

# Report of the Members of the Board

The Members of the Board have pleasure in submitting their Report and the audited statement of Accounts for the financial year ended 31 December 2015.

## Principal Activities of the Group

The Group is principally engaged in the following core businesses – railway design, construction, operation, maintenance and investment in Hong Kong, the Mainland of China and a number of overseas cities; project management in relation to railway and property development businesses; station commercial business including leasing of station retail space, leasing of advertising space inside trains and stations, and enabling of telecommunication services on the railway system in Hong Kong; property business including property development and investment, management and leasing management of investment properties (including shopping malls and offices) in Hong Kong and the Mainland of China; and investment in Octopus Holdings Limited.

The principal activities of the Company's subsidiaries and associates as at 31 December 2015 are set out in notes 27 and 28 to the Accounts.

## Business Review

The Company has always been committed to providing comprehensive reviews of the Group's business and performance in different sections of its Annual Reports. In light of the new requirement under the Hong Kong Companies Ordinance (Cap. 622 of the Laws of Hong Kong) for companies to have a "business review" section in the directors' report, a summary of the relevant sections in the Company's Annual Report 2015 covering the required disclosures is set out below for ease of reference.

A fair review of the business of the Group and a discussion and an analysis of the Group's performance during the year ended 31 December 2015 are provided in Chairman's Letter Section (pages 8 to 11), CEO's Review of Operations and Outlook Section (pages 12 to 26), Executive Management's Report Section (pages 30 to 85) and Financial Review Section (pages 86 to 91); particulars of important events affecting the Group that have occurred since the end of the financial year 2015 are set out in Chairman's Letter Section (pages 8 to 11), CEO's Review of Operations and Outlook Section (pages 12 to 26) and Executive Management's Report Section (pages 30 to 85); a description of the significant risks and uncertainties facing the Group can be found in CEO's Review of Operations and Outlook Section (pages 12 to 26), Executive Management's Report Section (pages 30 to 85) and Risk Management Section (pages 101 to 103); the outlook for the Group's business is set out in Chairman's Letter Section (pages 8 to 11), CEO's Review of Operations and Outlook Section (pages 12 to 26) and Executive Management's Report Section (pages 30 to 85); a description of the Group's relationships with its key stakeholders is included in Chairman's Letter Section (pages 8 to 11), CEO's Review of Operations and Outlook Section (pages 12 to 26), Executive Management's Report Section (pages 30 to 85), Investor

Relations Section (pages 94 to 95), Corporate Responsibility Section (pages 96 to 100) and Corporate Governance Report Section (pages 104 to 123); the Group's environmental policies and performance are listed in Corporate Responsibility Section (pages 96 to 100); and details regarding the Group's compliance with relevant laws and regulations which have a significant impact on the Group are provided in Corporate Governance Report Section (pages 104 to 123). Further details relating to the Group's relationships with its key stakeholders and the Group's environmental policies and performance can be found in the Company's 2015 Sustainability Report to be launched in late May 2016.

## Dividend

The Board has recommended to pay a final dividend of HK\$0.81 per share (2014: HK\$0.80 per share). The Company proposes that a scrip dividend option will be offered to all shareholders except for shareholders with registered addresses in the United States of America or any of its territories or possessions. Subject to the approval of the shareholders at the forthcoming AGM, the proposed 2015 final dividend, with a scrip dividend option, is expected to be distributed on 13 July 2016 to shareholders whose names appear on the Register of Members of the Company as at the close of business on 27 May 2016.

## Accounts

The financial position of the Group as at 31 December 2015 and the Group's financial performance and cash flows for the year are set out in the consolidated accounts on pages 171 to 262.

## 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 92 to 93.

## Members of the Board

Members of the Board during the year and up to the date of this Report (unless otherwise stated) were:

### Non-executive Directors

Professor Frederick Ma Si-hang (re-designated as a Non-executive Director (from an Independent Non-executive Director) since 30 November 2015) (Chairman since 1 January 2016)

Dr Raymond Ch'ien Kuo-fung (Chairman and Member up to 31 December 2015)

Professor Chan Ka-keung, Ceajer

Secretary for Transport and Housing  
(Professor Anthony Cheung Bing-leung)

Permanent Secretary for Development (Works)  
(Mr Hon Chi-keung)(since 7 April 2015)  
(Mr Wai Chi-sing) (up to 6 April 2015)

Commissioner for Transport  
(Mrs Ingrid Yeung Ho Poi-yan)

# Report of the Members of the Board

## Independent Non-executive Directors

Mrs Pamela Chan Wong Shui  
Dr Dorothy Chan Yuen Tak-fai  
Mr Vincent Cheng Hoi-chuen  
Ms Christine Fang Meng-sang (up to 10 August 2015)  
Dr Eddy Fong Ching (since 13 January 2015)  
Mr Edward Ho Sing-tin  
Mr James Kwan Yuk-choi  
Mr Lau Ping-cheung, Kaizer (since 11 August 2015)  
Mrs Lucia Li Li Ka-lai  
Mr Alasdair George Morrison  
Mr Ng Leung-sing  
Mr Abraham Shek Lai-him  
Mr T. Brian Stevenson (up to 20 May 2015)  
Mr Benjamin Tang Kwok-bun  
Dr Allan Wong Chi-yun (since 11 August 2015)

## Executive Director

Mr Lincoln Leong Kwok-kuen (Chief Executive Officer)  
(since 16 March 2015)

At the 2015 AGM on 20 May 2015 and pursuant to the Articles of Association, Dr Raymond Ch'ien Kuo-fung, Professor Chan Ka-keung, Ceajer, Dr Eddy Fong Ching, Mr James Kwan Yuk-choi, Mr Lincoln Leong Kwok-kuen, Mrs Lucia Li Li Ka-lai and Mr Benjamin Tang Kwok-bun retired under the Articles of Association and were re-elected/elected as Members of the Board. Mr T. Brian Stevenson did not stand for re-election at the 2015 AGM and retired as a Member of the Board pursuant to the Articles of Association.

At the 2016 AGM to be held on 18 May 2016 and in accordance with the Articles of Association, Mr Vincent Cheng Hoi-chuen and Mr Edward Ho Sing-tin will retire by rotation pursuant to Articles 91 and 92(a) of the Articles of Association. Mr Lau Ping-cheung, Kaizer and Dr Allan Wong Chi-yun, who were appointed by the Board after the 2015 AGM, will retire pursuant to Article 89 of the Articles of Association. Mr Ho will not stand for re-election at the 2016 AGM. The other three retiring Directors will offer themselves for re-election/election at the 2016 AGM. In addition, a resolution will be proposed to the shareholders to elect Mr Anthony Chow Wing-kin as a new Independent Non-executive Director of the Company at the 2016 AGM. Please also refer to the Circular to be sent together with this Report.

Biographical details for Board Members are set out on pages 132 to 136.

## Alternate Directors

The Alternate Directors in office during the year and up to the date of this Report were:

For Professor Chan Ka-keung, Ceajer: (i) Ms Mable Chan; and (ii) Ms Elizabeth Tse Man-ye;e;  
For the office of the Secretary for Transport and Housing: (i) the Under Secretary for Transport and Housing (Mr Yau Shing-mu); (ii) the Permanent Secretary for Transport and Housing (Transport) (Mr Joseph Lai Yee-tak); and (iii) the Deputy Secretaries for Transport and Housing (Transport) (Ms Rebecca Pun Ting-ting and Mr Andy Chan Shui-fu);  
For the office of the Permanent Secretary for Development (Works): the Deputy Secretary for Development (Works) (Mr Chan Chi-ming); and  
For the Commissioner for Transport: the Deputy Commissioner for Transport/Transport Services and Management (Miss Cinderella Law Fung-ping).

## Executive Directorate

Members of the Executive Directorate during the year and up to the date of this Report (unless otherwise stated) were:

Mr Lincoln Leong Kwok-kuen (Chief Executive Officer and a Member of the Board since 16 March 2015) (formerly Acting Chief Executive Officer until 15 March 2015)  
Mr Morris Cheung Siu-wa (European Business Director since 15 June 2015) (formerly Human Resources Director up to 14 June 2015)  
Dr Peter Ronald Ewen (Engineering Director since 22 February 2016)  
Dr Jacob Kam Chak-pui (Operations Director)  
Mr Stephen Law Cheuk-kin (Finance Director)\*  
Ms Gillian Elizabeth Meller (Legal Director & Secretary)  
Ms Linda So Ka-pik (Corporate Affairs Director since 16 September 2015)  
Mr David Tang Chi-fai (Property Director)  
Dr Philco Wong Nai-keung (Projects Director)  
Ms Jeny Yeung Mei-chun (Commercial Director)  
Human Resources Director\*\*

\* On 25 September 2015, the Company announced that Mr Stephen Law Cheuk-kin would not seek to renew his service contract with the Company upon expiry of his service contract on 1 July 2016. On 25 February 2016, the Company announced that Mr Herbert Hui Leung-wah would be appointed as the Finance Director and a member of the Executive Directorate, with effect from 2 July 2016.

\*\* On 29 May 2015, the Company announced that a search would be commenced to fill the position of Human Resources Director following Mr Morris Cheung Siu-wa's change of role, and, in the interim, Mr Daniel Shim Ming-yi has served as Acting Human Resources Director of the Company.

Biographical details for Members of the Executive Directorate are set out on pages 136 to 139.

## Directors of Subsidiaries

The names of all the directors of the subsidiaries of the Company during the year and up to the date of this Report (unless otherwise stated) are listed on page 168.

## Directors' Service Contracts

No Director proposed for election or re-election at the forthcoming AGM has a service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than statutory compensation.

No Director has a service contract with the Company or any of its subsidiaries which is for a duration which may exceed three years or which requires the Company to, in order to terminate such contract, give a notice period in excess of one year or pay compensation or make other payments equivalent to more than one year's emoluments.

