph, 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, other nominated managers and staff who, because of their office in the Company, are likely to be in possession of unpublished price sensitive information, have been requested to comply with the provisions of the Model Code. In addition, every employee is bound by the Code of Conduct issued by the Company, amongst other things, to keep unpublished price sensitive information in strict confidence.

As disclosed in the Company's 2008 Annual Report (page 102), and the 2009 Interim Report (page 20), an alternate director has reported in writing to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") that in January 2009, due to an oversight, he and his spouse disposed of an aggregate of 2,084 shares in the Company without having first notified in writing the Chairman of the Company and received a dated written acknowledgement from the Chairman in accordance with the Model Code. The report was made shortly after the dealings. He had also given the Company and the Stock Exchange a written confirmation that he did not possess any unpublished price sensitive information of the Company at the time of the dealings. With a view to ensuring compliance with the Model Code, the Company had reminded him in writing of his obligations under the Model Code.

#### **Business Ethics**

The Company is committed to upholding a high standard of business ethics and integrity. The Company's Code of Conduct and Corporate Guidebook for All Staff are two important tools to help employees understand and follow its requirements on ethical practices. The tools are reviewed and updated every two years to ensure they remain appropriate and in compliance with legislation. With a view to enhancing compliance, the Company has a biennial certification programme which requires all employees to acknowledge their understanding of and agreement to abide by the Code. The Code is available on the Company's website: [www.mtr.com.hk](http://www.mtr.com.hk).

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

### External Auditor

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

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

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

In HK\$ million	2009	2008
Auditor's remuneration		
– audit services	8	7
– tax services	1	1
– other audit related services	2	1
	<b>11</b>	9

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

### Communication with Shareholders

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

The Company's AGM is one of the principal channels of communication with its shareholders. It provides an opportunity for shareholders to communicate face to face with the Directors about the Company's performance and operations. The Chairman of the Company and the chairmen of the Board Committees were present at the 2009 AGM to answer shareholders' questions. The AGM was held on 4 June at Rotunda 3 (6/F), Hongkong International Trade & Exhibition Centre, Kowloon Bay, Hong Kong.

#### Chairman's Statement

The Chairman started the formal business of the AGM by reporting achievement of strong financial results in 2008. He reminded shareholders that 2008 was also the year that the Company delivered on all the promises made to the stakeholders at the time of the Rail Merger in December 2007.

The Chairman then gave an overview of the Company's business performance including the ridership, train service performance, station commercial and rail related businesses, property development, property rental and management, Ngong Ping Cable Car and associated theme village and Octopus Cards.

Regarding the new Hong Kong rail projects, the Chairman gave a brief account of the progress of planning and design for Shatin to Central Link, Express Rail Link, Kwun Tong Line Extension, South Island Line (East) and the West Island Line, as well as the planned opening of LOHAS Park Station (Tseung Kwan O Line) and Kowloon Southern Link in 2009.

For business development outside of Hong Kong, the Chairman highlighted the execution of the Concession Agreement for Shenzhen Metro Line 4 and the Operation & Maintenance Concession Agreement for Shenyang Metro Lines 1 and 2, and the construction progress of Beijing Line 4. The Company's involvement in Europe included the operation of London Overground, and the taking over of Stockholm Metro operation in 2009.

Before turning to the 2009 business, the Chairman recognised the important role of corporate governance, sustainability, corporate responsibility and community involvement, in the continued success of the Company.

Against the background of the global financial turmoil in late 2008 which had impacted Hong Kong, the Chairman reported that Rail business, station retail and property rental businesses were basically not affected, although the Airport Express patronage and other station commercial businesses were facing challenges. On property development, he expected profit booking of Phase 1 of LOHAS Park Package 2 in 2009.

Before closing, the Chairman thanked Professor Cheung who retired as an independent non-executive Director after the AGM for his significant contribution and long service to the Company.

#### **Resolutions passed at the 2009 AGM**

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

A total of nine resolutions were passed at the 2009 AGM (with resolution no. 3 comprising two separate resolutions), each by over 97% of the votes cast at the Meeting. Out of the nine resolutions, there were eight ordinary resolutions and one special resolution (i.e. resolution no. 8). The full text of the resolutions is set out in the AGM Circular (which comprised Notice of the AGM) to shareholders dated 27 April 2009. For the benefit of those shareholders who did not attend the 2009 AGM, below is a succinct summary of the resolutions passed:

- (1) Adoption of the audited Statement of Accounts and the Reports of the Directors and the Auditors of the Company for the year ended 31 December 2008;
- (2) Declaration of a final dividend of HK\$0.34 per share for the year ended 31 December 2008;
- (3) (a) Re-election of Dr. Raymond Ch'ien Kuo-fung as a Member of the Board of Directors of the Company; and  
(b) Re-election of Mr. T. Brian Stevenson as a Member of the Board of Directors of the Company;
- (4) Re-appointment of KPMG as Auditors of the Company and authorisation of the Board of Directors to determine their remuneration;
- (5) Grant of a general mandate to the Board of Directors to allot, issue, grant, distribute and otherwise deal with additional shares in the Company, not exceeding ten per cent. of the Company's issued share capital as at the date of this resolution\*;
- (6) Grant of a general mandate to the Board of Directors to purchase shares in the Company, not exceeding ten per cent. of the Company's issued share capital as at the date of this resolution\*;
- (7) Conditional on the passing of resolutions 5 and 6, authorisation of the Board of Directors to exercise powers to allot, issue, grant, distribute and otherwise deal with additional shares in the Company under resolution 5 in respect of the aggregate nominal amount of share capital in the Company purchased by the Company\*; and
- (8) Amendment to the Articles of Association of the Company to permit the Company to deliver or serve any notice or other document (including any corporate communication) to or on its shareholders by publishing it on a computer network (including the Company's website)\*.

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

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

#### **Extraordinary General Meeting ("EGM")**

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

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

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

This Remuneration Report has been reviewed and approved by the Remuneration Committee of the Company.

## Remuneration Policy

It is the Company's policy to ensure that remuneration is appropriate and aligns with the Company's goals, objectives and performance. To this end, the Company considers a number of relevant factors including salaries paid by comparable companies, job responsibilities, duties and scope, employment conditions elsewhere in the Company and its subsidiaries, market practices, financial and non-financial performance, and desirability of performance-based remuneration.

The Company is committed to effective corporate governance and employing and motivating top quality personnel, and recognises the importance of a formal and transparent remuneration policy covering its Board and Executive Directorate.

The Board has established a Remuneration Committee consisting of four non-executive Directors, three of whom are independent non-executive Directors. It considers and recommends to the Board the Company's remuneration policy and has a delegated authority to review and determine the remuneration packages of the Chief Executive Officer and other Members of the Executive Directorate.

As necessary and with the agreement of the Chairman, the Remuneration Committee is authorised to obtain outside independent professional advice to support the Committee on relevant issues.

A summary of the work performed by the Remuneration Committee during 2009 is set out in the "Corporate Governance Report" on pages 31 to 44.

The Remuneration Committee also ensures that no individual Director or any of his associates is involved in deciding his own remuneration.

### Non-Executive Directors, Chief Executive Officer and the Executive Directorate

The Remuneration Committee makes recommendations to the Board from time to time on the remuneration of the Members of the Board who are non-executive Directors. To ensure that non-executive Directors are appropriately paid for their time and responsibilities devoted to the Company, the Committee considers factors such as fees paid by comparable companies, time commitment, responsibilities of the non-executive Directors, and employment conditions elsewhere in the Company.

The Remuneration Committee is responsible for establishing policies, and reviewing and determining the remuneration of the Members of the Board who are executive Directors (namely, the Chief Executive Officer) and the Executive Directorate in accordance with the Company's remuneration policy. In the case of the Chief Executive Officer, the Committee will consult

with the Chairman and in the case of other Members of the Executive Directorate, the Committee will consult with both the Chairman and the Chief Executive Officer in respect of their recommendations.

### Remuneration Structure for Employees

The Company's remuneration structure for its employees, including the Chief Executive Officer and other Members of the Executive Directorate, comprises fixed compensation, variable incentives, discretionary awards, long-term incentives, and retirement schemes. The specifics of these components are described below.

#### Fixed Compensation

Fixed compensation comprises base salary, allowances and benefits-in-kind (e.g. medical). Base salary and allowances are set and reviewed annually for each position taking into consideration the Company's remuneration policy, competitive market positioning, market practice, as well as the Company's and individuals' performance. Benefits-in-kind are reviewed regularly taking into consideration market practices.

#### Variable Incentives

The Chief Executive Officer, other Members of the Executive Directorate and selected management of the Company are eligible to receive an annual cash incentive under the Company's Variable Incentive Scheme, the rules of which are regularly reviewed by the Remuneration Committee.

Under the current scheme rules, the payouts are based on the performance of the Company and individual performance. The Company's performance is measured by the return on fixed assets and operating profit on an annual and rolling three-year basis, the fulfillment of the Customer Service Pledges, and the Performance Requirements in relation to "Train Service Delivery", "Passenger Journeys on Time" and "Train Punctuality" as defined in Schedule 2, Part 1 of the Operating Agreement. Individual performance ratings are determined for each Member of the Executive Directorate and reflect a thorough annual performance assessment process that is applied throughout the Company. Individual performance rating for the Members of the Executive Directorate is determined by the Chief Executive Officer, and performance for the Chief Executive Officer is determined by the Chairman.

A portion of the target incentive levels under the scheme was originally funded by participants by foregoing their 13th month pay and portions of their fixed allowances. Target incentive levels for the Chief Executive Officer and other Members of the Executive Directorate represent approximately 15-30% of total remuneration. If performance exceeds pre-defined threshold standards, then payouts under the scheme are made annually.

In addition, the Company operates other business-related incentive schemes to motivate the staff concerned to reach specific business targets of the Company.

### Discretionary Awards

In 2009, special discretionary awards were provided to staff with competent or above performance as a recognition of their contribution to the Company's good performance and achievements in the past year and to motivate staff to strive for continuous business growth.

### Long-Term Incentives

The Company operates three share option schemes, namely the Pre-Global Offering Share Option Scheme (the "Pre-IPO Scheme"), the New Joiners Share Option Scheme (the "New Option Scheme") and the 2007 Share Option Scheme (the "2007 Scheme").

The 2007 Scheme was approved and adopted by shareholders at the Company's Annual General Meeting on 7 June 2007. The 2007 Scheme is intended to provide employees of the Company and of its subsidiaries the opportunity to participate in the growth and success of the Company. Awards under this Scheme were granted to the Chief Executive Officer, other Members of the Executive Directorate and selected employees of the Company in 2009.

Options exercised and outstanding in respect of each Member of the Executive Directorate as at 31 December 2009 under the three Schemes are set out under the paragraph "Board Members' and Executive Directorate's Interests in Shares" of the Report of the Members of the Board.

Details of the three Schemes and options granted to Members of the Executive Directorate and selected employees of the Company under the Schemes are set out in note 3 to the summary financial statements.

The Chief Executive Officer does not participate in the Pre-IPO and New Option Schemes. He was entitled to receive an equivalent value in cash of 418,017 Shares on completion of his three-year contract on 30 November 2009. Pursuant to this contract and following the completion of the contract period, HK\$11,289,594.13 was paid to the Chief Executive Officer on 1 December 2009.

The Chief Executive Officer's contract was renewed with effect from 1 December 2009. The Chief Executive Officer is entitled to receive an equivalent value in cash of 222,161 Shares on completion of his current contract on 31 December 2011.

### Retirement Schemes

In Hong Kong, the Company operates five retirement schemes, the MTR Corporation Limited Retirement Scheme (the "MTR Retirement Scheme"), the MTR Corporation Limited Retention Bonus Scheme (the "MTR RBS"), the MTR Corporation Limited Provident Fund Scheme (the "MTR Provident Fund Scheme") and two Mandatory Provident Fund Schemes (the "MTR MPF Scheme" and the "KCRC MPF Scheme") with details as follows:

#### (a) MTR Retirement Scheme

The MTR Retirement Scheme is a registered scheme under the Occupational Retirement Schemes Ordinance (Cap. 426) and has been granted an MPF Exemption so that it can be offered to employees as an alternative to the MTR MPF Scheme.

The MTR Retirement Scheme originally contained both a hybrid benefit section and a defined contribution section. Following the Rail Merger with Kowloon-Canton Railway Corporation ("KCRC"), and with the approval of the scheme's trustees effective 1 March 2008, the defined contribution section of the MTR Retirement Scheme was transferred to the MTR Provident Fund Scheme. Following the transfer, the MTR Retirement Scheme only contains a hybrid benefit section.

The MTR Retirement Scheme currently provides benefits based on the greater of a multiple of final salary times service or the accumulated contributions with investment returns. Members' contributions to the MTR Retirement Scheme are based on fixed percentages of base salary. The Company's contributions are determined by reference to an annual actuarial valuation carried out by an independent actuarial consulting firm.

The hybrid benefit section of the MTR Retirement Scheme has been closed to new employees since 31 March 1999. All employees who joined the Company between 1 April 1999 and 29 February 2008 who would have been eligible to join the MTR Retirement Scheme could choose to join either the defined contribution section of the MTR Retirement Scheme which was subsequently transferred to the MTR Provident Fund Scheme on 1 March 2008 or, from 1 December 2000, the MTR MPF Scheme.

#### (b) MTR RBS

The MTR RBS is a registered scheme under the Occupational Retirement Schemes Ordinance. It is a top-up scheme to supplement the MTR Retirement Scheme for employees who are classified by the Company as staff working on designated projects and who are not on gratuity terms. It provides benefits only in the event of redundancy for service accrued up to 31 December 2002, offset by any benefits payable from the MTR Retirement Scheme (including any benefits transferred to the MTR Provident Fund Scheme from the defined contribution section of the MTR Retirement Scheme). Members are not required to contribute while the Company's contributions are determined by reference to an annual actuarial valuation carried out by an independent actuarial consulting firm.

