MTR

# Building on Strength

## Summary Financial Report 2008

This Summary Financial Report 2008 only gives a summary of the information and particulars of MTR's 2008 Annual Report 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.

You may obtain a printed copy of the 2008 Annual Report 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 77 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 77.

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.

# Building on Strength

The successful implementation of the Rail Merger and the achievement of merger synergies have enabled the Company to build a strong platform for the future as we continue to capture growth opportunities in Hong Kong, the Mainland of China and overseas. The planning and design of five new rail lines in Hong Kong and the construction of Kowloon Southern Link represent the most significant network expansion in the Company's history. Despite challenging economic conditions, we are maintaining our pursuit of prudent growth based on a strong balance sheet, satisfactory liquidity and steady recurrent income generated by our core businesses.

# Contents

# MTR Corporation at a Glance

The Rail Merger, now successfully completed in all aspects, significantly expanded the size, scale and geographic coverage of the business activities of the Company. At the same time, the growth momentum of the Company has continued with significant network expansion in Hong Kong and the capture of growth opportunities in the Mainland of China and overseas.

## Hong Kong Railway Operations

### 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 211.6 kilometres with 82 stations and 68 stops. The Integrated MTR System 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 providing convenient feeder services.

### 2008 Highlights

- The merger integration process was implemented smoothly, with the physical integration of the two networks achieved ahead of schedule
- For the period from 2 December 2007 to 31 December 2008, we exceeded all the performance levels required by Government and our own Customer Service Pledges targets
- Customer satisfaction levels recorded during the year by our regular surveys remained high
- The excellence of our service performance levels was again recognised in a large number of awards

## Station Commercial and Rail Related Businesses

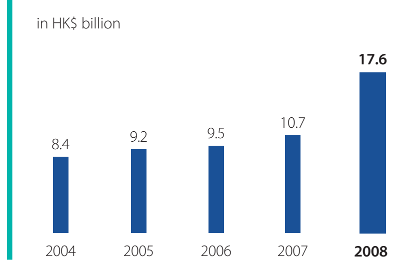

### Business Description

We leverage our railway assets and expertise into additional businesses, including rental of station retail units (such as Duty Free shops), advertising in trains and stations, telecommunications, rail consulting and freight services.

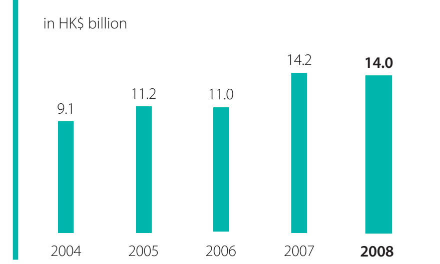
### 2008 Highlights

- The Rail Merger brought about increased scale and new business opportunities in the form of Duty Free shops
- Advertising innovations included the first digital escalator displays in Asia's metros and the renovated "The Galleria" in Causeway Bay Station
- 3G mobile phone coverage along the East Rail and Ma On Shan lines was fully launched
- Our consultancy business won an engineering and project management contract for the construction of the Delhi Airport Metro Express Line

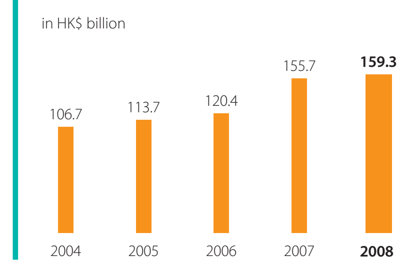
## Turnover




## Operating Profit before Depreciation and Amortisation (after Property Development Profit)




## Total Assets




## Property and Other Businesses

### Business Description

We develop mainly residential properties in conjunction with property developers. We own investment properties, principally shopping centres and offices, and manage our properties and others. Our investment portfolio includes 12 shopping centres and 18 floors of the Two International Finance Centre office tower.

### 2008 Highlights

- All units of The Capitol at LOHAS Park were pre-sold as well as about 80% of the units available at The Palazzo in Shatin
- The development package for Che Kung Temple on the Ma On Shan Line was awarded to a subsidiary of New World Development Company Limited
- Close to 100% occupancy was maintained at our shopping centres. The Company's 18 floors at Two International Finance Centre were fully rented out
- Ginza Mall continued to set new benchmarks for service and quality within the shopping centre industry in Beijing

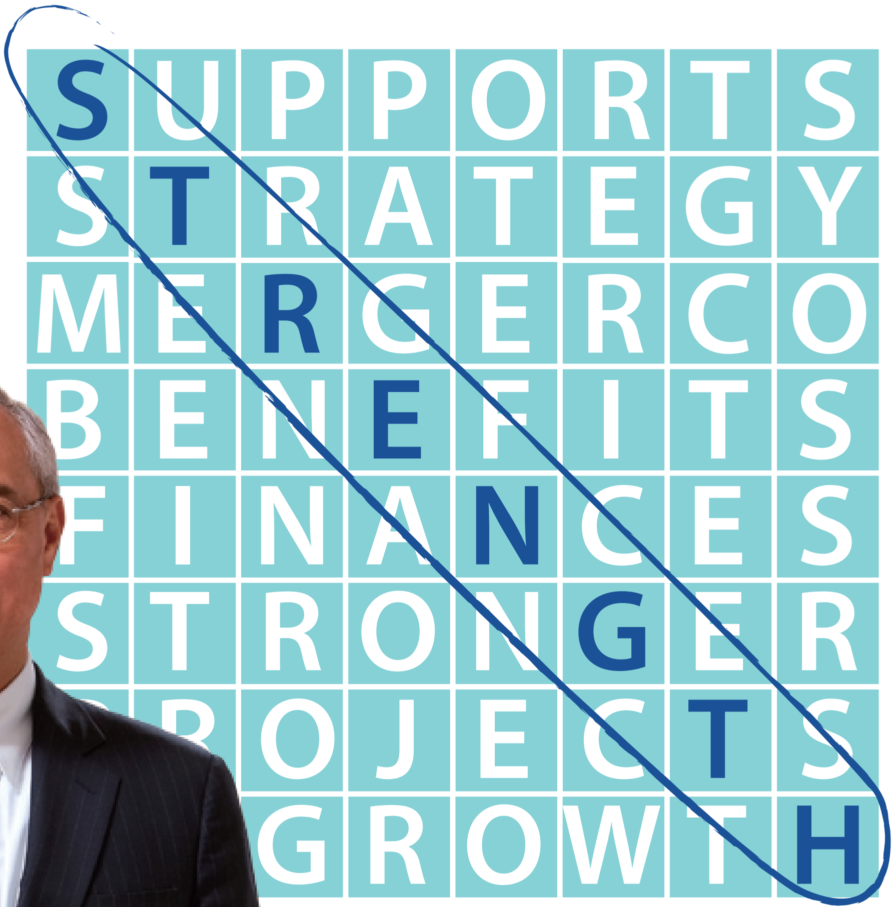
## Mainland and Overseas Growth

### 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 European markets that are privatised or opening to new entrants.

### 2008 Highlights

- Our joint venture London Overground Rail Operations Limited brought steady improvements to the London Overground
- Awarded the concession rights to operate the Stockholm Metro Concession
- Good progress was made on the Beijing Metro Line 4 project, while approval was gained for the Shenzhen Metro Line 4 project
- Entered into Agreements in Principle for the operation and maintenance of Shenyang Metro Lines 1 and 2 and a Memorandum of Understanding for the operation and maintenance of the Daxing Line in Beijing
- Entered into a Principle Agreement for the investment, construction and operation of Hangzhou Metro Line 1




"As a result, the Rail Merger delivered on its promise by strengthening our business and financial performance in the first full financial year of reporting."

**Dear Stakeholders,**

I am pleased to present to you the annual results of MTR Corporation for 2008.

They reflect three major successes. The Merger integration process progressed well both in terms of physical integration and alignment of resources. As a result, the Rail Merger delivered on its promise by strengthening our business and financial performance in the first full financial year of reporting. Secondly we made further advances in the approval, planning and design of five new rail lines in Hong Kong and in the construction of Kowloon Southern Link, representing the most significant network expansion in Hong Kong in the Company's history. Thirdly our projects in the Mainland of China and overseas made good progress. Despite the onset of volatile and uncertain economic conditions in the second half of the year, we maintained our pursuit of prudent growth based on a strong balance sheet, good liquidity and steady recurrent income generated by our core businesses.

The impact of the Rail Merger and buoyant economic conditions in the first half of the year enabled us to increase total revenue for 2008 by 64.9% to HK$17,628 million. Operating profit from railway and related businesses before depreciation and amortisation also increased by 57.7% to HK$9,325 million. However, property development profits in 2008 of HK$4,670 million were lower than in 2007 by HK$3,634 million due to the very significant development profits booked relating to Le Point in Tseung Kwan O in 2007. Hence, 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 4.5% to HK$8,185 million. Including investment property revaluation deficit of HK$146 million (HK$99 million surplus net of deferred tax after accounting for the reduction in Hong Kong Profits Tax rate), our net profit attributable to equity shareholders for 2008 was HK$8,284 million and earnings per share were HK$1.47. Your Board has declared a final dividend of HK$0.34, giving a full year dividend of HK$0.48 per share, which is an increase of 6.7% compared to 2007.

## Rail Merger

The merger integration process made strong progress throughout 2008. With the removal of the interchange ticket gates at Kowloon Tong, Mei Foo and Nam Cheong stations completed in November, passengers were able to enjoy truly seamless travel on the enlarged MTR network using only one ticket.

The year was also successful for the alignment of systems, divisional integration and training necessary for the full realisation of the Rail Merger. Increased patronage of the network saw the Company take the lead position in the public transport market in Hong Kong, while also becoming one of the largest employers with over 12,000 Hong Kong staff.

A new grading and salary structure for staff with aligned terms and conditions was implemented in March. We continued to work on creating harmonious staff relations, and we developed a new set of the Vision, Mission and Values for the Company. A large-scale review of energy efficiency was launched through benchmarking of best practices from both pre-merger rail operations, and we undertook a broad spectrum of training and development courses in the areas of railway safety and operations, multi-skilling and redeployment. Overall, we continued to achieve merger synergies, which when fully realised at the end of a three-year period are estimated at HK$450 million per year.

## Growth Strategy

Our post-merger growth strategy is focused on significant new rail development in Hong Kong and our continued expansion into the Mainland of China and overseas.

In Hong Kong, the Government's approval, in March and April, for the planning and design of the Shatin to Central Link, the Kwun Tong Line Extension to Whampoa and the Hong Kong section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link gave fresh impetus to our rail development plans. Together with the South Island Line (East) and West Island Line, for which approval to proceed with planning and design had previously been given by Government, these new lines together with the substantially completed Kowloon Southern Link (incorporating the new Austin Station) will add approximately 60 kilometres to our network. When completed, they will represent the largest home based network expansion in the history of our company. In Hong Kong, with the development of these five new rail lines, the Company will be better positioned to reach new catchment areas, capturing new customers and extending our service to even more communities.

In the Mainland of China, we made steady progress on the Beijing Metro Line 4 (BJL4) project, with train testing and production, and operations training proceeding on schedule

## "In Shenzhen, approval for the Shenzhen Metro Line 4 project has been obtained from the National Development and Reform Commission."

for the opening of the line in the fourth quarter of 2009. In November 2008, a Memorandum of Understanding was signed for the operation and maintenance of the Daxing Line, which is the extension of BJL4. In Shenzhen, approval for the Shenzhen Metro Line 4 (SZL4) project has been obtained from the National Development and Reform Commission. We are now completing final regulatory procedures to sign the Concession Agreement in the near future. Projects works will be expanded to cover the whole line. Meanwhile, preparation works for taking over SZL4 Phase 1 are also underway. During the year, we continued to pursue further investment opportunities in other key cities in the Mainland of China. In November 2008, we entered into three non-binding Agreements in Principle with Shenyang Municipal Government and Shenyang Metro Group Company Limited for the operations and maintenance of Shenyang Metro Lines 1 and 2 for a term of 30 years, exploring investment in future lines and for investigatory property development opportunities along Lines 1 and 2. In Hangzhou, we entered into a non-binding Principle Agreement with Hangzhou Municipal Government and Hangzhou Metro Group Company Limited for the investment, construction and operation of Hangzhou Metro Line 1, as well as an agreement to explore property development opportunities along metro corridors, in January 2009.

In Europe, our UK joint venture London Overground Rail Operations Limited (LOROL) steadily improved the operations of the London Overground following takeover of the concession in November 2007. London Overground serves West, East and North London and will provide a significant link for the 2012 Olympic Games. In Sweden, we were awarded the concession rights to operate for eight years the Stockholm Metro concession in January 2009.

To meet the significant demand on our human resources in supporting this phase of growth both in and outside of Hong Kong, we have embarked on a number of programmes to hire, train and retain personnel. These programmes include the recruitment of Hong Kong and Mainland graduates under the Graduate Trainee Programme and the Executive Associate Scheme.

### Sustainability

Concerns over the environment and the effects of unrestrained development on both social cohesion and the climate have become key business considerations for companies around the world. The Company continues to expand our commitment to fostering sustainable development and the well-being of the communities wherever we operate. As our new rail lines reach out to more communities in Hong Kong and our operations expand into the Mainland of China and overseas, we remain committed to becoming one of the most resource-efficient and ecologically sustainable railways and property service providers in the world.

In 2006, the Company adopted the MTR Corporation Climate Change Policy, which is modelled on the policy developed by the International Association of Public Transport (UITP). As Chair of the Sustainable Development Commission within the UITP, the Company played a significant role in developing these initiatives.

Several of the key actions under the Policy have been adopted and measured for impact under our internal Enterprise Risk Management Framework, particularly in regard to electricity consumption. The Rail Merger prompted a large-scale review of energy efficiency and synergy opportunities within the ex-Kowloon-Canton Railway Corporation's (KCRC) network as benchmarked against MTR Corporation's best practices, and a programme of enhancing asset efficiency began during the year. We also introduced energy efficiency as a major factor in the design of our capital works projects, beginning with our South Island Line (East) project. In addition, we have integrated life-cycle environmental concerns into the planning, design and construction of our new railway projects and property developments.

Our efforts to incorporate sustainability, environmental respect and best practice into all our business decisions continued to attract international recognition. In February, we were recognised as a Sustainability Leader within the global travel and tourism industry sector, and we won a Silver Class Award from SAM (Sustainable Asset Management). We also continued to be listed on the internationally recognised Dow Jones Sustainability Indexes and FTSE4Good Index series.

In May 2008 we published our seventh annual Sustainability Report 2007, *Building Capability*, which reflects our culture of continuous improvement. The Report offers our vision of the future challenges to our business from the changing physical environment and the benefits derived for the communities we serve. Our Sustainability Report 2007 was accredited the "Commendation for Excellent Communication Using the Internet" by the Association of Chartered Certified Accountants (ACCA) Hong Kong. This is the sixth consecutive year that our reporting has won an ACCA award.

In addition, we won the Hang Seng Pearl River Delta Environmental Award organised by the Federation of Hong Kong Industries and Hang Seng Bank. The award recognised our efforts in protecting the environment and embracing sustainability through our launching of a series of initiatives, including energy saving programmes in stations, recycling of industrial rechargeable batteries, construction of noise barriers and sustainability reporting.

## Care for the Community

The Company's vision has always been to grow with the communities that we serve. In this spirit, we launched many volunteering activities during the year and further expanded our established "art in mtr" programme, which stages cultural shows and exhibitions by local artists at stations to enhance the travelling experience. A community art and viaduct beautification programme for the Kwun Tong Line was completed in May, and temporary exhibitions were set up throughout 2008 at different MTR stations to promote the appreciation of art to our passengers. As the East Rail Line approaches its 100th birthday, a new architectural theme – "In touch with Nature" – was developed to guide major station improvement works in the future.

We continue to encourage MTR colleagues to take part in community service. During the year, there were 87 volunteering projects in our "More Time Reaching Community" scheme involving a total of 2,000 volunteers. In April, the fourth MTR HONG KONG Race Walking event was held in Central to encourage Hong Kong people to integrate regular exercise into their daily lives. The event raised HK$1.3 million for health education. Further community initiatives included a variety show presented by schoolchildren, the elderly and executives of the Corporation for 350 members of the Shek Kip Mei community, and our MTR Volunteers' participation in a rice dumpling delivery day to the lonely elderly. Once more, six social organisations nominated us for the Caring Company Logo 2008/09 in recognition of the Company's contributions to society through community involvement, staff volunteering and providing a safe and family friendly environment for our employees.

Natural disasters in the Mainland in 2008 were a severe blow to everyone. In February, we donated HK$1 million to the Hong Kong Red Cross to provide clothing and emergency supplies for the victims of the record snow falls in Central China, and HK$1 million to the All-China Federation of Railway Trade Unions to show our care and concern. In response to the tragic Sichuan earthquake in May, following an initial early donation of HK$1 million by the Company, MTR colleagues raised another HK$5.6 million, which was "dollar matched" in donation by the Company, bringing the total to HK$11.27 million. Moreover, our colleagues working in various offices in the Mainland raised a further RMB300,000, while in our shopping centres in Hong Kong, customers contributed an additional HK$2 million. Overall, donations from MTR Corporation, our employees and our customers reached more than HK$14.6 million for those struggling in the aftermath of the Sichuan earthquake.

The excellence of our Board governance, management and staff, the loyalty of our customers and the trust of our shareholders underpin the continuing successful performance of the Company.

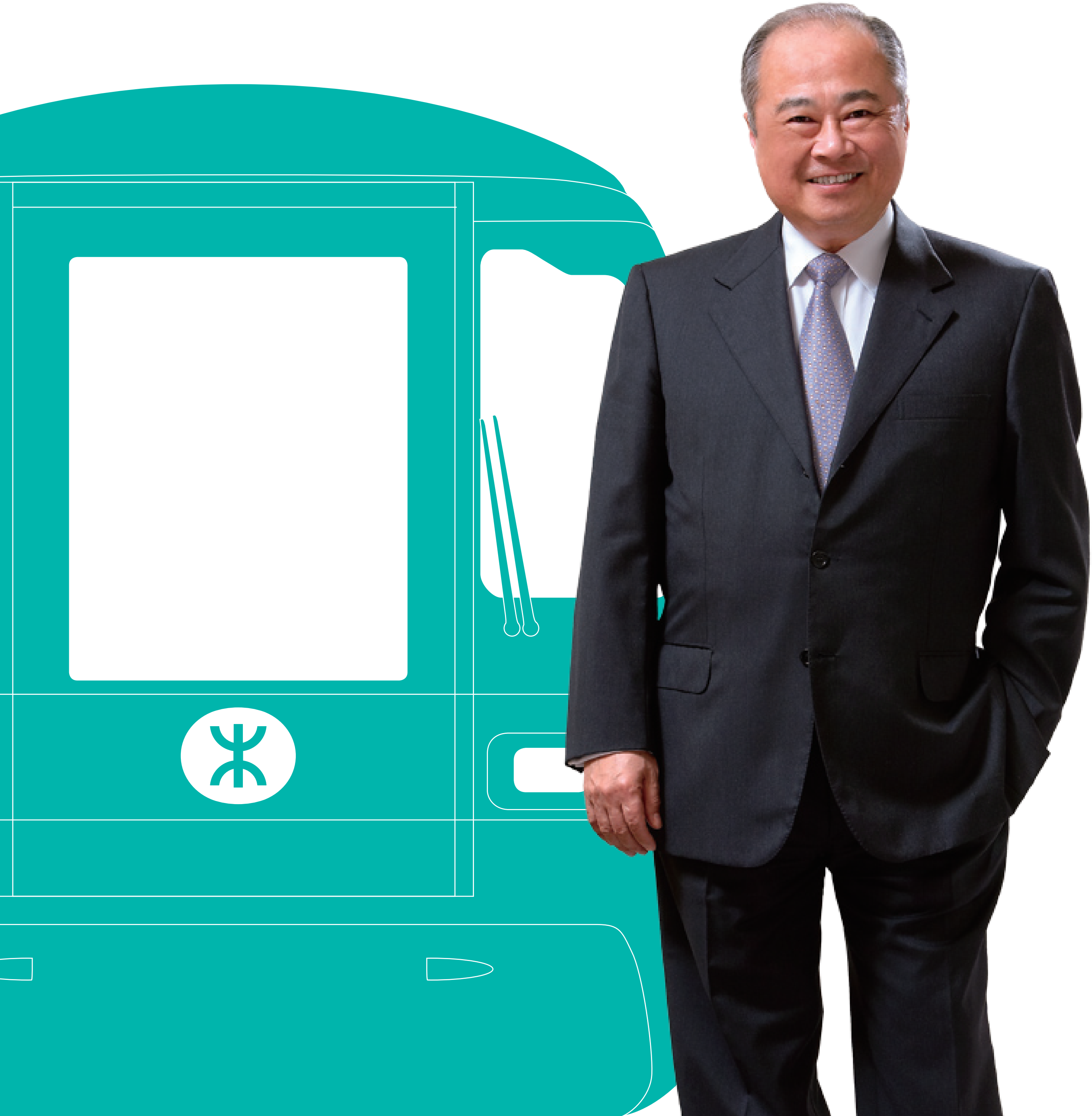
As we build on our legacy in the post-Rail Merger era, I would like to extend my warmest thanks to my fellow directors, our staff and all our stakeholders for their continued support in furthering our vision of sustainable growth. I would also like to express my gratitude to Professor Cheung Yau-kai, who will retire as an independent non-executive Director of the Company at our Annual General Meeting on 4 June 2009, for his significant contributions and long service to the Company.

Raymond K. F. Ch'ien

Dr. Raymond Ch'ien Kuo-fung, *Chairman,*
Hong Kong, 10 March 2009

# CEO's Review of Operations and Outlook

"The Rail Merger was successfully implemented, and we have delivered on all of the promises we made to our stakeholders."



## "With the strong financial results from our recurrent businesses, your Board has recommended a final dividend... brings the full year dividend to HK$0.48, an increase of 6.7% over 2007."