## Directors' Material Interests in Transactions, Arrangements or Contracts

Except for, in respect of Professor Chan Ka-keung, Ceajer (Secretary for Financial Services and the Treasury), Secretary for Transport and Housing (Professor Anthony Cheung Bing-leung), Permanent Secretary for Development (Works) (Mr Wai Chi-sing (up to 6 April 2015) and Mr Hon Chi-keung (since 7 April 2015)), and Commissioner for Transport (Mrs Ingrid Yeung Ho Poi-yan), all of whom were officials of Government, those connected transactions and continuing connected transactions between the Company and Government (and/or its associates) which are described on pages 149 to 166, there was no transaction, arrangement or contract of significance in relation to the Group's business, 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 or an entity connected with him/her had a material interest (whether direct or indirect), which was entered into during the year or subsisted at any time during the year.

## Directors' Interests in Shares and Underlying Shares of the Company

As at 31 December 2015, 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 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 HKSE pursuant to the Model Code, were as follows:

Member of the Board and/or the Executive Directorate	No. of Ordinary Shares held				No. of Share Options <sup>#</sup>	No. of Share Awards <sup>#</sup>	Total interests	Percentage of aggregate interests to total no. of voting shares in issue
	Personal interests*	Family interests <sup>†</sup>	Other interests	Corporate interests	Personal interests*	Personal interests*		
Frederick Ma Si-hang (Note 1)	-	70,000 (Note 1)	70,000 (Note 1)	-	-	-	70,000	0.00119
Raymond Ch'ien Kuo-fung (Note 2)	53,543	-	-	-	-	-	53,543	0.00091
Lincoln Leong Kwok-kuen	363,000	-	-	23,000 (Note 3)	797,000	315,200	1,498,200	0.02557
Pamela Chan Wong Shui	9,002	1,675	-	-	-	-	10,677	0.00018
Vincent Cheng Hoi-chuen	1,675	1,675	-	-	-	-	3,350	0.00006
Lucia Li Li Ka-lai	-	1,614 (Note 4)	2,215 (Note 4)	-	-	-	3,829	0.00007
Ingrid Yeung Ho Poi-yan	1,116	-	-	-	-	-	1,116	0.00002
Morris Cheung Siu-wa	14,098	-	-	-	334,500	28,800	377,398	0.00644
Jacob Kam Chak-pui	2,283	-	-	-	659,500	79,650	741,433	0.01266
Stephen Law Cheuk-kin	-	-	-	-	196,000	74,300	270,300	0.00461
Gillian Elizabeth Meller	-	-	-	-	497,500	74,550	572,050	0.00976
David Tang Chi-fai	633	-	-	-	454,000	76,050	530,683	0.00906
Philco Wong Nai-keung	-	-	-	-	187,500	79,300	266,800	0.00455
Jeny Yeung Mei-chun	78,400	-	-	-	478,000	76,950	633,350	0.01081

### Notes

- 1 Professor Frederick Ma Si-hang was appointed as Chairman of the Company with effect from 1 January 2016. The 70,000 shares were indirectly held by The Ma Family Trust established by Professor Ma for himself and his family of which his spouse was also a beneficiary.
- 2 Dr Raymond Ch'ien Kuo-fung retired as Chairman and a Member of the Board of the Company with effect from 1 January 2016.
- 3 The 23,000 shares were held by Linsan Investment Ltd., a private limited company beneficially wholly owned by Mr Lincoln Leong Kwok-kuen.
- 4 The 1,614 shares were held by Mrs Lucia Li Li Ka-lai's spouse and the 2,215 shares were jointly held by Mrs Li and her spouse.

<sup>#</sup> Details of the Share Options and Share Awards are set out in the sections headed "2007 Share Option Scheme" and "2014 Share Incentive Scheme" respectively on pages 144 to 147

\* Interests as beneficial owner

<sup>†</sup> Interests of spouse or child under 18 as beneficial owner

# Report of the Members of the Board

Save as disclosed above, during the year ended 31 December 2015:

- 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** no Member of the Board or the Executive Directorate nor any of their spouses or children under 18 years of age held any rights to subscribe for equity or debt securities of the Company nor had there been any exercises of any such rights by any of them, as recorded in the register kept by the Company under section 352 of the SFO or otherwise notified to the Company and the HKSE pursuant to the Model Code.

## Substantial Shareholders' Interests

Set out below is the name of the party which was interested in 5% or more of all the Company's voting shares in issue and the number of shares in which it was interested as at 31 December 2015 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 all the voting shares in issue
The Financial Secretary Incorporated ("FSI") (in trust on behalf of Government)	4,434,552,207	75.70%

The Company has been informed by the Hong Kong Monetary Authority that, as at 31 December 2015, approximately 0.51% of the shares of the Company (not included in the FSI shareholding set out in the above table) 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.

## Other Persons' Interest

Save as disclosed in the sections headed "Directors' Interests in Shares and Underlying Shares of the Company" and "Substantial Shareholders' Interests", as at 31 December 2015, no other persons had any interests or short positions in the shares or underlying shares of the Company as recorded in the register kept by the Company under section 336 of the SFO or otherwise notified to the Company and the HKSE.

## 2007 Share Option Scheme

Movements in the outstanding share options to subscribe for Ordinary Shares of the Company granted under the 2007 Share Option Scheme during the year ended 31 December 2015 are set out below:

Executive Directorate and eligible employees	Date granted	Options granted	Period during which rights exercisable (day/month/year)	Options outstanding as at 1 January 2015	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 2015	Weighted average closing price of shares immediately before the date(s) on which options were exercised (HK\$)
Lincoln Leong Kwok-kuen	10/12/2009	170,000	8/12/2010 – 8/12/2016	170,000	–	–	–	26.85	170,000	–
	17/12/2010	170,000	16/12/2011 – 16/12/2017	170,000	–	–	–	28.84	170,000	–
	30/3/2012	201,000	23/3/2013 – 23/3/2019	201,000	67,000	–	–	27.48	201,000	–
	6/5/2013	256,000	26/4/2014 – 26/4/2020	256,000	85,500	–	–	31.40	256,000	–
Morris Cheung Siu-wa	11/12/2009	65,000	8/12/2010 – 8/12/2016	65,000	–	–	65,000	26.85	–	38.95
	21/7/2010	35,000	28/6/2011 – 28/6/2017	35,000	–	–	24,000	27.73	11,000	38.95
	20/12/2010	65,000	16/12/2011 – 16/12/2017	65,000	–	–	44,000	28.84	21,000	38.95
	30/3/2012	122,000	23/3/2013 – 23/3/2019	122,000	40,000	–	–	27.48	122,000	–
Jacob Kam Chak-pui	6/5/2013	180,500	26/4/2014 – 26/4/2020	180,500	60,500	–	–	31.40	180,500	–
	14/12/2009	65,000	8/12/2010 – 8/12/2016	65,000	–	–	–	26.85	65,000	–
	21/7/2010	50,000	28/6/2011 – 28/6/2017	50,000	–	–	–	27.73	50,000	–
	17/12/2010	170,000	16/12/2011 – 16/12/2017	170,000	–	–	–	28.84	170,000	–
	30/3/2012	172,000	23/3/2013 – 23/3/2019	172,000	57,000	–	–	27.48	172,000	–
	6/5/2013	202,500	26/4/2014 – 26/4/2020	202,500	67,500	–	–	31.40	202,500	–