#### (c) MTR Provident Fund Scheme

The MTR Provident Fund Scheme, in order to reflect its integrated nature, was renamed from the KCRC Retirement Benefit Scheme following its incorporation of the defined contribution section of the MTR Retirement Scheme on 1 March 2008. It contains 3 sections, all of which are defined contribution schemes. One section consists of the members of the KCRC Retirement Benefit Scheme prior to 1 March 2008, one section consists of the members of the defined contribution section of the MTR Retirement Scheme prior to 1 March 2008 and the final section consists of those appointees eligible to join the MTR Provident Fund Scheme on or after 1 March 2008.

The MTR Provident Fund Scheme is a registered scheme under the Occupational Retirement Schemes Ordinance and has been granted an MPF Exemption so that it can be offered to

employees as an alternative to the MPF Scheme. On or after 1 March 2008, employees who are eligible to join the MTR Provident Fund Scheme can choose between the MTR Provident Fund Scheme and the MTR MPF Scheme, except where they were previously members of the KCRC MPF Scheme, whereupon they can choose between the MTR Provident Fund Scheme and the KCRC MPF Scheme. All benefits payable under the MTR Provident Fund Scheme are calculated by reference to the Company's contributions and members' own contributions, together with investment returns on these contributions. Both members' and the Company's contributions are based on fixed percentages of members' base salary.

#### (d) MTR MPF Scheme

The MTR MPF Scheme, which has been registered with the Mandatory Provident Fund Schemes Authority, covers those employees who did not opt for or who are not eligible to join the MTR Retirement Scheme or the MTR Provident Fund Scheme. Both members and the Company each contribute to the MTR MPF Scheme at the mandatory levels as required by the Mandatory Provident Fund Schemes Ordinance ("the MPF Ordinance"). The Company makes additional contributions above the mandatory level for eligible employee members who joined the MTR MPF Scheme before 1 April 2008, subject to individual terms of employment.

#### (e) KCRC MPF Scheme

The KCRC MPF Scheme, which has been registered with the Mandatory Provident Fund Schemes Authority, covers those former KCRC employees who did not opt for or who were not eligible to join the former KCRC Retirement Benefit Scheme, now known as MTR Provident Fund Scheme, and those employees who, on or after 1 March 2008, were previously members of the KCRC MPF scheme and are eligible to join the MTR Provident Fund Scheme but opt to re-join the KCRC MPF Scheme. Both members and the Company each contribute to the KCRC MPF Scheme at the mandatory levels as required by the MPF Ordinance.

The executive Directors who were hired by the Company before 1 April 1999 were eligible to join the hybrid benefit section of the MTR Retirement Scheme.

The executive Directors who were hired on or after 1 April 1999 but prior to 1 March 2008 are eligible to join the defined contribution benefit section of the MTR Retirement Scheme (which since 1 March 2008 has been transferred to the MTR Provident Fund Scheme).

The Chief Executive Officer participates in the MTR MPF Scheme. Both the Company and the Chief Executive Officer each contribute to the MTR MPF Scheme at the mandatory levels as required by the MPF Ordinance.

For subsidiary companies in Hong Kong, Mainland of China, United Kingdom, Sweden and Australia, the Group operates retirement schemes established in accordance with, in the case of subsidiaries in Hong Kong, the MPF Ordinance and, in the case of subsidiaries in Mainland of China and overseas, their respective local regulations.

### Remuneration of Non-Executive and Executive Directors

(i) The total remuneration of the Members of the Board and the Executive Directorate (excluding share-based payments) is shown below and the remuneration details are set out in note 3 to the summary financial statements.

in HK\$ million	2009	2008
Fees	4.0	4.4
Base salaries, allowances and other benefits-in-kind	33.4	36.8
Variable remuneration related to performance	18.8	25.8
Retirement scheme contributions	5.4	2.2
	<b>61.6</b>	69.2

(ii) The gross remuneration of non-executive and executive Directors (excluding share-based payments) were within the following bands:

Remuneration	2009 Number	2008 Number
HK\$0 – HK\$500,000	11	11
HK\$1,000,001 – HK\$1,500,000	1	1
HK\$5,500,001 – HK\$6,000,000	–	1
HK\$6,500,001 – HK\$7,000,000	–	2
HK\$7,000,001 – HK\$7,500,000	6	3
HK\$8,000,001 – HK\$8,500,000	–	1
HK\$13,500,001 – HK\$14,000,000	1	–
HK\$15,000,001 – HK\$15,500,000	–	1
	<b>19</b>	20

The information shown in the above table includes the five highest paid employees. The independent non-executive Directors' emoluments are included in the first remuneration band except the non-executive Chairman, whose emolument is included in the second remuneration band.

Edward Ho Sing-tin, *Chairman, Remuneration Committee*  
MTR Corporation Limited  
Hong Kong, 4 March 2010



From Left to Right: Vincent Cheng Hoi-chuen, Christine Fang Meng-sang, Edward Ho Sing-tin, Ng Leung-sing, Abraham Shek Lai-him, Dr. Raymond Ch'ien Kuo-fung (Chairman)

### Members of the Board

**Dr. Raymond Ch'ien Kuo-fung** 58, was appointed Non-Executive Chairman in July 2003. He has been a member of the Board since 1998. Dr. Ch'ien is chairman of CDC Corporation, as well as chairman and a director respectively of its subsidiaries, China.com Inc. and CDC Software Corporation (listed on NASDAQ effective from 6 August 2009). He is also chairman and independent non-executive director of Hang Seng Bank Limited, as well as non-executive chairman of HSBC Private Equity (Asia) Limited. He serves on the boards of The Hongkong and Shanghai Banking Corporation Limited, Convenience Retail Asia Limited, The Wharf (Holdings) Limited and Swiss Reinsurance Company Limited. He is also a director of Hong Kong Mercantile Exchange Limited (from 1 July 2009). Dr. Ch'ien is chairman of the Hong Kong/European Union Business Cooperation Committee, a Hong Kong member of the APEC Business Advisory Council, and a member of the Standing Committee of the Tianjin Municipal Committee of the Chinese People's Political Consultative Conference. In addition, Dr. Ch'ien is the honorary president and past chairman of the Federation of Hong Kong Industries. He was a member of the Executive Council of Hong Kong, then under British Administration, from 1992 to 1997, a member of the Executive Council of the Hong Kong SAR from 1 July 1997 to June 2002 and chairman of the Advisory Committee on Corruption of the Independent Commission Against Corruption from 1 January 1998 to 31 December 2006. Dr. Ch'ien was appointed a Justice of the Peace in 1993. He was made a Commander in the Most Excellent Order of the British Empire in 1994 and awarded the Gold Bauhinia Star medal in 1999. In 2008, he was conferred the honour of Chevalier de l'Ordre du Merite Agricole of France. Dr. Ch'ien received a doctoral degree in economics from the University of Pennsylvania in 1978 and became a Trustee of the University in 2006. He was a non-executive director of Inchcape plc (up to 14 May 2009).

**Chow Chung-kong** 59, was appointed Chief Executive Officer on 1 December 2003. He was formerly chief executive officer of Brambles Industries Ltd, a global support services company. From 1997 to 2001, Mr. Chow was chief executive of GKN PLC, a leading engineering company based in the United Kingdom. Mr. Chow is a chartered engineer. He holds Bachelor of Science and Master of Science degrees in Chemical Engineering from The University of Wisconsin and The University of California respectively. He also holds a Master of Business Administration degree from The Chinese University of Hong Kong and was a graduate of the Advanced Management Program of Harvard Business School. He was awarded an Honorary Doctor of Engineering degree by The University of Bath. In 2000, Mr. Chow was knighted in the United Kingdom for his contribution to industry. Mr. Chow is the non-executive chairman of Standard Chartered Bank (Hong Kong) Limited and an independent non-executive director of Anglo American plc. He is a member of the Council of The Chinese University of Hong Kong and a Vice Chairman of The Hong Kong General Chamber of Commerce (from 19 May 2009). In public service, Mr. Chow is a board member of The Community Chest of Hong Kong, and a member of the Commission on Strategic Development, the Standing Committee on Directorate Salaries and Conditions of Service, the Standing Committee on Judicial Salaries and Conditions of Service (from 1 January 2010), as well as the Independent Commission on Remuneration for Members of the Executive Council and the Legislature, and Officials under the Political Appointment System of the HKSAR Government. He is also a member of the Standing Committee of the Shenzhen Municipal Committee of the Chinese People's Political Consultative Conference. Mr. Chow was a member of the Hong Kong Tourism Board until 28 February 2010.



From Left to Right: CK Chow (*Chief Executive Officer*), T. Brian Stevenson, Professor Chan Ka-keung, Ceajer (*Secretary for Financial Services and the Treasury*), Eva Cheng (*Secretary for Transport and Housing*), Joseph Lai Yee-tak (*Commissioner for Transport*)

**Vincent Cheng Hoi-chuen** 61, joined the Board as an independent non-executive Director on 10 July 2009. Mr. Cheng is chairman of HSBC Bank (China) Company Limited and a director of HSBC Holdings plc. He was chairman of The Hongkong and Shanghai Banking Corporation Limited and a non-executive director of HSBC Bank (Vietnam) Limited (both up to 31 January 2010). He is also an independent non-executive director of Great Eagle Holdings Limited. In public service, Mr. Cheng is vice chairman of the China Banking Association and chairman of the Independent Commission on Remuneration for Members of the Executive Council and the Legislature, and Officials under the Political Appointment System of the HKSAR Government. He was a member of the Exchange Fund Advisory Committee of the Hong Kong Monetary Authority (up to 31 January 2010). In 2008, Mr. Cheng was appointed a member of the National Committee of the 11th Chinese People's Political Consultative Conference (the 'CPPCC') and a senior adviser to the 11th Beijing Municipal Committee of the CPPCC. He was also a member of the Executive Council from 1995 to 1997, Hong Kong Affairs Adviser to the People's Republic of China from 1994 to 1997 as well as a member of the Legislative Council from 1991 to 1995. In 2005, Mr. Cheng was conferred the degree of Doctor of Social Science, *honoris causa*, by The Chinese University of Hong Kong and the degree of Doctor of Business Administration, *honoris causa*, by The Open University. He was also awarded the Gold Bauhinia Star medal in 2005. Mr. Cheng holds a Bachelor of Social Science degree in Economics from The Chinese University of Hong Kong and a Master of Philosophy degree in Economics from The University of Auckland.

**Christine Fang Meng-sang** 51, is an independent non-executive Director and has been a member of the Board since 2004. Ms. Fang has been the chief executive of the Hong Kong Council of Social Service since 2001. Prior to joining the Hong Kong Council of Social Service, she worked for the Hong Kong Red Cross from 1989 to 2001 and held the position of Secretary General from 1993 to 2001. By training, Ms. Fang is a social worker and has a strong background in community service. She sits on various government advisory committees, including the Sustainable Development Council, the Digital 21 Strategy Advisory Committee, the Charities Sub-committee of The Law Reform Commission of Hong Kong and the Independent Police Complaints Council (from 1 January 2009). She is also a member of the Commission on Strategic Development.

**Edward Ho Sing-tin** 71, is an independent non-executive Director and has been a member of the Board since 1991. He is an architect and the Group Chairman of Wong Tung & Partners Limited. Mr. Ho was an elected member of the Legislative Council of Hong Kong from 1991 to 2000, representing the architectural, surveying and planning functional constituency. He was president of the Hong Kong Institute of Architects in 1983 and 1984 and was chairman of the Hong Kong Industrial Estates Corporation from 1992 to 2001. He was also a member of the Hong Kong Housing Authority, chairman of the Antiquities Advisory Board, chairman of the Hong Kong Philharmonic Society, and a member of the Town Planning Board and the Hospital Authority respectively.

**Ng Leung-sing** 60, joined the Board as an independent non-executive Director on 18 December 2007. Mr. Ng is vice chairman of Chiyu Banking Corporation, chairman of Bank of China (Hong Kong) Trustees Limited (from 1 August 2009) and an independent non-executive director of SmarTone Telecommunications Holdings Limited. He is a director of the BOCHK Charitable Foundation and a Member of the Court of Lingnan University. He was general manager, Bank-wide Operation Department of Bank of China (Hong Kong) Limited (up to 31 July 2009). Mr. Ng is also a Hong Kong Deputy to the 10th and 11th National People's Congress, People's Republic of China. Mr. Ng is a graduate of University of East Asia, Graduate College, Macau and holds a diploma in Chinese Law.

**Abraham Shek Lai-him** 64, joined the Board as an independent non-executive Director on 18 December 2007. Mr. Shek is an independent non-executive director and an audit committee member of each of Midas International Holdings Limited, Paliburg Holdings Limited, Lifestyle International Holdings Limited, Chuang's Consortium International Limited, NWS Holdings Limited, Regal Portfolio Management Limited, Titan Petrochemicals Group Limited, Eagle Asset Management (CP) Limited, ITC Corporation Limited, Country Garden Holdings Company Limited and SJM Holdings Limited. He is also an independent non-executive director of each of Hop Hing Group Holdings Limited and Hsin Chong Construction Group Ltd as well as both the Chairman and an independent non-executive director of Chuang's China Investments Limited. Mr. Shek was appointed as Justice of the Peace in 1995 and was awarded the Silver Bauhinia Star in 2007. He is a Member of the Council of The Hong Kong University of Science & Technology and the Court of the University of Hong Kong. In addition, he is Vice Chairman of the Independent Police Complaints Council with effect from 1 January 2009. Mr. Shek is a graduate of the University of Sydney and holds a Bachelor of Arts degree and a Diploma in Education.