**Dear Stakeholders,**

I am pleased to report that 2008 was a successful year for the Company. The Rail Merger was successfully implemented, and we have delivered on all of the promises we made to our stakeholders. For our passengers, we pledged fare reduction, which was implemented immediately upon the Rail Merger, benefiting 2.8 million passengers. We promised job security for all of our front-line staff and this objective was achieved under the spirit of "One Company, One Team". We laid out a plan to integrate the two rail networks within one year of the Rail Merger. We have completed this plan through the physical integration of the three interchange stations in Kowloon Tong, Mei Foo and Nam Cheong in September 2008, more than two months ahead of schedule. For our shareholders, the Company's financial results in 2008 clearly demonstrate the benefits of the Merger. In addition, we have achieved synergies of over HK$350 million in 2008, ahead of schedule. The Rail Merger has made MTR Corporation a stronger company with the confidence to face the future.

After the Rail Merger, we turn our attention to growth. We forged ahead both in Hong Kong and overseas. In Hong Kong, the Government gave approval in March and April for the planning and design of the Shatin to Central Link, the Kwun Tong Line Extension to Whampoa and the Hong Kong section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link (Express Rail Link). These new lines together with the West Island Line and South Island Line (East), for which approval to proceed with planning and design had already been given, mean that in total the Company has five new lines in various stages of development. Our efforts in the Mainland of China and Europe continued to expand, with progress being made on our projects in Beijing and Shenzhen as well as in London. Elsewhere, we also made progress with potential projects in Hangzhou and Shenyang and we were awarded the Stockholm Metro operating concession.

The Company's financial results for 2008 reflect the significant impact of the Rail Merger as we made a step change in our recurrent businesses of rail, station commercial, investment property and property management. Despite the less than favourable economic climate caused by the global financial turmoil, our revenue increased by 64.9% to HK$17,628 million. Operating profit from railway and related businesses before depreciation and amortisation rose by 57.7% to HK$9,325 million. On the other hand, property development profits in 2008 of HK$4,670 million were lower than in 2007 by HK$3,634 million due to the very significant development profits realised relating to Le Point in Tseung Kwan O in 2007. Hence excluding the change in fair value of investment properties and related deferred tax, net profit from underlying businesses attributable to equity shareholders was HK$8,185 million, a slight decline of 4.5% from 2007. Reflecting the overall downturn in the Hong Kong property market, investment property revaluation deficit for the year was HK$146 million (HK$99 million surplus net of deferred tax after accounting for the reduction in Hong Kong Profits Tax rate) compared to a revaluation surplus of HK$8,011 million in 2007 (HK$6,609 million net of deferred tax). Therefore, net profit attributable to equity shareholders was HK$8,284 million. The reported earnings per share were HK$1.45 before investment property revaluation and HK$1.47 after such revaluation. With the strong financial results from our recurrent businesses, your Board has recommended a final dividend of HK$0.34, which when combined with the interim dividend of HK$0.14 per share, brings the full year dividend to HK$0.48, an increase of 6.7% over 2007.

"In 2008, total patronage for all of our rail and bus passenger services (Integrated MTR System) increased by 56.6% to 1,485.1 million as compared to last year mainly due to the Rail Merger."

## Operational Review

### Hong Kong Railway Operations

#### Patronage

In 2008, total patronage for all of our rail and bus passenger services (Integrated MTR System) increased by 56.6% to 1,485.1 million as compared to last year mainly due to the Rail Merger. On a "like for like" basis, such passenger numbers would have increased by 3.6% when compared with the combined rail and bus patronage numbers of MTR Corporation and pre-merger Kowloon Canton Railway Corporation (KCRC) (as adjusted for interchange passengers) in 2007 (Comparable Combined Patronage).

Our Domestic Service, which includes the MTR Lines (comprising the Kwun Tong, Tsuen Wan, Island, Tung Chung, Tseung Kwan O and Disneyland Resort lines) and the KCR Lines (comprising the East Rail excluding Cross-boundary Service, West Rail and Ma On Shan lines), recorded total patronage of 1,205.4 million. This represents an increase of 31.6% when compared with 2007 and 4.0% when compared with the equivalent Comparable Combined Patronage.

For the Cross-boundary Service at Lo Wu and Lok Ma Chau, patronage was 93.4 million for 2008, representing an increase of 1.4% when compared with 2007 as a result of the growth in cross-boundary traffic.

Passengers using the Airport Express in 2008 rose 4.2% to 10.6 million when compared with the same period last year due to an increase in the market share of Airport Express despite a drop in number of travelers using Hong Kong International Airport, coupled with an increase in passengers going to and from AsiaWorld-Expo.

Passenger volume on Light Rail, Bus and Intercity was 175.6 million in 2008, an increase of 2.5% when compared with full year patronage of such services in 2007.

#### Market Share

Our overall share of the franchised public transport market rose to 42.7% in December 2008 as compared to 41.6% in the same month last year. Our share of cross-harbour traffic rose to 63.6% from 62.5% in 2007, and our share of traffic to and from the airport rose to 24% from 23% in 2007. However our market share in the Cross-boundary business declined to 56.2% from 57.0% in 2007 due to continued strong competition.

#### Fare Revenue

Total fare revenue was HK$11,467 million in 2008, which represents an increase of 61.2% over last year. Such fare revenue represents a slight decrease of 0.3% over the combined fare revenue of the rail and bus services of MTR Corporation and pre-merger KCRC in 2007 due to fare reductions given at the time of the Rail Merger.

Fare revenue of the Domestic Service was HK$7,930 million in 2008, which represents an increase of 27.6% over last year. However, compared with the combined fare revenue of MTR Lines and KCR Lines in 2007 (Combined Fare Revenue), there was a slight decline of 1.0% mainly as a result of the fare reduction implemented on the Rail Merger Day and the extension of student concession fares to the KCR Lines, which was partly offset by the increased patronage mentioned above.

Fare revenue of the Cross-boundary Service was HK$2,283 million in 2008, which represents an increase of 1.2% when compared with the equivalent 12-month revenue for such service in 2007. Fare revenue of the Airport Express was HK$673 million in 2008, which represents an increase of 2.7% over 2007.

Average fare per passenger for the Domestic Service in 2008 was HK$6.58, a decrease of 3.0% compared with that of 2007 due to the one-off fare reduction implemented on the Rail Merger Day. For Cross-boundary Service, average fare per passenger in 2008 was HK$24.45, a slight decrease of 0.2% when compared with 2007. For the Airport Express, average fare per passenger in 2008 decreased marginally by 1.4% to HK$63.47.

### Attracting Patronage

In order to underpin patronage growth and to meet the high service levels expected by our customers, we continued to offer targeted promotions, as well as investing in service and efficiency improvements. Fare promotions included reduced fares for interchanging passengers from outlying island ferries as well as the extension of the student Concessionary Fare to cover the domestic services of East Rail, West Rail, Ma On Shan lines, Light Rail and MTR Bus. Special promotions were also offered to increase ridership for Cross-boundary Service and the Airport Express. To further enhance service, we brought into operation five 7-car new trains on the West Rail Line in the fourth quarter of 2008 as well as ordering an additional 10 new trains, to be delivered between 2011 to 2012, to increase train frequency on the existing Island, Kwun Tong, Tsuen Wan and Tseung Kwan O lines. Our intercity passengers also benefitted from the replacement of diesel-powered locomotives by electric-powered rolling stock on the Beijing/Shanghai-Kowloon Through Trains. We have renovated East Rail stations with the introduction of inspiring colours and graphics containing local heritage with better signage. This provides a refreshing ambience for our East Rail passengers.

Connectivity to our network was enhanced with additional pedestrian links and footbridges at Kowloon Bay and Sheung Wan stations. We also added seven more popular fare saver machines, bringing the total to 26 by the end of 2008.

### Service Performance

With the Rail Merger, a new Operating Agreement was established to include the East Rail Line, West Rail Line, Ma On Shan Line and Light Rail. For the period from the Merger Date of 2 December 2007 to 31 December 2008, we exceeded all the performance levels required by Government and our own more stringent Customer Service Pledges targets. Train service delivery, passenger journeys on time and train punctuality were 99.7% or above. The high standard of our service performance levels delivered by our dedicated staff was again recognised in a large number of awards, including the Best Metro Asia Pacific Award at The Metro Rail 2008, Sing Tao Daily's Excellent Services Brand Award 2007 – Public Transportation Category, Next Magazine's "Top Service Award – Transportation Category" for the 10th consecutive year and the Bronze Award in the Customer Service Excellence Awards 2007 organised by the Hong Kong Association for Customer Service Excellence Limited. Ktt, which provides intercity passenger service between Hong Kong and Guangzhou, won the 2008 Prime Award for Brand Excellence in Cross Boundary Transportation Services organised by Prime Magazine.

### Olympic Equestrian Event

A noteworthy event in the year was MTR Corporation's participation in the transportation of athletes, supporting personnel and spectators to the Equestrian Olympic venues in Hong Kong at Beas River and Shatin in August. Drawing on resources from across the Company, we ensured that passengers arrived at their venues safely, on time and in comfort.

## Station Commercial and Rail Related Businesses

Revenue for our station commercial and rail related businesses in 2008 was HK$3,449 million, representing an increase of 98.1% over 2007. The increase would have been 33.4% over the comparable combined revenue of MTR Corporation and pre-merger KCRC for such businesses in 2007 (Combined Non-fare Revenue).

Revenue for our station retail business in 2008, comprising duty free shops and kiosk rental, was HK$1,546 million, representing an increase of 209.8% over 2007 (42.3% increase over the equivalent Combined Non-fare Revenue). This increase was mainly due to the inclusion of retail shops along the KCR Lines, particularly the 10 duty free shops serving Cross-boundary customers. Further growth was provided by increased new retail area and new rental contracts being awarded at higher rents. Although there were repossession of shops to facilitate renovation works, 45 renovated shops were completed at 9 stations and 18 new trades were added. The total number of shops as at 31 December 2008 was 1,186. Total area of station retail space at 31 December 2008 was 51,539 square metres.

Advertising revenue in 2008 was HK$741 million, representing an increase of 25.0% when compared with 2007 (11.3% increase over the equivalent Combined Non-fare Revenue). In addition to the merger benefits, there were higher advertising rates and more innovative advertising formats. New advertising formats included "The Galleria" launched in the lower adit of Causeway Bay Station in May and the Digital Escalator Crown Bank at Causeway Bay, Tsim Sha Tsui and Central stations, which is the first of its kind in Asia's metro.

Revenue from telecommunications services in 2008 was HK$356 million representing an increase of 49.0% when compared with 2007 (an increase of 27.6% over the equivalent Combined Non-fare Revenue). This increase was mainly due to a one-off payment received on termination of a telecommunication license. Excluding this one-off income, revenue would have increased by 13.0% to HK$270 million as compared to 2007 (3.2% decline compared with the equivalent Combined Non-fare Revenue).

Revenue from consultancy was HK$158 million during 2008, a decrease of 18.1% when compared with 2007, due to the more focused strategy on consulting services and the completion of the majority of works on Shanghai Metro Line 9 Phase 1, which opened in December 2007.

## Property and Other Businesses

The Hong Kong property market performed strongly in the first half of 2008. Both office and retail markets enjoyed steady growth. However, with global credit market uncertainties developing into a global economic downturn, market activities slowed noticeably in the second half. Sale prices for residential units declined, and commercial rents started to consolidate.

### Property Development

Profit on property development for 2008 was HK$4,670 million, a decrease of 43.8% when compared with that of HK$8,304 million in 2007. This is mainly due to the very significant development profits booking in 2007, particularly for Le Point in Tseung Kwan O. The major contributors to property development profit were from profit recognition relating to The Capitol at LOHAS Park and The Palazzo in Shatin as well as the sale of units from inventory at Harbour Green and The Arch. In addition, there was deferred income recognition, mainly from properties along the Airport Railway, such as Coastal Skyline and Caribbean Coast in Tung Chung Station, and Elements in Kowloon Station.

Property sales in the year included the pre-sale of all 2,096 units of The Capitol at LOHAS Park, about 80% or 1,100 units of the 1,375 units available at The Palazzo in Shatin and over 470 units at Le Bleu Deux in Tung Chung.

In our property tendering activities, the development package for Che Kung Temple on the Ma On Shan Line was awarded to a subsidiary of New World Development Company Limited (Deluxe Sign Limited) in April. Similar to LOHAS Park Package 1, The Capitol, we paid half of the land premium for this development in return for a larger share of profits. As agent for the West Rail Line property development, we awarded Tsuen Wan West Station TW7 Property Development to a subsidiary of Cheung Kong (Holdings) Limited (Queensway Investments Limited) in September.

"Total revenue from property rental, property management and other businesses in 2008 was HK$2,712 million, an increase of 47.9% over 2007."

## Property Rental, Property Management and Other Businesses

Total revenue from property rental, property management and other businesses in 2008 was HK$2,712 million, an increase of 47.9% over 2007 (29.8% increase over the equivalent Combined Non-fare Revenue).

Demand for both office and retail space was strong in the first half of the year, but the rate of growth began to slow in the second half. Property rental income was HK$2,346 million, an increase of 48.4% over 2007 (28.8% increase over the equivalent Combined Non-fare Revenue). Visitors to the Company's retail centres remained strong throughout this year. The average increase in rental income of retail properties on renewal of leases or re-letting was 20% as compared to rental income achieved in the previous lettings.

We maintained close to 100% occupancy of our shopping centres. The Company's 18 floors at Two International Finance Centre were fully rented out.

At the end of December 2008, the Company's attributable share of investment properties was 221,661 square metres of lettable floor area of retail properties, and 41,059 square metres of lettable floor area of offices.

During the year, we continued to renovate our shopping centres to enhance their market appeal and competitiveness. Renovation works included the redevelopment of the cinema complex at Telford Plaza I. Our shopping centres were honoured with a variety of local and international awards. Elements, above Kowloon Station, won an international MIPIM award at the world's premier real estate summit in Cannes, France and the Urban Land Institute's 2008 Award for Excellence: Asia Pacific. The development was also named Project of the Year (Retail) in the Asia Pacific Real Estate Awards. Telford Plaza won the Prime Award for Eco-Business 2008 sponsored by Prime Magazine and the Hong Kong Service Award sponsored by East Weekly.

Ginza Mall, which opened in January 2007, continued to set new benchmarks for service and quality amongst shopping centres in Beijing. Average rental income increment for lease renewal and re-letting was 15% compared to 2007 and occupancy was 100%. The shopping centre received many awards and honours in its first full year of operation. These included being ranked No. 2 amongst the 156 major shopping centres and department stores in Beijing in a Customer Satisfaction Survey conducted by the Beijing Municipal Commerce Bureau.

Property management revenue in 2008 was HK$210 million, an increase of 25.0% over 2007 (a 15.4% increase over the equivalent Combined Non-fare Revenue). The number of residential units under our management totalled 73,947 as at the end of December, whilst commercial space under management was 770,556 square metres. Our managed property portfolio in the Mainland of China amounted to 1,158,254 square metres.

"Planning and design are underway for five new rail projects in Hong Kong, which together with the substantially completed Kowloon Southern Link, will extend our network by approximately 60 kilometres when they are all completed."

### Octopus and Ngong Ping 360

Octopus performed strongly in 2008 with our share of Octopus' net profits increasing 40.2% to HK$136 million. The growth in profit was mainly due to continued increases in non-transport retail payments.

The Ngong Ping cable car and associated theme village on Lantau Island contributed HK$156 million of revenue in 2008, with visitor numbers reaching more than 1.6 million.

## Future Growth

### Hong Kong

Planning and design are underway for five new rail projects in Hong Kong, which together with the substantially completed Kowloon Southern Link, will extend our network by approximately 60 kilometres when they are all completed. These five new lines represent the most significant network expansion in the Company's history and will make a considerable contribution to our growth.

In March, the Government gave approval for the planning and design of the Shatin to Central Link and the Kwun Tong Line Extension. The Shatin to Central Link comprises two sections. The 11-km East West Corridor, expected to complete in 2015, will extend the Ma On Shan Line from Tai Wai to Hung Hom, via Diamond Hill, and will connect with the West Rail Line. The 6-km North South Corridor, expected to be completed in 2019, will form Hong Kong's fourth rail harbour crossing, extending the East Rail Line from Hung Hom to Hong Kong Island. The preliminary design started in September 2008 with a view to developing a scheme to be gazetted under the Railways Ordinance in late 2009.

The 3-km Kwun Tong Line Extension will run from the existing Yau Ma Tei Station of 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 preliminary design started in June, and will be finished in early 2009. The project is expected to be completed in 2015.

In April, the Government asked the Company to proceed with the planning and design of the Express Rail Link, which will further enhance the strategic position of Hong Kong as the southern gateway to the Mainland of China. The 26-km Express Rail Link will provide cross-boundary high speed rail services connecting Hong Kong to Shenzhen, Guangzhou and the Mainland of China's new high speed intercity rail network. Trips to Futian in Shenzhen will take 14 minutes and to Guangzhou 48 minutes. The project was gazetted on 28 November 2008 and it is anticipated that construction will commence in late 2009 for completion by 2015.

Following the announcement of the Government's support for the planning and design of the South Island Line (East) in December 2007, preliminary design commenced in February 2008 and will be completed in early 2009. The final plan will be issued to Government for review and gazetting later in 2009.

The West Island Line was gazetted under the Railways Ordinance in October 2007. Frequent dialogue with, and input from local communities have led to a design that is sensitive to both local heritage and urban renewal opportunities for creating a "Community Railway". Detailed design commenced in early 2008, and construction is planned to commence in 2009 for completion in 2014.

In addition to the foregoing five new lines, satisfactory progress was made during 2008 on the Kowloon Southern Link, which incorporates the new Austin Station that will connect the existing East Rail Line's East Tsim Sha Tsui Station with West Rail Line's Nam Cheong Station. The main civil works, including the tunnel boring works, were substantially completed and the fitting out of the new Austin Station is rapidly approaching completion. The line is expected to open in the second half of 2009.

Phase 2 of the Tseung Kwan O Line is also on schedule for completion in the second quarter of 2009 to coincide with occupancy of The Capitol at LOHAS Park.

### Hong Kong Project Funding

As noted previously, the funding model for all 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 while the amount of the remaining portion, which forms the bulk of the total capital grant, is being discussed with Government.

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. Suitable sites have been identified and negotiations with the Government on the development rights are continuing.

The Service Concession model used in the Rail Merger will be adopted for Kowloon Southern Link, Shatin to Central Link and the Express Rail Link. On this basis, the Finance Committee of the Legislative Council of Hong Kong (LegCo) approved an amount of HK$2.4 billion in May to be used for design and site investigation works for the Shatin to Central Link, and an amount of HK$2.8 billion in July for similar works for the Express Rail Link. On 24 November 2008, we entered into Entrustment Agreements with Government entrusting the Company to design the Shatin to Central Link and Express Rail Link with costs to be borne by Government. Further funding arrangements for construction of these two lines will be made by Government at the appropriate time. The construction of the Kowloon Southern Link is being funded by KCRC as part of the Rail Merger agreement.

## Mainland of China and Overseas

Our projects in the Mainland of China and overseas continued to make good progress.

### Mainland of China

In Beijing, the Public-Private-Partnership (PPP) company comprising MTR Corporation (49%), Beijing Infrastructure Investment Co. Ltd. (2%) and Beijing Capital Group (49%) is making steady progress with construction work on the Beijing Metro Line 4 (BJL4) project. BJL4 is expected to commence operation in the fourth quarter of 2009. The Company, together with our PPP company partners, also signed a Memorandum of Understanding (MOU) on 27 November 2008 with Beijing Metro Daxing Line Investment Company Limited, a wholly owned subsidiary of Beijing Municipal Government, for the operation and maintenance of the 22-km Daxing Line of the Beijing Metro Network. Discussions are ongoing on the Concession Agreement for Daxing Line.

In Shenzhen, approval for the Shenzhen Metro Line 4 (SZL4) project has been obtained from the National Development and Reform Commission. We are now completing final regulatory procedures for signing the Concession Agreement in the near future. Project works will be expanded to cover the whole line. Meanwhile, preparation works for taking over SZL4 Phase 1 are also underway.

We continue to seek investment opportunities in other cities in the Mainland of China.

After being selected as the "preferred bidder" in July 2008, the Company entered into a non-binding Principle Agreement in January 2009 for a PPP project with Hangzhou Municipal Government and Hangzhou Metro Group Company Limited for the investment, construction and operation of Hangzhou Metro Line 1 for 25 years. At the same time we also entered into a strategic agreement with the same parties to explore property development opportunities along the Hangzhou Metro lines. We moved forward in our discussions with the Shenyang Government on cooperation in the operation of the 50-km Shenyang Metro Lines 1 and 2 and possible investment in future lines by entering into non-binding Agreements in Principle with Shenyang Municipal Government and Shenyang Metro Group Company Limited in November 2008. In addition, a further non-binding agreement was entered into to plan and explore property development opportunities along the Lines 1 and 2 alignment. Discussions in Hangzhou and Shenyang on Concession Agreements are now progressing.

### Europe

In the UK, our 50:50 joint venture London Overground Rail Operations Limited (LOROL) brought steady improvements to London Overground following the takeover of the concession in November 2007. Operational performance has been enhanced and 31 stations have undergone station upgrading works.

In Sweden, we submitted our bid for the Stockholm Metro concession in August 2008 and in January 2009, we were awarded the eight-year concession rights to operate the 108–km long, 100-station system.

## Financial Review

With the full-year effect of the Rail Merger, the Group achieved strong growth in revenue and operating profits from recurrent businesses in 2008. Total fare revenue increased by 61.2% to HK$11,467 million, comprising HK$7,930 million from Domestic Service, HK$2,283 million from Cross-boundary Service, HK$673 million from the Airport Express and HK$581 million from Light Rail, Intercity and Bus. Non-fare revenue increased by 72.3% to HK$6,161 million with HK$3,449 million from station commercial and rail related businesses and HK$2,712 million from property rental, management and other businesses. Total revenue for 2008 therefore increased by 64.9% to HK$17,628 million, and total operating costs for 2008 rose by 73.8% to HK$8,303 million. Operating profit from railway and related businesses before depreciation and amortisation increased by 57.7% to HK$9,325 million whilst operating margin decreased from 55.3% in 2007 to 52.9% in 2008 due to fare reduction at the time of the Rail Merger as well as the lower margin of the pre-merger KCRC businesses.