## 2007 Share Option Scheme (Continued)

Executive Directorate and eligible employees	Date granted	Options granted	Period during which rights exercisable (day/month/year)	Options outstanding as at 1 January 2015	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 2015	Weighted average closing price of shares immediately before the date(s) on which options were exercised (HK\$)
Stephen Law Cheuk-kin	1/11/2013	196,000	25/10/2014 – 25/10/2020	196,000	65,500	–	–	29.87	196,000	–
Gillian Elizabeth Meller	10/12/2009	65,000	8/12/2010 – 8/12/2016	65,000	–	–	–	26.85	65,000	–
	17/12/2010	90,000	16/12/2011 – 16/12/2017	90,000	–	–	–	28.84	90,000	–
	30/3/2012	158,500	23/3/2013 – 23/3/2019	158,500	52,500	–	–	27.48	158,500	–
	6/5/2013	184,000	26/4/2014 – 26/4/2020	184,000	61,500	–	–	31.40	184,000	–
David Tang Chi-fai	12/12/2008	65,000	8/12/2009 – 8/12/2015	21,000	–	–	21,000	18.30	–	35.80
	15/12/2009	65,000	8/12/2010 – 8/12/2016	65,000	–	–	22,000	26.85	43,000	35.80
	17/12/2010	65,000	16/12/2011 – 16/12/2017	65,000	–	–	–	28.84	65,000	–
	30/3/2012	163,500	23/3/2013 – 23/3/2019	163,500	54,500	–	–	27.48	163,500	–
Philco Wong Nai-keung	6/5/2013	182,500	26/4/2014 – 26/4/2020	182,500	61,000	–	–	31.40	182,500	–
	30/3/2012	70,500	23/3/2013 – 23/3/2019	23,500	23,500	–	–	27.48	23,500	–
	6/5/2013	81,000	26/4/2014 – 26/4/2020	81,000	27,000	–	–	31.40	81,000	–
Jeny Yeung Mei-chun	30/5/2014	83,000	23/5/2015 – 23/5/2021	83,000	28,000	–	–	28.65	83,000	–
	10/12/2008	65,000	8/12/2009 – 8/12/2015	65,000	–	–	65,000	18.30	–	36.70
	10/12/2009	65,000	8/12/2010 – 8/12/2016	65,000	–	–	–	26.85	65,000	–
	17/12/2010	65,000	16/12/2011 – 16/12/2017	65,000	–	–	–	28.84	65,000	–
	30/3/2012	161,000	23/3/2013 – 23/3/2019	161,000	53,000	–	–	27.48	161,000	–
Other eligible employees	6/5/2013	187,000	26/4/2014 – 26/4/2020	187,000	62,500	–	–	31.40	187,000	–
	28/3/2008	255,000	26/3/2009 – 26/3/2015	54,000	–	–	54,000	26.52	–	33.86
	31/3/2008	379,000	26/3/2009 – 26/3/2015	81,000	–	–	81,000	26.52	–	34.25
	1/4/2008	261,000	26/3/2009 – 26/3/2015	127,000	–	–	127,000	26.52	–	34.15
	2/4/2008	296,000	26/3/2009 – 26/3/2015	159,000	–	–	159,000	26.52	–	34.30
	3/4/2008	171,000	26/3/2009 – 26/3/2015	55,000	–	–	55,000	26.52	–	34.82
	7/4/2008	390,000	26/3/2009 – 26/3/2015	130,000	–	–	130,000	26.52	–	34.66
	9/4/2008	85,000	26/3/2009 – 26/3/2015	23,000	–	–	23,000	26.52	–	33.55
	10/4/2008	58,000	26/3/2009 – 26/3/2015	58,000	–	–	58,000	26.52	–	35.67
	11/4/2008	134,000	26/3/2009 – 26/3/2015	70,000	–	–	70,000	26.52	–	34.95
	12/4/2008	48,000	26/3/2009 – 26/3/2015	31,000	–	–	31,000	26.52	–	34.22
	14/4/2008	40,000	26/3/2009 – 26/3/2015	40,000	–	–	40,000	26.52	–	35.87
	15/4/2008	34,000	26/3/2009 – 26/3/2015	17,000	–	–	17,000	26.52	–	33.00
	16/4/2008	57,000	26/3/2009 – 26/3/2015	40,000	–	–	40,000	26.52	–	33.47
	17/4/2008	147,000	26/3/2009 – 26/3/2015	90,000	–	–	90,000	26.52	–	32.57
	18/4/2008	32,000	26/3/2009 – 26/3/2015	15,000	–	–	15,000	26.52	–	35.15
	21/4/2008	66,000	26/3/2009 – 26/3/2015	58,000	–	–	58,000	26.52	–	33.65
	23/4/2008	34,000	26/3/2009 – 26/3/2015	19,000	–	–	19,000	26.52	–	35.95
	8/12/2008	90,000	8/12/2009 – 8/12/2015	20,000	–	–	20,000	18.30	–	34.90
	9/12/2008	1,293,000	8/12/2009 – 8/12/2015	257,000	–	–	257,000	18.30	–	36.19
	10/12/2008	2,046,400	8/12/2009 – 8/12/2015	419,700	–	–	419,700	18.30	–	35.26
	11/12/2008	2,394,200	8/12/2009 – 8/12/2015	370,000	–	–	370,000	18.30	–	36.13
	12/12/2008	1,416,500	8/12/2009 – 8/12/2015	442,500	–	–	442,500	18.30	–	34.66
	13/12/2008	84,500	8/12/2009 – 8/12/2015	40,500	–	–	40,500	18.30	–	34.60
	15/12/2008	1,084,700	8/12/2009 – 8/12/2015	228,700	–	–	228,700	18.30	–	35.41
	16/12/2008	581,500	8/12/2009 – 8/12/2015	134,000	–	–	134,000	18.30	–	37.39
	17/12/2008	513,500	8/12/2009 – 8/12/2015	171,500	–	–	171,500	18.30	–	36.58
	18/12/2008	611,500	8/12/2009 – 8/12/2015	19,000	–	–	19,000	18.30	–	33.00
	19/12/2008	198,000	8/12/2009 – 8/12/2015	44,000	–	–	44,000	18.30	–	35.90
	22/12/2008	772,500	8/12/2009 – 8/12/2015	136,500	–	–	136,500	18.30	–	36.18
23/12/2008	306,000	8/12/2009 – 8/12/2015	44,000	–	–	44,000	18.30	–	36.85	

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## 2007 Share Option Scheme (Continued)

Executive Directorate and eligible employees	Date granted	Options granted	Period during which rights exercisable (day/month/year)	Options outstanding as at 1 January 2015	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 2015	Weighted average closing price of shares immediately before the date(s) on which options were exercised (HK\$)
Other eligible employees	24/12/2008	500,500	8/12/2009 – 8/12/2015	109,000	–	–	109,000	18.30	–	34.72
	25/12/2008	45,000	8/12/2009 – 8/12/2015	45,000	–	–	45,000	18.30	–	34.55
	18/6/2009	255,000	12/6/2010 – 12/6/2016	130,000	–	–	130,000	24.50	–	35.50
	6/7/2009	45,000	12/6/2010 – 12/6/2016	45,000	–	–	45,000	24.50	–	35.55
	9/12/2009	670,000	8/12/2010 – 8/12/2016	520,000	–	–	50,000	26.85	470,000	36.13
	10/12/2009	2,551,000	8/12/2010 – 8/12/2016	1,364,000	–	–	638,000	26.85	726,000	35.93
	11/12/2009	2,297,000	8/12/2010 – 8/12/2016	1,251,000	–	–	605,500	26.85	645,500	35.19
	12/12/2009	610,000	8/12/2010 – 8/12/2016	290,000	–	–	155,000	26.85	135,000	36.91
	14/12/2009	2,443,000	8/12/2010 – 8/12/2016	1,332,000	–	–	818,000	26.85	514,000	35.93
	15/12/2009	2,773,000	8/12/2010 – 8/12/2016	1,192,500	–	–	660,500	26.85	532,000	36.16
	16/12/2009	1,550,000	8/12/2010 – 8/12/2016	581,500	–	–	208,000	26.85	373,500	36.51
	17/12/2009	1,000,000	8/12/2010 – 8/12/2016	290,000	–	–	123,000	26.85	167,000	36.10
	18/12/2009	389,000	8/12/2010 – 8/12/2016	228,500	–	–	120,500	26.85	108,000	36.13
	19/12/2009	70,000	8/12/2010 – 8/12/2016	70,000	–	–	–	26.85	70,000	–
	20/12/2009	75,000	8/12/2010 – 8/12/2016	75,000	–	–	–	26.85	75,000	–
	21/12/2009	520,000	8/12/2010 – 8/12/2016	279,000	–	–	121,000	26.85	158,000	36.49
	22/12/2009	256,000	8/12/2010 – 8/12/2016	147,000	–	–	25,000	26.85	122,000	33.65
	21/7/2010	270,000	28/6/2011 – 28/6/2017	45,000	–	–	–	27.73	45,000	–
	16/12/2010	194,000	16/12/2011 – 16/12/2017	104,000	–	–	49,000	28.84	55,000	35.90
	17/12/2010	4,907,000	16/12/2011 – 16/12/2017	3,463,000	–	–	1,114,000	28.84	2,349,000	36.33
	18/12/2010	673,000	16/12/2011 – 16/12/2017	608,000	–	–	218,500	28.84	389,500	35.80
	19/12/2010	174,000	16/12/2011 – 16/12/2017	98,000	–	–	73,000	28.84	25,000	36.46
	20/12/2010	4,789,500	16/12/2011 – 16/12/2017	3,086,000	–	–	1,411,000	28.84	1,675,000	35.68
	21/12/2010	3,020,000	16/12/2011 – 16/12/2017	1,929,000	–	–	757,500	28.84	1,171,500	36.14
	22/12/2010	975,000	16/12/2011 – 16/12/2017	682,000	–	–	196,000	28.84	486,000	36.11
	23/12/2010	189,000	16/12/2011 – 16/12/2017	119,000	–	–	44,000	28.84	75,000	34.60
	7/7/2011	215,000	27/6/2012 – 27/6/2018	123,000	–	–	88,000	26.96	35,000	34.42
	30/3/2012	15,868,500	23/3/2013 – 23/3/2019	12,562,500	4,795,000	8,500	5,227,000	27.48	7,327,000	36.87
	6/5/2013	20,331,500	26/4/2014 – 26/4/2020	19,037,500	6,431,500	319,000	3,081,500	31.40	15,637,000	36.59
	1/11/2013	188,500	25/10/2014 – 25/10/2020	188,500	63,500	–	–	29.87	188,500	–
30/5/2014	19,812,500	23/5/2015 – 23/5/2021	19,551,000	6,628,000	389,500	1,285,500	28.65	17,876,000	36.33	

### Notes

- No option may be exercised later than seven years after its date of offer and no option may be offered to be granted more than seven years after the adoption of the 2007 Share Option Scheme on 7 June 2007. The 2007 Share Option Scheme expired at 5.00 p.m. on 6 June 2014, with no further option granted since then.
- 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 Share 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 Share Option Scheme.
- The proportion of underlying shares in respect of which the above share options will vest is as follows:

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

- Pursuant to the terms of the 2007 Share Option Scheme, each grantee undertakes to pay HK\$1.00, on demand, to the Company, in consideration for the grant of the options.
- Other details of the 2007 Share Option Scheme are set out in notes 10B and 47A(i) to the Accounts.



## Equity-linked Agreement

Save as disclosed in the section headed “2007 Share Option Scheme” above, no equity-linked agreements were entered into during the year ended 31 December 2015 or subsisted at the end of the year.

## 2014 Share Incentive Scheme

The Company adopted the 2014 Share Incentive Scheme on 15 August 2014. The purposes of the 2014 Share Incentive Scheme are to retain management and key employees, to align participants’ interest with the long-term success of the Company and to drive the achievement of strategic objectives of the Company.

The Remuneration Committee may, from time to time, at its absolute discretion, determine the criteria for any eligible employee to participate in the 2014 Share Incentive Scheme as award holders in accordance with the rules of the 2014 Share Incentive Scheme. An award holder may be granted an award of Restricted Shares and/or Performance Shares (together, the “Award Shares”). The shares to be granted under the 2014 Share Incentive Scheme are Ordinary Shares in the capital of the Company.

In general, the Company will pay to the third party trustee (the “Trustee”) monies and may give directions or a recommendation to the Trustee to apply such amount of monies and/or such other net amount of cash derived from Ordinary Shares of the Company held as part of the funds of the trust to acquire existing Ordinary Shares of the Company from the market. Such Ordinary Shares will be held on trust by the Trustee for the relevant award holders. The Trustee shall not exercise any voting rights in respect of any Ordinary Shares of the Company held in the trust and no award holder is entitled to instruct the Trustee to exercise the voting rights in respect of any unvested Award Shares. An award holder shall have no right to any dividend held under the trust.