**T. Brian Stevenson** 65, is an independent non-executive Director and has been a member of the Board since October 2002. He is a non-executive director of The Hongkong and Shanghai Banking Corporation Limited, an Advisor to BT Asia Pacific and Deputy Chairman of the Hong Kong Jockey Club. He was a member of the Public Service Commission (up to 31 January 2010). Mr. Stevenson was previously the Senior Partner of Ernst & Young, Hong Kong from 1981 to 1999. He served on the Council of the Hong Kong Society of Accountants from 1991 to 1997 and was president of the Society in 1996. Mr. Stevenson is a chartered accountant and holds law degrees from Glasgow and Hong Kong Universities. He was awarded the Silver Bauhinia Star medal in 1998. He is also a Justice of the Peace.

**Commissioner for Transport** (Joseph Lai Yee-tak 49, joined the Board as a non-executive Director appointed as an "additional director" under section 8 of the MTR Ordinance by virtue of his appointment to the post of the Commissioner for Transport of the Government of the Hong Kong SAR on 17 August 2009. Since 1983, Mr. Lai has served in various bureaux and departments of the Government of the Hong Kong SAR. Before joining the Transport Department, he was Director-General of Trade and Industry. As Commissioner for Transport, Mr. Lai is also a director of several transport-related companies (since 17 August 2009), including The Kowloon Motor Bus Company (1933) Limited, Long Win Bus Company Limited, New World First Bus Services Limited, New Lantao Bus Company (1973) Limited, Citybus Limited, The Star Ferry Company Limited, The New Hong Kong Tunnel Company Limited, Western Harbour Tunnel Company Limited, Tate's Cairn Tunnel Company Limited and Route 3 (CPS) Company Limited. He is a graduate of the University of Hong Kong and holds a Bachelor's Degree in Social Sciences.)

**Secretary for Transport and Housing** (Eva Cheng 49, joined the Board as a non-executive Director appointed as an "additional director" under section 8 of the MTR Ordinance on 1 July 2007 upon her appointment as the Secretary for Transport and Housing of the Government of the Hong Kong SAR. Ms. Cheng has served in various bureaux and departments of the Government of the HKSAR since 1983. Before joining the Transport and Housing Bureau, Ms. Cheng was the Permanent Secretary for Economic Development. She is a graduate of the University of Hong Kong and holds a Bachelor of Social Science degree.)

**Professor Chan Ka-keung, Ceajer** 53, joined the Board as a non-executive Director on 10 July 2007 after his appointment as the Secretary for Financial Services and the Treasury of the Government of the Hong Kong SAR with effect from 1 July 2007. He received his bachelor's degree in economics from Wesleyan University in the US and both his M.B.A. and Ph.D. in finance from the University of Chicago. Professor Chan sits on the boards of several public bodies including the Mandatory Provident Fund Schemes Authority and The Hong Kong Mortgage Corporation Limited and is the Chairman of the Kowloon-Canton Railway Corporation in his official capacity. Before joining the Government, Professor Chan was Dean of Business and Management of the Hong Kong University of Science and Technology from 1 July 2002. He was also an independent non-executive Director of Shui On Construction and Materials Limited from 1 June 2005 to 30 June 2007.

## Members of the Executive Directorate

**Chow Chung-kong** Biographical details are set out on page 48.

**Russell John Black** 63, was the Projects Director of the Company from 1992 to January 2010. He retired from the Company on 1 February 2010 after cumulatively 25 years of service.

**William Chan Fu-keung** 61, has been the Human Resources Director since August 1998. He joined the Company as Human Resources Manager in 1989. He is responsible for human resource management, people development, organisation development, operations and management training, administration and security management. Prior to joining the Company, Mr. Chan held senior managerial positions both in the commerce and in the utility sectors in Hong Kong, including the Government, the Hong Kong Productivity Council, Hutchison Whampoa Limited and Hong Kong Telecommunications Limited. He is a fellow member of the Hong Kong Institute of Human Resource Management since 1985 and is also the Vice President of the Institute. He is a Council member of Employers' Federation of Hong Kong, a member of the Standing Committee on Disciplined Services Salaries and Conditions of Service, the Pensions Appeal Panel and the Career Development and Advisory Board for a number of universities. Mr. Chan received a Bachelor of Social Science degree from The University of Hong Kong in 1971, majoring in economics.

**Chew Tai Chong** 58, has been the Projects Director of the Company since 1 February 2010. He joined the Company in May 2009 as Deputy Projects Director – New Projects. Mr. Chew has worked in the rail transit industry, both in the United Kingdom and overseas, for over 30 years. Between 2003 and 2008, he was the President of Bombardier London Underground Projects Division. Up to 2003, he held the position of Senior Director, Projects and Engineering, for Singapore Land Transit Authority. He is a member of the Construction Industry Council (from 1 February 2010). Mr. Chew holds a Bachelor of Science degree and a Master of Science degree in Electrical Engineering from Manchester University Institute of Science and Technology, United Kingdom. He is a Chartered Engineer and a fellow of four professional institutions in the United Kingdom – Electrical, Mechanical, Civil and Railway Signalling.

**Thomas Ho Hang-kwong** 58, has served as the Property Director since joining the Company in 1991. He is responsible for the development and management of all properties above and adjacent to MTR stations and depots. He leads a multi-disciplinary team of managers involved in the planning, design, construction and management of large-scale property

developments. Between 1971 and 1990, Mr. Ho worked for the Hong Kong Government specialising in land administration and latterly held a directorate post in the Lands Department, responsible for formulating policies and procedures to make land available for the airport and the Airport Railway project. Mr. Ho qualified in 1974 as a chartered surveyor in Hong Kong. He is serving The Community Chest of Hong Kong as a Campaign Committee Member and Corporate and Employee Contribution Programme Organising Committee Co-chairman.

**Lincoln Leong Kwok-kuen** 49, has served as the Finance & Business Development Director since May 2008. Mr. Leong joined the Company in February 2002 as the Finance Director and is responsible for the financial management of all of the Company's affairs, including financial planning and control, budgeting, accounting and reporting and the treasury function. In addition, he has responsibility for the Company's information technology function and serves as chairman of both Octopus Holdings Limited and the board of trustees of the Company's retirement schemes. On 1 May 2008, he was re-titled the Finance & Business Development Director to reflect his additional role in overseeing growth business in the Mainland of China and overseas. Mr. Leong graduated from Cambridge University in 1982 and later qualified as a chartered accountant in England in 1985 and Canada in 1986. Prior to joining the Company as Finance Director, he worked in both the accountancy and investment banking industries. Mr. Leong had worked as an accountant in London and Vancouver, Canada and for a number of years as an investment banker in Hong Kong. Mr. Leong is the chairman of the executive committee of the Hong Kong Society for the Protection of Children and a non-official member of the Family Council. He is a member of the executive committee of the Hong Kong Housing Society and ceased to be a member of its supervisory board both with effect from 29 September 2009. He also serves on the Board of Governor of the Chinese International School and is a trustee of the Hospital Authority Pension Fund Scheme. Mr. Leong is also a non-executive director of both Hong Kong Aircraft Engineering Company Limited and Tai Ping Carpets International Limited.

**Andrew McCusker** 64, has served as the Operations Director since December 2005. Mr. McCusker has more than 40 years of experience in the operating, engineering and projects fields in Defence, Power, Water and Rail Industries. He joined the Company as Operations Engineering Manager in 1987, and since then has been posted to other responsible positions, including Operations Engineering Design Manager, Project Manager (Operations) and General Manager (Operations). He was appointed Deputy Operations Director in March 2004 and

Acting Operations Director in October 2005. Mr. McCusker holds a degree in Mechanical Engineering from the Kensington University in the United States and is a chartered member of both the Institution of Mechanical Engineers of the United Kingdom and the Chartered Institute of Personnel and Development (U.K.). In 2007, he was awarded the prestigious Steve Maxwell Leadership Award from the Australian Asset Management Council. Mr. McCusker is an Adjunct Professor of Railway Engineering for The Hong Kong Polytechnic University.

**Leonard Bryan Turk** 60, is a solicitor admitted to practise both in England and Wales and in Hong Kong. He joined the Company in 1981 and has been Legal Director & Secretary to the Board since 1988. Mr. Turk is responsible for legal advice, corporate secretarial services, insurance, procurement, enterprise risk management and corporate responsibility functions within the Company. His responsibilities include matters of corporate governance as well as construction contracts, contract administration and dispute resolution. Before joining the Company, Mr. Turk worked in England, concentrating particularly on commercial property development and the financing of large projects.

### Members of the Executive Committee

The Executive Committee comprises all Members of the Executive Directorate (whose biographies are on pages 51 to 52), General Manager – Corporate Relations, and General Manager – Marketing & Station Commercial.

**Miranda Leung Chan Che-ming** 57, has served the Company since 1976 and was appointed Head of the Corporate Relations Department in 1994. As General Manager – Corporate Relations, she is responsible for formulating and directing the implementation of corporate relations strategy and policies to project, maintain and enhance the public image of the Company. Her responsibilities include corporate communications, community and customer engagement, stakeholder management and political lobbying. In 1985, Mrs. Leung qualified as a Chartered Member of The Chartered Institute of Transport (renamed as The Chartered Institute of Logistics and Transport) in UK. She is a Member of UK's Chartered Institute of Public Relations and a Chartered Fellow of The Chartered Institute of Logistics & Transport in Hong Kong. Mrs. Leung has been appointed a member of the Council for Sustainable Development since March 2009.

**Jeny Yeung Mei-chun** 45, joined the Company in November 1999 as the Marketing Manager. Being the General Manager – Marketing & Station Commercial, Ms. Yeung is responsible for the marketing of the Company's railway services including fare management and promoting usage of railway services, advertising and shop rental businesses within the stations, and managing and enhancing the MTR Brand. Ms. Yeung graduated from the University of Hong Kong and holds a bachelor degree in Social Sciences majoring in Management Studies. She is a Fellow Member of the Chartered Institute of Marketing. Before joining the Company, she held various marketing and business development positions in Standard Chartered Bank (Hong Kong) Limited and Citibank in Hong Kong.

From Left to Right (back):

Leonard Bryan Turk, Russell John Black, Lincoln Leong Kwok-kuen, Andrew McCusker, Thomas Ho Hang-kwong, William Chan Fu-keung

From Left to Right (front):

CK Chow, Miranda Leung Chan Che-ming, Jeny Yeung Mei-chun



The Members of the Board have pleasure in submitting their Report and the summary financial statements for the financial year ended 31 December 2009.

### 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, and an intercity railway system between Hong Kong and some major cities in the Mainland of China;
- B** property development, either as owner or as an agent for KCRC, at locations relating to the railway system including the Tseung Kwan O Line, the Ma On Shan Line, the East Rail Line, the Light Rail and the West Rail Line;
- C** related commercial activities, including the letting of advertising and retail space, bandwidth services on the railway telecommunication system, property management and leasing management of investment properties (including shopping 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 107.2 route kilometres of 4 London railway lines with connections into the London Underground network;
- 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 further design, construction, procurement of services and equipment, testing, commissioning and all other matters associated with bringing the Hong Kong section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link into service;
- I** the planning and construction of future extensions to the railway system and other related infrastructure projects including the South Island Line, the Kwun Tong Line Extension and the Shatin to Central Link, as the major projects for which the Government has confirmed policy support;
- J** the operation of the Tung Chung to Ngong Ping Cable Car System and the Theme Village in Ngong Ping, Lantau Island, Hong Kong;
- K** 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;
- L** 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;
- M** equity investments and long term operations and maintenance contracts outside of Hong Kong;
- N** property management, shopping mall investment and railway related property development business in the Mainland of China;
- O** the investment in a 49% equity interest in the 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 years concession agreement with the Beijing Municipal Government, and future operations and maintenance of Beijing Metro Daxing Line, an extension of the Beijing Metro Line 4, consisting of 22 kilometres with 11 stations, under a concession agreement with Beijing Metro Daxing Line Investment Company Limited, a wholly owned subsidiary of Beijing Municipal Government with an initial period of 10 years;
- P** the investment in, design and construction of Phase 2 of Shenzhen Metro Line 4 together with future operations of Phase 1 and Phase 2, 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 years Build-Operate-Transfer concession agreement with the Shenzhen Municipal Government; and
- Q** the investment in a 49% equity interest in future operations and maintenance of Shenyang Metro Line 1 (consisting of 28 kilometres with 22 underground stations forming the east-west traffic corridor in Shenyang, Mainland of China) and Line 2 (consisting of 22 kilometres with 19 underground stations forming the north-south corridor in Shenyang), under a 30 years concession agreement with Shenyang Municipal Government and its wholly owned subsidiary, Shenyang Metro Group Company Limited.

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 subject to approval by relevant authorities in the Mainland.

In October 2009, the Company has announced its decision to wind down its freight business to better utilize train paths which have been used for the freight business, to provide greater flexibility for passenger train service, benefitting the people of Hong Kong.

### **Dividend**

The Directors have recommended a final dividend of HK\$0.38 per Ordinary Share to be payable to shareholders whose names appear on the Register of Members of the Company on 9 April 2010. Subject to the passing of the necessary resolutions at the forthcoming Annual General Meeting, such dividend will be payable on or about 15 June 2010, in cash in Hong Kong dollars, with a scrip dividend alternative. Going forward, subject to the financial conditions of the Company, the Board intends to follow a progressive dividend policy.

The Company's majority shareholder, The Financial Secretary Incorporated, has agreed that for dividends declared in respect of the financial years ended 31 December 2009, it will elect to receive all or part of its entitlement to dividends in the form of shares under any scrip dividend election to be offered by the Company to its shareholders to the extent necessary to ensure that a maximum of 50% of the total dividend paid by the Company in respect of the relevant financial year will be paid in the form of cash. This arrangement will expire after the payment of any dividend in respect of the financial year ended 31 December 2009.