Owing to the significant property profit recognition from Le Point in Tseung Kwan O in 2007 and the decline in property prices in the latter part of 2008, property development profits decreased by 43.8% to HK$4,670 million in 2008, mainly comprising profits from The Capitol and The Palazzo. Operating profit before depreciation and amortisation therefore decreased slightly by 1.6% to HK$13,995 million. Depreciation and amortisation increased by 7% to HK$2,930 million mainly due to the Rail Merger while merger related expenses decreased by 72.5% to HK$53 million. Interest and finance charges increased by 51.8% to HK$1,998 million, mainly due to interest on debt taken on for the Rail Merger and the notional interest expense on the capitalised fixed annual payments for the Rail Merger. MTR's share of profits from Octopus Holdings Limited and London Overground Rail Operations Ltd totalled HK$159 million. A non-cash revaluation deficit of HK$146 million was recorded for investment property versus a large gain of HK$8,011 million in 2007. Including the above, the reported profit before tax decreased by 50.6% from 2007 to HK$9,027 million.

With the decrease in profits and the deferred tax impact from the reduction in profits tax rate from 17.5% to 16.5%, income tax decreased by 75.8% to HK$747 million. Reported profit attributable to shareholders of the Company in 2008 therefore decreased by 45.4% to HK$8,284 million, or HK$1.47 per share as compared with HK$2.72 in 2007.

“Cash flow of the Group in 2008 was strengthened by the Rail Merger with net cash inflow from railway and related businesses increasing by 49.3% to HK$8,921 million.”

Excluding investment property revaluation, the more representative net profit from underlying business attributable to shareholders of the Company decreased by 4.5% to HK$8,185 million, or HK$1.45 per share as compared with HK$1.54 in 2007. As stated earlier, this is the result of strong growth of profit from our recurrent businesses but lower property development profit when compared with the previous year.

The Group’s balance sheet showed a 7.5% increase in net assets from HK$91,037 million as at 31 December 2007 to HK$97,822 million as at 31 December 2008. Total assets increased from HK$155,668 million to HK$159,338 million mainly attributable to increases in accounts receivable and properties held for sale relating to property development as well as investments in new railway projects both in Hong Kong and the Mainland of China. Total liabilities decreased from HK$64,631 million in 2007 to HK$61,516 million mainly due to reduced loans outstanding and deferred income. Including obligations under the service concession as a component of debt, the Group’s net debt-to-equity ratio improved from 48.5% at 2007 year end to 42.1% at 2008 year end.

Cash flow of the Group in 2008 was strengthened by the Rail Merger with net cash inflow from railway and related businesses increasing by 49.3% to HK$8,921 million. Receipts from our property development business were HK$4,448 million. The Group also received HK$400 million of government grant for the West Island Line project as well as HK$132 million of loan repayments and dividend distribution from its non-controlled subsidiaries and associates. Total cash outflows, excluding the non-recurrent merger-related payments, increased by 88% to HK$9,887 million primarily due to new railway projects, increases in capital expenditures on the expanded railway network after the Rail Merger, payment for the half land premium for the Che Kung Temple property development as well as the fixed annual payment for the service concession. Therefore net cash inflow of HK$3,698 million was generated in 2008, which was used mainly to reduce debt.

The Board has recommended a final dividend of HK$0.34 per share, which, when added to the interim dividend of HK$0.14, will give a total dividend of HK$0.48 per share for the year, representing an increase of HK$0.03 or 6.7% as compared to last year. As in previous years, 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.

## Human Resources

The success of the Company is based on the commitment, professionalism and caring services of our staff. In the post-Rail Merger era, our goal is to create a culture of “One Company, One Team”, so the new grading and salary structure together with aligned terms and conditions of our 12,000 Hong Kong staff were implemented across the entire organisation on 1 March 2008. The entire selection and appointment process was completed in April.

To meet post-Rail Merger challenges, a broad range of training and development programmes was undertaken throughout the year, particularly in the areas of railway safety, railway operations and maintenance, multi-skilling, redeployment and new recruits. In addition, Mainland local recruits for BJL4 and SZL4 were given comprehensive training with job attachment in Hong Kong to ensure operational readiness of these two key new projects. We continued to develop management and leadership quality for the future of the Company with major ongoing programmes such as our Executive Associate Scheme and a Graduate Trainee Programme with graduates from both Hong Kong SAR and the Mainland of China.

With the expansion of the railway network in Hong Kong, substantial manpower resources are required for the planning, construction and operations of these new lines. An intensive Human Resources planning and recruitment programme has commenced in 2008 to address these needs and is making good progress.

## Outlook

Economic conditions globally and in Hong Kong remain uncertain with forecasts of negative economic growth in Hong Kong for 2009. Given these conditions, we are taking a cautious approach to 2009.

Our rail business is by nature defensive. It is, however, sensitive to the level of unemployment. We will benefit from incremental increase in passengers with the opening of Kowloon Southern Link and the Tseung Kwan O Line extension to LOHAS Park. Review of fares will be subject to the provisions of the Fare Adjustment Mechanism in July 2009. It should be noted that according to the agreed mechanism, if the calculated adjustment percentage is within ± 1.5%, no adjustment will take place in that year but the adjustment percentage will be carried forward to the next year. Our advertising business is more sensitive to economic conditions and together with the non-recurrence in 2009 of the one-off telecommunication termination revenue in 2008, will make 2009 a more challenging year for these two businesses.

Our station commercial and property rental businesses will be affected by rental renewals and reversions, which will be market dependent.

In our property development business, the second half of 2009 should see the issuance of the Occupation Permit for Phase 1 of LOHAS Park Package 2 comprising 1,688 units. As profit sharing for this property is based on "sharing in kind" , irrespective of sales, it will be accounted for based on the market value of those Phase 1 units due to MTR Corporation on the date of issuance of the Occupation Permit less the deemed interest subsidy on the interest free loan to the developer.

The launch of sales at Lake Silver at Wu Kai Sha and Tai Wai Maintenance Centre will be subject to a commercially driven decision dependent on the market and other considerations.

Our growth business will see a number of milestones in 2009. In Hong Kong, the Tseung Kwan O Line extension opens in mid-2009 and Kowloon Southern Link opens in the second half. In the Mainland of China, BJL4 will commence operations in the fourth quarter of 2009 while in Stockholm, we expect to take over the franchise in November 2009.

Given all the economic uncertainties we continue our focus on cost containment, and maintaining a strong cash flow.

Finally, I would like to take this opportunity to thank my fellow directors and all my 14,000 colleagues for their energy and dedication over the past year. They are the heroes of MTR.

C K Chow, *Chief Executive Officer*
Hong Kong, 10 March 2009

# Key Figures

| | 2008 | 2007# | % Increase/ (Decrease) |
|---|---|---|---|
| **Financial Highlights** *in HK$ million* | | | |
| Revenue | | | |
| – Fare | **11,467** | 7,115 | 61.2 |
| – Non-fare | **6,161** | 3,575 | 72.3 |
| Operating profit from railway and related businesses before depreciation and amortisation | **9,325** | 5,912 | 57.7 |
| Profit on property developments | **4,670** | 8,304 | (43.8) |
| Operating profit before depreciation and amortisation | **13,995** | 14,216 | (1.6) |
| Profit attributable to equity shareholders | **8,284** | 15,180 | (45.4) |
| Profit attributable to equity shareholders (excluding change in fair value of investment properties and related deferred tax) | **8,185** | 8,571 | (4.5) |
| Total assets | **159,338** | 155,668 | 2.4 |
| Loans, other obligations and bank overdrafts | **31,289** | 34,050 | (8.1) |
| Obligations under service concession | **10,656** | 10,685 | (0.3) |
| Total equity attributable to equity shareholders | **97,801** | 91,014 | 7.5 |
| **Financial Ratios** *in %* | | | |
| Operating margin | **52.9** | 55.3 | -2.4% pts. |
| Net debt-to-equity ratio | **42.1** | 48.5 | -6.4% pts. |
| Return on average equity attributable to equity shareholders | **8.8** | 18.1 | -9.3% pts. |
| Return on average equity attributable to equity shareholders (excluding change in fair value of investment properties and related deferred tax) | **8.7** | 10.2 | -1.5% pts. |
| Interest cover *in times* | **6.0** | 9.0 | -3.0 times |
| **Share Information** | | | |
| Basic earnings per share *in HK$* | **1.47** | 2.72 | (46.0) |
| Basic earnings per share (excluding change in fair value of investment properties and related deferred tax) *in HK$* | **1.45** | 1.54 | (5.8) |
| Dividend per share *in HK$* | **0.48** | 0.45 | 6.7 |
| Share price at 31 December *in HK$* | **17.96** | 28.70 | (37.4) |
| Market capitalisation at 31 December *in HK$ million* | **101,674** | 161,037 | (36.9) |
| **Operations Highlights** | | | |
| Total passenger boardings | | | |
| – Domestic Service *in millions* | **1,205.4** | 915.8 | 31.6 |
| – Cross-boundary Service *in thousands* | **93,401** | 8,243 | 1,033.1 |
| – Airport Express *in thousands* | **10,601** | 10,175 | 4.2 |
| – Light Rail *in thousands* | **137,730** | 11,100 | 1,140.8 |
| Average number of passengers *in thousands* | | | |
| – Domestic Service *weekday* | **3,514** | 3,364* | 4.4 |
| – Cross-boundary Service *daily* | **255.2** | 252.3** | 1.1 |
| – Airport Express *daily* | **29.0** | 27.9 | 3.9 |
| – Light Rail *weekday* | **385.1** | 378.6** | 1.7 |
| Fare revenue per passenger *in HK$* | | | |
| – Domestic Service | **6.58** | 6.78 | (2.9) |
| – Cross-boundary Service | **24.45** | 24.45 | – |
| – Airport Express | **63.47** | 64.34 | (1.4) |
| – Light Rail | **2.81** | 2.68 | 4.8 |
| Proportion of franchised public transport boardings (December)^ *in %* | **42.7** | 41.6 | 1.1% pts. |

# Before the Rail Merger on 2 December 2007, the Company's rail operations comprised MTR Lines and Airport Express. After the Rail Merger, our Domestic Service comprised MTR Lines and KCR Lines (East Rail Line excluding Cross-boundary, West Rail Line and Ma On Shan Line). Also after the Rail Merger we gained new passenger services for Cross-boundary Service, Light Rail, Bus and Intercity.

* Comparable combined passenger number of the Company and KCR Lines (as adjusted for interchange passengers).

** Passenger number for the full year of 2007 including pre-merger KCR operations

^ Proportions of franchised public transport boardings for the full year of 2008 and 2007 are 42.0% and 26.7% respectively.

## Hong Kong Railway Operations

Total fare revenue for the Company in 2008 increased by 61.2% to HK$11,467 million, largely due to increased patronage as a result of the Rail Merger. Such fare revenue also represents a slight decrease of 0.3% over the combined fare revenue of the rail and bus services of MTR Corporation and pre-merger KCRC in 2007 due to the fare reduction as a result of the Rail Merger.

### Patronage

For the year as a whole, total patronage on the Integrated MTR System increased by 56.6% to 1,485.1 million as compared to last year, due mainly to the Rail Merger.

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 1,205.4 million for 2008, an increase of 31.6% when compared with 2007.

Passengers using the Airport Express rose 4.2% to 10.6 million in 2008, due to an increase in air travellers using Airport Express to the Airport despite a slight drop in air passengers, coupled with more passengers going to and from AsiaWorld-Expo. Passenger volume on Light Rail, Bus and Intercity was 175.6 million in 2008, an increase of 2.5% when compared with full year patronage of such services in 2007.

Our overall share of the franchised public transport market rose from 41.6% for December 2007 after the Rail Merger to 42.7% for December 2008. Our share of cross-harbour traffic rose to 63.6% from 62.5% in 2007 and our share of traffic to and from the airport rose to 24% from 23% in 2007. However our market share in the Cross-boundary business declined to 56.2% from 57.0% in 2007 due to continued strong competition.

### Service Promotions

A key driver for incremental patronage growth is the Company's highly effective service promotions. These included an integrated publicity campaign "Serving you with joy and care" and a specially designed "Happy Train" that ran on the Tsuen Wan Line from June to August.

To show the dedication of the Company to building a better community, a study programme encouraged primary students to preserve and love the environment, while a joint promotion with Hong Kong Wetland Park offered discount admission and free rides on Light Rail and MTR Bus in the Northwest New Territories to encourage the general public to visit the park to learn about wetlands and the various habitats.

A new passenger behaviour campaign was launched in May to promote good manners and behavior in our network. Further promotions included a Hong Kong Summer Temptations campaign together with the Hong Kong Tourism Board. Two tourist guidebooks with the theme of "Explore Hong Kong by MTR" and "Hong Kong Train Tour" were developed and distributed in Hong Kong and over 30 cities in the Mainland of China.

In July and for a period of six months, we introduced fare savers for interchange passengers from outlying island ferries. In late September our Student Concessionary Fare was extended to East Rail, West Rail and Ma On Shan lines domestic services, allowing eligible students to enjoy a 50% reduction in adult fares throughout our network.

### Service Performance

A culture of continuous improvement is essential for the growth of our business in an era of intense competition. For the period from the completion of the rail merger on 2 December 2007 to 31 December 2008, we exceeded all the performance levels required by Government and our own more stringent Customer Service Pledges targets. Train service delivery, passenger journeys on time and train punctuality were 99.7% or above.

Customer satisfaction levels recorded during the year by our regular surveys remained high. In 2008, the Service Quality Index for the Domestic / Cross-boundary services and Airport Express stood at 71 and 82 respectively while the Fare Index, which measures the level of satisfaction of customers with our fares, stood at 61 and 64 respectively. In the benchmarking performed by the 12-member international Community of Metros (CoMET) for 2007, we maintained our leading position.

The excellence of our service performance levels was again recognised in the winning of numerous awards, including the "Best Metro Asia Pacific Award" at The MetroRail 2008 Awards, the "2008 Hang Seng Pearl River Delta Environmental Award" organised by Federation of Hong Kong Industries and Hang Seng Bank, and the Bronze award in the Customer Service Excellence Award 2007 organised by the Hong Kong Association for Customer Service Excellence Limited.

## Service Improvements

We continued to enhance train services and network infrastructure.

Five 7-car new trains were brought into passenger service on the West Rail Line in the fourth quarter of 2008. In addition, electric-powered rolling stock replaced the diesel-powered Beijing/Shanghai-Kowloon Through Trains in January, providing better services to passengers as well as offering benefits to the environment.

Renovation works commenced at Mongkok East Station, with 25 new commercial shops scheduled for opening in March 2009. The retrofitting of automatic platform gates for eight aboveground stations on the Island, Tsuen Wan and Kwun Tong lines began at the end of the year. A wide gate was installed at the Kwun Tong Line concourse of Kowloon Tong Station, while another wide gate was installed at Mei Foo Station Entrance D. In the first quarter of 2008, we completed the application of photo-catalytic coating to all trains, buses and Airport Express shuttle buses to improve the hygiene level of our stations, trains and bus compartments.

For passengers with disabilities, we undertook the extension of the tactile guide path covering all platforms of Light Rail. Construction began at Tai Wo Hau on an external lift connecting the footbridge and street level to the station concourse, while planning for lifts at Sham Shui Po, Wong Tai Sin, Jordan, and Yau Ma Tei stations commenced and Braille maps were introduced at many stations.

## Productivity

Efficiency and productivity remained a key priority for the Company in 2008. The multi-disciplinary Rapid Response Unit was extended to the West Rail, East Rail, Light Rail and Ma On Shan lines in 2008, improving response to incidents whilst achieving cost savings of approximately HK$1 million per annum. Ticket sorting operations were outsourced and sorting centres at Kam Sheung Road Station and Tai Wai Station were shut down.

## Supporting the Olympic Games

The Company was appointed the Olympic Games Equestrian Events Railway Passenger Services Associate. Drawing on strengths from many departments, the Company ensured spectators, athletes and their entourage travelled swiftly, safely and on time to the Equestrian events venues at Sha Tin and Beas River over the 10 days of dressage, jumping and eventing. An Equestrian Events Special Task Force was set up to ensure that the Company rose to the challenge of this special assignment.

Using additional portable ramps, station staff also helped disabled passengers enjoy smooth train journeys to Shatin to attend the Paralympic Equestrian Event from 7 to 11 September. Station lifts and stair lifts were checked to ensure that wheelchair passengers would not encounter any difficulties on the way to their events.

The Company also showed its support to the Beijing Olympic Games by sponsoring the 2008 Beijing Olympic Games Volunteers (HK Group) to travel by the Beijing-Kowloon Through Train in August.

# Station Commercial and Rail Related Businesses

Revenue for our station commercial and rail related businesses increased by 98.1% in 2008 to HK$3,449 million. The revenue increase was driven by rising patronage in 2008 and a robust economy, particularly in the first half of the year. The Rail Merger brought about increased scale and strengthened revenue growth as well as new business opportunities in the form of freight transportation and Duty Free shops.

## Station Retail

Station retail revenue, comprising duty free shops and kiosk rental, increased by 209.8% in 2008 to HK$1,546 million. This increase was mainly due to the inclusion of retail shops along the KCR Lines, particularly the 10 duty free shops serving Cross-boundary customers. Further growth was provided by increased new retail area and new rental contracts being awarded at higher rents. 45 shops were renovated at 9 stations and 18 new trades were added. With repossession of shops to facilitate renovation works, the total number of shops as at 31 December 2008 was 1,186, with such retail area totaling 51,539 square metres of which 9,510 square metres relates to Duty Free businesses. Renovation works for shops at Ngau Tau Kok, Wong Tai Sin, Tai Po Market, Kowloon, Tiu Keng Leng, Kowloon Tong, Kwun Tong, Mong Kok East stations and Lo Wu Arrival Concourse were completed by the end of the year.

In September and October, a series of 1-minute TV segments was launched to reinforce the public's awareness of MTR Shops. To further stimulate customer spending, the finale of our 2008 consumer programmes was a MTR Shops Lucky Draw Promotion "Tokyo Group Shopping Extravaganza".

### Advertising

Advertising revenue grew by 25.0% in 2008 to HK$741 million when compared with 2007. In addition to the merger benefits, there were higher advertising rates and advertising innovations, which included the renovated "The Galleria" launched at the lower adit of Causeway Bay Station in May and the Digital Escalator Crown Bank at Causeway Bay, Tsim Sha Tsui and Central stations. At the end of 2008, there were 20,539 advertising points in stations, 26,619 in trains (including 4,341 Liquid Crystal Displays) and 228 on buses.

### Telecommunications

Revenue from telecommunications services increased by 49.0% in 2008 to HK$356 million as compared to 2007. A one-off payment received on termination of a telecommunications license was a key reason for the increase of revenue. Excluding this one-off income, revenue still grew by 13.0% to HK$270 million as compared to 2007. 3G mobile phone coverage along the East Rail Line and Ma On Shan Line was fully launched in June and October respectively while preparation works for 3G coverage on the West Rail Line began. There was also an increase in one-off revenue generated from operators' mobile equipment migration projects along the stations.

During the year, TraxComm Limited achieved higher revenue with expanded growth in the market. The extension of Wi-Fi coverage to 9 MTR Lines stations, as well as all 5 Airport Express stations and Airport Express train sets, making the total MTR stations with Wi-Fi coverage amounted to 30.

### External Consultancy

In 2008, we made good progress with our focused strategy of using consultancies to enhance skill-sets and seek new investment opportunities. As a result, revenue from external consultancy activities was HK$158 million, a decrease of 18.1% when compared with 2007, mainly due to the completion of the majority of works on Shanghai Metro Line 9 Phase 1, which was opened in December 2007.

In India, our consultancy business won an HK$128 million engineering and project management contract for the construction of the Delhi Airport Metro Express Line. In addition, we secured a consultancy contract with Dubai Roads and Transport Authority (RTA) on the retail outlets leasing for the Red and Green lines of Dubai Metro Stations. Also we secured a consultancy project to provide technical advice to Metro Rio in Brazil for rolling stock procurement from China.

In 2008, we also extended the Automated People Mover operations and maintenance agreement with the Airport Authority of Hong Kong for five more years, whilst our existing consultancy works for Kaohsiung Rapid Transit Corporation in Taiwan proceeded well.

### Freight Services

Revenue from freight services was HK$37 million during 2008, a decrease of 10% over the equivalent Combined Non-fare Revenue.

## Property and Other Businesses

Profit from property development was HK$4,670 million in 2008, while revenue from property rental, management and other businesses grew by 47.9% to HK$2,712 million.

### Property Development

Profit on property development for 2008 was HK$4,670 million, a decrease from the HK$8,304 million recognised in 2007. This decrease was mainly due to very significant development profits booking in 2007, particularly for Le Point in Tseung Kwan O. The major contributors to property development profits were from profit recognition relating to The Capitol at LOHAS Park and The Palazzo in Shatin, as well as the sale of units from inventory at Harbour Green and The Arch.

The pre-sale of all 2,096 units of The Capitol at LOHAS Park as well as about 80% or 1,100 units of the 1,375 units available at The Palazzo in Shatin was achieved. There was also a successful pre-sale of over 470 units at Le Bleu Deux in Tung Chung where the Company has a nominal financial interest.

In April, the development package for Che Kung Temple on the Ma On Shan Line was awarded to a subsidiary of New World Development Company Limited (Deluxe Sign Limited). As an agent for West Rail Line property development, Tsuen Wan West Station TW7 property development package was awarded to a subsidiary of Cheung Kong (Holdings) Limited (Queensway Investments Limited) in September.

Following the Government's decision to proceed with the planning and design of South Island Line (East) and the Kwun Tong Line Extension, consultancies commenced on the preliminary property scheme design for potential sites along these new lines.

## Property Rental, Property Management and Other Businesses

Total revenue from property rental, property management and other businesses increased by 47.9% in 2008 to HK$2,712 million.

### Property Rental

Demand for both office and retail space was strong in the first half of the year, and property rental income was HK$2,346 million, an increase of 48.4% over 2007. Our commitment to the continuous enhancement of our shopping centres and other investment properties enabled us to capitalise on Hong Kong's strong consumer sentiment and robust tourism growth.

The average increase in rental income of retail properties on renewal of leases or re-letting was 20% as compared to rental income achieved in the previous lettings. We maintained close to 100% occupancy of our shopping centres and the Company's 18 floors at Two International Finance Centre were fully rented out.