The maximum number of Award Shares that may at any time be the subject of an outstanding award granted under the 2014 Share Incentive Scheme shall not exceed 2.5 per cent. of the number of issued Ordinary Shares of the Company as at 1 January 2015, the effective date of the 2014 Share Incentive Scheme (the “Effective Date”).

For the year ended 31 December 2015, a total of 4,029,200 Award Shares were awarded under the 2014 Share Incentive Scheme, representing 0.07 per cent. of the issued Ordinary Shares of the Company as at the Effective Date.

Further details of the 2014 Share Incentive Scheme are set out in the section headed “Long-Term Incentives” under the Remuneration Report (pages 129 to 130) and notes 10C and 47A(ii) to the Accounts.

The particulars of the Award Shares granted are as follows:

Executive Directorate and eligible employees	Date of award	Types of Award Shares granted		Award Shares outstanding as at 1 January 2015	Award Shares vested during the year	Award Shares lapsed and /or forfeited during the year	Award Shares outstanding as at 31 December 2015
		Restricted Shares	Performance Shares				
Lincoln Leong Kwok-kuen	27/4/2015	60,200	255,000	–	–	–	315,200
Morris Cheung Siu-wa	27/4/2015	–	28,800	–	–	–	28,800
Jacob Kam Chak-pui	27/4/2015	22,050	57,600	–	–	–	79,650
Stephen Law Cheuk-kin	27/4/2015	16,700	57,600	–	–	–	74,300
Gillian Elizabeth Meller	27/4/2015	16,950	57,600	–	–	–	74,550
David Tang Chi-fai	27/4/2015	18,450	57,600	–	–	–	76,050
Philco Wong Nai-keung	27/4/2015	21,700	57,600	–	–	–	79,300
Jeny Yeung Mei-chun	27/4/2015	19,350	57,600	–	–	–	76,950
Other eligible employees	27/4/2015	2,172,750	1,051,650	–	8,533	89,067	3,126,800

# Report of the Members of the Board

## Shares Issued

As at 31 December 2014, a total of 5,826,534,347 Ordinary Shares were issued and credited as fully paid.

During the year, the Company issued a total of 31,693,889 Ordinary Shares. Of this number:

- A** 21,033,900 Ordinary Shares were issued by the Company pursuant to the exercise of share options which had been granted under the Company's 2007 Share Option Scheme (as referred in note 47A(i) to the Accounts). In respect of each Ordinary Share issued, the relevant exercise prices per share of options were HK\$18.30, HK\$24.50, HK\$26.52, HK\$26.85, HK\$26.96, HK\$27.48, HK\$27.73, HK\$28.65, HK\$28.84 and HK\$31.40 to the Company. The total consideration received by the Company for the issue of these Ordinary Shares was approximately HK\$569 million;
- B** 6,468,200 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 2014 (the relevant cash dividend was HK\$0.80 per Ordinary Share); and
- C** 4,191,789 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' period ended 30 June 2015 (the relevant cash dividend was HK\$0.25 per Ordinary Share).

As at 31 December 2015, a total of 5,858,228,236 Ordinary Shares were issued and credited as fully paid.

## Purchase, Sale or Redemption of Listed Securities

The Group did not purchase, sell or redeem any of the Group's listed securities during the year ended 31 December 2015. However, the Trustee of the 2014 Share Incentive Scheme, pursuant to the terms of the rules and the trust deed of the 2014 Share Incentive Scheme, purchased on the HKSE a total of 4,029,200 shares of the Company for a total consideration of approximately HK\$150 million (2014: N/A) during the year.

## Public Float

The HKSE granted to the Company, at the time of its listing on the Main Board of the HKSE 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 number of issued shares 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.

## Major Suppliers and Customers

Information in respect of the Group's major suppliers and major customers for the year ended 31 December 2015 is as follows:

	As a percentage of the Group's total supplies
Total value of supplies (not of a capital nature) attributable to the Group's five largest suppliers	17.72%

  

	As a percentage of the Group's total revenue
Total revenue attributable to the Group's five largest customers	33.87%
Total revenue attributable to the Group's largest customer	17.17%

As at 31 December 2015, Government, being one of the Group's five largest customers, through the FSI, the substantial shareholder of the Company, held approximately 75.70% of all the Company's voting shares in issue (see the section headed "Substantial Shareholders' Interests" above for further details).

As at 31 December 2015, the following Non-executive Directors\*/Alternate Directors<sup>†</sup> of the Company were officials of Government:

- Professor Chan Ka-keung, Ceajer\* (Secretary for Financial Services and the Treasury)
- Secretary for Transport and Housing\* (Professor Anthony Cheung Bing-leung)
- Permanent Secretary for Development (Works)\* (Mr Hon Chi-keung)
- Commissioner for Transport\* (Mrs Ingrid Yeung Ho Poi-yan)
- Ms Mable Chan<sup>‡</sup> (Deputy Secretary for Financial Services and the Treasury (Treasury)2)
- Ms Elizabeth Tse Man-yee<sup>‡</sup> (Permanent Secretary for Financial Services and the Treasury (Treasury))
- Under Secretary for Transport and Housing<sup>‡</sup> (Mr Yau Shing-mu)
- Permanent Secretary for Transport and Housing (Transport)<sup>‡</sup> (Mr Joseph Lai Yee-tak)
- Deputy Secretaries for Transport and Housing (Transport)<sup>‡</sup> (Ms Rebecca Pun Ting-ting and Mr Andy Chan Shui-fu)
- Deputy Secretary for Development (Works)<sup>‡</sup> (Mr Chan Chi-ming)
- Deputy Commissioner for Transport/Transport Services and Management<sup>‡</sup> (Miss Cinderella Law Fung-ping)

Save as disclosed above and as at 31 December 2015, no other Members of the Board or the Executive Directorate or any of their respective close associates or any Shareholder (which to the knowledge of the Members of the Board or the Executive



Directorate, own more than 5% of all the Company's voting shares in issue) had any beneficial interests in the Group's five largest customers.

## Donations

During the year, the Group donated approximately HK\$8.2 million (2014: approximately HK\$15.4 million) to charitable and other organisations.

The MTR HONG KONG Race Walking 2015 raised over HK\$1.42 million (including over HK\$137,000 from MTR staff) for the Hospital Authority Health InfoWorld to support its work on enhancing disease management skills and promoting healthy living.

The Company raised funds from staff for charitable causes with a total cash donation of over HK\$378,000 (2014: over HK\$239,000) through different activities:

- Over HK\$329,000 was raised for the Community Chest through CARE Scheme, Love Teeth Day, Skip Lunch Day and Dress Casual Day; and
- Over HK\$49,000 was raised for Dress Pink Day for the Hong Kong Cancer Fund.

## Bank Overdrafts, Bank Loans and Other Borrowings

The total borrowings of the Group as at 31 December 2015 amounted to HK\$20,811 million (2014: HK\$20,507 million). Particulars of the borrowings are set out in note 36 to the Accounts.

## Bonds and Notes Issued

The Group issued notes amounting to HK\$1,197 million equivalent during the year ended 31 December 2015 (2014: HK\$550 million equivalent), details of which are set out in note 36C to the Accounts. Such notes were issued in order to meet the Group's general corporate funding requirements, including financing of capital expenditure and refinancing of debts.

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

As at 31 December 2015, the Group had borrowings of HK\$14,531 million (2014: HK\$14,066 million) with maturities ranging from 2016 to 2055 and undrawn committed banking facilities of HK\$10,200 million (2014: HK\$7,300 million), which were subject to the condition that Government, being the Company's controlling shareholder, owns more than half of all the Company's voting shares in issue. Failure to satisfy such condition may result in immediate repayment of the borrowings being demanded and cancellation of the undrawn committed banking facilities.

## Properties

Particulars of the principal investment properties and properties held for sale of the Company are shown on pages 62 to 63.

## Connected Transactions

During the year under review, the transactions described below were entered into with Government (which is a substantial shareholder of the Company as defined in the Listing Rules). Government is therefore a "connected person" of the Company for the purposes of the Listing Rules, and each transaction described below is a connected transaction for the Company under the Listing Rules.

As disclosed in the announcement of the Company dated 13 January 2005, the Stock Exchange has granted a waiver to the Company from strict compliance with the requirements under Chapter 14A of the Listing Rules which would otherwise apply to connected transactions and continuing connected transactions between the Company and Government, subject to certain conditions (the "Waiver").

Consequently, the Company makes the disclosures below in accordance with Rule 14A.71 of the Listing Rules and in accordance with the conditions of the Waiver.

### I Land Agreements

**A** On 27 October 2014, the Company accepted an offer dated 16 September 2014 from Government to allow the Company to proceed with the proposed Tai Wai Station property development in respect of Sha Tin Town Lot No. 520, Sha Tin, New Territories ("STTL No.520") at a land premium of HK\$10,356,010,000 in respect of the non-railway portion of STTL No.520 and HK\$1,000 in respect of the railway portion of STTL No.520 and on the terms and conditions of the land grant by private treaty of STTL No.520 to be entered into between the Company and Government (the "Land Grant"). The Land Grant was executed on 26 January 2015.

**B** On 3 December 2014, the Company accepted an offer dated 27 October 2014 from Government to allow the Company to proceed with the proposed LOHAS Park Package 5 property development in respect of Site G of The Remaining Portion of Tseung Kwan O Town Lot No. 70 ("Site G") at a land premium of HK\$2,064,250,000 and of the terms and conditions of a further lease modification in respect of the Site G (the "Site G Lease Modification") of the Conditions of Grant of an Agreement for Lease registered in Land Registry as New Grant No.9689 as varied or modified by six modification letters. The Site G Lease Modification was executed on 5 January 2015.

**C** On 23 January 2015, the Company accepted an offer dated 23 December 2014 from Government to allow the Company to proceed with the proposed LOHAS Park Package 6 property development in respect of Site N of The Remaining Portion of Tseung Kwan O Town Lot No. 70 ("Site N") at a land premium of HK\$3,345,440,000 and of the terms and conditions of a further lease modification in respect of the Site N (the "Site N Lease Modification") of the Conditions of Grant of an Agreement for Lease registered in Land Registry as New Grant

# Report of the Members of the Board

No.9689 as varied or modified by seven modification letters. The Site N Lease Modification was executed on 24 April 2015.