### **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 [retired by rotation and did not offer himself for re-election at the Annual General Meeting on 4 June 2009], Vincent Cheng Hoi-chuen [appointed on 10 July 2009], Christine Fang Meng-sang, Edward Ho Sing-tin, Ng Leung-sing, Abraham Shek Lai-him, T. Brian Stevenson, Chan Ka-keung, Ceajer, the Secretary for Transport and Housing (Eva Cheng) and the Commissioner for Transport (Alan Wong Chi-kong ceased to hold the post of the Commissioner for Transport and Joseph Lai Yee-tak was appointed to that post, both with effect from 17 August 2009).

In November 2009, Raymond Ch'ien Kuo-fung whose two year term of office as the non-executive Chairman of the Company took effect from 2 December 2007, was reappointed as the Chairman with effect from December 2009 until December 2012.

In June 2009, Chow Chung-kong whose three year term of office as Chief Executive Officer of the Company took effect from 1 December 2006, was reappointed as the Chief Executive Officer with effect from 1 December 2009 to 31 December 2011.

At the Annual General Meeting on 4 June 2009 and pursuant to the Articles of Association, Raymond Ch'ien Kuo-fung, Cheung Yau-kai and T. Brian Stevenson retired under the Articles of Association. Raymond Ch'ien Kuo-fung and T. Brian Stevenson were re-elected as Members of the Board.

At the forthcoming Annual General Meeting and in accordance with the Articles of Association, Chow Chung-kong and Christine Fang Meng-sang will retire by rotation and will offer themselves for re-election. Vincent Cheng Hoi-chuen, who was appointed by the Board after the 2009 Annual General Meeting, will retire under Article 85 of the Articles of Association and will offer himself for election at the 2010 Annual General Meeting.

Biographical details for Board Members are set out on pages 48 to 50.

### **Alternate Directors**

The Alternate Directors in office during the year were:

- for Chan Ka-keung, Ceajer: Ying Yiu-hong and Leung Cheuk-man;
- for the office of the Secretary for Transport and Housing: (i) the Under Secretary for Transport and Housing (Yau Shing-mu); (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 [who ceased to be Deputy Secretary for Transport and Housing (Transport) and accordingly ceased to be an alternate director to the office of the Secretary for Transport and Housing with effect from 1 February 2010], Shirley Yuen and Maisie Cheng Mei-sze [with effect from 1 February 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, William Chan Fu-keung, Thomas Ho Hang-kwong, Lincoln Leong Kwok-kuen, Andrew McCusker 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.

Biographical details for Members of the Executive Directorate during the year are set out on pages 51 to 52.

## 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 pages 42 to 43.

## 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 2009 and of its results for the year are set out in the summary financial statements on pages 64 to 78.

## 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 28 to 29.

## 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 2008, the authorised share capital of the Company was HK\$6.5 billion, divided into 6.5 billion Ordinary Shares, 5,661,143,113 of which were issued and credited as fully paid.

During the year, the Company issued a total of 66,690,579 Ordinary Shares. Of this number:

- A** 657,500 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** 828,500 Ordinary Shares were issued by the Company pursuant to the exercise of share options which had been granted under the Company's New Joiners Share Option Scheme. In respect of each Ordinary Share issued, the relevant exercise price per share of options are HK\$9.75, HK\$15.97 and HK\$20.66 to the Company;
- C** 56,500 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 is HK\$18.30 to the Company;
- D** 50,160,754 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 2008 (for which the cash dividend was HK\$0.34 per Ordinary Share); and
- E** 14,987,325 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 2009 (for which the cash dividend was HK\$0.14 per Ordinary Share).

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.

### **Redemption of Listed Securities**

The Company redeemed its US\$750 million global notes on 4 February 2009. The notes were listed on the Hong Kong Stock Exchange and the Luxembourg Stock Exchange prior to the redemption.

Saved as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of its listed securities during the financial year 2009.

### **Donations**

During the year, the Company donated a total of HK\$320,000 to charitable and community organisations.

In addition, the MTR HONG KONG Race Walking 2009 raised more than HK\$1 million 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\$284,000 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 issued bonds and notes during the year ended 31 December 2009, details of which are set out in note 6 to the summary financial statements. Such bonds and notes were issued in order to meet the Group's general corporate funding requirements, including the financing of new capital expenditure and the refinancing of maturing debts.

### **Computer Processing**

There are defined procedures, controls and regular quality reviews on the operation of computer systems to ensure the accuracy and completeness of financial records and efficiency of data processing. The Company's computer centre operation and support, help desk operation and support services, and also software development and maintenance, have been certified under ISO 9001:2000. Disaster recovery rehearsal on critical applications is conducted annually.

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

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

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

As at 31 December 2009, 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:

## ■ 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	0.00090
Chow Chung-kong	–	–	–	1,660,000 (Note 1)	222,161 (Note 2)	1,882,161	0.03286
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	4,983	–	–	–	–	4,983	0.00009
Russell John Black	57,389	–	–	382,500 (Note 1)	–	439,889	0.00768
William Chan Fu-keung	46,960	–	–	(i) 117,500 (Note 3) (ii) 510,000 (Note 1)	–	674,460	0.01178
Thomas Ho Hang-kwong	146,223	2,541	–	510,000 (Note 1)	–	658,764	0.01150
Lincoln Leong Kwok-kuen	23,000	–	23,000 (Note 4)	(i) 417,500 (Note 5) (ii) 510,000 (Note 1)	160,000 (Note 6)	1,133,500	0.01979
Andrew McCusker	–	–	–	510,000 (Note 1)	–	510,000	0.00890
Leonard Bryan Turk	–	–	–	510,000 (Note 1)	–	510,000	0.00890

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		
Chew Tai Chong (Note 7)	–	–	–	255,000 (Note 1)	–	255,000	0.00445

### 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).
- 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.
- Chew Tai Chong became the Projects Director and a Member of the Executive Directorate on 1 February 2010.

\* 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 2009	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 2009	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	–	–	100,000	8.44	117,500	23.25
Other eligible employees	20/9/2000	41,409,000	5/4/2001 – 11/9/2010	3,388,000	–	–	557,500	8.44	2,830,500	23.21

Notes

- The Pre-Global Offering Share Option Scheme ("Pre-IPO Option Scheme") is valid and effective for a period of ten years after 12 September 2000. No option may be offered to be granted under the Pre-IPO Option Scheme on or after the commencement of dealings in shares of the Company on Stock Exchange on 5 October 2000 ("Listing Date").
- 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.
- The above share options fully 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

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

■ **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 2009	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 2009	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	–	–	–	625,500	9.75	417,500	27.37
Other eligible employees	1/8/2003	495,200	14/7/2004 – 14/7/2013	202,200	–	–	–	63,000	9.75	139,200	26.42
	13/9/2005	94,000	9/9/2006 – 9/9/2015	49,000	–	–	–	49,000	15.97	–	27.40
	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	–	31,000	–	–	18.05	94,000	–
	5/10/2006	94,000	29/9/2007 – 29/9/2016	94,000	–	31,000	–	–	19.732	94,000	–
	12/5/2006	266,500	25/4/2007 – 25/4/2016	266,500	–	88,500	–	–	20.66	266,500	–
	15/5/2006	213,000	25/4/2007 – 25/4/2016	183,000	–	71,000	–	91,000	20.66	92,000	26.03
	22/3/2007	355,500	19/3/2008 – 19/3/2017	355,500	–	–	355,500	–	19.404	–	–

### 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 (continued)

#### 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

### 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 2009	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 2009	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	–	–	–	26.85	470,000	–
Russell John Black	12/12/2007	170,000	10/12/2008 – 10/12/2014	170,000	–	57,000	–	–	27.60	170,000	–
	9/12/2008	170,000	8/12/2009 – 8/12/2015	170,000	–	57,000	–	–	18.30	170,000	–
	10/12/2009	42,500	8/12/2010 – 8/12/2016	–	42,500	–	–	–	26.85	42,500	–
William Chan Fu-keung	13/12/2007	170,000	10/12/2008 – 10/12/2014	170,000	–	57,000	–	–	27.60	170,000	–
	9/12/2008	170,000	8/12/2009 – 8/12/2015	170,000	–	57,000	–	–	18.30	170,000	–
	10/12/2009	170,000	8/12/2010 – 8/12/2016	–	170,000	–	–	–	26.85	170,000	–
Thomas Ho Hang-kwong	12/12/2007	170,000	10/12/2008 – 10/12/2014	170,000	–	57,000	–	–	27.60	170,000	–
	11/12/2008	170,000	8/12/2009 – 8/12/2015	170,000	–	57,000	–	–	18.30	170,000	–
	14/12/2009	170,000	8/12/2010 – 8/12/2016	–	170,000	–	–	–	26.85	170,000	–
Lincoln Leong Kwok-kuen	12/12/2007	170,000	10/12/2008 – 10/12/2014	170,000	–	57,000	–	–	27.60	170,000	–
	9/12/2008	170,000	8/12/2009 – 8/12/2015	170,000	–	57,000	–	–	18.30	170,000	–
	10/12/2009	170,000	8/12/2010 – 8/12/2016	–	170,000	–	–	–	26.85	170,000	–
Andrew McCusker	12/12/2007	170,000	10/12/2008 – 10/12/2014	170,000	–	57,000	–	–	27.60	170,000	–
	12/12/2008	170,000	8/12/2009 – 8/12/2015	170,000	–	57,000	–	–	18.30	170,000	–
	10/12/2009	170,000	8/12/2010 – 8/12/2016	–	170,000	–	–	–	26.85	170,000	–
Leonard Bryan Turk	12/12/2007	170,000	10/12/2008 – 10/12/2014	170,000	–	57,000	–	–	27.60	170,000	–
	9/12/2008	170,000	8/12/2009 – 8/12/2015	170,000	–	57,000	–	–	18.30	170,000	–
	10/12/2009	170,000	8/12/2010 – 8/12/2016	–	170,000	–	–	–	26.85	170,000	–

■ 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 2009	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 2009	Weighted average closing price of shares immediately before the date(s) on which options were exercised (HK\$)
Chew Tai Chong (Note 4)	18/6/2009	85,000	12/6/2010 – 12/6/2016	–	85,000	–	–	–	24.50	85,000	–
	10/12/2009	170,000	8/12/2010 – 8/12/2016	–	170,000	–	–	–	26.85	170,000	–
Other eligible employees	11/12/2007	45,000	10/12/2008 – 10/12/2014	45,000	–	15,000	–	–	27.60	45,000	–
	12/12/2007	1,880,000	10/12/2008 – 10/12/2014	1,792,000	–	559,500	226,000	–	27.60	1,566,000	–
	13/12/2007	915,000	10/12/2008 – 10/12/2014	915,000	–	309,000	–	–	27.60	915,000	–
	14/12/2007	1,005,000	10/12/2008 – 10/12/2014	1,005,000	–	330,500	32,000	–	27.60	973,000	–
	15/12/2007	435,000	10/12/2008 – 10/12/2014	370,000	–	124,500	–	–	27.60	370,000	–
	17/12/2007	835,000	10/12/2008 – 10/12/2014	835,000	–	283,000	62,000	–	27.60	773,000	–
	18/12/2007	445,000	10/12/2008 – 10/12/2014	380,000	–	128,000	–	–	27.60	380,000	–
	19/12/2007	115,000	10/12/2008 – 10/12/2014	115,000	–	39,000	–	–	27.60	115,000	–
	20/12/2007	190,000	10/12/2008 – 10/12/2014	190,000	–	63,500	–	–	27.60	190,000	–
	21/12/2007	45,000	10/12/2008 – 10/12/2014	45,000	–	15,000	–	–	27.60	45,000	–
	22/12/2007	35,000	10/12/2008 – 10/12/2014	35,000	–	12,000	–	–	27.60	35,000	–
	24/12/2007	118,000	10/12/2008 – 10/12/2014	118,000	–	39,500	–	–	27.60	118,000	–
	28/12/2007	35,000	10/12/2008 – 10/12/2014	35,000	–	12,000	–	–	27.60	35,000	–
	31/12/2007	130,000	10/12/2008 – 10/12/2014	130,000	–	43,500	–	–	27.60	130,000	–
	2/1/2008	75,000	10/12/2008 – 10/12/2014	75,000	–	25,500	–	–	27.60	75,000	–
	3/1/2008	40,000	10/12/2008 – 10/12/2014	40,000	–	13,500	–	–	27.60	40,000	–
	4/1/2008	65,000	10/12/2008 – 10/12/2014	65,000	–	–	65,000	–	27.60	–	–
	7/1/2008	125,000	10/12/2008 – 10/12/2014	125,000	–	42,000	–	–	27.60	125,000	–
	28/3/2008	255,000	26/03/2009 – 26/03/2015	255,000	–	87,500	–	–	26.52	255,000	–
	31/3/2008	379,000	26/03/2009 – 26/03/2015	379,000	–	131,000	–	–	26.52	379,000	–
	1/4/2008	261,000	26/03/2009 – 26/03/2015	261,000	–	91,000	–	–	26.52	261,000	–
	2/4/2008	296,000	26/03/2009 – 26/03/2015	296,000	–	103,000	–	–	26.52	296,000	–
	3/4/2008	171,000	26/03/2009 – 26/03/2015	171,000	–	59,500	–	–	26.52	171,000	–
	4/4/2008	23,000	26/03/2009 – 26/03/2015	23,000	–	8,000	–	–	26.52	23,000	–
	5/4/2008	17,000	26/03/2009 – 26/03/2015	17,000	–	6,000	–	–	26.52	17,000	–
	7/4/2008	390,000	26/03/2009 – 26/03/2015	358,000	–	124,000	–	–	26.52	358,000	–
	8/4/2008	174,000	26/03/2009 – 26/03/2015	155,000	–	54,000	–	–	26.52	155,000	–
9/4/2008	85,000	26/03/2009 – 26/03/2015	85,000	–	29,500	–	–	26.52	85,000	–	
10/4/2008	58,000	26/03/2009 – 26/03/2015	58,000	–	20,000	–	–	26.52	58,000	–	
11/4/2008	134,000	26/03/2009 – 26/03/2015	117,000	–	40,500	–	–	26.52	117,000	–	
12/4/2008	48,000	26/03/2009 – 26/03/2015	48,000	–	16,500	–	–	26.52	48,000	–	
14/4/2008	40,000	26/03/2009 – 26/03/2015	40,000	–	14,000	–	–	26.52	40,000	–	
15/4/2008	34,000	26/03/2009 – 26/03/2015	34,000	–	12,000	–	–	26.52	34,000	–	
16/4/2008	57,000	26/03/2009 – 26/03/2015	40,000	–	14,000	–	–	26.52	40,000	–	
17/4/2008	147,000	26/03/2009 – 26/03/2015	124,000	–	43,000	–	–	26.52	124,000	–	
18/4/2008	32,000	26/03/2009 – 26/03/2015	32,000	–	5,000	17,000	–	26.52	15,000	–	
19/4/2008	25,000	26/03/2009 – 26/03/2015	25,000	–	8,500	–	–	26.52	25,000	–	
20/4/2008	23,000	26/03/2009 – 26/03/2015	23,000	–	8,000	23,000	–	26.52	–	–	
21/4/2008	66,000	26/03/2009 – 26/03/2015	66,000	–	23,000	–	–	26.52	66,000	–	