At the end of December 2008, the Company's attributable share of investment properties was 221,661 square metres of lettable floor area of retail properties, 41,059 square metres of lettable floor area of offices, and 10,402 square metres for other usage.

We continued to renovate our shopping centres in 2008 to enhance their market appeal and competitiveness. These works included the redevelopment of the cinema complex at Telford Plaza I to create an iconic building for the area. Our shopping centres were once again honoured with numerous local and international awards. Our flagship luxury shopping mall Elements, situated above Kowloon Station, won the Marché International des Professionels d'Immobilier (MIPIM) Asia 2008 award for the best shopping centre at the world's premier real estate summit in Cannes, France, as well as the Urban Land Institute's 2008 Award for Excellence: Asia Pacific.

A number of innovative promotions were launched in our shopping centres to attract more shoppers. Elements organised a summer campaign that started with a redemption programme and finished with a Party on Ice and a jazz concert. Elements also joined hands with HSBC Platinum and Premier cards to offer attractive spending incentives including cash rebates and Asia Miles. Maritime Square lined up with Disney to launch "Mickey's Magic Chinese Palace" during Chinese New Year, exhibiting the largest gold Mickey Mouse in town.

In Mainland China, Ginza Mall, which opened in January 2007, continued to set new benchmarks for service and quality within the shopping centre industry in Beijing. Average rental income increment for leases renewal and re-letting was 15% compared to 2007 and occupancy was 100%. The shopping centre received many awards and honours in its first full year of operation. These included being ranked No. 2 amongst the 156 major shopping centres and department stores in Beijing in a Customer Satisfaction Survey conducted by the Beijing Municipal Commerce Bureau.

### Property Management

Our property management business achieved revenue growth of 25.0% in 2008 to HK$210 million. During the year, 2,096 residential units were added to our property management portfolio at Le Point (Phase 2 of Metro Town), bringing the total number of residential units under our management to 73,947 as at the end of December, whilst total commercial space under management was 770,556 square metres.

Our managed property portfolio in Mainland China amounted to 1,158,254 square metres. 338,000 square metres were added to our property management portfolio, including Mei Li Shan Shui Phase 2 in Chongqing and Rich Gate Shopping Mall Phase 1 in Shenyang.

### Other Businesses

#### Octopus

The Company's share of Octopus' net profit for 2008 increased by 40.2% to HK$136 million. The rise was mainly due to continued increase in the non-transport retail payment, helped by the "Portable Octopus Processor" (POP), which enables Octopus to extend its reach into the small to medium-sized retail market sector. By the end of December, the total number of service providers (including those serviced by Octopus-appointed acquirers) had risen to 2,459 from 1,440 at the end of December 2007.

"Auto-add value" customers who generally use Octopus for non-transport payment reached a record high of over 1 million customers. Total cards in circulation rose to 18.7 million and average daily transaction volume and value rose to 10.7 million and HK$89.8 million respectively.

### Ngong Ping 360

The Ngong Ping cable car and associated theme village on Lantau Island contributed HK$156 million of revenue in 2008, with visitor numbers reaching more than 1.6 million. After its re-opening on 31 December 2007, the cable car system achieved a reliability rate of over 99% for the year.

Awards received included the "Gold Award – Website Category" from the Pacific Asia Travel Association (PATA), and the "Globe Award 2008" from the British Guild of Travel Writers. Ngong Ping 360 also holds the Guinness record for "Most people playing wood Chinese block", which took place at the Ngong Ping Buddha's Birthday Celebration event in May 2008.

## Hong Kong Network Expansion

2008 was again a milestone year for the design and planning of the Company's future Hong Kong rail projects.

### New Hong Kong Projects

Planning and design are underway for five new rail projects in Hong Kong, which together with the substantially completed Kowloon Southern Link (incorporating the new Austin Station), will extend our network by approximately 60 kilometres when completed.

In March, the Government gave approval for the planning and design of the Shatin to Central Link. The Shatin to Central Link comprises two sections that will add 17 kilometres to the railway network, creating a number of new interchanges and connections and forming both a north-south and an east-west rail corridor. The preliminary design of the new link was started in September with a view to developing a scheme to be gazetted under the Railways Ordinance in late 2009.

The 3-km Kwun Tong Line Extension, the planning and design for which was also approved in March, 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 Tai Wai to Hung Hom section of the Shatin to Central Link. Preliminary design started in June, and will be completed in early 2009. The current plan is to gazette the scheme under the Railways Ordinance and to proceed with the detailed design in the second half of 2009.

In April, the Government asked the Company to proceed with planning and design of the Express Rail Link, which will provide cross-boundary high speed rail services connecting Hong Kong to Shenzhen, Guangzhou and the Mainland of China's new high speed inter-city rail network. Preliminary design and planning made significant progress during the year. The project was gazetted under the Railways Ordinance on 28 November 2008.

The South Island Line (East) will be a medium capacity railway service connecting Admiralty Station to South Horizons on Ap Lei Chau via Ocean Park, Wong Chuk Hang and Lei Tung. Following the announcement of Government's support for the planning and design of the line in December 2007, preliminary design commenced in February 2008. Extensive consultation with the local community, District Councils and other stakeholders has been undertaken and the final plan will be issued to Government for review and gazetting in early 2009.

### On-going Projects

The West Island Line will extend the Island Line with three new underground stations at Sai Ying Pun, University (at The University of Hong Kong) and Kennedy Town. The West Island Line was gazetted under the Railways Ordinance in October 2007. Detailed design was commenced in early 2008 and the Environmental Impact Assessment report for the project has been approved. Tendering for advance works contracts has begun. The line is planned to commence in 2009 for completion in 2014.

Satisfactory progress was made during 2008 on the Kowloon Southern Link, which will connect the existing East Rail Line's East Tsim Sha Tsui Station with West Rail Line's Nam Cheong Station. Both ends of the project are now fully connected to the existing West Rail and East Rail lines and trial operations will commence in the second quarter of 2009. The line is expected to open in the second half of 2009.

### Project Funding

The funding model for these new Hong Kong rail projects will take different forms, appropriately designed for each project. For the West Island Line, Government has indicated that it will consider a capital grant model whereby Government grants to the Company a sum of money to establish the financial viability of the project. The South Island Line (East) and the Kwun Tong Line Extension will likely follow the Company's traditional "Rail and Property" approach. A third model for future rail lines is the Service Concession model established in the Rail Merger, whereby Government or KCRC pays for the initial capital costs of the rail line. The Company will pay an annual concession payment to operate the line following its completion as well as being responsible for maintenance and replacement costs. The Kowloon Southern Link has adopted this approach, and Shatin to Central Link and the Express Rail Link will also adopt this approach.

### Completion of Projects

Phase 2 of the Tseung Kwan O Line, which provides a new station at LOHAS Park, is on schedule for completion in the second quarter of 2009 to coincide with occupancy of The Capitol at LOHAS Park.

### Subways and Pedestrian Links

Development of the integrated entrance within the new development at No. 63 Nathan Road at Tsim Sha Tsui station (Entrance C) made good progress during the year. Structural breakthrough and electrical and mechanical modifications will be carried out in 2009. Civil construction began on the new subway connection to Liberte, the residential property in Lai Chi Kok, and new entrances at Cheung Lai Street at Lai Chi Kok Station with the opening date scheduled for the second quarter of 2010.

## Mainland and Overseas Growth

2008 saw good progress in our mainland and overseas business.

### Mainland of China

In Beijing, the Public-Private-Partnership (PPP) company 49% owned by MTR Corporation advanced steadily with the BJL4 project.

20 trains were constructed and tested by January 2009 and the first 10 trains were delivered to Beijing. Electrical & mechanical installation began in 24 stations, with equipment design and manufacturing well on track. 271 train operator trainees and station controller trainees had completed their training by January 2009.

We, together with our PPP company partners, also signed a Memorandum of Understanding on 27 November 2008 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 of the Beijing Metro Network.

In Shenzhen, approval has been obtained from the National Development and Reform Commission for the SZL4 project comprising investment and construction of Phase 2 of Line 4, and the operation of Phase 1 and Phase 2 for a term of 30 years. Project works will be expanded to cover the whole line. Meanwhile, preparation works for taking over SZL4 Phase 1 are also underway.

Elsewhere in the Mainland, the Company entered into a Principle Agreement in January 2009 for a PPP project with Hangzhou Municipal Government and Hangzhou Metro Group Company Limited for the investment, construction and operation of Hangzhou Metro Line 1.

In November 2008, we entered into Agreements in Principle with Shenyang Municipal Government and Shenyang Metro Group Company Limited for the operation and maintenance of the 50-km Shenyang Metro Lines 1 and 2 for a term of 30 years, and for further developments and extensions.

### Overseas

Our strategy overseas continues to be "asset light". In the UK, our 50:50 joint venture, London Overground Rail Operations Limited brought steady improvements to the London Overground following our takeover of the concession in November 2007. In Sweden, we were awarded the Stockholm Metro concession in January 2009. In Australia, a joint venture 60% owned by MTR Corporation was short-listed to submit a bid in April 2009 for the Melbourne Train franchise. In Ireland, we submitted a bid for the operations of the Dublin Metro North in February 2009.

## Human Resources

The success of the Company is based on the commitment, professionalism and caring service of our staff. In reflection of the unity of our culture after the Rail Merger, the new grading and salary structure together with aligned terms and conditions for all Hong Kong staff were smoothly implemented across the entire organisation on 1 March 2008, with the selection and appointment process completed in April. A new set of Vision, Mission and Values (VMV) was developed and adopted across the Company. To ensure a high performance management culture, the performance management system was successfully revamped and launched to incorporate the new VMV.

The Company has long prided itself on commitment to the community. During the year, there were 87 volunteering projects involving the elderly, the physically and mentally challenged, and underprivileged children and families. In recognition of the Company's contributions to society, we were once again awarded by the Hong Kong Council of Social Service the Caring Company Logo for the year 2008/09.

A broad range of proactive training and development programmes was undertaken throughout the year to meet post-Rail merger challenges. We also focused on rules and safety qualification training in preparation for the launch of the new Railway Safety Rules for the merged Railway. Our strong commitment to training and development has gained recognition from global and local professional associations. Leadership development was proactively encouraged through ongoing programmes such as our Executive Associate Scheme and a Graduate Trainee programme with graduates from both Hong Kong SAR and the Mainland of China.

We continue to provide proactive training support to offshore projects. During the year, Mainland local recruits for BJL4 and SZL4 were given comprehensive training with job attachment in Hong Kong to ensure operational readiness of these two key new projects.

In Hong Kong, with the expansion of the railway network, substantial manpower resources are required for their planning, construction and operations. Early planning for the recruitment and retention of expertise commenced in 2008 and is making good progress.

# Financial Review

## Review of 2008 Financial Results

### Profit and Loss

The Group's revenue and operating profit from recurring businesses achieved strong growth in 2008 with the full-year impact of the Rail Merger. Total revenue rose by 64.9% to HK$17,628 million while operating profit from railway and related businesses increased by 57.7% to HK$9,325 million.

Total fare revenue for 2008 increased by 61.2% to HK$11,467 million. Fare revenue from Domestic Service increased by 27.6% to HK$7,930 million as a result of a 31.6% increase in patronage to 1,205 million and a 3% decrease in average fare to HK$6.58. Fare revenue from Airport Express increased by 2.7% to HK$673 million with a patronage growth of 4.2% to 10.6 million and an average fare decrease of 1.4% to HK$63.47. Cross-boundary Service generated HK$2,283 million of fare revenue whilst Light Rail, Bus and Intercity services contributed a total of HK$581 million in fare revenue.

Revenues from station commercial and rail related businesses also recorded strong growth in 2008 with a 98.1% increase from last year to HK$3,449 million. Advertising revenue increased by 25% to HK$741 million. Revenue from station retail business rose 209.8% to HK$1,546 million and telecommunication income increased by 49% to HK$356 million. Consultancy business recorded a revenue decrease of 18.1% to HK$158 million.

Rental, management and other revenue in 2008 increased by 47.9% from last year to HK$2,712 million, with revenues from property rental and management in 2008 increasing by 46.1% to HK$2,556 million, reflecting the strong demand for office and retail space early on in the year, as well as the full-year effect of the opening of Elements. Ngong Ping 360 generated HK$156 million of revenue in 2008.

Total operating costs rose by 73.8% to HK$8,303 million in 2008, mainly due to the Rail Merger with increases in staff costs, energy and utilities, operational rent and rates, repairs and maintenance as well as general and administration expenses. In line with revenue growth, expenses relating to station commercial and rail related businesses increased by 100.5% while expenses relating to property ownership, management and other businesses increased by 45.4%.

Operating profit from railway and related businesses before depreciation and amortisation therefore increased by 57.7% to HK$9,325 million. Operating margin decreased from 55.3% in 2007 to 52.9% in 2008.

Profits on property developments in 2008 amounted to HK$4,670 million mainly from profit booking relating to The Capitol at LOHAS Park and The Palazzo in Shatin, and to a lesser extent, the sale of units in inventory at Harbour Green and The Arch, as well as deferred income recognition for properties at Coastal Skyline and Caribbean Coast at Tung Chung Station and Elements at Kowloon Station.

Depreciation and amortisation charges increased by 7% to HK$2,930 million due to the additional amortisation charge on service concession assets relating to the Rail Merger. Merger related expenses, comprising post-merger integration expenses not eligible for capitalisation, decreased by 72.5% to HK$53 million as a result of the one-off provision for Voluntary Separation Scheme payments in 2007.

Interest and finance charges increased by 51.8% to HK$1,998 million, mainly due to full year interest on debt and capitalised fixed annual payment, both for the Rail Merger. Average borrowing cost decreased to 4.8% from 5.6% in 2007. With the decline in property prices during the second half of the year, a net loss in investment property valuation of HK$146 million was recorded as compared with a net gain of HK$8,011 million last year. The Company's share of net profit from non-controlled subsidiaries and associates increased by 60.6% to HK$159 million, comprising HK$136 million from Octopus Holdings Limited and HK$23 million from London Overground Rail Operations Ltd.

Excluding investment property revaluation and the related deferred tax provision, net profit from underlying businesses attributable to equity shareholders decreased by 4.5% from HK$8,571 million to HK$8,185 million.

With the strong financial results, particularly from recurring businesses, the Board has recommended a final dividend of HK$0.34 per share, which when added to the interim dividend of HK$0.14 per share, will bring full year dividend to HK$0.48 per share, an increase of HK$0.03 per share or 6.7% compared with 2007. The final dividend, amounting to HK$1,925 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. As in previous years, 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.

## Balance Sheet

The Group's balance sheet strengthened further in 2008 with a 7.5% increase in net assets from HK$91,037 million as at 31 December 2007 to HK$97,822 million as at 31 December 2008. Total fixed assets decreased from HK$132,417 million in 2007 to HK$131,004 million as at 31 December 2008 due to depreciation charges for the year.

Railway construction in progress, mainly related to the LOHAS Park Station project, increased from HK$424 million in 2007 to HK$658 million.

Property development in progress decreased from HK$9,066 million in 2007 to HK$7,895 million due to the transfer-out of the half land premium for The Capitol and acquisition cost for The Palazzo upon completion partly offset by the half land premium paid for the Che Kung Temple development site. Properties held for sale increased from HK$756 million in 2007 to HK$2,228 million, mainly comprising residential units at The Palazzo and The Arch as well as retail space at Island Harbourview. Property management rights decreased from HK$40 million in 2007 to HK$35 million due to amortisation.

Investment in securities increased from HK$333 million to HK$471 million. Derivative financial assets and liabilities increased from HK$273 million and HK$192 million respectively in 2007 to HK$528 million and HK$305 million as at 31 December 2008, mainly due to decline in interest rates during the period.

Debtors, deposits and payments in advance increased from HK$5,167 million in 2007 to HK$7,190 million as at 31 December 2008 due to the increase in accounts receivable relating to property development, which increased from HK$3,774 million to HK$5,818 million mainly on the receivable from pre-sales of units at The Capitol and The Palazzo.

Total loans outstanding decreased from HK$34,050 million in 2007 to HK$31,289 million, due to loan reduction from net cash generated during the year.

Amounts due to related parties included the Group's obligation to reimburse KCRC after tender award on the costs of property enabling works for certain KCRC property development sites and the accrued fixed annual payment for the service concession. The amount decreased from HK$975 million in 2007 to HK$882 million as at 31 December 2008, reflecting the reimbursement made to KCRC on the Che Kung Temple development upon tender award during the year.

Deferred income decreased from HK$515 million in 2007 to HK$156 million as at 31 December 2008 following profit recognition for Coastal Skyline and Caribbean Coast at Tung Chung Station and Elements at Kowloon Station.

With the Company's cumulative tax losses being full-utilised in 2008, provisional tax for the assessable year of 2008/09 of HK$575 million was paid in 2008. Current tax liabilities as at 31 December 2008 amounted to HK$450 million. Deferred tax liabilities decreased from HK$12,574 million in 2007 to HK$12,220 million, mainly due to the reduction in profits tax rate.

Share capital, share premium and capital reserve increased by HK$1,291 million to HK$41,119 million at the end of 2008 as a result of shares issued for scrip dividend and share options exercised. Together with the increase in retained earnings, net of dividends, of HK$5,796 million partly offset by the decrease in fixed asset revaluation reserve and other reserves of HK$300 million, total equity attributable to equity shareholders of the Company increased by HK$6,787 million to HK$97,801 million as at 31 December 2008. Including obligations under service concession as a component of debt, the Group's net debt-to-equity ratio decreased from 48.5% at 2007 year end to 42.1% at 2008 year end.

### Cash Flow

Net cash inflow generated from railway and related activities increased from HK$5,974 million in 2007 to HK$8,921 million in 2008, while cash receipts from developers and purchasers in respect of property development projects decreased from HK$5,824 million in 2007 to HK$4,448 million in 2008 due to timing difference on property receipts. Outflows for capital projects and property developments increased by HK$3,407 million to HK$5,896 million. Net cash inflow, excluding non-recurring merger related payments, decreased from HK$6,477 million in 2007 to HK$4,014 million in 2008. Net cash inflow of the Group in 2008, after non-recurring merger related expenses of HK$316 million, amounted to HK$3,698 million, of which HK$3,538 million was used to reduce borrowings.

## Financing Activities

### New Financings

As the global financial crisis unfolded, the Group continued to be in a strong liquidity position, enjoying significant operating cash surplus and maintaining substantial undrawn committed banking facilities, all of them arranged prior to the crisis. Because of its well funded position, the Group did not embark on any major financing activities during the year. Instead, to further strengthen liquidity, it had chosen to tap, on an opportunistic basis, pockets of supply of Hong Kong dollars in the debt market via private placements. In this manner the Group raised a total of HK$1.75 billion during the year at highly attractive rate levels through note issuance from the debt issuance programme, reflecting investors' continued strong confidence in the Group.

As at the end of 2008, the Group had total undrawn committed facilities of HK$10.4 billion, which together with continuing strong operating cash flows are expected to meet all our cash requirements well into the second half of 2010.

### Cost of Borrowing

Benefitting from declining interest rates, the Group's average borrowing cost for 2008 fell to 4.8% from 5.6% in 2007. However, net interest expense charged to the Profit and Loss Account, after interest capitalised of HK$149 million, rose to HK$1,998 million in 2008 from HK$1,316 million in 2007, mainly due to the full year impact of interest on additional borrowings to finance the Rail Merger as well as the interest element of HK$721 million on the capitalised fixed annual merger payments.

## Treasury Risk Management

The Group's well established Preferred Financing Model (the "Model") is an integral part of our 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 2008, in accordance with the Model, the Group has 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 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 respective counterparty limits.

The Group adopts a prudent approach to managing liquidity risk, and will maintain sufficient 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, Moody's re-affirmed the Company's foreign currency issuer and senior unsecured debt ratings at Aa2 with a stable outlook, the same as the Hong Kong SAR Government. Subsequently in July, Standard & Poor's upgraded the Company's foreign currency issuer and senior unsecured debt ratings from AA to AA+ with a stable outlook, in line with the same corresponding upgrade of the sovereign rating for the Hong Kong SAR Government.

In August, Rating & Investment Inc. of Japan raised the Company's foreign currency issuer and Hong Kong dollar issuer ratings to AA+ from AA, and re-affirmed its Hong Kong dollar short-term credit 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 overseas investments.

Capital expenditure for railway projects in Hong Kong comprises mainly investment in and expenditures relating to new railway projects, such as the West Island Line, South Island Line East and Kwun Tong Line Extension, as well as outlays for maintaining and upgrading the existing rail lines. For property investment and development, it comprises mainly the remaining fit-out works for Elements, fit-out works for the retail areas of The Capitol and Tseung Kwan O Area 56, common infrastructure works for the Area 86 development sites, as well as renovation of various existing shopping centres in Hong Kong. For overseas investments, it consists mainly of equity contribution to Shenzhen Metro Line 4.

Based on current programmes, total capital expenditures for the next three years of 2009, 2010 and 2011 are estimated at HK$23.3 billion for railway projects in Hong Kong, HK$1.0 billion for property investment and development in Hong Kong, and HK$1.9 billion for overseas investments, mainly our equity contribution to Shenzhen Metro Line 4. Out of this total budget of HK$26.2 billion, an estimated amount of HK$6.0 billion is expected to be incurred in 2009, HK$5.9 billion in 2010, and HK$14.3 billion in 2011. These numbers exclude Government grants receivable for West Island Line. Our current financing coverage horizon extends into the second half of 2010.

With the current global financial crisis continuing to develop, fund raising in the capital and loan markets will remain difficult in the foreseeable future. However, with our well funded situation, significant forward coverage, and continuing support from investors, we remain confident that we will attract the necessary funds for our capital expenditure programme.