**D** On 3 March 2015, the Company accepted an offer dated 6 February 2015 from Government to allow the Company to proceed with the proposed Tin Wing Stop Property Development (previously referred to as “Tin Shui Wai Terminus, Light Rail”) at Tin Shui Wai Town Lot No. 23 (the “Lot”) at a land premium of HK\$1,518,990,000. The Conditions of Grant of the Lot was executed on 17 June 2015.

**E** On 11 June 2015, the Company accepted an offer dated 6 May 2015 from Government to allow the Company to proceed with the proposed LOHAS Park Package 7 property development in respect of Site C1 of The Remaining Portion of Tseung Kwan O Town Lot No. 70 (the “Site C1”) at a land premium of HK\$3,888.3068 million being as to HK\$3,887.79 million thereof as the land premium in respect of Site C1 and as to the remaining HK\$516,800 thereof as the premium for modifying matters not relating to Site C1, and of the terms and conditions of a further lease modification in respect of the Site C1 (the “Site C1 Lease Modification”) of the Conditions of Grant of an Agreement for Lease registered in Land Registry as New Grant No.9689 as varied or modified by eight modification letters. The Site C1 Lease Modification was executed on 31 July 2015.

**F** The Company and Yan Nin Development Company Limited (the “Co-owner”), the co-owner of New Kowloon Inland Lot No.6201, entered into a consent letter dated 20 October 2015 with Government in respect of Telford Plaza II which allows the Company and the Co-owner to amend the Master Layout Plan for New Kowloon Inland Lot No.5744 (Part) and New Kowloon Inland Lot No.6201 at a premium of HK\$298,480,000 and an administrative fee of HK\$326,789 and subject to the terms and conditions set out in the consent letter dated 20 October 2015.

**G** On 8 October 2015, the Company accepted an offer dated 28 August 2015 from Government to allow the Company to proceed with the proposed LOHAS Park Package 8 property development in respect of Site H of The Remaining Portion of Tseung Kwan O Town Lot No. 70 (the “Site H”) at a land premium of HK\$2,955.26 million and of the terms and conditions of a further lease modification in respect of the Site H (the “Site H Lease modification”) of the Conditions of Grant of an Agreement for Lease registered in Land Registry as New Grant No.9689 as varied or modified by nine modification letters. The Site H Lease Modification was executed on 11 November 2015.

**H** On 5 January 2016, the Company accepted an offer dated 25 November 2015 from Government to allow the Company to proceed with the proposed LOHAS Park Package

9 property development in respect of Site J of The Remaining Portion of Tseung Kwan O Town Lot No. 70 (the “Site J”) at a land premium of HK\$2,851.99 million and of the terms and conditions of a further lease modification in respect of the Site J (the “Site J Lease Modification”) of the Conditions of Grant of an Agreement for Lease registered in Land Registry as New Grant No.9689 as varied or modified by ten modification letters. The Site J Lease Modification was executed on 15 February 2016.

## II The Third Agreement in Relation to the Express Rail Link

On 30 November 2015, Government and the Company entered into the deed of agreement relating to the further funding and completion of the Express Rail Link Project (the “Third XRL Agreement”). The Third XRL Agreement contains an integrated package of terms and provides that:

- (i) Government will bear and finance the project cost up to HK\$84.42 billion;
- (ii) if the project cost exceeds HK\$84.42 billion, the Company will bear and finance the portion which exceeds that sum (if any), except for certain agreed excluded costs;
- (iii) the Company will pay a special dividend of HK\$4.40 in aggregate per share in two equal tranches (of HK\$2.20 per share, in cash in each tranche);
- (iv) certain amendments will be made to the existing entrustment arrangements entered into in 2010 relating to the Express Rail Link (please see section B2 in the section headed “II. Non Merger-related Continuing Connected Transactions with Government and/or its Associates” in the section headed “Continuing Connected Transactions” below), including an increase in the project management fee payable to the Company to HK\$6.34 billion;
- (v) Government reserves the right to refer to arbitration, after commencement of operations on the Express Rail Link, the question of the Company’s liability for the current cost overrun (if any); and
- (vi) the Third XRL Agreement is subject to (a) the obtaining of approval of the Company’s independent shareholders and (b) the obtaining of approval of the Legislative Council for Government’s additional funding obligations, within the agreed timeframe.

At the general meeting of the Company held on 1 February 2016, the independent shareholders of the Company voted in favour of the resolution to approve the Third XRL Agreement and, accordingly, the condition referred to in paragraph (vi)(a) above has been satisfied. The Legislative Council of Hong Kong approved Government’s additional funding obligations on 11 March 2016.

## Continuing Connected Transactions

During the year under review, the following transactions and arrangements described below involved the provision of goods or services carried out on an ongoing or recurring basis and are expected to extend over a period of time with Government and/or KCRC, the Airport Authority (the "AA"), UGL Rail Services Pty Limited ("UGL"), Leighton Contractors (Asia) Limited ("LCAL") and John Holland Pty Limited ("JHL").

As noted above under the section headed "Connected Transactions", Government is a substantial shareholder of the Company for the purposes of the Listing Rules. KCRC and the AA are both associates of the Company as defined in the Listing Rules. As explained under Section III below, UGL and John Holland Melbourne Rail Franchise Pty Ltd. ("John Holland") are substantial shareholders of a subsidiary of the Company and JHL is an associate of John Holland for the purposes of the Listing Rules. As of April 2015, LCAL ceased to be an associate of John Holland as a result of the transfer of 100% of the equity interests in John Holland Group Pty Ltd and its subsidiaries by Leighton Holdings Limited to CCCC International Holding Limited.

Therefore, each of Government, KCRC, the AA, UGL, LCAL (up to April 2015), John Holland and JHL is / was therefore each "connected person" for the purposes of the Listing Rules and, during 2015, each transaction set out at paragraphs I, II and III below constituted a continuing connected transaction for the Company under the Listing Rules.

### I Merger-related Continuing Connected Transactions

Each of the transactions listed in paragraphs A to D below and which formed part of the Rail Merger, was approved by the independent shareholders of the Company at an Extraordinary General Meeting held on 9 October 2007. These paragraphs should be read in conjunction with the paragraphs contained in the section below headed "Additional Information in respect of the Rail Merger".

As disclosed in the circular issued by the Company on 3 September 2007 in connection with the Rail Merger, the Stock Exchange granted a waiver to the Company from strict compliance with the requirements under Chapter 14A of the Listing Rules which would otherwise apply to continuing connected transactions between the Company, Government and/or KCRC arising as a result of the Rail Merger, subject to certain conditions (the "Merger-related Waiver").

#### A Merger Framework Agreement

The Merger Framework Agreement was entered into on 9 August 2007 between the Company, KCRC and the Secretary for Transport and Housing and the Secretary for Financial Services and the Treasury for and on behalf of Government.

The Merger Framework Agreement contains provisions for the overall structure and certain specific aspects of the Rail Merger, including in relation to:

- a seamless interchange programme;
- corporate governance of the Company Post-Rail Merger;
- payments relating to property enabling works;
- arrangements relating to the establishment of a rolling programme on the level of flat production arising from tenders for railway property development;
- arrangements in relation to the assessment of land premium amounts;
- arrangements in relation to the employees of the Company and KCRC, including provisions preventing the Company from terminating the employment of relevant frontline staff for any reason that relates to the process of integrating the operations of the Company and KCRC;
- the implementation of certain fare reductions;
- arrangements in relation to the proposed Shatin to Central Link;
- KCRC's continuing responsibility for its existing financial arrangements;
- treatment of KCRC's cross border leases;
- the payment of HK\$7.79 billion in respect of the Property Package (as described on pages 152 to 154 and in paragraph D below);
- the allocation of liability for any Pre-Rail Merger and Post-Rail Merger claims by third parties; and
- the Company's retention of its English name and (pursuant to the Rail Merger Ordinance) the change of its Chinese name to "香港鐵路有限公司".

#### B West Rail Agency Agreement

The West Rail Agency Agreement and related agreements were entered into on 9 August 2007 between the Company, KCRC and certain KCRC subsidiary companies (the "West Rail Subsidiaries"). Pursuant to the terms of the West Rail Agency Agreement, the Company was appointed:

- to act as KCRC's agent, and donee under powers of attorney, to exercise certain rights and perform certain obligations relating to specified development sites along West Rail; and
- to act as agent for, and donee under powers of attorney from, each of the West Rail Subsidiaries to exercise certain rights and perform certain obligations relating to specified development sites along West Rail.

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The Company will receive an agency fee of 0.75% of the gross sale proceeds in respect of the unawarded West Rail development sites and 10% of the net profits accrued to the West Rail Subsidiaries under the development agreements in respect of the awarded West Rail development sites. The Company will also recover from the West Rail Subsidiaries its costs (including internal costs) incurred in respect of the West Rail development sites plus 16.5% on-cost, together with interest accrued thereon.

## C KCRC Cross Border Lease Agreements

### US CBL Assumption Agreements

Separate US CBL Assumption Agreements were entered into on 30 November 2007 between the Company, KCRC and, variously, Wilmington Trust Company, Buoyant Asset Limited, BA Leasing & Capital Corporation, Utrecht-America Finance Co., Cooperatieve Centrale Raiffeisen-Boerenleenbank B.A., Advanced Asset Limited, Washoe Asset Management Company, Quality Asset Limited, Kasey Asset Limited, Key Equipment Finance Inc., Mercantile Leasing Company (No. 132) Limited, Landesbank Sachsen Aktiengesellschaft, Barclays Bank PLC, Bayerische Landesbank Girozentrale, U.S. Bank National Association, Circuit Asset Limited, Citicorp USA Inc., Shining Asset Limited, Banc of America FSC Holdings Inc., Fluent Asset Limited, Anzef Limited, Societe Generale, Australia and New Zealand Banking Group Limited, Statesman Asset Limited, State Street Bank and Trust Company and Bowman Asset Limited and became effective on 3 December 2007, with respect to each of the US cross border leases originally entered into between KCRC and certain counterparties (each, a "CBL"). Pursuant to each US CBL Assumption Agreement, the Company undertakes to perform, on a joint and several basis with KCRC, the obligations of KCRC under the respective CBLs. As a result thereof, the Company is generally liable to the CBL counterparties in respect of KCRC's obligations under the CBLs and has the right to exercise certain of KCRC's rights under the CBLs.