■ 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 2009	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 2009	Weighted average closing price of shares immediately before the date(s) on which options were exercised (HK\$)
Other eligible employees	23/4/2008	34,000	26/03/2009 – 26/03/2015	19,000	–	6,500	–	–	26.52	19,000	–
	8/12/2008	155,000	8/12/2009 – 8/12/2015	155,000	–	52,500	45,000	–	18.30	110,000	–
	9/12/2008	313,000	8/12/2009 – 8/12/2015	313,000	–	106,000	–	–	18.30	313,000	–
	10/12/2008	2,176,400	8/12/2009 – 8/12/2015	2,176,400	–	734,000	–	15,000	18.30	2,161,400	26.25
	11/12/2008	2,294,200	8/12/2009 – 8/12/2015	2,294,200	–	772,500	–	–	18.30	2,294,200	–
	12/12/2008	1,311,500	8/12/2009 – 8/12/2015	1,311,500	–	427,000	–	6,500	18.30	1,305,000	26.65
	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	88,200	–	30,000	–	8,500	18.30	79,700	26.75
	15/12/2008	1,084,700	8/12/2009 – 8/12/2015	1,084,700	–	366,500	–	–	18.30	1,084,700	–
	16/12/2008	581,500	8/12/2009 – 8/12/2015	581,500	–	197,000	–	–	18.30	581,500	–
	17/12/2008	513,500	8/12/2009 – 8/12/2015	513,500	–	173,000	–	–	18.30	513,500	–
	18/12/2008	611,500	8/12/2009 – 8/12/2015	611,500	–	206,500	–	–	18.30	611,500	–
	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	772,500	–	259,500	–	5,000	18.30	767,500	26.65
	23/12/2008	306,000	8/12/2009 – 8/12/2015	306,000	–	104,000	–	6,500	18.30	299,500	26.30
	24/12/2008	500,500	8/12/2009 – 8/12/2015	500,500	–	168,500	–	15,000	18.30	485,500	26.25
	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	–	–	18.30	148,000	–
	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	–	–	–	24.50	170,000	–
	6/7/2009	45,000	12/6/2010 – 12/6/2016	–	45,000	–	–	–	24.50	45,000	–
	9/7/2009	45,000	12/6/2010 – 12/6/2016	–	45,000	–	–	–	24.50	45,000	–
	9/12/2009	200,000	8/12/2010 – 8/12/2016	–	200,000	–	–	–	26.85	200,000	–
	10/12/2009	1,958,500	8/12/2010 – 8/12/2016	–	1,958,500	–	–	–	26.85	1,958,500	–
	11/12/2009	2,362,000	8/12/2010 – 8/12/2016	–	2,362,000	–	–	–	26.85	2,362,000	–
	12/12/2009	610,000	8/12/2010 – 8/12/2016	–	610,000	–	–	–	26.85	610,000	–
	13/12/2009	19,000	8/12/2010 – 8/12/2016	–	19,000	–	–	–	26.85	19,000	–
	14/12/2009	2,338,000	8/12/2010 – 8/12/2016	–	2,338,000	–	–	–	26.85	2,338,000	–
	15/12/2009	2,838,000	8/12/2010 – 8/12/2016	–	2,838,000	–	–	–	26.85	2,838,000	–
	16/12/2009	1,550,000	8/12/2010 – 8/12/2016	–	1,550,000	–	–	–	26.85	1,550,000	–
	17/12/2009	1,000,000	8/12/2010 – 8/12/2016	–	1,000,000	–	–	–	26.85	1,000,000	–
	18/12/2009	389,000	8/12/2010 – 8/12/2016	–	389,000	–	–	–	26.85	389,000	–
	19/12/2009	70,000	8/12/2010 – 8/12/2016	–	70,000	–	–	–	26.85	70,000	–
	20/12/2009	75,000	8/12/2010 – 8/12/2016	–	75,000	–	–	–	26.85	75,000	–
	21/12/2009	520,000	8/12/2010 – 8/12/2016	–	520,000	–	–	–	26.85	520,000	–
	22/12/2009	256,000	8/12/2010 – 8/12/2016	–	256,000	–	–	–	26.85	256,000	–

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.

### 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)

3 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

4 Chew Tai Chong became the Projects Director and a Member of the Executive Directorate on 1 February 2010.

During the year ended 31 December 2009, 1,362,500 and 14,700,500 options to subscribe for shares of the Company were granted to 7 Members of the Executive Directorate and 424 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\$)
18/6/2009	23.65	1.56	3.5	0.31	0.45	5.27
6/7/2009	23.55	1.44	3.5	0.31	0.48	4.52
9/7/2009	23.45	1.29	3.5	0.31	0.48	4.41
9/12/2009	26.85	0.98	3.5	0.31	0.48	5.47
10/12/2009	26.35	0.98	3.5	0.31	0.48	5.17
11/12/2009	26.45	0.98	3.5	0.31	0.48	5.23
12/12/2009	26.50	0.98	3.5	0.31	0.48	5.25
13/12/2009	26.50	0.98	3.5	0.31	0.48	5.25
14/12/2009	26.50	0.99	3.5	0.31	0.48	5.25
15/12/2009	26.65	1.04	3.5	0.31	0.48	5.36
16/12/2009	26.25	1.11	3.5	0.31	0.48	5.14
17/12/2009	26.30	1.13	3.5	0.31	0.48	5.17
18/12/2009	26.10	1.10	3.5	0.31	0.48	5.05
19/12/2009	26.35	1.10	3.5	0.31	0.48	5.18
20/12/2009	26.35	1.10	3.5	0.31	0.48	5.18
21/12/2009	26.35	1.08	3.5	0.31	0.48	5.18
22/12/2009	26.15	1.15	3.5	0.31	0.48	5.08

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 2009, no Member of the Board or the Executive Directorate nor any of their spouses or children under 18 years of age held any rights to subscribe for equity or debt securities of the Company nor had there been any exercises of any such rights by any of them,

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

### Substantial Shareholders' Interests

Set out below is the name of the party which was interested in 5% or more of the nominal value of the share capital of the Company and the number of shares in which it was interested as at 31 December 2009 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)	4,400,715,809	76.83

The Company has been informed by the Government that, as at 31 December 2009, approximately 0.62% 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 2009 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 2009 was attributable to the Company's five largest customers combined by value.

### Going Concern

The summary financial statements on pages 64 to 78 have been prepared on a going concern basis. The Board has reviewed the Company's budget for 2010, 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, 9 March 2010

for the year ended 31 December in HK\$ million	2009	2008
Hong Kong fare revenue	11,498	11,467
Station commercial and rail related revenue	3,328	3,449
Rental, management and other revenue	2,928	2,712
Railway franchise revenue outside of Hong Kong	1,043	–
Other net income	–	–
	<b>18,797</b>	17,628
Staff costs and related expenses	(3,387)	(3,358)
Energy and utilities	(1,020)	(1,020)
Operational rent and rates	(183)	(179)
Stores and spares consumed	(403)	(411)
Repairs and maintenance	(915)	(856)
Railway support services	(127)	(121)
Expenses relating to station commercial and rail related businesses	(632)	(822)
Expenses relating to property ownership, management and other businesses	(866)	(785)
Expenses relating to railway franchise operations outside of Hong Kong	(1,035)	–
Project study and business development expenses	(206)	(198)
General and administration expenses	(329)	(342)
Other expenses	(192)	(211)
<b>Operating expenses before depreciation and amortisation</b>	<b>(9,295)</b>	(8,303)
<b>Operating profit from railway and related businesses before depreciation and amortisation</b>	<b>9,502</b>	9,325
Profit on property developments	3,554	4,670
<b>Operating profit before depreciation and amortisation</b>	<b>13,056</b>	13,995
Depreciation and amortisation	(2,979)	(2,930)
Merger related expenses	(12)	(53)
<b>Operating profit before interest and finance charges</b>	<b>10,065</b>	11,012
Interest and finance charges	(1,504)	(1,998)
Change in fair value of investment properties	2,798	(146)
Share of profits of non-controlled subsidiaries and associates	160	159
<b>Profit before taxation</b>	<b>11,519</b>	9,027
Income tax	(1,880)	(747)
<b>Profit for the year</b>	<b>9,639</b>	8,280
<b>Attributable to:</b>		
– Equity shareholders of the Company	9,639	8,284
– Minority interests	–	(4)
<b>Profit for the year</b>	<b>9,639</b>	8,280
<b>Earnings per share:</b>		
– Basic	HK\$1.69	HK\$1.47
– Diluted	HK\$1.69	HK\$1.47

The notes on pages 68 to 78 form part of these summary financial statements

for the year ended 31 December in HK\$ million	2009	2008
<b>Profit for the year</b>	<b>9,639</b>	8,280
<b>Other comprehensive income for the year (after taxation and reclassification adjustments):</b>		
Exchange differences on translation of:		
– financial statements of overseas subsidiaries	(10)	21
– minority interests	–	2
	(10)	23
Cash flow hedges: net movement in hedging reserve	102	(129)
Self-occupied land and buildings:		
– Net movement in fixed assets revaluation reserve	172	(210)
– Net movement in retained profits	–	42
	264	(274)
<b>Total comprehensive income for the year</b>	<b>9,903</b>	8,006
<b>Attributable to:</b>		
– Equity shareholders of the Company	9,903	8,008
– Minority interests	–	(2)
<b>Total comprehensive income for the year</b>	<b>9,903</b>	8,006

at 31 December in HK\$ million	2009	2008
<b>Assets</b>		
Fixed assets		
– Investment properties	40,993	37,737
– Other property, plant and equipment	77,290	77,804
– Service concession assets	19,351	15,463
	<b>137,634</b>	131,004
Property management rights	31	35
Railway construction in progress	–	658
Property development in progress	6,718	7,895
Deferred expenditure	558	1,988
Prepaid land lease payments	554	567
Interests in non-controlled subsidiaries	490	381
Interests in associates	823	743
Deferred tax assets	12	11
Investments in securities	227	471
Staff housing loans	7	10
Properties held for sale	3,783	2,228
Derivative financial assets	370	528
Stores and spares	1,040	690
Debtors, deposits and payments in advance	2,428	7,190
Loan to a property developer	1,916	3,720
Amounts due from the Government and other related parties	12,788	426
Cash and cash equivalents	7,115	793
	<b>176,494</b>	159,338
<b>Liabilities</b>		
Bank overdrafts	21	59
Short-term loans	25	1,646
Creditors and accrued charges	20,497	5,334
Current taxation	430	450
Contract retentions	354	224
Amounts due to the Government and a related party	923	882
Loans and other obligations	23,822	29,584
Obligations under service concession	10,625	10,656
Derivative financial liabilities	237	305
Loan from minority shareholders of a subsidiary	136	–
Deferred income	167	156
Deferred tax liabilities	12,804	12,220
	<b>70,041</b>	61,516
<b>Net assets</b>	<b>106,453</b>	97,822
<b>Capital and reserves</b>		
Share capital, share premium and capital reserve	42,497	41,119
Other reserves	63,890	56,682
<b>Total equity attributable to equity shareholders of the Company</b>	<b>106,387</b>	97,801
<b>Minority interests</b>	<b>66</b>	21
<b>Total equity</b>	<b>106,453</b>	97,822

Approved and authorised for issue by the Members of the Board on 9 March 2010

Raymond K F Ch'ien  
C K Chow  
Lincoln K K Leong

The notes on pages 68 to 78 form part of these summary financial statements

MTR Corporation

for the year ended 31 December in HK\$ million	Share capital, share premium and capital reserve	Other reserves				Retained profits	Total equity attributable to equity shareholders of the Company	Minority interests	Total equity
		Fixed assets revaluation reserve	Hedging reserve	Employee share-based capital reserve	Exchange reserve				
<b>2009</b>									
Balance as at 1 January 2009	<b>41,119</b>	<b>960</b>	<b>(154)</b>	<b>25</b>	<b>63</b>	<b>55,788</b>	<b>97,801</b>	<b>21</b>	<b>97,822</b>
Changes in equity for the year ended 31 December 2009									
– 2008 final dividend	<b>962</b>	–	–	–	–	<b>(1,925)</b>	<b>(963)</b>	–	<b>(963)</b>
– 2009 interim dividend	<b>399</b>	–	–	–	–	<b>(800)</b>	<b>(401)</b>	–	<b>(401)</b>
– Employee share-based payments	–	–	–	<b>32</b>	–	–	<b>32</b>	–	<b>32</b>
– Employee share options exercised	<b>17</b>	–	–	<b>(2)</b>	–	–	<b>15</b>	–	<b>15</b>
– Employee share options lapsed	–	–	–	<b>(3)</b>	–	<b>3</b>	–	–	–
– Increase in minority interests arising from shares issued by a subsidiary	–	–	–	–	–	–	–	<b>45</b>	<b>45</b>
– Total comprehensive income for the year	–	<b>172</b>	<b>102</b>	–	<b>(10)</b>	<b>9,639</b>	<b>9,903</b>	–	<b>9,903</b>
Balance as at 31 December 2009	<b>42,497</b>	<b>1,132</b>	<b>(52)</b>	<b>52</b>	<b>53</b>	<b>62,705</b>	<b>106,387</b>	<b>66</b>	<b>106,453</b>
<b>2008</b>									
Balance as at 1 January 2008	39,828	1,170	(25)	7	42	49,992	91,014	23	91,037
Changes in equity for the year ended 31 December 2008									
– 2007 final dividend	868	–	–	–	–	(1,740)	(872)	–	(872)
– 2008 interim dividend	394	–	–	–	–	(790)	(396)	–	(396)
– Employee share-based payments	–	–	–	20	–	–	20	–	20
– Employee share options exercised	29	–	–	(2)	–	–	27	–	27
– Total comprehensive income for the year	–	(210)	(129)	–	21	8,326	8,008	(2)	8,006
Balance as at 31 December 2008	41,119	960	(154)	25	63	55,788	97,801	21	97,822

## 1 Statement of Compliance

These summary financial statements have been prepared from the audited financial statements of MTR Corporation Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) and the Group’s interest in non-controlled subsidiaries and associates for the year ended 31 December 2009.