# Ten-Year Statistics

| | 2008* | [#]2007* | 2006* | 2005* | 2004* | 2003* | 2002* | 2001* | 2000* | 1999 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Financial** | | | | | | | | | | |
| **Profit and Loss Account** *in HK$ million* | | | | | | | | | | |
| Turnover | **17,628** | 10,690 | 9,541 | 9,153 | 8,351 | 7,594 | 7,686 | 7,592 | 7,577 | 7,252 |
| Operating profit before depreciation and amortisation | **13,995** | 14,216 | 11,018 | 11,246 | 9,097 | 9,116 | 7,769 | 7,301 | 7,290 | 5,523 |
| Depreciation and amortisation | **2,930** | 2,739 | 2,674 | 2,682 | 2,499 | 2,402 | 2,470 | 2,178 | 2,091 | 2,039 |
| Interest and finance charges | **1,998** | 1,316 | 1,398 | 1,361 | 1,450 | 1,539 | 1,125 | 874 | 1,143 | 1,104 |
| Change in fair value (net of deferred tax) on investment properties[†] | **99** | 6,609 | 1,797 | 2,310 | 2,051 | – | – | – | – | – |
| Profit | **8,280** | 15,182 | 7,758 | 8,463 | 6,543 | 4,450 | 3,579 | 4,278 | 4,069 | 2,116 |
| Profit from underlying businesses attributable to equity shareholders[††] | **8,185** | 8,571 | 5,962 | 6,140 | 4,492 | 4,450 | 3,579 | 4,278 | 4,069 | 2,116 |
| Dividend proposed and declared | **2,715** | 2,522 | 2,328 | 2,299 | 2,259 | 2,215 | 2,161 | 2,118 | 500 | – |
| Earnings per share *in HK$* | **1.47** | 2.72 | 1.41 | 1.55 | 1.23 | 0.85 | 0.70 | 0.85 | 0.81 | 0.42 |
| **Balance Sheet** *in HK$ million* | | | | | | | | | | |
| Total assets | **159,338** | 155,668 | 120,421 | 113,666 | 106,674 | 102,366 | 101,119 | 98,126 | 92,565 | 87,250 |
| Loans, other obligations and bank overdrafts | **31,289** | 34,050 | 28,152 | 28,264 | 30,378 | 32,025 | 33,508 | 31,385 | 27,203 | 23,177 |
| Obligations under service concession | **10,656** | 10,685 | – | – | – | – | – | – | – | – |
| Deferred income | **156** | 515 | 1,682 | 3,584 | 4,638 | 5,061 | 6,226 | 8,411 | 10,403 | 13,776 |
| Total equity attributable to equity shareholders | **97,801** | 91,014 | 76,767 | 69,875 | 61,892 | 57,292 | 53,574 | 53,893 | 50,355 | 45,115 |
| **Financial Ratios** *in percentage* | | | | | | | | | | |
| Operating margin | **52.9** | 55.3 | 54.5 | 55.7 | 54.2 | 49.3 | 52.2 | 53.4 | 51.7 | 48.2 |
| Non-fare revenue as a percentage of turnover | **35.0** | 33.4 | 31.6 | 31.4 | 29.0 | 27.7 | 25.6 | 24.6 | 24.6 | 22.2 |
| Net debt-to-equity ratio | **42.1** | 48.5 | 36.3 | 39.9 | 48.6 | 55.2 | 59.3 | 57.8 | 53.7 | 51.2 |
| Net debt-to-equity ratio (excluding revaluation reserves) | **42.5** | 49.2 | 36.7 | 40.3 | 48.9 | 62.6 | 67.4 | 66.0 | 61.8 | 58.3 |
| Interest cover *in times* | **6.0** | 9.0 | 6.7 | 7.6 | 6.1 | 5.6 | 4.5 | 3.8 | 3.8 | 3.7 |
| **Employees** | | | | | | | | | | |
| Corporate management and support departments | **1,235** | 1,530 | 823 | 810 | 792 | 793 | 824 | 870 | 911 | 967 |
| Station commercial and rail related businesses | **293** | 305 | 82 | 82 | 67 | 61 | 62 | 60 | 55 | 64 |
| Operations | **8,540** | 8,770 | 4,521 | 4,600 | 4,669 | 4,730 | 4,836 | 4,756 | 4,943 | 5,132 |
| Projects | **995** | 942 | 260 | 242 | 362 | 398 | 546 | 973 | 898 | 912 |
| Property and other businesses | **1,170** | 1,141 | 832 | 688 | 660 | 642 | 618 | 567 | 519 | 456 |
| China and international businesses | **197** | 135 | 112 | 83 | – | – | – | – | – | – |
| Offshore employees | **1,646** | 1,311 | 733 | 486 | 5 | 5 | 5 | 5 | 6 | 6 |
| Total | **14,076** | 14,134 | 7,363 | 6,991 | 6,555 | 6,629 | 6,891 | 7,231 | 7,332 | 7,537 |

† New accounting standard requirement

†† Excluding change in fair value of investment properties net of related deferred tax

| | 2008* | #2007* | 2006* | 2005* | 2004* | 2003* | 2002* | 2001* | 2000* | 1999 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Railway Operations** | | | | | | | | | | |
| **Revenue car km operated** *in thousands* | | | | | | | | | | |
| Domestic and Cross-boundary | **245,856** | 128,041 | 115,784 | 114,449 | 114,364 | 112,823 | 103,318 | 96,751 | 92,199 | 94,704 |
| Airport Express | **19,891** | 19,956 | 20,077 | 17,122 | 16,081 | 15,227 | 19,467 | 19,458 | 19,557 | 19,394 |
| Light Rail | **8,984** | 755 | – | – | – | – | – | – | – | – |
| **Total number of passengers** *in thousands* | | | | | | | | | | |
| Domestic Service | **1,205,448** | 915,755 | 866,754 | 857,954 | 833,550 | 770,419 | 777,210 | 758,421 | 767,416 | 779,309 |
| Cross-boundary Service | **93,401** | 8,243 | – | – | – | – | – | – | – | – |
| Airport Express | **10,601** | 10,175 | 9,576 | 8,493 | 8,015 | 6,849 | 8,457 | 9,022 | 10,349 | 10,396 |
| Light Rail | **137,730** | 11,100 | – | – | – | – | – | – | – | – |
| Bus | **34,736** | 2,757 | – | – | – | – | – | – | – | – |
| Intercity | **3,220** | 285 | – | – | – | – | – | – | – | – |
| **Average number of passengers** *in thousands* | | | | | | | | | | |
| Domestic Service – weekday average | **3,514** | 2,662§ | 2,523 | 2,497 | 2,403 | 2,240 | 2,261 | 2,231 | 2,240 | 2,284 |
| Cross-boundary Service – daily average | **255** | –@ | – | – | – | – | – | – | – | – |
| Airport Express – daily average | **29** | 28 | 26 | 23 | 22 | 19 | 23 | 25 | 28 | 29 |
| Light Rail – weekday average | **385** | –@ | – | – | – | – | – | – | – | – |
| Bus – weekday average | **99** | –@ | – | – | – | – | – | – | – | – |
| Intercity – daily average | **9** | –@ | – | – | – | – | – | – | – | – |
| **Average passenger km travelled** | | | | | | | | | | |
| Domestic and Cross-boundary | **10.4** | 7.9 | 7.7 | 7.6 | 7.7 | 7.7 | 7.6 | 7.4 | 7.3 | 7.4 |
| Airport Express | **29.4** | 29.5 | 29.7 | 30.4 | 30.2 | 29.7 | 29.9 | 29.8 | 29.7 | 29.9 |
| Light Rail | **3.0** | 3.0 | – | – | – | – | – | – | – | – |
| Bus | **4.6** | 4.6 | – | – | – | – | – | – | – | – |
| **Average car occupancy** *number of passengers* | | | | | | | | | | |
| Domestic and Cross-boundary | **55** | 58 | 58 | 57 | 56 | 53 | 57 | 58 | 61 | 61 |
| Airport Express | **16** | 15 | 14 | 15 | 15 | 13 | 13 | 14 | 16 | 16 |
| Light Rail | **46** | 45 | – | – | – | – | – | – | – | – |
| **Proportion of franchised public transport boardings** *in percentage* | **42.0** | 26.7 | 25.0 | 25.2 | 24.8 | 24.3 | 23.5 | 23.5 | 24.1 | 25.2 |
| **HK$ per car km operated (all services)** | | | | | | | | | | |
| Fare revenue | **41.7** | 47.8 | 48.0 | 47.7 | 45.5 | 42.9 | 46.6 | 49.3 | 51.1 | 49.4 |
| Railway operating costs | **21.7** | 21.6 | 22.1 | 22.8 | 22.3 | 22.5 | 22.8 | 24.6 | 26.8 | 27.3 |
| Railway operating profit | **20.0** | 26.2 | 25.9 | 24.9 | 23.2 | 20.4 | 23.8 | 24.7 | 24.3 | 22.1 |
| **HK$ per passenger carried (all services)** | | | | | | | | | | |
| Fare revenue | **7.72** | 7.50 | 7.44 | 7.25 | 7.05 | 7.06 | 7.28 | 7.46 | 7.35 | 7.14 |
| Railway operating costs | **4.02** | 3.39 | 3.43 | 3.47 | 3.45 | 3.70 | 3.57 | 3.72 | 3.85 | 3.94 |
| Railway operating profit | **3.70** | 4.11 | 4.01 | 3.78 | 3.60 | 3.36 | 3.71 | 3.74 | 3.50 | 3.20 |
| **Safety Performance** | | | | | | | | | | |
| **Domestic, Cross-boundary and Airport Express** | | | | | | | | | | |
| Number of reportable events^ | **1,514** | 989 | 826 | 748 | 701 | 641 | 690 | 686 | 748 | 859 |
| Reportable events per million passengers carried^ | **1.16** | 1.05 | 0.94 | 0.86 | 0.83 | 0.82 | 0.88 | 0.89 | 0.96 | 1.09 |
| Number of staff and contractors' staff accidents | **42** | 26 | 23 | 31 | 25 | 33 | 24 | 39 | 36 | 49 |
| **Light Rail** | | | | | | | | | | |
| Number of reportable events^ | **136** | 6 | – | – | – | – | – | – | – | – |
| Reportable events per million passengers carried^ | **0.99** | 0.54 | – | – | – | – | – | – | – | – |
| Number of staff and contractors' staff accidents | **5** | – | – | – | – | – | – | – | – | – |

^ 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, lift and moving paths.

# Before the Rail Merger on 2 December 2007, the Company's rail operations comprised MTR Lines and Airport Express. After the Rail Merger, our Domestic Service comprised MTR Lines and KCR Lines (East Rail Line excluding Cross-boundary, West Rail Line and Ma On Shan Line). Also after the Rail Merger we gained new passenger services for Cross-boundary Service, Light Rail, Bus and Intercity.

§ The figure includes 1 month's post-merger passenger number of the KCR Lines. On a "like for like" basis, comparable combined passenger numbers of the Company and pre-merger KCRC (as adjusted for interchange passengers) would have been 3,364,000.

@ No figure is shown as there was only 1 month's post-merger passenger number. For the full year of 2007 including pre-merger KCR operations, passenger numbers of the services were 252,000 for Cross-boundary Service, 379,000 for Light Rail, 92,000 for Bus and 9,000 for Intercity.

* Consolidated results

# Corporate Governance Report

## Corporate Governance Practices

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

The Company has complied throughout the year ended 31 December 2008 with the Code Provisions except that, with respect to Code Provision A.4.1, non-executive Directors of the Company are not appointed for a specific term but are subject (save for those appointed pursuant to Section 8 of The Mass Transit Railway Ordinance (Chapter 556 of the Laws of Hong Kong) ("MTR Ordinance") to retirement by rotation and re-election at the Company's annual general meetings in accordance with Articles 87 and 88 of the Company's Articles of Association ("Articles of Association"). As there are currently nine Directors subject to the requirement to retire by rotation, and one-third of them shall retire at each annual general meeting of the Company (subject to re-election by the shareholders), each of these Directors is effectively appointed for a term of approximately three years.

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

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

Two of the non-executive Directors (being the S for T&H and the Commissioner for Transport) are appointed by the Chief Executive of the HKSAR. 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 ("FSI"), holds approximately 76.7% of the issued share capital of the Company.

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

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. 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. During the year, Directors had been 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 47 to 49. 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 S for T&H (Ms. Eva Cheng) and Commissioner for Transport (Mr. Alan Wong Chi-kong) were 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.

## 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 32). 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 51.

The Chairman held a meeting on 15 April 2008 with the non-executive Directors without the presence of Members of the Executive Directorate. Matters discussed were Board responsibilities and effectiveness; governance and compliance infrastructure; management reporting transparency; succession plan for Members of the Executive Directorate; and general human resource issues in respect of the Company's development objectives.

Another meeting has been scheduled to be held by the Chairman in May 2009.

## 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, financial performance, corporate governance 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.

In 2008, the Board held nine meetings. When matters which might result in conflicts of interest between the Company and Government of the HKSAR were discussed at Board meetings, the Government-nominated Members of the Board, who during the course of 2008 consisted of the S for T&H, Professor Chan Ka-keung, Ceajer (the Secretary for Financial Services and the Treasury), and the Commissioner for Transport (or their respective alternates) either did not attend the relevant Board meetings, or where they did attend, they declared their interests and did not vote in any relevant motion and were not included in the calculation of the relevant quorum.

The attendance record of each Member of the Board is set out below:

| Directors | Attendance of Board meetings in 2008 |
|---|---|
| **Non-executive Directors** | |
| Dr. Raymond Ch'ien Kuo-fung (Chairman) | 9/9 |
| Commissioner for Transport (Alan Wong Chi-kong) | 8/9 |
| Secretary for Transport and Housing (Eva Cheng)<br>4 meetings were attended by her alternate directors | 9/9 |
| Professor Chan Ka-keung, Ceajer<br>2 meetings were attended by his alternate director | 8/9 |
| **Independent Non-executive Directors** | |
| Professor Cheung Yau-kai | 4/9 |
| David Gordon Eldon (Note) | 3/3 |
| Christine Fang Meng-sang | 9/9 |
| Edward Ho Sing-tin | 7/9 |
| Lo Chung-hing (Note) | 3/3 |
| T. Brian Stevenson | 8/9 |
| Ng Leung-sing | 8/9 |
| Abraham Shek Lai-him | 8/9 |
| **Executive Director** | |
| Chow Chung-kong (Chief Executive Officer) | 9/9 |

Note

Messrs Eldon and Lo ceased to be independent non-executive Directors with effect from the conclusion of the 2008 AGM on 29 May 2008.

The minutes of Board meetings are prepared by the Secretary of the meeting 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.

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". 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.

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. As a result, 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, 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.

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 Commissioner for Transport 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.

Each of the Directors, on appointment to the Board, is given a comprehensive induction programme on key areas of business operations and practices of the Company, as well as a Directors' Manual. Amongst other things, the Manual not only sets out the general and specific duties of the Directors under general law (common law and legislation) and the Listing Rules, but also includes 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 2008, and of the Group's profit and cash flow for the year then ended. In preparing the accounts for the year ended 31 December 2008, 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 2008, 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 76.

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 the Audit Committee, Remuneration Committee and Nominations Committee to oversee particular aspects of the Company's affairs. These Board Committees comprise only non-executive Directors who have been invited to serve as members. Further and in December 2008, the Board set up the Corporate Responsibility Committee. Each of these Committees is governed by its respective Terms of Reference which are available on the Company's website: www.mtr.com.hk.

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

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

### 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 T. Brian Stevenson (chairman), Professor Cheung Yau-kai, the Commissioner for Transport (Alan Wong Chi-kong), and Ng Leung-sing. 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 in April 2008 to improve clarity. Further and in January 2009, the Terms of Reference were updated 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. Accordingly, the revised Terms of Reference were approved by the Board in April 2008 and January 2009 respectively. 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. Commencing from the financial year 2009 and as mentioned above, the Committee's review will also cover discussion with the Management on their 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. Regarding the Company's readiness in compliance with this new requirement, 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 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.

In 2008, the Audit Committee held three meetings where all the agenda items set out in the Agenda Framework pre-agreed with the chairman of the Committee in 2007 for 2008 had been discussed. In 2009, a total of four meetings have been scheduled. The major work performed by the Committee in 2008 included:

- Review of and recommendation for the Board's approval the draft 2007 Annual Report and Accounts and 2008 Interim Report and Accounts;
- Approval of the 2008 Audit Plan and review of the periodic report prepared by the Internal Audit Department;
- Approval of the 2009 Audit Plan;
- Pre-approval of the audit and non-audit services provided by KPMG, the External Auditor, for 2008;
- Approval of the remuneration and terms of engagement of KPMG for the 2008 audit;
- Preview of 2008 annual accounting and compliance 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; and
- Review of enterprise risk management.

The attendance record of each Audit Committee Member is set out below. 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.

| Directors | Attendance of Audit Committee meetings in 2008 |
|---|---|
| T. Brian Stevenson (chairman) | 3/3 |
| Professor Cheung Yau-kai | 2/3 |
| Commissioner for Transport (Alan Wong Chi-kong) | 3/3 |
| Ng Leung-sing | 2/3 |

## Remuneration Committee

The Remuneration Committee consists of three non-executive Directors, two of whom are independent non-executive Directors. The Members of the Remuneration Committee are Edward Ho Sing-tin (chairman), T. Brian Stevenson and Professor Chan Ka-keung, Ceajer. Mr. Ho and Mr. Stevenson are independent non-executive Directors.

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.

In 2008, the Remuneration Committee held three meetings. In accordance with its Terms of Reference, the Committee performed the following work during the year:

- Approved the 2007 Remuneration Report as incorporated in the 2007 Annual Report;

- Reviewed and approved payouts under the Company's performance-based variable incentive scheme for the 2007 performance period;
- Reviewed and approved the remuneration package for the Finance & Business Development Director, following his assumption of additional responsibilities for business development in the Mainland of China and overseas in May 2008;
- 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 2008;
- Reviewed and approved share options awards for Members of the Executive Directorate and other eligible employees; and
- Approved the framework, to be conducted by independent third parties, for auditing the payout calculation under the Variable Incentive Scheme.

The attendance record of each Committee Member is set out below:

| Directors | Attendance of Remuneration Committee meetings in 2008 |
|---|---|
| Edward Ho Sing-tin (chairman) | 3/3 |
| T. Brian Stevenson | 2/3 |
| Professor Chan Ka-keung, Ceajer<br>1 meeting was attended by his alternate director | 3/3 |

The Remuneration Committee also met on 3 March 2009 to approve the 2008 Remuneration Report, which is set out on pages 43 to 46 and includes a description of the remuneration policy of the Company.

### Nominations Committee

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

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).

Since there was no new Board appointments in 2008, the Nominations Committee did not convene any meeting during the year.

### Corporate Responsibility Committee

In December 2008, the Board endorsed the setting up of the Corporate Responsibility Committee. Under its Terms of Reference, the Members shall consist of at least three non-executive Directors, two of whom shall be 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. Leonard Bryan Turk (Legal Director & Secretary) and Mr. Thomas Ho Hang-kwong (Property Director). The Committee normally meets two times a year. The Committee did not hold any meeting in 2008.

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 update to the Board as required.

## 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 Extensions 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 has established an Enterprise Risk Management ("ERM") framework for the strategic management of business risks. The framework covers all key business areas of the Company and provides a useful forum for communicating risk issues at different levels of the organisation and thereby improves awareness and understanding of risk. The framework has been in operation since early 2006 and its application has been enhanced through annual reviews of the framework, user feedback surveys and experience sharing with leading UK ERM-practising companies. Structured cross-discipline processes and organisations are in place at corporate and divisional levels for risk identification, assessment, mitigation and monitoring. A standard rating system is employed across the Company to prioritise risks for mitigation, effective monitoring and reporting to the Executive Committee and the Board. The ERM Manual that governs the working of the ERM framework has been enhanced, and regular briefing sessions are conducted, to promulgate the application and ensure consistent understanding of ERM.

The operation of the ERM framework, which is overseen by the Enterprise Risk Committee ("ERC"), is underpinned by line management taking direct risk management responsibilities as risk owners. 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 reviews cover the 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.

Risks assessment is now part of the everyday management processes. Risks associated with major changes and new businesses such as Rail Merger integration, material local and overseas railway construction, investment businesses 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 half-yearly and the Board annually to ensure that such risks are under satisfactory control. The Audit Committee also reviews annually the implementation and the ERM organisation and processes that have been put in place.

## 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: 2007 Annual Report and Accounts, Preview of 2008 Annual Accounting and Compliance issues, 2008 Interim Accounts, 2008 and 2009 Internal Audit Plans, Internal Audit's Half-yearly Reports, Annual Report on Staff Complaints, Reporting of Internal Control Systems, Reporting of Outstanding Litigation and Compliance Issues, ERM Report 2007 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 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 2008, 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.

With regard to the new role of the Audit Committee required by the revised Listing Rules to oversee the Management's review of the adequacy of staffing of the financial and reporting function which came into effect on 1 January 2009, the Company has in place a comprehensive annual budgeting system, an effective recruitment process as well as a training and development programme for staff of the accounting and financial reporting function which will enable the Board, through the Audit Committee, to review the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget.

## 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 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.

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 has 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 has reminded him in writing of his obligations under the Model Code.

## Business Ethics

The Company is committed to a high standard of business ethics and integrity. The contents of the Company's Code of Conduct and the Corporate Guidebook for All Staff are reviewed every two years by Human Resources to ensure appropriateness and compliance with legislation. Commitment to our Code of Conduct and Guidebook is reinforced by a biennial certification programme, which requires all staff to acknowledge their understanding of and agreement to abide by the Code. The Code of Conduct and Guidebooks, which had been reviewed in the fourth quarter of 2008, were issued to all staff in January 2009. Certification will be completed in the first quarter of 2009. The Code of Conduct is available on the Company's website: www.mtr.com.hk.

To uphold the ethical culture of our subsidiaries in the Mainland of China, and internationally, similar biennial certification programme has been arranged. Briefing on the Company's Code of Conduct and Guidebook is also included in the local Induction Programme. For other joint venture companies, guidelines on business ethics have also 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 | 2008 | 2007 |
|---|---|---|
| Auditor's remuneration | | |
| – audit services | 7 | 5 |
| – tax services | 1 | 1 |
| – other services | 1 | – |
| | 9 | 6 |

In 2007, in addition to the amounts of auditor's remuneration charged to general and administration expense, HK$5 million was incurred on audit and tax related services in respect of the Rail Merger.

On the part of KPMG, for maintaining integrity and objectivity, it also 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 2008 AGM to answer shareholders' questions.