Due to early termination of and exercise of purchase options under certain CBLs, Advanced Asset Limited, Washoe Asset Management Company, Quality Asset Limited, Barclays Bank PLC, Circuit Asset Limited, Citicorp USA Inc., Shining Asset Limited are no longer counterparties to the US CBL Assumption Agreements.

### US CBL Allocation Agreement

The US CBL Allocation Agreement was entered into between the Company, KCRC and the subsidiaries of KCRC (the "KCRC Subsidiaries") on 2 December 2007. Pursuant to the US CBL Allocation Agreement, rights, obligations and responsibility for risks relating to the CBLs are delineated and allocated between KCRC and the Company (each of which is jointly and severally liable to specified CBL counterparties, as referred to in the

paragraph above headed "US CBL Assumption Agreements"). Under the terms of the US CBL Allocation Agreement, as between the Company and KCRC, the Company is responsible for specified obligations. The Company and KCRC each made representations under the US CBL Allocation Agreement, which include, in the case of those made by KCRC, representations with respect to the status of the CBLs. The Company and KCRC agreed to indemnify each other for certain losses in relation to the CBLs.

## D Property Package Agreements

### Category 2A Properties

On 9 August 2007, Government entered into an undertaking that it would, within twelve months of the Merger Date or such further period of time as Government and the Company may agree, issue to KCRC an offer for the grant at nil premium of Government leases in respect of the land upon which certain properties (the "Category 2A Properties") are situated (the "said Government Leases"). The Category 2A Properties were held by KCRC as vested land under the Kowloon-Canton Railway Corporation Ordinance (Cap. 372 of the Laws of Hong Kong) ("KCRC Ordinance"). On 9 August 2007, KCRC entered into an undertaking that it would, immediately after the grant of the said Government Leases referred to in the preceding sentence, enter into agreements for sale and purchase to sell the Category 2A Properties to the Company (the "said Agreements for Sale and Purchase"). Assignments of the Category 2A Properties to the Company shall then take place pursuant to the said Agreements for Sale and Purchase (the said "Assignments"). Pursuant to the KCRC undertaking and as interim arrangements until the grant of Government leases, on 9 August 2007 the following agreements were entered into between KCRC and the Company:

- an agreement that KCRC (as lessor) shall enter into tenancy agreements with the Company (as lessee) at market rent in respect of the Category 2A Properties' vacant units (with the intention that the Company will then sub-let the vacant units to sub-tenants);
- two licence agreements in respect of the common areas within the Category 2A Properties, pursuant to which KCRC granted the Company the right to use certain common areas until the execution of the Category 2A Properties assignment referred to above;
- a lease enforcement agency agreement appointing the Company as its enforcement agent to enforce KCRC's current Category 2A Properties tenancy agreements against tenants; and
- an assignment of rental proceeds whereby the proceeds received under KCRC's current Category 2A Properties tenancy agreements with tenants are assigned to the Company.



The said Government Leases were issued to KCRC respectively on 27 March 2009 and 31 March 2009. The said Agreements for Sale and Purchase were entered into between KCRC and the Company on 27 March 2009 and 31 March 2009 respectively and the said Assignments to the Company were executed on 27 March 2009 and 31 March 2009 respectively. Deeds of Mutual Grant were also entered into between the Company and KCRC on 27 March 2009 and 31 March 2009 respectively setting out the easements, rights, entitlements, privileges and liberties of the Company and KCRC in the land on which the Category 2A Properties are situated.

### Category 2B Property

On 9 August 2007, Government entered into an undertaking that it would, within twenty four months of the Merger Date or such further period of time as Government and the Company may agree, issue to the Company an offer for the grant of a Government Lease of a certain property (the "Category 2B Property") on terms to be agreed. The Category 2B Property is currently held by KCRC as vested land under the KCRC Ordinance for use as staff quarters and a recreational club.

On 9 August 2007, KCRC entered into an undertaking relating to interim arrangements to ensure that, as from the Merger Date, the Company shall be responsible for KCRC's obligations under licence agreements relating to the Category 2B Property, and for enforcing such agreements. The Company is entitled to proceeds received by KCRC in respect of those licence agreements. The interim arrangements include, inter alia, as from the Merger Date:

- an agreement that KCRC (as licensor) shall grant to the Company (as licensee) possession of the Category 2B Property (without payment of any licence fee or premium), subject to existing licences and the Second Schedule of the KCRC Ordinance, with the right of the Company to sublicense all or any part of the Category 2B Property (subject to it being used as staff quarters and a recreation club);
- until the grant of Government lease of the Category 2B Property, KCRC has appointed the Company as its enforcement agent to enforce KCRC's current Category 2B Property licence agreements against licensees; and
- KCRC has assigned to the Company the proceeds received under KCRC's current Category 2B Property licence agreements with licensees.

The basic terms offer for the Category 2B Property (i.e. Trackside Villas) was issued and accepted by the Company on 31 December 2009 and Government Lease in respect of Tai Po Town Lot No. 199 dated 29 March 2010 was issued for a term of 50 years from 2 December 2007.

### Category 3 Properties

On 9 August 2007, the Company entered into three agreements (the "Category 3 Agreements") and related powers of attorney with KCRC. Each Category 3 Agreement relates to a certain property (each a "Category 3 Property"). KCRC has previously entered into a development agreement in respect of each Category 3 Property. None of the rights and obligations granted to or undertaken by the Company under the Category 3 Agreements may be exercised or performed by the Company if they relate exclusively to concession property situate on any Category 3 Property. Matters affecting the concession property situate on any Category 3 Property are dealt with under the terms of the Service Concession Agreement (as defined and summarised on page 165).

Pursuant to the terms of each Category 3 Agreement, the Company has been appointed to act as KCRC's agent, and donee under powers of attorney, to exercise rights and to perform obligations of KCRC which relate to the Category 3 Property (but excluding the right or obligation to dispose of the relevant Category 3 Property).

The Company is required at all times to comply with statutory restrictions and obligations binding on KCRC which relate to the Category 3 Properties, and shall pay all amounts due and payable from KCRC which have been incurred by KCRC as a result of the Company's actions.

In acting as KCRC's agent, the Company is required to act according to prudent commercial principles, and aim to maximise gross profits under the Category 3 Properties and to run a safe and efficient railway. In order to assist the Company in performing its agency functions, KCRC has granted powers of attorney to the Company. The Company may only use the powers of attorney to exercise rights and perform obligations conferred or undertaken by it under the relevant Category 3 Agreement. As well as acting as KCRC's agent, the Company has the right to give KCRC instructions in respect of any action or matter relating to each Category 3 Property (including its related development agreement) which the Company is unable to take by reason of the limitation of the scope of its agency powers. KCRC is required to comply promptly with those instructions provided that it is permitted under law, and under the relevant Government grant, to carry out those instructions.

KCRC is required to account for revenue received in respect of a Category 3 Property by way of balance sheet movement (rather under its profit and loss account), provided that such treatment is permitted under law and accounting principles and practices.

KCRC shall not take any action in respect of a Category 3 Property which is not carried out by the Company (acting as KCRC's agent), or according to the Company's instructions, or otherwise in accordance with the terms of the Category 3 Agreement.

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As consideration for acting as KCRC's agent, the Company shall be paid a fee which is expected to be similar in quantum to the profits made by KCRC in respect of the relevant Category 3 Property (after deducting certain initial and upfront payments and consultant contribution costs, in each case paid or to be paid by the relevant developer to KCRC). Generally, the Company's fee shall be payable in instalments promptly following receipt of relevant funds by KCRC (but subject to specified deductions of amounts due from KCRC to the relevant Category 3 Property developer).

The Company has agreed to give certain indemnities to KCRC in respect of each Category 3 Property.

The Company shall be the first manager, or shall ensure that a manager is appointed in respect of, each Category 3 Property (once developed).

The Company's appointment as agent shall terminate when KCRC ceases to have any undivided share in the relevant Category 3 Property, other than concession property, and neither KCRC nor the developer nor the guarantors have any further rights to exercise, or obligations to perform, under the development agreement relating to the relevant Category 3 Property.

In relation to the Merger Framework Agreement, the West Rail Agency Agreement (and related powers of attorney), the US CBL Assumption Agreements, the US CBL Allocation Agreement and the agreements in relation to Category 2A, Category 2B and Category 3 Properties (together the "Merger-related Continuing Connected Transactions") and in accordance with paragraph B(l)(i) of the Merger-related Waiver, the Company confirms that the Independent Non-executive Directors of the Company have reviewed each of the Merger-related Continuing Connected Transactions and confirmed that the Merger-related Continuing Connected Transactions were entered into:

- (1) in the ordinary and usual course of business (within the meaning of the Listing Rules) of the Group;
- (2) on normal commercial terms or better (within the meaning of the Listing Rules); and
- (3) according to the agreement governing them on terms that are fair and reasonable and in the interests of the Company's shareholders as a whole.

The Company has engaged the auditors of the Company to carry out a review of each of the Merger-related Continuing Connected Transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews

of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. In accordance with paragraph B(l)(ii) of the Merger-related Waiver, the auditors have provided a letter to the Board confirming that:

- (a) nothing has come to their attention that causes them to believe that the Merger-related Continuing Connected Transactions have not been approved by the Board; and
- (b) nothing has come to their attention that causes them to believe that the Merger-related Continuing Connected Transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions.

## II Non Merger-related Continuing Connected Transactions with Government and / or its Associates

The following disclosures are made in accordance with the conditions of the Waiver and Rule 14A.71 of the Listing Rules.

### A1 Entrustment Agreement for Design and Site Investigation in Relation to the Shatin to Central Link

The Entrustment Agreement for Design and Site Investigation in Relation to the Shatin to Central Link (the "First SCL Agreement") was entered into on 24 November 2008 between the Company and the Secretary for Transport and Housing for and on behalf of Government.