These summary financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), and accounting principles generally accepted in Hong Kong. The HKFRSs are fully converged with International Financial Reporting Standards in all material respects.

The HKICPA has issued the following new HKFRS, amendments to HKFRSs or new Interpretations (“HK(IFRIC)”) that are first effective for the current accounting period of the Group and relevant to the Group’s financial statements:

- HKFRS 8, *Operating segments*
- HKAS 1 (revised 2007), *Presentation of financial statements*
- Improvements to HKFRSs (2008)
- Amendments to HKAS 27, *Consolidated and separate financial statements – cost of an investment in a subsidiary, jointly controlled entity or associate*
- Amendments to HKFRS 7, *Financial instruments: Disclosures – improving disclosures about financial instruments*
- HKAS 23 (revised 2007), *Borrowing costs*
- Amendments to HKFRS 2, *Share-based payment – vesting conditions and cancellations*
- HK(IFRIC) 13, *Customer loyalty programmes*
- HK(IFRIC) 15, *Agreements for the construction of real estate*
- HK(IFRIC) 16, *Hedges of a net investment in a foreign operation*
- HK(IFRIC) 18, *Transfers of assets from customers*

The “Improvements to HKFRSs (2008)” comprise a number of minor and non-urgent amendments to a range of HKFRSs which the HKICPA has issued as an omnibus batch of amendments. Of these, only the amendments to HKAS 40, *Investment property* have resulted in a change to the Group’s accounting policies. Following the amendment, investment properties that are being constructed are carried at fair value. Gains or losses arising from the changes in the fair values are recognised in profit and loss account. This new policy has been applied prospectively with effect from 1 January 2009 and corresponding amounts of previous period have not been restated.

HK(IFRIC) 18 applies to transfers of assets from customers prospectively for assets received on or after 1 July 2009. Previously, the Group did not account for such transfers in the accounts. With the adoption of HK(IFRIC) 18, such transfers have been accounted for as increases in assets with corresponding increases in deferred income. The assets are depreciated and charged to the profit and loss account while the deferred income is amortised and recognised as income in the profit and loss account over the useful lives of the assets.

The adoption of HKFRS 8, HKAS 1 (revised 2007) and HKFRS 7 has disclosure impacts on the Group’s 2009 annual accounts. Other HKFRS developments have no material impact on the Group’s 2009 annual accounts as the amendments and interpretations are consistent with policies already adopted by the Group.

## 2 Rail Merger with Kowloon-Canton Railway Corporation (“KCRC”)

On 2 December 2007 (the “Appointed Day”), the Company’s operations merged with those of KCRC (“Rail Merger”). The structure and key terms of the Rail Merger were set out in a series of transaction agreements entered into between, inter alia, the Government of the Hong Kong Special Administrative Region, KCRC and the Company including the Service Concession Agreement, Property Package Agreements and Merger Framework Agreement. Key elements of the Rail Merger include the following:

- The expansion of the Company’s existing franchise under the Mass Transit Railway Ordinance (“MTR Ordinance”) to cover the construction, operation and regulation of railways in addition to the MTRC railway for an initial period of 50 years from the Appointed Day (“Franchise Period”), which may be extended pursuant to the provisions of the MTR Ordinance;
- The Service Concession Agreement (“SCA”) pursuant to which KCRC granted the Company the right to access, use and operate the KCRC system for an initial term of 50 years (the “Concession Period”), which will be extended if the Franchise Period (as it relates to the KCRC railway) is extended. The SCA also sets out the basis on which the KCRC system will be returned at the end of the Concession Period. In accordance with the terms of the SCA, the Company paid an upfront lump sum to KCRC on the Appointed Day and is obliged to pay an annual fixed payment to KCRC for the duration of the Concession Period. Additionally, commencing after three years from the Appointed Day, the Company is obliged to pay an annual variable fee to KCRC based on the revenue generated from the KCRC system above certain thresholds;
- Under the SCA, the Company is responsible for the expenditure incurred in relation to the maintenance, repair, replacement and upgrade of the KCRC system (with any new assets acquired being classified as “additional concession property”). To the extent that such expenditure exceeds an agreed threshold (“Capex Threshold”), the Company will be reimbursed for any above threshold expenditure at the end of the Concession Period with such reimbursement to be on the basis of depreciated book value;

## 2 Rail Merger with Kowloon-Canton Railway Corporation ("KCRC") (continued)

- In the event that the Concession Period is extended, the fixed annual payment and the variable annual payment will continue to be payable by the Company. On such extension, the Capex Threshold may also be adjusted;
- Property Package Agreements whereby property assets comprising certain investment and own-used properties, property management rights and property development rights were acquired by the Company;
- Merger Framework Agreement setting out the framework for the Rail Merger including the implementation of the Fare Adjustment Mechanism whereby the extent to which fares may be adjusted is linked to certain public indices, the provision of a fare reduction starting from the Appointed Day and the guarantee of job security for front line staff employed at the time of the Rail Merger;
- Pursuant to the above and the vesting and novation of certain contracts, the Company assumed certain assets and liabilities of KCRC on the Appointed Day. The assumption of the liabilities of deposits refundable to third parties was subject to compensation by KCRC on the Appointed Day; and
- Other post-Appointed Day arrangements between the Company and KCRC such as the arrangements documented by the Kowloon Southern Link Project Management Agreement, the West Rail Agency Agreement and the Outsourcing Agreement.

## 3 Remuneration of Members of the Board and the Executive Directorate

### A Remuneration of Members of the Board and the Executive Directorate

(i) The emoluments of the Members of the Board and the Executive Directorate of the Company were as follows:

in HK\$ million	Fees	Base pay, allowances and benefits in kind	Retirement scheme contribution	Variable remuneration related to performance	Total
<b>2009</b>					
Members of the Board					
– Raymond Ch'ien Kuo-fung	1.2	–	–	–	1.2
– Cheung Yau-kai (retired on 4 June 2009)	0.1	–	–	–	0.1
– Vincent Cheng Hoi-chuen (appointed on 10 July 2009)	0.1	–	–	–	0.1
– Christine Fang Meng-sang	0.3	–	–	–	0.3
– Edward Ho Sing-tin	0.4	–	–	–	0.4
– Ng Leung-sing	0.3	–	–	–	0.3
– Abraham Shek Lai-him	0.3	–	–	–	0.3
– T. Brian Stevenson	0.4	–	–	–	0.4
– Ceajer Chan Ka-keung	0.3	–	–	–	0.3
– Eva Cheng	0.3	–	–	–	0.3
– Alan Wong Chi-kong (upto 16 August 2009)	0.2	–	–	–	0.2
– Joseph Lai Yee-tak (since 17 August 2009)	0.1	–	–	–	0.1
Members of the Executive Directorate					
– Chow Chung-kong	–	6.5	–*	7.3	13.8
– Russell John Black	–	4.5	1.0	1.9	7.4
– William Chan Fu-keung	–	4.3	0.9	1.9	7.1
– Thomas Ho Hang-kwong	–	4.6	0.9	1.9	7.4
– Lincoln Leong Kwok-kuen	–	4.7	0.8	2.0	7.5
– Andrew McCusker	–	4.5	0.9	1.9	7.3
– Leonard Bryan Turk	–	4.3	0.9	1.9	7.1
	4.0	33.4	5.4	18.8	61.6

\* C K Chow participates in the Company's Mandatory Provident Fund Scheme. The total contributions paid by the Company in each of the years 2008 and 2009 were HK\$12,000.

### 3 Remuneration of Members of the Board and the Executive Directorate *(continued)*

#### A Remuneration of Members of the Board and the Executive Directorate *(continued)*

in HK\$ million	Fees	Base pay, allowances and benefits in kind	Retirement scheme contribution	Variable remuneration related to performance	Total
2008					
Members of the Board					
– Raymond Ch'ien Kuo-fung	1.2	–	–	–	1.2
– Cheung Yau-kai	0.3	–	–	–	0.3
– David Gordon Eldon (retired on 29 May 2008)	0.1	–	–	–	0.1
– Christine Fang Meng-sang	0.3	–	–	–	0.3
– Edward Ho Sing-tin	0.4	–	–	–	0.4
– Lo Chung-hing (retired on 29 May 2008)	0.2	–	–	–	0.2
– Ng Leung-sing	0.3	–	–	–	0.3
– Abraham Shek Lai-him	0.3	–	–	–	0.3
– T. Brian Stevenson	0.4	–	–	–	0.4
– Ceajer Chan Ka-keung	0.3	–	–	–	0.3
– Eva Cheng	0.3	–	–	–	0.3
– Alan Wong Chi-kong	0.3	–	–	–	0.3
Members of the Executive Directorate					
– Chow Chung-kong	–	6.7	–*	8.6	15.3
– Russell John Black	–	4.3	0.2	2.7	7.2
– William Chan Fu-keung	–	4.4	0.2	2.6	7.2
– Thomas Ho Hang-kwong	–	4.4	0.2	2.6	7.2
– Lincoln Leong Kwok-kuen	–	4.8	0.7	2.7	8.2
– Francois Lung Ka-kui (left service on 31 December 2008)	–	3.6	0.5	1.7	5.8
– Andrew McCusker	–	4.4	0.2	2.3	6.9
– Leonard Bryan Turk	–	4.2	0.2	2.6	7.0
	4.4	36.8	2.2	25.8	69.2

In addition, C K Chow was entitled to receive an equivalent value in cash of 418,017 shares on completion of his three-year contract ended on 30 November 2009. Pursuant to this contract and following the completion of the contract period, HK\$11.3 million was paid to C K Chow on 1 December 2009.

The above emoluments do not include the fair value of share options, as estimated at the date of grant which is defined as the date of acceptance of the offer to grant the option. The fair values of the share options awarded to Members of the Executive Directorate are as follows:

(a) Options vested under the New Joiners Share Option Scheme (the "New Option Scheme") in 2008

Francois K K Lung, who left service on 31 December 2008, was granted options in respect of 1,066,000 shares under the New Option Scheme on 22 March 2007, of which 711,000 options were vested in 2008 and the respective fair value of the share-based payments recognised for the year ended 31 December 2008 was HK\$1.6 million.

(b) Options vested under the 2007 Share Option Scheme (the "2007 Option Scheme") in 2008 and 2009

Share options were granted to Members of the Executive Directorate under the Company's 2007 Option Scheme, which were offered to them on 10 December 2007, 8 December 2008 and 8 December 2009. The entitlements of each of the Members are as follows:

- C K Chow was granted options in respect of 720,000 shares on 13 December 2007 and 470,000 shares each on 9 December 2008 and 9 December 2009, of which 397,000 options were vested in 2009 (2008: 240,000), and the respective fair value of the share-based payments recognised for the year ended 31 December 2009 was HK\$1.7 million (2008: HK\$1.2 million);

### 3 Remuneration of Members of the Board and the Executive Directorate *(continued)*

#### A Remuneration of Members of the Board and the Executive Directorate *(continued)*

- Lincoln K K Leong and Leonard B Turk were each granted options in respect of 170,000 shares each on 12 December 2007, 9 December 2008 and 10 December 2009, of which 114,000 options were vested in 2009 (2008: 57,000), and the respective fair value of the share-based payments recognised for the year ended 31 December 2009 was HK\$0.5 million (2008: HK\$0.3 million) for each of them;
- Russell J Black was granted options in respect of 170,000 shares each on 12 December 2007 and 9 December 2008 and 42,500 shares on 10 December 2009, of which 114,000 options were vested in 2009 (2008: 57,000), and the respective fair value of the share-based payments recognised for the year ended 31 December 2009 was HK\$0.4 million (2008: HK\$0.3 million);
- Thomas H K Ho was granted options in respect of 170,000 shares each on 12 December 2007, 11 December 2008 and 14 December 2009, of which 114,000 options were vested in 2009 (2008: 57,000), and the respective fair value of the share-based payments recognised for the year ended 31 December 2009 was HK\$0.5 million (2008: HK\$0.3 million);
- Andrew McCusker was granted options in respect of 170,000 shares each on 12 December 2007, 12 December 2008 and 10 December 2009, of which 114,000 options were vested in 2009 (2008: 57,000), and the respective fair value of the share-based payments recognised for the year ended 31 December 2009 was HK\$0.5 million (2008: HK\$0.3 million);
- William F K Chan was granted options in respect of 170,000 shares each on 13 December 2007, 9 December 2008 and 10 December 2009, of which 114,000 options were vested in 2009 (2008: 57,000), and the respective fair value of the share-based payments recognised for the year ended 31 December 2009 was HK\$0.5 million (2008: HK\$0.3 million); and
- Francois K K Lung, who left office on 31 December 2008, was granted options in respect of 130,000 shares on 12 December 2007, of which 87,000 options were vested in 2008, and the respective fair value of the share-based payments recognised for the year ended 31 December 2008 was HK\$0.4 million.