At the 2008 AGM, the Chairman gave a verbal account of the business operation and development of the Company to shareholders. He started the formal business by highlighting the positive impact of the Rail Merger on the Company in terms of the economies of scale of the rail and related businesses, and the property development land bank and rental property portfolio. Apart from an immediate fare reduction to 2.8 million rail users everyday, the Rail Merger had also provided a better integrated network in Hong Kong and linkages to the Mainland of China. The Chairman then summarised the Company's finance performance during 2007. On business operations, he highlighted the patronage, overall market share, customer service, station commercial and rail related businesses, property development, rental and management businesses. Looking ahead, the Chairman gave a succinct account of the Company's new rail developments in Hong Kong, as well as its continued expansion into the Mainland of China and Europe.

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, the Company conducted electronic poll voting for a second time at the 2008 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.

# Remuneration Report

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 three non-executive Directors, two 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 2008 is set out in the "Corporate Governance Report" on pages 32 to 42.

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.

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 2008, 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 2008.

Options exercised and outstanding in respect of each Member of the Executive Directorate as at 31 December 2008 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 is entitled to receive an equivalent value in cash of 418,017 Shares on completion of his three-year contract on 30 November 2009.

## Retirement Schemes

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 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 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 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. 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.

## 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 | **2008** | 2007 |
|---|---|---|
| Fees | **4** | 3 |
| Base salaries, allowances and other benefits-in-kind | **37** | 32 |
| Variable remuneration related to performance | **26** | 16 |
| Retirement scheme contributions | **2** | 1 |
| | **69** | 52 |

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

| Remuneration | **2008 Number** | 2007 Number |
|---|---|---|
| HK$0 – HK$500,000 | **11** | 13 |
| HK$1,000,001 – HK$1,500,000 | **1** | 1 |
| HK$4,500,001 – HK$5,000,000 | **–** | 1 |
| HK$5,000,001 – HK$5,500,000 | **–** | 3 |
| HK$5,500,001 – HK$6,000,000 | **1** | 2 |
| HK$6,000,001 – HK$6,500,000 | **–** | 1 |
| HK$6,500,001 – HK$7,000,000 | **2** | – |
| HK$7,000,001 – HK$7,500,000 | **3** | – |
| HK$8,000,001 – HK$8,500,000 | **1** | – |
| HK$10,500,001 – HK$11,000,000 | **–** | 1 |
| HK$15,000,001 – HK$15,500,000 | **1** | – |
| | **20** | 22 |

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, 3 March 2009

# Board and Executive Directorate

## Members of the Board

**Dr. Raymond Ch'ien Kuo-fung** 57, 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 and its subsidiary, China.com Inc. 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, Inchcape plc, Convenience Retail Asia Limited, The Wharf (Holdings) Limited and Swiss Reinsurance Company. 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 awarded 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.

**Chow Chung-kong** 58, 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 the General Committee of The Hong Kong General Chamber of Commerce. In public service, Mr. Chow is a board member of The Community Chest of Hong Kong, and a member of the Hong Kong Tourism Board, the Commission on Strategic Development, the Standing Committee on Directorate Salaries and Conditions of Service, 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. Mr. Chow is also a member of the Standing Committee of the Shenzhen Municipal Committee of the Chinese People's Political Consultative Conference.

**Professor Cheung Yau-kai** 74, is an independent non-executive Director and has been a member of the Board since 1999. Professor Cheung is Honorary Professor of Engineering and Special Adviser to the Vice-Chancellor of The University of Hong Kong. He was Taikoo Professor of Engineering and Acting Deputy Vice-Chancellor of The University of Hong Kong until 30 June 2000. Professor Cheung began his academic research career at the University College of Swansea, Wales. He was appointed Professor of Civil Engineering at Calgary in 1970 and moved to the University of Adelaide in 1974 as Professor and Chairman of the Department of Civil Engineering. In 1977, he took up the Chair and Headship of the Department of Civil Engineering in The University of Hong Kong. In addition to his academic appointments, Professor Cheung was the former first Senior Vice-President of the Hong Kong Institution of Engineers and the Ex-Chairman of its Accreditation Board. He has been awarded several honorary degrees at educational institutions, including, an honorary Doctor of Science by The University of Hong Kong and an honorary Doctor of Laws by the University of Wales. He has also been elected a member of the Chinese Academy of Sciences, and is a fellow of the Royal Academy of Engineering, a fellow of the Royal Society of Canada and past President of the Hong Kong Academy of Engineering Sciences.

## Board and Executive Directorate

**Christine Fang Meng-sang** 50, 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 Manpower Development Committee, the Sustainable Development Council and the Digital 21 Strategy Advisory Committee. She is also a member of the Commission on Strategic Development.

**Edward Ho Sing-tin** 70, 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** 59, joined the Board as an independent non-executive Director on 18 December 2007. Mr. Ng is vice chairman of Chiyu Banking Corporation, general manager, Bank-wide Operation Department of Bank of China (HK) Ltd and an independent non-executive director of SmarTone Telecommunications Holdings Limited. He is a director of the Bank of China (Hong Kong) Charitable Foundation and a Member of the Court of Lingnan University. 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** 63, 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** 64, 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, a member of the Asia Pacific Advisory Board of BT and a member of the Public Service Commission. He is Deputy Chairman of the Hong Kong Jockey Club with effect from 10 March 2008. 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** (Alan Wong Chi-kong 53, 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 18 June 2005. Prior to that, Mr. Wong had served in various bureaux and departments of the Government of the Hong Kong SAR including the former Home Affairs Branch, the former Civil Service Branch, the former Urban Services Department, the former City and New Territories Administration, the former Health and Welfare Branch, the former Recreation and Culture Branch, the former Secretariat of the University and Polytechnic Grants Committee, the former Trade and Industry Branch, the Office of the Commissioner of Insurance from August 1996 to January 2000, the Mandatory Provident Fund Schemes Authority from January 2000 to June 2001, the former Information Technology Services Department from July 2001 to July 2004, and the Office of the Government Chief Information Officer from July 2004 to January 2005. As Commissioner for Transport, Mr. Wong is also a director of several transport-related companies, 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.)

**Secretary for Transport and Housing** (Eva Cheng 48, 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** 52, 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 47.

**Russell John Black** 62, has been the Projects Director of the Company since 1992. He is responsible for the planning and implementation of all major railway extension and upgrade projects, which have included the Airport Railway project and the Tseung Kwan O Extension project. Currently under construction is the Kowloon Southern Link, and under planning and design are the West Island Line, the South Island Line, the Guangzhou-Shenzhen-Hong Kong Express Rail Link, the Shatin to Central Line and the Kwun Tong Line Extension. He also provides project management expertise to the Company's railway projects in the Mainland of China. Mr. Black initially worked for the Company from 1976 to 1984 and, prior to rejoining the Company in 1992, he was the Project Director of London Underground's Jubilee Line Extension project. He also worked on Singapore's underground railway and on the Eastern Harbour Crossing. Mr. Black served on the Vocational Training Council from 1998 to 2002, the Construction Advisory Board from 1993 to 1999, the Provisional Construction Industry Coordination Board from 2001 to January 2007 and the Construction Industry Council since February 2007. Mr. Black holds an honours degree in civil engineering from the University of Canterbury in New Zealand. In 2006, he was elected an International Fellow of The Royal Academy of Engineering. He is also a Fellow of the Hong Kong Academy of Engineering Sciences, the Hong Kong Institution of Engineers and the Institution of Professional Engineers, New Zealand. He was awarded the Public Service medal (PBM) in Singapore in 1986 and the Bronze Bauhinia Star medal in 1999.

# Board and Executive Directorate

**William Chan Fu-keung** 60, 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.

**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 was qualified in 1974 as a chartered surveyor in Hong Kong. He is serving The Community Chest of Hong Kong as a Member of the Campaign Organising Committee and a Co-Chairman of the Corporate and Employee Contribution Programme.

**Lincoln Leong Kwok-kuen** 48, 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, a member of the supervisory board of the Hong Kong Housing Society and a non-official member of the Family Council. 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.

**Francois Lung Ka-kui** 50, served as the China & International Business Director from September 2005 to 31 December 2008. He ceased to act as a Director of the Company from 1 January 2009. During the period of service, Dr. Lung was responsible for the Company's growth-business efforts, including investments in Mainland of China, operating franchises in Europe and international consultancy. Dr. Lung had held various positions in a number of Royal Dutch Shell affiliates since 1997 and joined the Company from Shell Eastern Petroleum (Pte) Ltd. He was the General Manager, China, with responsibility for strategy development, governance and business performance of Shell's gas and power business in China. From 1994 to 1997, he held positions at Duke Energy Asia Limited, an affiliate of Duke Energy International, becoming Vice-President in 1996. Prior to this, Dr. Lung spent approximately five years at PowerGen plc, a major generator, distributor and retailer of electricity in the United Kingdom, and three years at the Central Electricity Generating Board before the privatisation of the electricity industry in the United Kingdom. Dr. Lung holds a Bachelor of Science degree in Mechanical Engineering from the University of Hong Kong, a PhD in Combustion from the University of Leeds in the United Kingdom, a Master of Science degree in Management from the University of Southampton in the United Kingdom and a Bachelor of Law degree from the University of London. Dr. Lung was admitted to the Bar of the United Kingdom in 1992.

**Andrew McCusker** 63, 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 for The Hong Kong Polytechnic University.

**Leonard Bryan Turk** 59, 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 49 to 51), General Manager – Corporate Relations, and General Manager – Marketing & Station Commercial.

**Miranda Leung Chan Che-ming** 56, 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 Institute of Public Relations and a Chartered Fellow of The Chartered Institute of Logistics & Transport in Hong Kong. She is a member of the Public Relations Committee of The Community Chest of Hong Kong. Mrs. Leung has been appointed a member of the Council for Sustainable Development since March 2009.

**Jeny Yeung Mei-chun** 44, 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.

# Report of the Members of the Board

The Members of the Board have pleasure in submitting their Report and the summary financial statements for the financial year ended 31 December 2008.

## 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 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 Line), from Sunny Bay to Disneyland Resort (Disneyland Resort Line), from East Tsim Sha Tsui 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 Nam Cheong to Tuen Mun (West Rail Line), the North-west Railway (commonly known as Light Rail) in the North-West New Territories of Tuen Mun, Tin Shui Wai and Yuen Long, an intercity railway system between Hong Kong and some major cities in the Mainland of China, and a freight railway system along East Rail Line from the boundary at Lo Wu to Sheung Shui Abattoir and Hung Hom;

**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 centres, offices and residential units), and Octopus Card Building Access System services;

**D** the operation of the 7-year London Overground Concession, in which the Company has a 50% equity share, consisting of 107.2 route kilometres of commuter railway lines connecting London's suburbs into the London Underground network;

**E** the design and construction of a station at LOHAS Park (in Tseung Kwan O South) as an extension of the Tseung Kwan O Line;

**F** the project management for the Kowloon Southern Link as an extension of the West Rail Line;

**G** the planning and construction of future extensions to the railway system and other related infrastructure projects including the West Island Line, the South Island Line, the Kwun Tong Line Extension, the Shatin to Central Link and the Express Rail Link, as the major projects for which the Government has confirmed policy support;

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

**I** 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;

**J** 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;

**K** equity investments and long term operation and maintenance contracts outside of Hong Kong;

**L** property management, shopping centre investment and railway related property development business in the Mainland of China; and

**M** the investment in, and construction of, Beijing Metro Line 4, in which the Company has a 49% equity interest, for future operations under a 30 year concession agreement with the Beijing Municipal Government.

For Shenzhen Metro Line 4 project, approval has been obtained from the National Development and Reform Commission. The Company is now completing final regulatory procedures to sign the Concession Agreement in the next few months.

An Agreement in Principle has been entered into between Shenyang Municipal Government, Shenyang Metro Group Company Limited and the Company for the operation and maintenance of Shenyang Metro Line 1 and 2 for a term of 30 years.

A Principle Agreement for a Public-Private Partnership project has been entered into between Hangzhou Municipal Government, Hangzhou Metro Group Company Limited and the Company for the investment in and the construction of electrical and mechanical works, and the operation of the entire Hangzhou Metro Line 1 for a period of 25 years.

## Dividend

The Directors have recommended a final dividend of HK$0.34 per Ordinary Share to be payable to shareholders whose names appear on the Register of Members of the Company on 14 April 2009. Subject to the passing of the necessary resolutions at the forthcoming Annual General Meeting, such dividend will be payable on or about 17 June 2009, in cash in Hong Kong dollars, with a scrip dividend alternative. The Company's majority shareholder, The Financial Secretary Incorporated, has agreed to elect to receive all or part of its entitlement to dividends in the form of scrip to the extent necessary to ensure that a maximum of 50% of the total dividend paid by the Company will be in the form of cash.

## Members of the Board

Members of the Board who served during the year were Raymond Ch'ien Kuo-fung (non-executive Chairman), Chow Chung-kong (Chief Executive Officer), Cheung Yau-kai, David Gordon Eldon [resigned on 29 May 2008], Christine Fang Meng-sang, Edward Ho Sing-tin, Lo Chung-hing [retired by rotation on 29 May 2008], 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).

At the Annual General Meeting on 29 May 2008 and pursuant to the articles of association of the Company ("Articles of Association"), Chan Ka-keung, Ceajer, Ng Leung-sing, Abraham Shek Lai-him, Edward Ho Sing-tin and Lo Chung-hing retired under the Articles of Association. Lo Chung-hing did not offer himself for re-election, and the other four Directors were re-elected as Members of the Board.

At the forthcoming Annual General Meeting and in accordance with the Articles of Association, Raymond Ch'ien Kuo-fung, Cheung Yau-kai and T. Brian Stevenson will retire by rotation. Cheung Yau-kai will not offer himself for re-election, and that Raymond Ch'ien Kuo-fung and T. Brian Stevenson will offer themselves for re-election at that Meeting.

Biographical details for Board Members are set out on pages 47 to 49.

## 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 [with effect from 28 November 2008]); (ii) the Permanent Secretary for Transport and Housing (Transport) (Ho Suen-wai); and (iii) the Deputy Secretary for Transport and Housing (Transport) (Chu Man Ling and Lee Lai-yee [who ceased to be Deputy Secretaries for Transport and Housing (Transport) and accordingly ceased to be alternate directors to the office of the Secretary for Transport and Housing, with effect from 10 June 2008 and 29 September 2008 respectively], Yung Wai-hung and Shirley Yuen [with effect from 10 June 2008]); 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 (retitled as Finance & Business Development Director with effect from 1 May 2008), Francois Lung Ka-kui (ceased to act as a Member of the Executive Directorate effective from 1 January 2009), Andrew McCusker and Leonard Bryan Turk.

Biographical details for Members of the Executive Directorate during the year are set out on pages 49 to 51.

## Internal Audit

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

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

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

## Business Ethics

Please refer to page 41.

## 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 2008 and of its results for the year are set out in the summary financial statements on pages 63 to 75.

## 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 30 to 31.

## 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 note 7 to the summary financial statements.

## Share Capital

As at 31 December 2007, the authorised share capital of the Company was HK$6.5 billion, divided into 6.5 billion Ordinary Shares, 5,611,057,035 of which were issued and credited as fully paid.

During the year, the Company issued a total of 50,086,078 Ordinary Shares. Of this number:

**A** 1,644,500 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** 635,500 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$15.45, HK$15.97, HK$18.30, HK$19.404, HK$20.66 and HK$21.00 to the Company;

**C** 32,071,954 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 2007 (for which the cash dividend was HK$0.31 per Ordinary Share); and

**D** 15,734,124 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 2008 (for which the cash dividend was HK$0.14 per Ordinary Share).

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.

## Redemption of Listed Securities

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of its listed securities during the financial year 2008.

## Donations

During the year, the Company donated a total of HK$8.9 million to charitable organisations including the following:

**A** To show our care and concern, the Company donated HK$1 million to the Hong Kong Red Cross in February 2008 to provide clothing and emergency supplies for the victims of snow falls in Central China, and HK$1 million to the All-China Federation of Railway Trade Unions.

**B** The Sichuan earthquake was a natural disaster that evoked the deepest feelings of sympathy as well as a strong readiness to help in the hearts and minds of all in the Company, and indeed in Hong Kong as a whole. Following an initial early donation of HK$1 million by the Company in May 2008 to help the victims, MTR staff raised another HK$5.6 million, which was "dollar matched" in donation by the Company, bringing the total to HK$11.27 million. In addition, various MTR offices in the Mainland of China raised a further RMB300,000, while in our shopping centres in Hong Kong, customers contributed a further HK$2 million. Overall, donations from the Company, our employees and our customers topped more than HK$14.6 million for those struggling in the aftermath of the earthquake.

In addition, the MTR HONG KONG Race Walking 2008 raised over HK$1.3 million for the Hospital Authority Health InfoWorld health education campaign.

The Company helped raise funds for the Community Chest with a total cash donation of over HK$248,000 through different activities such as CARE Scheme, Green Day and Dress Special Day.

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

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

| | Number of Ordinary Shares held | | | Derivatives | | | |
|---|---|---|---|---|---|---|---|
| | | | | Share Options | Other | | |
| Member of the Board or the Executive Directorate | Personal* interests | Family† interests | Corporate interests | Personal* interests | Personal* interests | Total interests | Percentage of aggregate interests to total issued share capital |
| Raymond Ch'ien Kuo-fung | 51,230 | – | – | – | – | 51,230 | 0.00090 |
| Chow Chung-kong | – | – | – | 1,190,000 (Note 1) | 418,017 (Note 2) | 1,608,017 | 0.02840 |
| T. Brian Stevenson | 4,871 | – | – | – | – | 4,871 | 0.00009 |
| Christine Fang Meng-sang | 1,712 | – | – | – | – | 1,712 | 0.00003 |
| Russell John Black | 56,095 | – | – | 340,000 (Note 1) | – | 396,095 | 0.00700 |
| William Chan Fu-keung | 46,960 | – | – | (i) 217,500 (Note 3) (ii) 340,000 (Note 1) | – | 604,460 | 0.01068 |
| Thomas Ho Hang-kwong | 378,760 | 2,541 | – | 340,000 (Note 1) | – | 721,301 | 0.01274 |
| Lincoln Leong Kwok-kuen | 23,000 | – | 23,000 (Note 4) | (i) 1,043,000 (Note 5) (ii) 340,000 (Note 1) | 160,000 (Note 6) | 1,589,000 | 0.02807 |
| Francois Lung Ka-kui | 346,500 | 2,500 | – | (i) 355,500 (Note 5) (ii) 87,000 (Note 1) | – | 791,500 | 0.01398 |
| Andrew McCusker | – | – | – | 340,000 (Note 1) | – | 340,000 | 0.00601 |
| Leonard Bryan Turk | – | – | – | 340,000 (Note 1) | – | 340,000 | 0.00601 |
| Ho Suen-wai (Note 7) | 691 | 1,393 | – | – | – | 2,084 | 0.00004 |

Notes

1 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.

2 Chow Chung-kong has a derivative interest in respect of 418,017 shares in the Company within the meaning of Part XV of the SFO. That derivative interest represents Mr. Chow's entitlement to receive an equivalent value in cash of 418,017 shares in the Company on completion of his three-year contract (on 30 November 2009).

3 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.

4 The 23,000 shares are held by Linsan Investment Ltd., a private limited company beneficially wholly owned by Lincoln Leong Kwok-kuen.

5 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.

6 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.

7 The office of the Permanent Secretary for Transport and Housing (Transport) is an Alternate Director to the office of the Secretary for Transport and Housing (Eva Cheng). The Secretary for Transport and Housing is a non-executive Director of the Company. Ho Suen-wai is the holder of the post of the Permanent Secretary for Transport and Housing (Transport). Subsequent to 31 December 2008, all the shares were disposed of.

* 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 at1 January 2008 | Options vested during the year | Options lapsed during the year | Options exercised during the year | Exercise price per share of options (HK$) | Options outstanding as at 31 December 2008 | Weighted average closing price of shares immediately before the date(s) on which options were exercised (HK$) |
|---|---|---|---|---|---|---|---|---|---|---|
| William Chan Fu-keung | 20/9/2000 | 1,066,000 | 5/4/2001 – 11/9/2010 | 217,500 | – | – | – | 8.44 | 217,500 | – |
| Thomas Ho Hang-kwong | 20/9/2000 | 1,066,000 | 5/4/2001 – 11/9/2010 | 321,000 | – | – | 321,000 | 8.44 | – | 26.05 |
| Other eligible employees | 20/9/2000 | 41,409,000 | 5/4/2001 – 11/9/2010 | 4,728,500 | – | 17,000 | 1,323,500 | 8.44 | 3,388,000 | 25.07 |

Notes

1 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.

2 The number of shares to which the option granted to each participant under the Pre-IPO Option Scheme does not exceed 25% of the number of the shares issued and issuable under the Pre-IPO Option Scheme.