The First SCL Agreement contains provisions for the design of and site investigation and procurement activities in relation to the proposed Shatin to Central Link, including in relation to:

- Government's obligation to pay the Company up to a maximum aggregate amount of HK\$1,500 million in respect of certain costs incurred by the Company pursuant to the First SCL Agreement, including the Company's in-house design costs and certain on-costs and preliminary costs;
- Government's obligation to bear and finance the total cost of the design and site investigation activities under the First SCL Agreement (subject to the limit noted above in respect of payments to the Company) and arrangements for the payment of these costs directly by Government;
- the Company's obligation to carry out or procure the carrying out of the design and site investigation activities in relation to the proposed Shatin to Central Link;
- the limitation of the Company's liability to Government under the First SCL Agreement, except in respect of death or personal injury caused by the negligence of the Company, to HK\$600 million; and



- should the railway scheme for the Shatin to Central Link be authorised under the Railways Ordinance (Cap. 519 of the Laws of Hong Kong), the execution of a further agreement by Government and the Company setting out each of their rights, obligations, duties and powers with respect to the financing, construction, completion, testing, commissioning and putting into service the works necessary for the construction and operation of the Shatin to Central Link.

### ***A2 Entrustment Agreement for Advance Works Relating to the Shatin to Central Link***

The Entrustment Agreement for Advance Works Relating to the Shatin to Central Link (the “Second SCL Agreement”) was entered into on 17 May 2011 between the Company and the Secretary for Transport and Housing for and on behalf of Government.

The Second SCL Agreement contains the following provisions:

- in consideration of the Company executing or procuring the execution of certain entrustment activities as set out in the Second SCL Agreement and carrying out its other obligations under the Second SCL Agreement, Government shall pay to the Company the Company’s project management cost. The amount of such project management cost is to be agreed between the Company and Government and prior to such agreement, the project management cost shall be paid by Government to the Company on a provisional basis calculated in accordance with the Second SCL Agreement;
- the Company and Government may agree that the Company will carry out (or procure the carrying out of) certain additional works for Government (such agreed additional works being “miscellaneous works”). Miscellaneous works (if any) are to be carried out by the Company in the same manner as if they had formed part of the activities specified to be carried out under the Second SCL Agreement and in consideration of the Company executing or procuring the execution of such miscellaneous works (if any) and carrying out its other obligations under the Second SCL Agreement in relation to such miscellaneous works (if any), Government shall pay to the Company an amount to be agreed between the Company and Government as being the project management fee payable to the Company for designing and constructing such miscellaneous works;
- Government shall bear all of the “Works Cost” (as defined in the Second SCL Agreement). In this connection, Government will make payments to the Company in respect of the Works Cost on a provisional basis, subject to adjustments when the final outturn cost of the Works Cost is determined;
- Government shall bear land acquisition, clearance and related costs and those costs which are incurred by the Lands Department in connection with the Shatin to Central Link project;
- the maximum aggregate amount payable by Government to the Company under the Second SCL Agreement is limited to approximately HK\$3,000 million per annum and a total in aggregate of approximately HK\$15,000 million;
- the Company shall carry out or procure the carrying out of certain enabling works on the expanded Admiralty Station and the to be constructed Ho Man Tin Station, the reprovisioning of the International Mail Centre from Hung Hom to Kowloon Bay and other works as described under the Second SCL Agreement;
- the Company’s total liability to Government under the First SCL Agreement and the Second SCL Agreement, except in respect of death or personal injury caused by the negligence of the Company, is limited to the aggregate fees that have been and will be received by the Company from Government under the First SCL Agreement and the Second SCL Agreement;
- the Company will provide to Government by the end of each calendar month, a progress report on the activities under the Second SCL Agreement that were carried out in the immediately preceding calendar month and, within three months following the completion of the relevant works, a final report on the activities required to be carried out under the Second SCL Agreement;
- the Company shall be responsible for the care of all works constructed under the Shatin to Central Link project from the commencement of construction until the date of handover of those works to Government and for completing or procuring the completion of any outstanding works and/or defective works identified prior to the handover of the works;
- during the period of twelve years following the issue of a certificate of completion by the Company in respect of work carried out under any contract with any third party, the Company shall be responsible for the repair of any defects in such work that are identified following the expiry of any defects liability period under the relevant contract;
- the Company warrants that:
  - in the case of those activities under the Second SCL Agreement that relate to the provision of project management services, such activities shall be carried out with the skill and care reasonably to be expected of a professional and competent project manager;

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- in the case of those activities under the Second SCL Agreement that relate to the provision of design services, such activities shall be carried out with the skill and care reasonably to be expected of a professional and competent design engineer; and
- in the case of those activities under the Second SCL Agreement that relate to the carrying out of construction activities, such activities shall be carried out with the skill and care reasonably to be expected of, and by utilising such plant, goods and materials reasonably to be expected from, a competent and workmanlike construction contractor; and
- Government further undertakes to use reasonable endeavours to provide the Company with assistance of a non-financial nature, including taking all reasonable steps to procure that all necessary licences and consents, required in connection with the design, construction and operation of the Shatin to Central Link are given or granted.

## ***A3 Entrustment Agreement for Construction and Commissioning of the Shatin to Central Link***

The Entrustment Agreement for Construction and Commissioning of the Shatin to Central Link (the “Third SCL Agreement”) was entered into on 29 May 2012 between the Company and the Secretary for Transport and Housing for and on behalf of Government.

The Third SCL Agreement contains the following provisions:

- in consideration of the Company executing or procuring the execution of certain entrustment activities as set out in the Third SCL Agreement and carrying out its other obligations under the First SCL Agreement and the Second SCL Agreement, Government shall pay to the Company the Company’s project management cost. The amount of the project management cost is HK\$7,893 million and will be paid by Government to the Company on a quarterly basis;
- the Company and Government may agree that the Company will carry out (or procure the carrying out of) certain additional works for Government (such agreed additional works being “miscellaneous works”). Miscellaneous works (if any) are to be carried out by the Company in the same manner as if they had formed part of the activities specified to be carried out under the Third SCL Agreement and in consideration of the Company executing or procuring the execution of such miscellaneous works (if any) and carrying out its other obligations under the Third SCL Agreement in relation to such miscellaneous works (if any), Government shall pay to the Company an amount to be agreed between the Company and Government as being the project management fee payable to the Company for designing and constructing such miscellaneous works;
- Government shall bear certain “Third Party Costs”, any “Interface Works Costs” and any “Direct Costs” (each as defined in the Third SCL Agreement);
- Government shall bear land acquisition, clearance and related costs and those costs which are incurred by the Lands Department in connection with the Shatin to Central Link project;
- the maximum aggregate amount payable by Government to the Company under the Third SCL Agreement is limited to HK\$3,000 million per annum and a total in aggregate of HK\$15,000 million;
- the maximum aggregate amount payable by the Company to Government under the Third SCL Agreement in relation to its contribution to certain railway works under the Third SCL Agreement is limited to HK\$4,000 million per annum and a total in aggregate of HK\$15,000 million;
- the Company’s total liability to Government under the First SCL Agreement, the Second SCL Agreement and the Third SCL Agreement, except in respect of death or personal injury caused by the negligence of the Company, is limited to the aggregate fees that have been and will be received by the Company from Government under the First SCL Agreement, the Second SCL Agreement and the Third SCL Agreement;
- the Company will provide to Government by the end of each calendar month, a progress report on the activities under the Third SCL Agreement that were carried out in the immediately preceding calendar month and, within three months following the handover of the Shatin to Central Link project to Government, a final report on the activities required to be carried out under the Third SCL Agreement;
- the Company shall be responsible for the care of all works constructed under the Shatin to Central Link project from the commencement of construction until the date of handover of those works to Government and for completing or procuring the completion of any outstanding works and/or defective works identified prior to the handover of the works;
- during the period of twelve years following the issue of a certificate of completion by the Company in respect of work carried out under any contract with any third party, the Company shall be responsible for the repair of any defects in such work that are identified following the expiry of any defects liability period under the relevant contract;
- the Company warrants that:
  - in the case of those activities under the Third SCL Agreement that relate to the provision of project management services, such activities shall be carried out with the skill and care reasonably to be expected of a professional and competent project manager;

- in the case of those activities under the Third SCL Agreement that relate to the provision of design services, such activities shall be carried out with the skill and care reasonably to be expected of a professional and competent design engineer; and
  - in the case of those activities under the Third SCL Agreement that relate to the carrying out of construction activities, such activities shall be carried out with the skill and care reasonably to be expected of, and by utilising such plant, goods and materials reasonably to be expected from, a competent and workmanlike construction contractor; and
- Government further undertakes to use reasonable endeavours to provide the Company with assistance of a non-financial nature, including taking all reasonable steps to procure that all necessary licences and consents, required in connection with the design, construction and operation of the Shatin to Central Link are given or granted.

#### ***B1 Entrustment Agreement for Design and Site Investigation in Relation to the Express Rail Link***

The Entrustment Agreement for Design and Site Investigation in Relation to the Express Rail Link (the “First XRL Agreement”) was entered into on 24 November 2008 between the Company and the Secretary for Transport and Housing for and on behalf of Government.

The First XRL Agreement contains provisions for the design of and site investigation and procurement activities in relation to the proposed Express Rail Link, including in relation to:

- Government’s obligation to pay the Company, up to a maximum aggregate amount of HK\$1,500 million, in respect of certain costs incurred by the Company pursuant to the First XRL Agreement, including the Company’s in-house design costs and certain on-costs, preliminary costs and recruited staff costs;
- Government’s obligation to bear and finance the total cost of the design and site investigation activities under the First XRL Agreement (subject to the limit noted above in respect of payments to the Company) and arrangements for the payment of these costs directly by Government;
- the Company’s obligation to carry out or procure the carrying out of the design and site investigation activities in relation to the proposed Express Rail Link;
- the limitation of the Company’s liability to Government under the First XRL Agreement, except in respect of death or personal injury caused by the negligence of the Company, to HK\$700 million; and
- should the railway scheme for the Express Rail Link be authorised under the Railways Ordinance (Cap. 519 of the Laws of Hong Kong), the execution of a further agreement by Government and the Company setting

out each of their rights, obligations, duties and powers with respect to the financing, construction, completion, testing, commissioning and putting into service the works necessary for the construction and operation of the Express Rail Link.