Chew Tai-chong replaced Russell J Black, who retired from the Company on 31 January 2010, as Member of the Executive Directorate with effect from 1 February 2010. Under the 2007 Option Scheme, T C Chew was granted share option of 85,000 shares on 18 June 2009 and 170,000 shares on 10 December 2009, of which nil option was vested in 2009 (2008: nil), and the respective fair value of the share-based payments recognised for the year ended 31 December 2009 was HK\$0.1 million (2008: nil).

The details of directors' interest in the Company's shares are disclosed under the paragraph "Board Members' and Executive Directorate's Interests in Shares" of the Report of the Members of the Board.

(ii) On 12 April 2007, Lincoln K K Leong was granted a derivative interest in respect of 160,000 shares in the Company within the meaning of Part XV of the Securities and Futures Ordinance ("SFO"). The derivative interest represents Lincoln K K Leong's entitlement to receive an equivalent value in cash of 160,000 shares on 9 April 2010.

On 1 December 2009, C K Chow was granted a derivative interest in respect of 222,161 shares in the Company within the meaning of Part XV of the SFO. The derivative interest represents C K Chow's entitlement to receive an equivalent value in cash of 222,161 shares upon completion of his existing contract on 31 December 2011.

The arrangements were offered to C K Chow and Lincoln K K Leong in order to provide a competitive level of compensation which is also closely tied to the performance of the Company.

(iii) The aggregate emoluments of Members of the Board and the Executive Directorate for the year pursuant to section 161 of the Hong Kong Companies Ordinance was HK\$77.5 million (2008: HK\$74.2 million).

(iv) 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 (Chapter 556 of the Laws of Hong Kong)) 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. 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. In July 2006, he was re-appointed as the non-executive Chairman of the Company until 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 by notice published in the Gazette under the Rail Merger Ordinance, whichever was the earlier. On 8 August 2007, he was appointed as the non-executive Chairman of the Company after the Rail Merger for a term of two years commencing from 2 December 2007. On 11 November 2009, he was re-appointed as the non-executive Chairman of the Company with effect from 2 December 2009 to 31 December 2012.

All of the five individuals with the highest emoluments are Members of the Executive Directorate whose emoluments are disclosed above.

#### B Share Options

Options exercised and outstanding in respect of each Member of the Executive Directorate as at 31 December 2009 are set out under the paragraph "Board Members' and Executive Directorate's Interests in Shares" of the Report of the Members of the Board. Details of the options granted to Members of the Executive Directorate are as follows:

### 3 Remuneration of Members of the Board and the Executive Directorate *(continued)*

#### B Share Options *(continued)*

##### (i) Pre-Global Offering Share Option Scheme

Under the Company's Pre-Global Offering Share Option Scheme (the "Pre-IPO Option Scheme"), each Member of the Executive Directorate, except C K Chow, Lincoln K K Leong, Francois K K Lung, Andrew McCusker and T C Chew, was granted options on 20 September 2000 to acquire 1,066,000 shares. C K Chow, Lincoln K K Leong, Francois K K Lung and T C Chew joined the Company on 1 December 2003, 1 February 2002, 26 September 2005 and 11 May 2009 respectively, and are not beneficiaries of the Pre-IPO Option Scheme. Andrew McCusker was granted 266,500 options on 20 September 2000 under the Pre-IPO Option Scheme and no additional share options were granted upon his appointment as a Member of the Executive Directorate on 1 October 2005.

Under the vesting terms of the Pre-IPO Option Scheme, each eligible Member of the Executive Directorate must continue to beneficially own (i) at all times after 26 October 2001, at least 23,000 shares; and (ii) at all times after 26 October 2002, at least 46,000 shares, in each case, up to and including the date on which he has exercised his option in full or the date on which his option lapses (whichever is earlier).

##### (ii) New Joiners Share Option Scheme

Under the New Joiners Share Option Scheme (the "New Option Scheme"), Lincoln K K Leong and Francois K K Lung, Members of the Executive Directorate, were granted options to acquire 1,066,000 shares on 1 August 2003 and 27 September 2005 respectively.

Under the vesting terms of the New Option Scheme, Lincoln K K Leong must continue to beneficially own (i) at all times on and after 4 August 2004, at least 23,000 shares; and (ii) at all times on and after 4 August 2005, at least 46,000 shares, up to and including the date on which he has exercised his option in full or the date on which his option lapses (whichever is earlier).

Under the vesting terms of the New Option Scheme, Francois K K Lung was required to beneficially own at all times on and after 17 October 2006, at least 23,000 shares up to and including the date on which he has exercised his option in full or the date on which his option lapses (whichever is earlier). Francois K K Lung's options lapsed on 17 October 2006 in accordance with the terms of the New Option Scheme.

On 22 March 2007, Francois K K Lung was granted options to acquire 1,066,000 shares under the New Option Scheme. Under the vesting terms of the New Option Scheme, Francois K K Lung was required to beneficially own at all times on and after 9 April 2008, at least 23,000 shares up to and including the date on which he has exercised his options in full or the date on which his options lapse (whichever is earlier). In connection with the termination of his employment with the Company on 31 December 2008 and in accordance with the terms of the New Option Scheme, 711,000 options granted to Francois K K Lung under the New Option Scheme were vested and 355,000 options lapsed as at 31 December 2008.

##### (iii) 2007 Share Option Scheme

Under the 2007 Share Option Scheme (the "2007 Option Scheme"), all Members of the Executive Directorate were granted options to acquire shares in 2007, 2008 and 2009. C K Chow was granted options to acquire 720,000 shares in 2007 and 470,000 shares in both 2008 and 2009. William F K Chan, Thomas H K Ho, Lincoln K K Leong, Andrew McCusker and Leonard B Turk were each granted options to acquire 170,000 shares in each of 2007, 2008 and 2009. Russell J Black was granted options to acquire 170,000 shares in both 2007 and 2008 and 42,500 shares in 2009. Francois K K Lung was granted options to acquire 130,000 shares in 2007. T C Chew was granted options to acquire 85,000 shares in June 2009 and 170,000 shares in December 2009.

Under the vesting terms of the options granted in 2007, 2008 and 2009, options granted will be evenly vested in respect of their underlying shares over a period of three years from 10 December 2007, 8 December 2008, 12 June 2009 and 8 December 2009. However, in connection with the termination of his employment with the Company on 31 December 2008 and in accordance with the terms of the 2007 Option Scheme, 87,000 options granted to Francois K K Lung under the 2007 Option Scheme were vested and 43,000 options lapsed as at 31 December 2008.

## 4 Segmental Information

The Group manages its businesses by the various business executive committees. On first-time adoption of HKFRS 8, *Operating Segments* and in a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has identified the following six reportable segments.

**Hong Kong railway operations:** The operation of an urban mass transit railway system within Hong Kong, an Airport Express serving both the Hong Kong International Airport and the AsiaWorld-Expo at Chek Lap Kok, cross-boundary railway service, light rail and bus services in the north-west New Territories, intercity passenger services and freight business.

**Hong Kong station commercial activities:** Commercial activities including letting of advertising, retail and car parking space at railway stations, bandwidth services on the railway telecommunication system and rail related subsidiaries' businesses in Hong Kong.

**Hong Kong property rental and management:** The letting of office, retail and car parking space in investment properties and the provision of estate management services in Hong Kong.

**Railway franchises outside of Hong Kong:** The operation and maintenance of mass transit railway systems outside Hong Kong including station commercial activities in relation to the railway systems.

#### 4 Segmental Information (continued)

Property developments: Property development at locations relating to the railway system in Hong Kong.

All others: Including operations relating to the Ngong Ping 360, railway consultancy services, rental and estate management services in Mainland of China and share of profits of non-controlled subsidiaries and associates.

The results of the reportable segments and reconciliation to the corresponding consolidated totals in the accounts are shown below:

in HK\$ million	Turnover		Contribution to profit	
	2009	2008	2009	2008
Hong Kong railway operations	11,530	11,504	2,123	2,183
Hong Kong station commercial activities	2,741	2,894	2,329	2,475
Hong Kong property rental and management	2,633	2,432	2,010	1,889
Railway franchises outside of Hong Kong	1,043	–	5	–
All others	850	798	262	46
	<b>18,797</b>	17,628	<b>6,729</b>	6,593
Property developments			<b>3,554</b>	4,670
			<b>10,283</b>	11,263
Project studies and business development expenses			<b>(206)</b>	(198)
Merger related expenses			<b>(12)</b>	(53)
Interest and finance charges			<b>(1,504)</b>	(1,998)
Change in fair value of investment properties			<b>2,798</b>	(146)
Share of profits of non-controlled subsidiaries and associates			<b>160</b>	159
Income tax			<b>(1,880)</b>	(747)
Profit for the year			<b>9,639</b>	8,280

in HK\$ million	Assets		Liabilities	
	2009	2008	2009	2008
Hong Kong railway operations	102,826	91,653	24,071	13,215
Hong Kong station commercial activities	2,087	1,161	982	926
Hong Kong property rental and management	41,498	38,309	1,048	1,027
Railway franchises outside of Hong Kong	6,478	2,812	1,764	286
Property developments	13,246	20,107	4,721	1,626
All others	2,203	2,367	118	176
	<b>168,338</b>	156,409	<b>32,704</b>	17,256
Unallocated assets and liabilities	<b>8,156</b>	2,929	<b>37,337</b>	44,260
Total	<b>176,494</b>	159,338	<b>70,041</b>	61,516

Unallocated assets and liabilities mainly comprise derivative financial assets and liabilities, corporate assets, interest-bearing loans and borrowings.

The following table sets out information about the geographical location of the Group's revenue from external customers and the Group's fixed assets, property management rights, railway construction in progress, property development in progress, deferred expenditure, prepaid land lease payments and interests in non-controlled subsidiaries and associates ("specified non-current assets"). The geographical location of customers is based on the location at which the services were provided or goods were delivered. The geographical location of the specified non-current assets is based on the physical location of the asset, in the case of property, plant and equipment, railway construction in progress and property development in progress; the location of the operation to which they are allocated, in the case of service concession assets and property management rights; and the location of operation, in the case of interests in non-controlled subsidiaries and associates.

#### 4 Segmental Information (continued)

in HK\$ million	Revenue from external customers		Specified non-current assets	
	2009	2008	2009	2008
Hong Kong (place of domicile)	17,525	17,367	142,211	140,790
Australia	549	3	43	–
Mainland of China	148	161	4,390	2,456
Sweden	494	–	124	–
Other countries	81	97	40	25
	1,272	261	4,597	2,481
	18,797	17,628	146,808	143,271

#### 5 Fixed Assets and Railway Construction in Progress

##### A Investment Properties

in HK\$ million	2009	2008
Cost or valuation		
At 1 January	37,737	37,723
Additions	123	108
Disposal	(17)	–
Change in fair value	2,798	(146)
Reclassification from assets under construction (note 5B)	352	–
Transfer from assets under construction (note 5B)	–	98
Transfer to self-occupied land and buildings (note 5B)	–	(46)
At 31 December	40,993	37,737
Long leases	1,591	1,575
Medium-term leases	39,402	36,162
	40,993	37,737

Following the amendment to HKAS 40, *Investment property*, the costs of the partially renovated shell of the retail shopping centre at Kowloon Station ("Elements") and the relating further renovation expenditure, which were classified as other property, plant and equipment and amounted to HK\$352 million as at 31 December 2008, have been re-classified as investment properties starting from 1 January 2009.

## 5 Fixed Assets and Railway Construction in Progress (continued)

### B Other Property, Plant and Equipment

in HK\$ million	Self-occupied land and buildings	Civil works	Plant and equipment	Assets under construction	Total
<b>2009</b>					
Cost or Valuation					
At 1 January 2009	1,965	46,359	59,473	1,400	109,197
Additions	–	–	195	1,498	1,693
Capitalisation adjustments *	–	–	(6)	–	(6)
Disposals / Write-offs	–	(4)	(270)	(2)	(276)
Surplus on revaluation	155	–	–	–	155
Reclassification within other property, plant and equipment	–	4	(15)	11	–
Reclassification to investment properties (note 5A)	–	–	–	(352)	(352)
Transfer to additional concession property (note 5C)	–	–	(79)	(46)	(125)
Transfer from railway construction in progress (note 5D)	–	134	599	–	733
Other assets commissioned	–	14	1,129	(1,143)	–
At 31 December 2009	2,120	46,507	61,026	1,366	111,019
At Cost	–	46,507	61,026	1,366	108,899
At 31 December 2009 Valuation	2,120	–	–	–	2,120
Aggregate depreciation					
At 1 January 2009	–	4,612	26,781	–	31,393
Charge for the year	51	399	2,177	–	2,627
Written back on disposal	–	(3)	(235)	–	(238)
Transfer to additional concession property (note 5C)	–	–	(2)	–	(2)
Written back on revaluation	(51)	–	–	–	(51)
At 31 December 2009	–	5,008	28,721	–	33,729
<b>Net book value at 31 December 2009</b>	<b>2,120</b>	<b>41,499</b>	<b>32,305</b>	<b>1,366</b>	<b>77,290</b>
<b>2008</b>					
Cost or Valuation					
At 1 January 2008	2,240	46,471	58,820	1,037	108,568
Additions	–	–	75	1,351	1,426
Capitalisation adjustments *	–	(96)	5	–	(91)
Disposals / Write-offs	(36)	(15)	(316)	(2)	(369)
Deficit on revaluation	(285)	–	–	–	(285)
Reclassification	–	(4)	4	–	–
Transfer from/(to) investment properties (note 5A)	46	–	–	(98)	(52)
Other assets commissioned	–	3	885	(888)	–
At 31 December 2008	1,965	46,359	59,473	1,400	109,197
At Cost	–	46,359	59,473	1,400	107,232
At 31 December 2008 Valuation	1,965	–	–	–	1,965
Aggregate depreciation					
At 1 January 2008	–	4,236	24,888	–	29,124
Charge for the year	58	389	2,174	–	2,621
Capitalisation adjustments *	–	(6)	–	–	(6)
Written back on disposal	–	(7)	(281)	–	(288)
Written back on revaluation	(58)	–	–	–	(58)
At 31 December 2008	–	4,612	26,781	–	31,393
<b>Net book value at 31 December 2008</b>	<b>1,965</b>	<b>41,747</b>	<b>32,692</b>	<b>1,400</b>	<b>77,804</b>

\* Capitalisation adjustments relate to certain railway assets capitalised at time of commissioning based on contractors' claimed values. Such assets' final values have been adjusted following finalisation of contract claims with contractors at final contract values during the year.