## Options to Subscribe for Ordinary Shares Granted under the New Joiners Share Option Scheme, as Referred to in Note 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 2008 | 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$) | Options outstanding as at 31 December 2008 | Weighted average closing price of shares immediately before the date(s) on which options were exercised (HK$) |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Lincoln Leong Kwok-kuen | 1/8/2003 | 1,066,000 | 14/7/2004 – 14/7/2013 | 1,043,000 | – | – | – | – | 9.75 | 1,043,000 | – |
| Francois Lung Ka-kui | 22/3/2007 | 1,066,000 | 19/3/2008 – 19/3/2017 | 1,066,000 | – | 711,000 | 355,000 | 355,500 | 19.404 | 355,500 | 28.20 |
| Other eligible employees | 1/8/2003 | 495,200 | 14/7/2004 – 14/7/2013 | 202,200 | – | – | – | – | 9.75 | 202,200 | – |
| | 12/1/2006 | 94,000 | 9/1/2007 – 9/1/2016 | 62,500 | – | 31,500 | 31,000 | 31,500 | 15.45 | – | 31.35 |
| | 13/9/2005 | 94,000 | 9/9/2006 – 9/9/2015 | 94,000 | – | 31,000 | – | 45,000 | 15.97 | 49,000 | 27.05 |
| | 23/9/2005 | 213,000 | 9/9/2006 – 9/9/2015 | 213,000 | – | 71,000 | – | – | 15.97 | 213,000 | – |
| | 31/3/2006 | 94,000 | 20/3/2007 – 20/3/2016 | 94,000 | – | 31,500 | – | – | 18.05 | 94,000 | – |
| | 4/7/2006 | 94,000 | 19/6/2007 – 19/6/2016 | 94,000 | – | – | 62,500 | 31,500 | 18.30 | – | 29.55 |
| | 17/11/2006 | 94,000 | 13/11/2007 – 13/11/2016 | 62,500 | – | – | 62,500 | – | 19.104 | – | – |
| | 5/10/2006 | 94,000 | 29/9/2007 – 29/9/2016 | 94,000 | – | 31,500 | – | – | 19.732 | 94,000 | – |
| | 12/5/2006 | 266,500 | 25/4/2007 – 25/4/2016 | 266,500 | – | 89,000 | – | – | 20.66 | 266,500 | – |
| | 15/5/2006 | 213,000 | 25/4/2007 – 25/4/2016 | 213,000 | – | 71,000 | – | 30,000 | 20.66 | 183,000 | 31.60 |
| | 12/5/2006 | 213,000 | 2/5/2007 – 2/5/2016 | 213,000 | – | 71,000 | 71,000 | 142,000 | 21.00 | – | 25.13 |

Notes

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

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

## 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 2008 | 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$) | Options outstanding as at 31 December 2008 | Weighted average closing price of shares immediately before the date(s) on which options were exercised (HK$) |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Chow Chung-kong | 13/12/2007 | 720,000 | 10/12/2008 – 10/12/2014 | 720,000 | – | 240,000 | – | – | 27.60 | 720,000 | – |
| | 9/12/2008 | 470,000 | 8/12/2009 – 8/12/2015 | – | 470,000 | – | – | – | 18.30 | 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 | – | – | – | 18.30 | 170,000 | – |
| 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 | – | – | – | 18.30 | 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 | – | – | – | 18.30 | 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 | – | – | – | 18.30 | 170,000 | – |
| Francois Lung Ka-kui | 12/12/2007 | 130,000 | 10/12/2008 – 10/12/2014 | 130,000 | – | 87,000 | 43,000 | – | 27.60 | 87,000 | – |
| 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 | – | – | – | 18.30 | 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 | – | – | – | 18.30 | 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 | 1,750,000 | 10/12/2008 – 10/12/2014 | 1,750,000 | – | 573,000 | 45,000 | – | 27.60 | 1,705,000 | – |
| | 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 | – | 339,000 | – | – | 27.60 | 1,005,000 | – |
| | 15/12/2007 | 435,000 | 10/12/2008 – 10/12/2014 | 435,000 | – | 124,500 | 65,000 | – | 27.60 | 370,000 | – |
| | 17/12/2007 | 835,000 | 10/12/2008 – 10/12/2014 | 835,000 | – | 283,000 | – | – | 27.60 | 835,000 | – |
| | 18/12/2007 | 445,000 | 10/12/2008 – 10/12/2014 | 445,000 | – | 128,000 | 65,000 | – | 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 | 65,000 | – |
| | 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 | – | – | – | 26.52 | 255,000 | – |
| | 31/3/2008 | 379,000 | 26/03/2009 – 26/03/2015 | – | 379,000 | – | – | – | 26.52 | 379,000 | – |
| | 1/4/2008 | 261,000 | 26/03/2009 – 26/03/2015 | – | 261,000 | – | – | – | 26.52 | 261,000 | – |
| | 2/4/2008 | 296,000 | 26/03/2009 – 26/03/2015 | – | 296,000 | – | – | – | 26.52 | 296,000 | – |
| | 3/4/2008 | 171,000 | 26/03/2009 – 26/03/2015 | – | 171,000 | – | – | – | 26.52 | 171,000 | – |
| | 4/4/2008 | 23,000 | 26/03/2009 – 26/03/2015 | – | 23,000 | – | – | – | 26.52 | 23,000 | – |

## 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 2008 | 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$) | Options outstanding as at 31 December 2008 | Weighted average closing price of shares immediately before the date(s) on which options were exercised (HK$) |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Other eligible employees | 5/4/2008 | 17,000 | 26/03/2009 – 26/03/2015 | – | 17,000 | – | – | – | 26.52 | 17,000 | – |
| | 7/4/2008 | 390,000 | 26/03/2009 – 26/03/2015 | – | 390,000 | – | 32,000 | – | 26.52 | 358,000 | – |
| | 8/4/2008 | 174,000 | 26/03/2009 – 26/03/2015 | – | 174,000 | – | 19,000 | – | 26.52 | 155,000 | – |
| | 9/4/2008 | 85,000 | 26/03/2009 – 26/03/2015 | – | 85,000 | – | – | – | 26.52 | 85,000 | – |
| | 10/4/2008 | 58,000 | 26/03/2009 – 26/03/2015 | – | 58,000 | – | – | – | 26.52 | 58,000 | – |
| | 11/4/2008 | 134,000 | 26/03/2009 – 26/03/2015 | – | 134,000 | – | 17,000 | – | 26.52 | 117,000 | – |
| | 12/4/2008 | 48,000 | 26/03/2009 – 26/03/2015 | – | 48,000 | – | – | – | 26.52 | 48,000 | – |
| | 14/4/2008 | 40,000 | 26/03/2009 – 26/03/2015 | – | 40,000 | – | – | – | 26.52 | 40,000 | – |
| | 15/4/2008 | 34,000 | 26/03/2009 – 26/03/2015 | – | 34,000 | – | – | – | 26.52 | 34,000 | – |
| | 16/4/2008 | 57,000 | 26/03/2009 – 26/03/2015 | – | 57,000 | – | 17,000 | – | 26.52 | 40,000 | – |
| | 17/4/2008 | 147,000 | 26/03/2009 – 26/03/2015 | – | 147,000 | – | 23,000 | – | 26.52 | 124,000 | – |
| | 18/4/2008 | 32,000 | 26/03/2009 – 26/03/2015 | – | 32,000 | – | – | – | 26.52 | 32,000 | – |
| | 19/4/2008 | 25,000 | 26/03/2009 – 26/03/2015 | – | 25,000 | – | – | – | 26.52 | 25,000 | – |
| | 20/4/2008 | 23,000 | 26/03/2009 – 26/03/2015 | – | 23,000 | – | – | – | 26.52 | 23,000 | – |
| | 21/4/2008 | 66,000 | 26/03/2009 – 26/03/2015 | – | 66,000 | – | – | – | 26.52 | 66,000 | – |
| | 23/4/2008 | 34,000 | 26/03/2009 – 26/03/2015 | – | 34,000 | – | 15,000 | – | 26.52 | 19,000 | – |
| | 8/12/2008 | 155,000 | 8/12/2009 – 8/12/2015 | – | 155,000 | – | – | – | 18.30 | 155,000 | – |
| | 9/12/2008 | 313,000 | 8/12/2009 – 8/12/2015 | – | 313,000 | – | – | – | 18.30 | 313,000 | – |
| | 10/12/2008 | 2,176,400 | 8/12/2009 – 8/12/2015 | – | 2,176,400 | – | – | – | 18.30 | 2,176,400 | – |
| | 11/12/2008 | 2,294,200 | 8/12/2009 – 8/12/2015 | – | 2,294,200 | – | – | – | 18.30 | 2,294,200 | – |
| | 12/12/2008 | 1,311,500 | 8/12/2009 – 8/12/2015 | – | 1,311,500 | – | – | – | 18.30 | 1,311,500 | – |
| | 13/12/2008 | 84,500 | 8/12/2009 – 8/12/2015 | – | 84,500 | – | – | – | 18.30 | 84,500 | – |
| | 14/12/2008 | 88,200 | 8/12/2009 – 8/12/2015 | – | 88,200 | – | – | – | 18.30 | 88,200 | – |
| | 15/12/2008 | 1,084,700 | 8/12/2009 – 8/12/2015 | – | 1,084,700 | – | – | – | 18.30 | 1,084,700 | – |
| | 16/12/2008 | 581,500 | 8/12/2009 – 8/12/2015 | – | 581,500 | – | – | – | 18.30 | 581,500 | – |
| | 17/12/2008 | 513,500 | 8/12/2009 – 8/12/2015 | – | 513,500 | – | – | – | 18.30 | 513,500 | – |
| | 18/12/2008 | 611,500 | 8/12/2009 – 8/12/2015 | – | 611,500 | – | – | – | 18.30 | 611,500 | – |
| | 19/12/2008 | 198,000 | 8/12/2009 – 8/12/2015 | – | 198,000 | – | – | – | 18.30 | 198,000 | – |
| | 20/12/2008 | 19,000 | 8/12/2009 – 8/12/2015 | – | 19,000 | – | – | – | 18.30 | 19,000 | – |
| | 22/12/2008 | 772,500 | 8/12/2009 – 8/12/2015 | – | 772,500 | – | – | – | 18.30 | 772,500 | – |
| | 23/12/2008 | 306,000 | 8/12/2009 – 8/12/2015 | – | 306,000 | – | – | – | 18.30 | 306,000 | – |
| | 24/12/2008 | 500,500 | 8/12/2009 – 8/12/2015 | – | 500,500 | – | – | – | 18.30 | 500,500 | – |
| | 25/12/2008 | 45,000 | 8/12/2009 – 8/12/2015 | – | 45,000 | – | – | – | 18.30 | 45,000 | – |
| | 29/12/2008 | 148,000 | 8/12/2009 – 8/12/2015 | – | 148,000 | – | – | – | 18.30 | 148,000 | – |
| | 30/12/2008 | 19,000 | 8/12/2009 – 8/12/2015 | – | 19,000 | – | – | – | 18.30 | 19,000 | – |

Notes

1 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.

2 Unless approved by shareholders in the manner as required by the Listing Rules, the total number of shares issued and issuable upon exercise of the options granted to any eligible employee under the 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.

During the year ended 31 December 2008, 1,490,000 and 14,276,000 options to subscribe for shares of the Company were granted to 7 Members of the Executive Directorate and 358 employees respectively under the 2007 Share Option Scheme during the period from 2 January 2008 to 30 December 2008. 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 are 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$) |
|---|---|---|---|---|---|---|
| 2/1/2008 | 28.70 | 2.82 | 3.5 | 0.22 | 0.45 | 5.49 |
| 3/1/2008 | 30.80 | 2.71 | 3.5 | 0.22 | 0.45 | 6.88 |
| 4 /1/2008 | 31.80 | 2.77 | 3.5 | 0.22 | 0.45 | 7.65 |
| 7/1/2008 | 32.00 | 2.77 | 3.5 | 0.22 | 0.45 | 7.79 |
| 28/3/2008 | 25.90 | 1.69 | 3.5 | 0.22 | 0.45 | 3.80 |
| 31/3/2008 | 26.10 | 1.68 | 3.5 | 0.22 | 0.45 | 3.90 |
| 1/4/2008 | 26.70 | 1.66 | 3.5 | 0.23 | 0.45 | 4.39 |
| 2/4/2008 | 26.70 | 1.75 | 3.5 | 0.23 | 0.45 | 4.42 |
| 3/4/2008 | 27.35 | 1.83 | 3.5 | 0.23 | 0.45 | 4.84 |
| 4/4/2008 | 27.25 | 1.83 | 3.5 | 0.23 | 0.45 | 4.78 |
| 5/4/2008 | 27.25 | 1.83 | 3.5 | 0.23 | 0.45 | 4.78 |
| 7/4/2008 | 27.25 | 1.79 | 3.5 | 0.23 | 0.45 | 4.76 |
| 8/4/2008 | 27.10 | 1.84 | 3.5 | 0.23 | 0.45 | 4.69 |
| 9/4/2008 | 27.20 | 1.76 | 3.5 | 0.23 | 0.45 | 4.72 |
| 10/4/2008 | 26.90 | 1.65 | 3.5 | 0.23 | 0.45 | 4.49 |
| 11/4/2008 | 26.90 | 1.72 | 3.5 | 0.23 | 0.45 | 4.52 |
| 12/4/2008 | 27.10 | 1.72 | 3.5 | 0.23 | 0.45 | 4.63 |
| 14/4/2008 | 27.10 | 1.65 | 3.5 | 0.23 | 0.45 | 4.60 |
| 15/4/2008 | 26.65 | 1.74 | 3.5 | 0.23 | 0.45 | 4.37 |
| 16/4/2008 | 27.05 | 1.81 | 3.5 | 0.23 | 0.45 | 4.63 |
| 17/4/2008 | 26.65 | 1.88 | 3.5 | 0.23 | 0.45 | 4.42 |
| 18/4/2008 | 26.80 | 1.91 | 3.5 | 0.23 | 0.45 | 4.52 |
| 19/4/2008 | 26.85 | 1.91 | 3.5 | 0.23 | 0.45 | 4.54 |
| 20/4/2008 | 26.85 | 1.91 | 3.5 | 0.23 | 0.45 | 4.54 |
| 21/4/2008 | 26.85 | 1.91 | 3.5 | 0.23 | 0.45 | 4.54 |
| 23/4/2008 | 27.35 | 1.99 | 3.5 | 0.23 | 0.45 | 4.88 |
| 8/12/2008 | 16.90 | 1.35 | 3.5 | 0.27 | 0.45 | 2.31 |

| 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$) |
|---|---|---|---|---|---|---|
| 9/12/2008 | 18.30 | 1.28 | 3.5 | 0.27 | 0.45 | 3.03 |
| 10/12/2008 | 18.02 | 1.26 | 3.5 | 0.27 | 0.45 | 2.87 |
| 11/12/2008 | 18.98 | 1.22 | 3.5 | 0.27 | 0.45 | 3.41 |
| 12/12/2008 | 18.68 | 1.17 | 3.5 | 0.27 | 0.45 | 3.22 |
| 13/12/2008 | 18.00 | 1.17 | 3.5 | 0.27 | 0.45 | 2.84 |
| 14/12/2008 | 18.00 | 1.17 | 3.5 | 0.27 | 0.45 | 2.84 |
| 15/12/2008 | 18.00 | 1.20 | 3.5 | 0.27 | 0.45 | 2.84 |
| 16/12/2008 | 18.50 | 1.21 | 3.5 | 0.27 | 0.45 | 3.12 |
| 17/12/2008 | 18.48 | 1.04 | 3.5 | 0.27 | 0.45 | 3.07 |
| 18/12/2008 | 18.90 | 1.05 | 3.5 | 0.27 | 0.45 | 3.32 |
| 19/12/2008 | 19.06 | 1.01 | 3.5 | 0.27 | 0.45 | 3.40 |
| 20/12/2008 | 18.36 | 1.01 | 3.5 | 0.27 | 0.45 | 3.00 |
| 22/12/2008 | 18.36 | 0.99 | 3.5 | 0.27 | 0.45 | 2.99 |
| 23/12/2008 | 17.86 | 1.01 | 3.5 | 0.27 | 0.45 | 2.72 |
| 24/12/2008 | 17.64 | 0.98 | 3.5 | 0.27 | 0.45 | 2.60 |
| 25/12/2008 | 17.96 | 0.98 | 3.5 | 0.27 | 0.45 | 2.77 |
| 29/12/2008 | 17.96 | 0.97 | 3.5 | 0.27 | 0.45 | 2.76 |
| 30/12/2008 | 18.16 | 0.92 | 3.5 | 0.27 | 0.45 | 2.86 |

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

as recorded in the register kept by the Company under section 352 of the SFO or otherwise notified to the Company and the 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 2008 as recorded in the register kept by the Company under section 336 of the SFO:

| Name | No. of Ordinary Shares | Percentage of Ordinary Shares to total issued share capital |
|---|---|---|
| The Financial Secretary Incorporated (in trust on behalf of the Government) | 4,344,710,490 | 76.75 |

The Company has been informed by the Government that, as at 31 December 2008, approximately 0.77% 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 2008 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 2008 was attributable to the Company's five largest customers combined by value.

## Going Concern

The summary financial statements on pages 63 to 75 have been prepared on a going concern basis. The Board has reviewed the Company's budget for 2009, 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, 10 March 2009

# Consolidated Profit and Loss Account

| for the year ended 31 December in HK$ million | 2008 | 2007 |
|---|---|---|
| Fare revenue | **11,467** | 7,115 |
| Station commercial and rail related revenue | **3,449** | 1,741 |
| Rental, management and other revenue | **2,712** | 1,834 |
| **Turnover** | **17,628** | 10,690 |
| Staff costs and related expenses | **(3,358)** | (1,802) |
| Energy and utilities | **(1,020)** | (576) |
| Operational rent and rates | **(179)** | (99) |
| Stores and spares consumed | **(411)** | (130) |
| Repairs and maintenance | **(856)** | (521) |
| Railway support services | **(121)** | (86) |
| Expenses relating to station commercial and rail related businesses | **(822)** | (410) |
| Expenses relating to property ownership, management and other businesses | **(785)** | (540) |
| Project study and business development expenses | **(198)** | (268) |
| General and administration expenses | **(342)** | (183) |
| Other expenses | **(211)** | (163) |
| **Operating expenses before depreciation and amortisation** | **(8,303)** | (4,778) |
| **Operating profit from railway and related businesses before depreciation and amortisation** | **9,325** | 5,912 |
| Profit on property developments | **4,670** | 8,304 |
| **Operating profit before depreciation and amortisation** | **13,995** | 14,216 |
| Depreciation and amortisation | **(2,930)** | (2,739) |
| Merger related expenses | **(53)** | (193) |
| **Operating profit before interest and finance charges** | **11,012** | 11,284 |
| Interest and finance charges | **(1,998)** | (1,316) |
| Change in fair value of investment properties | **(146)** | 8,011 |
| Net gain on acquisition of subsidiaries | **–** | 187 |
| Share of profits of non-controlled subsidiaries and associates | **159** | 99 |
| **Profit before taxation** | **9,027** | 18,265 |
| Income tax | **(747)** | (3,083) |
| **Profit for the year** | **8,280** | 15,182 |
| **Attributable to:** | | |
| – Equity shareholders of the Company | **8,284** | 15,180 |
| – Minority interests | **(4)** | 2 |
| **Profit for the year** | **8,280** | 15,182 |
| **Dividends paid and proposed to equity shareholders of the Company attributable to the year:** | | |
| – Interim dividend declared and paid during the year | **790** | 782 |
| – Final dividend proposed after the balance sheet date | **1,925** | 1,740 |
| | **2,715** | 2,522 |
| **Earnings per share:** | | |
| – Basic | **HK$1.47** | HK$2.72 |
| – Diluted | **HK$1.47** | HK$2.72 |

The notes on pages 65 to 75 form part of these summary financial statements

# Consolidated Balance Sheet

| at 31 December in HK$ million | 2008 | 2007 |
|---|---|---|
| **Assets** | | |
| Fixed assets | | |
| – Investment properties | **37,737** | 37,723 |
| – Other property, plant and equipment | **77,804** | 79,444 |
| – Service concession assets | **15,463** | 15,250 |
| | **131,004** | 132,417 |
| Property management rights | **35** | 40 |
| Railway construction in progress | **658** | 424 |
| Property development in progress | **7,895** | 9,066 |
| Deferred expenditure | **1,988** | 825 |
| Prepaid land lease payments | **567** | 581 |
| Interests in non-controlled subsidiaries | **381** | 268 |
| Interests in associates | **743** | 205 |
| Deferred tax assets | **11** | 4 |
| Investments in securities | **471** | 333 |
| Staff housing loans | **10** | 15 |
| Properties held for sale | **2,228** | 756 |
| Derivative financial assets | **528** | 273 |
| Stores and spares | **690** | 642 |
| Debtors, deposits and payments in advance | **7,190** | 5,167 |
| Loan to a property developer | **3,720** | 3,532 |
| Amounts due from the Government and other related parties | **426** | 544 |
| Cash and cash equivalents | **793** | 576 |
| | **159,338** | 155,668 |
| **Liabilities** | | |
| Bank overdrafts | **59** | 2 |
| Short-term loans | **1,646** | 507 |
| Creditors, accrued charges and provisions | **5,334** | 5,412 |
| Current taxation | **450** | 3 |
| Contract retentions | **224** | 225 |
| Amounts due to related parties | **882** | 975 |
| Loans and other obligations | **29,584** | 33,541 |
| Obligations under service concession | **10,656** | 10,685 |
| Derivative financial liabilities | **305** | 192 |
| Deferred income | **156** | 515 |
| Deferred tax liabilities | **12,220** | 12,574 |
| | **61,516** | 64,631 |
| **Net assets** | **97,822** | 91,037 |
| **Capital and reserves** | | |
| Share capital, share premium and capital reserve | **41,119** | 39,828 |
| Other reserves | **56,682** | 51,186 |
| **Total equity attributable to equity shareholders of the Company** | **97,801** | 91,014 |
| **Minority interests** | **21** | 23 |
| **Total equity** | **97,822** | 91,037 |

Approved and authorised for issue by the Members of the Board on 10 March 2009

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

The notes on pages 65 to 75 form part of these summary financial statements

# Notes to the Summary Financial Statements

## 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 2008.

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 have been fully converged with International Financial Reporting Standards in all material respects.

The Company early adopted the Hong Kong (International Financial Reporting Interpretations Committee) ("HK(IFRIC)") Interpretation 12 in the 2007 accounts. As a result, the merger of the Company's operations with Kowloon-Canton Railway Corporation ("KCRC") on 2 December 2007 was considered as a service concession arrangement under this interpretation. Except for HK(IFRIC) Interpretation 12, other new and revised HKFRSs and interpretations, that are first effective for the current accounting period of the Group, issued by the HKICPA have no material impact on the Group's financial statements. The accounting policies adopted in the preparation of these accounts are therefore consistent with those used in the 2007 annual accounts.

## 2 Rail Merger with Kowloon-Canton Railway Corporation

**A** 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;
- 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;
- With effect from the Appointed Day, staff of the Company and KCRC have been employed by the Company on their prevailing terms and conditions of employment. In connection with the Rail Merger, a Staff Voluntary Separation Scheme has been offered to eligible staff;
- 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 ("KSL") Project Management Agreement, the West Rail Agency Agreement and the Outsourcing Agreement.

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

**B** The principal financial terms of the Rail Merger and their financial impact on the accounts are described in the following paragraphs.

For the acquisition of the service concession, the Company has settled or is liable to settle the following payments to KCRC in respect of the service concession:

- Upfront payment of HK$4,250 million was paid on the Appointed Day, of which HK$326 million was in respect of stores and spares, with the balance of HK$3,924 million for the right to access, use and operate the KCRC system ("initial concession property"), which is capitalised as a service concession asset on the balance sheet and amortised on a straight-line basis over the Concession Period;
- Fixed annual payments of HK$750 million are payable by the Company to KCRC throughout the Concession Period. The present value of the total fixed annual payments discounted at the Company's estimated long-term incremental borrowing rate at inception of 6.75% amounting to HK$10,687 million was capitalised as a service concession asset on the balance sheet and amortised on a straight-line basis over the Concession Period with a corresponding liability for obligations under the service concession recognised on the balance sheet; and
- Variable annual payments are payable by the Company to KCRC commencing after the third year from the Appointed Day to the end of the Concession Period. The payments are calculated on a tiered basis by reference to the revenues generated from the operation of the service concession over certain thresholds.

The assumption of the liability of deposits refundable to third parties and other liabilities subject to cash compensation by KCRC on the Appointed Day amounted to HK$663 million. The assumption of other assets and liabilities not subject to compensation by KCRC on the Appointed Day amounted to a net liability amount of HK$226 million (note 5C), formed part of the cost of acquiring the service concession and was capitalised accordingly.

On the Appointed Day, the Company paid a total consideration of HK$7,790 million for the transfer of the economic benefits of the property package from KCRC as follows:

- Acquisition of certain properties or property holding subsidiaries from KCRC at a consideration of HK$2,840 million;
- Acquisition of property development rights for eight development sites for a consideration of HK$4,910 million, which was recognised at cost as property development in progress on the balance sheet. Pursuant to the transaction agreements, when the development sites which have not been awarded as at the Appointed Day are subsequently awarded, the Company is obliged to pay KCRC an agreed amount of HK$875 million in respect of enabling works carried out by KCRC for such sites, which are to be settled by the receipt of mandatory payments from property developers when the sites are awarded;
- Acquisition of certain property management rights from KCRC in respect of existing and future managed properties at a consideration of HK$40 million. The amount was capitalised and subject to amortisation on a straight-line basis over the period of the management rights;
- Assumption of certain assets and liabilities with a net liability amount of HK$123 million relating to the property package with corresponding cash settlement from KCRC; and
- Acquisition of certain other subsidiaries of KCRC.

The Rail Merger also gave rise to the following:

- The Company obtained a new loan financing facility of HK$10 billion in 2007 as part of the financing for the above arrangements; and
- Deferred expenditure of HK$492 million incurred in connection with the acquisition of the respective assets was capitalised on the Appointed Day.

Income and expenditure and assets and liabilities in relation to the operation of the service concession are accounted for in the respective line items of the Group's and the Company's profit and loss accounts and balance sheets. Accordingly, the profit and loss accounts for the year ended 31 December 2008 reflect a full year of the Rail Merger whereas the comparatives reflect one month.

## 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 |
|---|---|---|---|---|---|
| **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 |

* C K Chow participates in the Company's Mandatory Provident Fund Scheme. The total contributions paid by the Company in each of the years 2007 and 2008 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 |
|---|---|---|---|---|---|
| 2007 | | | | | |
| Members of the Board | | | | | |
| – Raymond Ch'ien Kuo-fung | 1.0 | – | – | – | 1.0 |
| – Cheung Yau-kai | 0.2 | – | – | – | 0.2 |
| – David Gordon Eldon | 0.2 | – | – | – | 0.2 |
| – Christine Fang Meng-sang | 0.2 | – | – | – | 0.2 |
| – Edward Ho Sing-tin | 0.3 | – | – | – | 0.3 |
| – Lo Chung-hing | 0.2 | – | – | – | 0.2 |
| – Ng Leung-sing (appointed on 18 December 2007) | – | – | – | – | – |
| – Abraham Shek Lai-him (appointed on 18 December 2007) | – | – | – | – | – |
| – T. Brian Stevenson | 0.3 | – | – | – | 0.3 |
| – Ceajer Chan Ka-keung (appointed on 10 July 2007) | 0.1 | – | – | – | 0.1 |
| – Eva Cheng (appointed on 1 July 2007) | 0.1 | – | – | – | 0.1 |
| – Sarah Liao Sau-tung (retired on 1 July 2007) | 0.1 | – | – | – | 0.1 |
| – Frederick Ma Si-hang (retired on 10 July 2007) | 0.1 | – | – | – | 0.1 |
| – Alan Wong Chi-kong | 0.2 | – | – | – | 0.2 |
| Members of the Executive Directorate | | | | | |
| – Chow Chung-kong | – | 5.9 | –* | 5.1 | 11.0 |
| – Russell John Black | – | 3.8 | 0.1 | 1.7 | 5.6 |
| – William Chan Fu-keung | – | 3.7 | 0.1 | 1.7 | 5.5 |
| – Thomas Ho Hang-kwong | – | 3.8 | 0.1 | 1.6 | 5.5 |
| – Lincoln Leong Kwok-kuen | – | 3.8 | 0.5 | 1.7 | 6.0 |
| – Francois Lung Ka-kui | – | 3.5 | 0.5 | 0.8 | 4.8 |
| – Andrew McCusker | – | 3.7 | 0.1 | 1.4 | 5.2 |
| – Leonard Bryan Turk | – | 3.7 | 0.1 | 1.7 | 5.5 |
| | 3.0 | 31.9 | 1.5 | 15.7 | 52.1 |

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 2007 and 2008

Francois K K Lung 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 (2007: nil), and the respective fair value of the share-based payments recognised for the year ended 31 December 2008 was HK$1.6 million (2007: HK$1.1 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)*

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

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 and 8 December 2008. 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 on 9 December 2008, of which 240,000 options were vested in 2008 (2007: nil), and the respective fair value of the share-based payments recognised for the year ended 31 December 2008 was HK$1.2 million (2007: HK$0.071 million);
- Russell J Black, Lincoln K K Leong and Leonard B Turk were each granted options in respect of 170,000 shares on both 12 December 2007 and 9 December 2008, of which 57,000 options were vested in 2008 (2007: nil), and the respective fair value of the share-based payments recognised for the year ended 31 December 2008 was HK$0.3 million (2007: HK$0.017 million) for each of them;
- Thomas H K Ho was granted options in respect of 170,000 shares on both 12 December 2007 and 11 December 2008, of which 57,000 were vested in 2008 (2007: nil), and the respective fair value of the share-based payments recognised for the year ended 31 December 2008 was HK$0.3 million (2007: HK$0.017 million);
- Andrew McCusker was granted options in respect of 170,000 shares on both 12 December 2007 and 12 December 2008, of which 57,000 options were vested in 2008 (2007: nil), and the respective fair value of the share-based payments recognised for the year ended 31 December 2008 was HK$0.3 million (2007: HK$0.017 million);
- William F K Chan was granted options in respect of 170,000 shares on both 13 December 2007 and 9 December 2008, of which 57,000 options were vested in 2008 (2007: nil), and the respective fair value of the share-based payments recognised for the year ended 31 December 2008 was HK$0.3 million (2007: HK$0.017 million); and
- Francois K K Lung was granted options in respect of 130,000 shares on 12 December 2007, of which 87,000 options were vested in 2008 (2007: nil), and the respective fair value of the share-based payments recognised for the year ended 31 December 2008 was HK$0.4 million (2007: HK$0.013 million).

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) C K Chow has a derivative interest in respect of 418,017 shares within the meaning of Part XV of the Securities and Futures Ordinance ("SFO"). The derivative interest represents C K Chow's entitlement to receive an equivalent value in cash of 418,017 shares on completion of his three-year contract ending on 30 November 2009.

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 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.

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$74.2 million (2007: HK$53.4 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. 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 2008 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 and Andrew McCusker, was granted options on 20 September 2000 to acquire 1,066,000 shares. C K Chow, Lincoln K K Leong and Francois K K Lung joined the Company on 1 December 2003, 1 February 2002 and 26 September 2005 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 December 2007 and December 2008. C K Chow was granted options to acquire 720,000 shares in 2007 and 470,000 shares in 2008; Russell J Black, 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 both 2007 and 2008; and Francois K K Lung was granted options to acquire 130,000 shares in 2007.

Under the vesting terms of the options granted in December 2007 and December 2008, options granted will be evenly vested in respect of their underlying shares over a period of three years from 10 December 2007 and 8 December 2008 respectively. 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

Segmental information is presented in accordance with the Group's business segments, which comprise the following:

Railway operations: The operation of an urban mass transit railway system within Hong Kong and an Airport Express serving both the Hong Kong International Airport and the AsiaWorld-Expo at Chek Lap Kok and following the Rail Merger, with effect from 2 December 2007, the KCR System consisting of KCR Lines (comprising the East Rail excluding Cross-boundary Service, West Rail and Ma On Shan lines), Cross-boundary Service, Light Rail, Bus and Intercity passenger services.

Station commercial and rail related businesses: Commercial activities including letting of advertising and retail space, bandwidth services on the railway telecommunication system, railway consultancy services, freight and rail related subsidiaries' businesses.

Property ownership, management and other businesses: Property rental, property management and operations relating to Ngong Ping 360.

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

## 4 Segmental Information *(continued)*

The results of major business activities are summarised below:

| in HK$ million | Turnover 2008 | Turnover 2007 | Contribution to Profit 2008 | Contribution to Profit 2007 |
|---|---|---|---|---|
| Railway operations | **11,467** | 7,115 | **2,776** | 1,355 |
| Station commercial and rail related businesses | **3,449** | 1,741 | **2,551** | 1,258 |
| | **14,916** | 8,856 | **5,327** | 2,613 |
| Property ownership, management and other businesses | **2,712** | 1,834 | **1,856** | 1,226 |
| | **17,628** | 10,690 | **7,183** | 3,839 |
| Profit on property developments | | | **4,670** | 8,304 |
| | | | **11,853** | 12,143 |
| Unallocated corporate expenses | | | **(788)** | (666) |
| Merger related expenses | | | **(53)** | (193) |
| Interest and finance charges | | | **(1,998)** | (1,316) |
| Change in fair value of investment properties | | | **(146)** | 8,011 |
| Net gain on acquisition of subsidiaries | | | **–** | 187 |
| Share of profits of non-controlled subsidiaries and associates | | | **159** | 99 |
| Income tax | | | **(747)** | (3,083) |
| Profit for the year | | | **8,280** | 15,182 |

As substantially all the principal operating activities of the Group were carried out in Hong Kong throughout the reporting periods, no geographical analysis is provided.

## 5 Fixed Assets and Railway Construction in Progress

### A Investment Properties

| in HK$ million | 2008 | 2007 |
|---|---|---|
| Valuation | | |
| At 1 January | **37,723** | 22,539 |
| Additions through Rail Merger | **–** | 2,840 |
| Other additions | **108** | 364 |
| Change in fair value | **(146)** | 8,011 |
| Transfer from assets under construction (note 5B) | **98** | 4,027 |
| Transfer to self-occupied land and buildings (note 5B) | **(46)** | (58) |
| At 31 December | **37,737** | 37,723 |
| Long leases | **1,575** | 1,609 |
| Medium-term leases | **36,162** | 36,114 |
| | **37,737** | 37,723 |

## 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 |
|---|---|---|---|---|---|
| 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** |
| **Net book value at 31 December 2008** | **1,965** | **41,747** | **32,692** | **1,400** | **77,804** |
| Cost or Valuation | | | | | |
| At 1 January 2007 | 1,989 | 46,544 | 57,767 | 4,905 | 111,205 |
| Additions | – | – | 44 | 1,387 | 1,431 |
| Capitalisation adjustments * | – | (42) | (49) | – | (91) |
| Disposals / Write-offs | – | (4) | (371) | – | (375) |
| Surplus on revaluation | 193 | – | – | – | 193 |
| Reclassification | – | (61) | 61 | – | – |
| Transfer from deferred expenditure | – | – | 59 | 44 | 103 |
| Transfer from / (to) investment properties (note 5A) | 58 | – | – | (4,027) | (3,969) |
| SkyPlaza Platform Project commissioned (note 5D) | – | – | 71 | – | 71 |
| Other assets commissioned | – | 34 | 1,238 | (1,272) | – |
| At 31 December 2007 | 2,240 | 46,471 | 58,820 | 1,037 | 108,568 |
| At Cost | – | 46,471 | 58,820 | 1,037 | 106,328 |
| At 31 December 2007 Valuation | 2,240 | – | – | – | 2,240 |
| Aggregate depreciation | | | | | |
| At 1 January 2007 | – | 3,864 | 22,937 | – | 26,801 |
| Charge for the year | 52 | 387 | 2,279 | – | 2,718 |
| Capitalisation adjustments * | – | (1) | (3) | – | (4) |
| Written back on disposal | – | (2) | (337) | – | (339) |
| Written back on revaluation | (52) | – | – | – | (52) |
| Reclassification | – | (12) | 12 | – | – |
| At 31 December 2007 | – | 4,236 | 24,888 | – | 29,124 |
| Net book value at 31 December 2007 | 2,240 | 42,235 | 33,932 | 1,037 | 79,444 |

* 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$2,615 million (2007: HK$2,714 million), comprising depreciation for the year of HK$2,621 million (2007: HK$2,718 million) less capitalisation adjustments of HK$6 million (2007: HK$4 million).

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

### C Service Concession Assets

| in HK$ million | Initial concession property | Additional concession property | Total |
|---|---|---|---|
| **2008** | | | |
| 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** |
| 2007 | | | |
| Cost | | | |
| At 1 January 2007 | – | – | – |
| Additions through the Rail Merger | | | |
| – Upfront payment (note 2B) | 3,924 | – | 3,924 |
| – Principal element of fixed annual payments (note 2B) | 10,687 | – | 10,687 |
| – Others (note 2B) | 226 | 31 | 257 |
| Net additions during the year | – | 18 | 18 |
| Transfer from deferred expenditure | 389 | – | 389 |
| At 31 December 2007 | 15,226 | 49 | 15,275 |
| Accumulated amortisation | | | |
| At 1 January 2007 | – | – | – |
| Charge for the year | 25 | – | 25 |
| At 31 December 2007 | 25 | – | 25 |
| Net book value at 31 December 2007 | 15,201 | 49 | 15,250 |

Additional concession property represents expenditure incurred in relation to the maintenance, repair, replacement and upgrade of the KCRC system.

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

### D Railway Construction in Progress

| in HK$ million | Balance at 1 Jan | Expenditure | Capitalised on commissioning (note 5B) | Balance at 31 Dec |
|---|---|---|---|---|
| **2008** | | | | |
| LOHAS Park Station Project | **424** | **234** | – | **658** |
| Total | **424** | **234** | – | **658** |
| 2007 | | | | |
| LOHAS Park Station Project | 175 | 249 | – | 424 |
| SkyPlaza Platform Project | 57 | 14 | (71) | – |
| Total | 232 | 263 | (71) | 424 |

## 6 Bonds and Notes Issued and Redeemed

Bonds and notes issued during the year ended 31 December 2008 and 2007 comprise:

| | **2008** | | 2007 | |
|---|---|---|---|---|
| in HK$ million | Principal amount | Net consideration received | Principal amount | Net consideration received |
| Debt issuance programme notes | **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 2008, the Group redeemed HK$1,000 million (2007: nil) of its unlisted debt securities.

None of the Group's listed debt securities was redeemed during the year ended 31 December 2008 and 2007.

## 7 Reserves

| in HK$ million | Share premium | Capital reserve | Fixed asset revaluation reserve | Hedging reserve | Employee share-based capital reserve | Exchange reserve | Retained profits | Total |
|---|---|---|---|---|---|---|---|---|
| | Attributable to equity shareholders of the Company | | | | | | | |
| **2008** | | | | | | | | |
| Balance as at 1 January 2008 | **7,029** | **27,188** | **1,170** | **(25)** | **7** | **42** | **49,992** | **85,403** |
| Employee share options exercised | **25** | – | – | – | – | – | – | **25** |
| Shares issued under Scrip Dividend Schemes | **1,214** | – | – | – | – | – | – | **1,214** |
| Cash flow hedges: | | | | | | | | |
| Effective portion of changes in fair value, net of deferred tax | – | – | – | **(151)** | – | – | – | **(151)** |
| Transfer from equity | | | | | | | | |
| – to consolidated profit and loss account | – | – | – | **41** | – | – | – | **41** |
| – to initial carrying amount of non-financial hedged items | – | – | – | **(14)** | – | – | – | **(14)** |
| – to deferred tax | – | – | – | **(5)** | – | – | – | **(5)** |
| 2007 final dividend | – | – | – | – | – | – | **(1,740)** | **(1,740)** |
| 2008 interim dividend | – | – | – | – | – | – | **(790)** | **(790)** |
| Deficit on revaluation, net of deferred tax | – | – | **(189)** | – | – | – | – | **(189)** |
| Release of revaluation reserve on disposal, net of deferred tax | – | – | **(35)** | – | – | – | **42** | **7** |
| Effect on deferred tax balances resulting from a change in tax rate | – | – | **14** | – | – | – | – | **14** |
| Employee share-based payments | – | – | – | – | **20** | – | – | **20** |
| Release to share premium upon share options exercised | **2** | – | – | – | **(2)** | – | – | – |
| Exchange difference on translation of accounts of overseas subsidiaries | – | – | – | – | – | **21** | – | **21** |
| Profit for the year | – | – | – | – | – | – | **8,284** | **8,284** |
| Balance as at 31 December 2008 | **8,270** | **27,188** | **960** | **(154)** | **25** | **63** | **55,788** | **92,140** |
| 2007 | | | | | | | | |
| Balance as at 1 January 2007 | 5,902 | 27,188 | 968 | (10) | 5 | 17 | 37,148 | 71,218 |
| Employee share options exercised | 20 | – | – | – | – | – | – | 20 |
| Shares issued under Scrip Dividend Schemes | 1,107 | – | – | – | – | – | – | 1,107 |
| Cash flow hedges: | | | | | | | | |
| Effective portion of changes in fair value, net of deferred tax | – | – | – | (13) | – | – | – | (13) |
| Transfer from equity | | | | | | | | |
| – to consolidated profit and loss account | – | – | – | – | – | – | – | – |
| – to initial carrying amount of non-financial hedged items | – | – | – | (2) | – | – | – | (2) |
| – to deferred tax | – | – | – | – | – | – | – | – |
| 2006 final dividend | – | – | – | – | – | – | (1,554) | (1,554) |
| 2007 interim dividend | – | – | – | – | – | – | (782) | (782) |
| Surplus on revaluation, net of deferred tax | – | – | 202 | – | – | – | – | 202 |
| Employee share-based payments | – | – | – | – | 2 | – | – | 2 |
| Exchange difference on translation of accounts of overseas subsidiaries | – | – | – | – | – | 25 | – | 25 |
| Profit for the year | – | – | – | – | – | – | 15,180 | 15,180 |
| Balance as at 31 December 2007 | 7,029 | 27,188 | 1,170 | (25) | 7 | 42 | 49,992 | 85,403 |

## 8 Other Information

These summary financial statements are only a summary of information in the Group's 2008 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 2008 Annual Report is available in electronic form on the Company's website at www.mtr.com.hk. A printed copy of the 2008 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 77 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 2008 on pages 1 to 75 and the front and back cover pages.

## Respective Responsibilities of Directors and Auditors

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 auditors' report thereon and the report of the Members of the Board for the year ended 31 December 2008, 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 auditors' report on the annual accounts for the year ended 31 December 2008 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 auditors' report thereon and the report of the Members of the Board for the year ended 31 December 2008, 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 75 and the front and back cover pages:

(a) is consistent with the annual accounts and the auditors' report thereon and the report of the Members of the Board of MTR Corporation Limited for the year ended 31 December 2008 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 2008 and have issued an auditors' report thereon dated 10 March 2009 which is unqualified or otherwise unmodified.

KPMG

Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
10 March 2009

# Key Shareholder Information

## Financial Calendar 2009

| | |
|---|---|
| Announcement of 2008 results | 10 March |
| Last day to register for 2008 final dividend | 2 April |
| Book closure period | 3 to 14 April (both dates inclusive) |
| Annual General Meeting | 4 June |
| 2008 final dividend payment date | On or about 17 June |
| Announcement of 2009 interim results | August |
| 2009 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

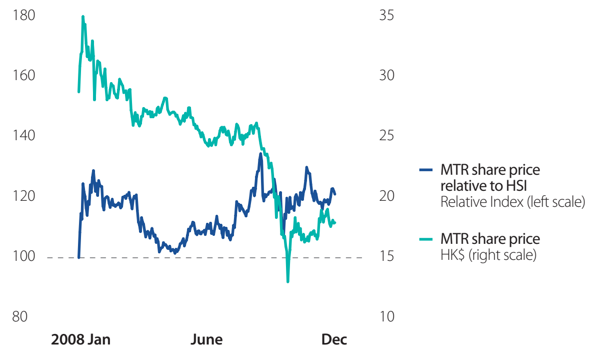
MTR Corporation Limited's shares are listed on the Stock Exchange of Hong Kong. In addition, shares are traded in United States through an American Depositary Receipt (ADR) Level 1 Programme sponsored by JP Morgan Depositary Receipts.

### Ordinary Shares *(as at 31 December 2008)*

| | |
|---|---|
| Shares outstanding | 5,661,143,113 shares |
| Hong Kong SAR Government Shareholding | 4,344,710,490 shares (76.7%) |
| Free float | 1,316,432,623 shares (23.3%) |

| | |
|---|---|
| Nominal Value | HK$1 per share |
| Market Capitalisation *(as at 31 December 2008)* | HK$101,674 million |

### Share Price Performance




### Dividend Policy

Subject to the financial performance of the Company, we expect to pay two dividends each financial year with interim and final dividends payable around October and June respectively.

### Dividend per Share

| | *(in HK$)* |
|---|---|
| 2007 Total Dividend | 0.45 |
| 2008 Interim Dividend | 0.14 |
| 2008 Final Dividend | 0.34 |

### ADR Level 1 Programme

| | |
|---|---|
| Ordinary share to ADR ratio | 10.1 |
| Depositary Bank | JPMorgan Depositary Receipts<br>4 New York Plaza, 13th Fl.<br>New York,<br>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 2008

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

Computershare Hong Kng Investor Services Limited,
Rooms 1806-1807, 18th 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

MTR

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