Depreciation charge for the year was HK\$2,627 million (2008: HK\$2,615 million), comprising depreciation for the year of HK\$2,627 million (2008: HK\$2,621 million) less nil (2008: HK\$6 million) capitalisation adjustment.

## 5 Fixed Assets and Railway Construction in Progress (continued)

### C Service Concession Assets

in HK\$ million	KCRC Rail Merger		Shenzhen Line 4	Stockholm Metro	Total
	Initial concession property	Additional concession property			
<b>2009</b>					
Cost					
At 1 January 2009	15,226	572	–	–	15,798
Net additions during the year	–	486	1,889	88	2,463
Transfer from other property, plant and equipment (note 5B)	–	125	–	–	125
Transfer from deferred expenditure	–	–	1,650	–	1,650
At 31 December 2009	15,226	1,183	3,539	88	20,036
Accumulated amortisation					
At 1 January 2009	329	6	–	–	335
Charge for the year	305	42	–	1	348
Transfer from other property, plant and equipment (note 5B)	–	2	–	–	2
At 31 December 2009	634	50	–	1	685
<b>Net book value at 31 December 2009</b>	<b>14,592</b>	<b>1,133</b>	<b>3,539</b>	<b>87</b>	<b>19,351</b>
<b>2008</b>					
Cost					
At 1 January 2008	15,226	49	–	–	15,275
Net additions during the year	–	523	–	–	523
At 31 December 2008	15,226	572	–	–	15,798
Accumulated amortisation					
At 1 January 2008	25	–	–	–	25
Charge for the year	304	6	–	–	310
At 31 December 2008	329	6	–	–	335
Net book value at 31 December 2008	14,897	566	–	–	15,463

Initial concession property and additional concession property are in respect of the Group's right to access, use and operate the KCRC system pursuant to the Rail Merger (note 2). The cost of initial concession property comprises the balance of upfront payment of HK\$4,250 million net of HK\$326 million in respect of stores and spares acquired and the present value of the total fixed annual payments of HK\$750 million per annum discounted at the Company's estimated long-term incremental borrowing rate at inception of 6.75%. Additional concession property represents expenditure incurred in relation to the maintenance, repair, replacement and upgrade of the KCRC system.

On 18 March 2009, MTR Corporation (Shenzhen) Limited, a wholly-owned subsidiary of the Company, signed the Project Concession Agreement with the Shenzhen Municipal People's Government for a Build-Operate-Transfer project in respect of the construction of Phase 2 of Line 4 of Shenzhen Metro System ("Shenzhen Line 4") and the operation of both Phases 1 and 2 of Shenzhen Line 4 for a term of 30 years. Service commencements of Phases 1 and 2 are expected in 2010 and 2011 respectively. Accordingly, costs incurred and eligible for capitalisation, which was previously carried as deferred expenditure amounting to HK\$1,650 million, have been transferred to service concession assets and construction costs incurred during the year ended 31 December 2009 of HK\$1,889 million were recorded as service concession assets.

Service concession assets in respect of Stockholm Metro relates to the costs incurred between the announcement of the Group's winning of the tender on 20 January 2009 and the commencement of the franchise on 2 November 2009 for preparing the Group to operate Stockholm Metro. The concession property is amortised and charged to the consolidated profit and loss account over the term of the franchise.

## 5 Fixed Assets and Railway Construction in Progress *(continued)*

### D Railway Construction in Progress

in HK\$ million	Balance at 1 January	Transferred from deferred expenditure	Expenditure	Capitalised on commissioning (note 5B)	Balance at 31 December
<b>2009</b>					
<b>LOHAS Park Station Project</b>					
Construction costs	490	-	50	(540)	-
Consultancy fees	13	-	-	(13)	-
Staff costs and other expenses	114	-	11	(125)	-
Finance costs	41	-	14	(55)	-
	<b>658</b>	<b>-</b>	<b>75</b>	<b>(733)</b>	<b>-</b>
<b>West Island Line</b>					
Construction costs	-	38	853	-	891
Consultancy fees	-	316	48	-	364
Staff costs and other expenses	-	318	100	-	418
Finance costs	-	2	10	-	12
Utilisation of government funding support	-	(400)	(1,285)	-	(1,685)
	<b>-</b>	<b>274</b>	<b>(274)</b>	<b>-</b>	<b>-</b>
<b>Total</b>	<b>658</b>	<b>274</b>	<b>(199)</b>	<b>(733)</b>	<b>-</b>
<b>2008</b>					
<b>LOHAS Park Station Project</b>					
Construction costs	314	-	176	-	490
Consultancy fees	11	-	2	-	13
Staff costs and other expenses	81	-	33	-	114
Finance costs	18	-	23	-	41
	<b>424</b>	<b>-</b>	<b>234</b>	<b>-</b>	<b>658</b>
<b>Total</b>	<b>424</b>	<b>-</b>	<b>234</b>	<b>-</b>	<b>658</b>

## 6 Bonds and Notes Issued and Redeemed

Bonds and notes issued during the year ended 31 December 2009 and 2008 comprise:

in HK\$ million	2009		2008	
	Principal amount	Net consideration received	Principal amount	Net consideration received
Debt issuance programme notes	500	500	1,750	1,750

The net proceeds received from the above issues were used for general working capital, refinancing or other corporate purposes.

During the year ended 31 December 2009, the Group redeemed HK\$1,300 million (2008: HK\$1,000 million) of its unlisted debt securities and US\$750 million (2008: nil) of its listed debt securities.

## 7 Other Information

These summary financial statements are only a summary of information in the Group's 2009 Annual Accounts. It is not the Group's statutory financial statements and it does not contain sufficient information to allow as full an understanding of the results and state of affairs of the Group as would be provided by the full Annual Report and Accounts. The full 2009 Annual Report is available in electronic form on the Company's website at [www.mtr.com.hk](http://www.mtr.com.hk). A printed copy of the 2009 Annual Report can be obtained free of charge by writing to the Company's share registrar or the Company's Corporate Relations Department. Their details are listed on page 80 of this Summary Financial Report.

## Auditor's Statement on the Summary Financial Report to the Shareholders of MTR Corporation Limited

(Incorporated in Hong Kong with limited liability)

We have examined the summary financial report of MTR Corporation Limited for the year ended 31 December 2009 on pages 1 to 78 and the front and back cover pages.

### Respective Responsibilities of Directors and Auditor

Under the Hong Kong Companies Ordinance, the directors are responsible for preparing the summary financial report which complies with section 141CF(1) of the Hong Kong Companies Ordinance. In preparing the summary financial report, section 141CF(1) of the Hong Kong Companies Ordinance requires that the summary financial report be derived from the annual accounts and the auditor's report thereon and the report of the Members of the Board for the year ended 31 December 2009, be in such form and contain such information and particulars as specified in section 5 of the Hong Kong Companies (Summary Financial Reports of Listed Companies) Regulation, and be approved by the board of directors.

It is our responsibility to form an independent opinion on the summary financial report, based on our examination, and to report our opinion solely to you, as a body, and we are also required to state whether the auditor's report on the annual accounts for the year ended 31 December 2009 is qualified or otherwise modified, in accordance with section 5 of the Hong Kong Companies (Summary Financial Reports of Listed Companies) Regulation, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this statement.

### Basis of Opinion

We conducted our engagement in accordance with Hong Kong Standards on Assurance Engagements and with reference to Practice Note 710 "The auditors' statement on the summary financial report" issued by the Hong Kong Institute of Certified Public Accountants. Our examination includes examining evidence supporting the consistency of the summary financial report with the annual accounts and the auditor's report thereon and the report of the Members of the Board for the year ended 31 December 2009, and the compliance of the summary financial report with the requirements of section 5 of the Hong Kong Companies (Summary Financial Reports of Listed Companies) Regulation, and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

### Opinion

Based on the foregoing, in our opinion the summary financial report on pages 1 to 78 and the front and back cover pages:

- (a) is consistent with the annual accounts and the auditor's report thereon and the report of the Members of the Board of MTR Corporation Limited for the year ended 31 December 2009 from which it is derived; and
- (b) complies with the requirements of section 5 of the Hong Kong Companies (Summary Financial Reports of Listed Companies) Regulation.

We have audited the annual accounts of MTR Corporation Limited for the year ended 31 December 2009 and have issued an auditor's report thereon dated 9 March 2010 which is unqualified or otherwise unmodified.

KPMG

Certified Public Accountants

8th Floor, Prince's Building  
10 Chater Road  
Central, Hong Kong  
9 March 2010

### Financial Calendar 2010

Announcement of 2009 annual results	9 March
Last day to register for 2009 final dividend	29 March
Book closure period	30 March to 9 April (both dates inclusive)
Annual General Meeting	27 May
2009 final dividend payment date	On or about 15 June
Announcement of 2010 interim results	August
2010 interim dividend payment date	October
Financial year end	31 December

### Principal Place of Business and Registered Office

MTR Corporation Limited, incorporated and domiciled in Hong Kong MTR Headquarters Building, Telford Plaza, Kowloon Bay, Kowloon, Hong Kong

Telephone: (852) 2993 2111

Facsimile: (852) 2798 8822

### Share Information

#### Listing

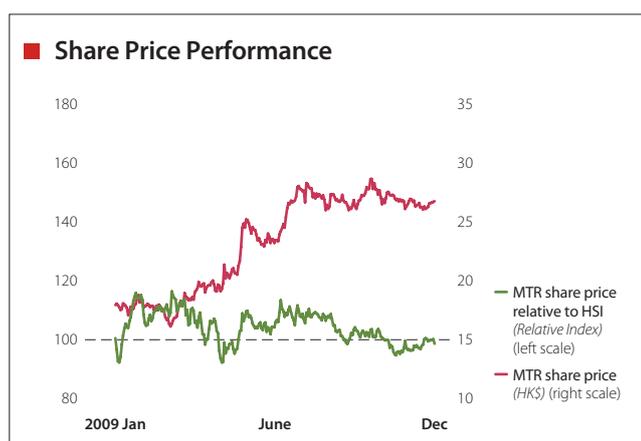
MTR Corporation Limited's shares are listed on the Stock Exchange of Hong Kong. In addition, shares are traded in United States through an American Depositary Receipt (ADR) Level 1 Programme sponsored by JP Morgan Depositary Receipts.

#### Ordinary Shares (as at 31 December 2009)

Shares outstanding	5,727,833,692 shares
Hong Kong SAR Government Shareholding	4,400,715,809 shares (76.8%)
Free float	1,327,117,883 shares (23.2%)

**Nominal Value** HK\$1 per share

**Market Capitalisation** (as at 31 December 2009) HK\$153,506 million



### Dividend Policy

Subject to the financial performance of the Company, the Board intends to follow a progressive dividend policy. We also expect to pay two dividends each financial year with interim and final dividends payable around October and June respectively.

### Dividend per Share (in HK\$)

2008 Total Dividend	0.48
2009 Interim Dividend	0.14
2009 Final Dividend	0.38

### ADR Level 1 Programme

Ordinary share to ADR ratio	10:1
Depository Bank	JPMorgan Depositary Receipts 4 New York Plaza, 13th Fl. New York, NY 10004

### Stock Codes

#### Ordinary Shares

The Stock Exchange of Hong Kong	66
Reuters	0066.HK
Bloomberg	66 HK

**ADR Level 1 Programme** MTRJY

### Annual Report 2009

Shareholders can obtain copies of our annual report by writing to:

Computershare Hong Kong Investor Services Limited,  
17M Floor, Hopewell Centre,  
183 Queen's Road East, Wan Chai, Hong Kong

If you are not a shareholder, please write to:

Corporate Relations Department, MTR Corporation Limited  
MTR Headquarters Building, Telford Plaza, Kowloon Bay,  
Kowloon, Hong Kong

Our annual/interim reports and accounts are also available online at our corporate website at <http://www.mtr.com.hk>

### Shareholder Services

Any matters relating to your shareholding, such as transfer of shares, change of name or address, and loss of share certificates should be addressed in writing to the Registrar:

Computershare Hong Kong Investor Services Limited  
Shops 1712-1716, 17th Floor, Hopewell Centre  
183 Queen's Road East, Wan Chai, Hong Kong

Telephone: (852) 2862 8628

Facsimile: (852) 2529 6087

### Shareholder Enquiries

Our enquiry hotline is operational during normal office hours:

Telephone: (852) 2881 8888

### Investor Relations

For enquiries from institutional investors and securities analysts, please contact:

Investor Relations Department, MTR Corporation Limited  
MTR Headquarters Building, Telford Plaza, Kowloon Bay,  
Kowloon, Hong Kong

Email: [investor@mtr.com.hk](mailto:investor@mtr.com.hk)





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Stock Code: 66