#### ***B2 Entrustment Agreement for Construction, Testing and Commissioning of the Express Rail Link***

The Entrustment Agreement for the construction and commissioning of the Express Rail Link was entered into on 26 January 2010 between the Company and the Secretary for Transport and Housing for and on behalf of Government (the “Second XRL Agreement”).

The scheme in respect of the Express Rail Link was first gazetted under the Railways Ordinance (Cap. 519 of the Laws of Hong Kong) on 28 November 2008, with amendments and corrections gazetted on 30 April 2009. The scheme, as amended with such minor modifications as deemed necessary, was authorised by the Chief Executive in Council on 20 October 2009 and funding support approved by the Finance Committee on 16 January 2010.

The Second XRL Agreement contains the following provisions:

- in consideration of the Company executing or procuring the execution of certain entrustment activities as set out in the Second XRL Agreement and carrying out its other obligations under the Second XRL Agreement and the First XRL Agreement, Government shall pay to the Company HK\$4,590 million (further details relating to the amendments to this provision, if the conditions in the Third XRL Agreement become satisfied, are set out in the section above headed “II. The Third Agreement in Relation to the Express Rail Link” in the section headed “Connected Transactions”), to be paid in cash quarterly in advance on a scheduled basis as such sum may be varied in accordance with the Second XRL Agreement, subject to the maximum payment limits stated in the Second XRL Agreement (being HK\$2,000 million annually and HK\$10,000 million in total) (the “Maximum Payment Limits”);
- the Company and Government may agree that the Company will carry out (or procure the carrying out of) certain additional works for Government (such agreed additional works being “miscellaneous works”). Miscellaneous works (if any) are to be carried out by the Company in the same manner as if they had formed part of the activities specified to be carried out under the Second XRL Agreement and in consideration of the Company executing or procuring the execution of the miscellaneous works (if any) and carrying out its other obligations under the Second XRL Agreement in relation to the miscellaneous works (if any), Government shall pay to the Company an amount equal to an agreed fixed percentage

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of third party costs attributable to the miscellaneous works from time to time subject to the Maximum Payment Limits;

- the Company will provide to Government by the end of each calendar month, a progress report on the activities under the Second XRL Agreement that were carried out in the immediately preceding calendar month and, within three months following the earlier of handover of the Express Rail Link project to Government or termination of the Second XRL Agreement, a final report on the activities required to be carried out under the Second XRL Agreement;
- the Company shall be responsible for the care of all works constructed under the Express Rail Link project from the commencement of construction until the date of handover of those works to Government (or to a third party directed by Government) and for completing or procuring the completion of any outstanding works and/or defective works identified prior to the handover of the works;
- during the period of twelve years following the issue of a certificate of completion by the Company in respect of work carried out under any contract with any third party, the Company shall be responsible for the repair of any defects in such work that are identified following the expiry of any defects liability period under the relevant contract;
- the Company warrants that:
  - in the case of those activities under the Second XRL Agreement that relate to the provision of project management services, such activities shall be carried out with the skill and care reasonably to be expected of a professional and competent project manager;
  - in the case of those activities under the Second XRL Agreement that relate to the provision of design services, such activities shall be carried out with the skill and care reasonably to be expected of a professional and competent design engineer; and
  - in the case of those activities under the Second XRL Agreement that relate to the carrying out of construction activities, such activities shall be carried out with the skill and care reasonably to be expected of, and by utilising such plant, goods and materials reasonably to be expected from, a competent and workmanlike construction contractor;
- Government is required to bear (i) any costs payable to third parties, (ii) any charges, costs or amounts payable to any Government department, bureau, agency or body in relation to the activities to be carried out under the Second XRL Agreement, (iii) any and all amounts payable to the KCRC as compensation for damage arising as a result of the Company and/or a third party contractor carrying out activities under the Second XRL Agreement; and (iv) all

land acquisition, clearance and related costs (including all amounts arising as a result of any claim for compensation by any third party) and those costs which are incurred by the Lands Department in connection with the Express Rail Link project (further details relating to the amendments to this provision, if the conditions in the Third XRL Agreement become satisfied, are set out in the section above headed “II. The Third Agreement in Relation to the Express Rail Link” in the section headed “Connected Transactions”); and

- Government further undertakes to use reasonable endeavours to provide the Company with assistance of a non-financial nature, including taking all reasonable steps to procure that all necessary licences and consents, required in connection with the design, construction and operation of the Express Rail Link are given or granted.

Government has agreed that the Company has been asked to proceed with the construction, testing and commissioning of the Express Rail Link (pursuant to and on the terms of the Second XRL Agreement) on the understanding that the Company will be invited to undertake the operation of the Express Rail Link under the concession approach.

Provided the conditions contained in the Third XRL Agreement are satisfied, pursuant to the Third XRL Agreement, certain amendments will be made to the Second XRL Agreement to reflect the arrangements contained in the Third XRL Agreement, including (i) amendments to the arrangements for the bearing and financing of the project cost; and (ii) an increase in the project management cost payable to the Company to an aggregate of HK\$6.34 billion (which reflects the estimate of the Company’s expected internal costs in performing its obligations in relation to the Express Rail Link project). Further details are set out in the section above headed “II. The Third Agreement in Relation to the Express Rail Link” in the section headed “Connected Transactions”.

## ***C Renewal of the existing Maintenance Agreement for the Automated People Mover System at the Hong Kong International Airport***

The Company entered into a Maintenance Agreement with the AA for the maintenance of the Automated People Mover system at the Hong Kong International Airport since 2002. It was signed on 18 March 2002 for a period of three years, which expired on 6 July 2005. A Supplemental Agreement was agreed with the AA, and approved by the Board in June 2005, to extend the Maintenance Agreement for another three years until 6 July 2008, which also included options for the Automated People Mover serving the Sky Plaza and Sky Pier terminal buildings. Another Maintenance Agreement was then signed on 21 August 2008 for a period of 5 years, which expired on 5 July 2013 (the “Maintenance Agreement”).



On 5 July 2013, the Company entered into a new Maintenance Contract with the AA for the renewal of the then expired Maintenance Agreement for the Automated People Mover system for a seven year period (the “New Maintenance Contract”), effective from 6 July 2013. On 5 March 2015, the Company entered into a supplemental agreement to the New Maintenance Contract with the AA for carrying out the Automated People Mover system’s testing and commissioning works (the “Supplemental Agreement”). It is expected that the highest amount per year receivable from the AA under the New Maintenance Contract and the Supplemental Agreement will be HK\$60 million.

The New Maintenance Contract contains provisions relating to the operation and maintenance by the Company of the Automated People Mover system installed at Hong Kong International Airport (the “System”) and the carrying out by the Company of certain specified services in respect of the System, they including the following:

- provisions stating that the duration of the New Maintenance Contract shall be seven years from 6 July 2013 up to and including 5 July 2020;
- provisions relating to the performance of scheduled maintenance works and overhaul of the System by the Company;
- provisions relating to monitoring the System for any breakdown and the Company providing repair services where necessary;
- provisions relating to the standards to which the Company must operate the System;
- provisions relating to the carrying out by the Company (as additional services), in certain circumstances, of upgrade work on the System; and
- provisions relating to the operations of and maintenance for the extension of the System to the new Midfield Concourse.

#### ***D Project Agreement for the Financing, Design, Construction and Operation of the West Island Line***

The Project Agreement for the Financing, Design, Construction and Operation of the West Island Line (the “WIL Project Agreement”) was entered into on 13 July 2009 between the Company and the Secretary for Transport and Housing for and on behalf of Government.

The WIL Project Agreement contains provisions for the financing of and the carrying out, or procuring the carrying out, of the design, construction, completion, testing and commissioning by the Company of the railway works required in order to bring the West Island Line into operation in accordance with the MTR Ordinance, the Operating Agreement between the Company and the Secretary for

Transport and Housing for and on behalf of Government dated 9 August 2007 and the WIL Project Agreement. The West Island Line will be owned, operated and maintained by the Company for its own account for the period of the Company’s railway franchise. The WIL Project Agreement includes provisions in relation to:

- payment by Government of HK\$12,252 million to the Company in consideration of the Company’s obligations under the WIL Project Agreement, such sum constituting funding support from Government for the Company to implement the West Island Line project;
- within 24 months of commercial operations commencing on the West Island Line on a revenue earning basis and providing scheduled transport for the public, payment by the Company to Government of any “Repayment Amounts” for any over-estimation of certain capital expenditure, price escalation costs, land costs and the amount of contingency in relation to the railway works and reprovisioning, remedial and improvement works (together with interest);
- the design, construction and completion of the associated reprovisioning, remedial and improvement works (the cost of which shall be the responsibility of the Company) and the associated essential public infrastructure works (the cost of which shall be the responsibility of Government);
- the Company’s responsibility for costs relating to land acquisition, clearance and related costs arising from the implementation of the West Island Line project (save for costs arising from certain claims for compensation by third parties) and all costs, expenses and other amounts incurred or paid by the Lands Department pursuant to the involvement of the Lands Department in connection with the implementation of the West Island Line project; and
- the Company carrying out measures specified in the environmental impact assessment and the environmental permit issued by Government to the Company in relation to the West Island Line on 12 January 2009.

The construction of the West Island Line took place between the date of the WIL Project Agreement and 2015.

In relation to the First SCL Agreement, the Second SCL Agreement, the Third SCL Agreement, the First XRL Agreement, the Second XRL Agreement (as amended by the Third XRL Agreement), the New Maintenance Contract and the WIL Project Agreement (together the “Non Merger-related Continuing Connected Transactions”) and the Third XRL Agreement and in accordance with paragraph B(l)(iii)(a) of the Waiver, the Company confirms that the Independent Non-executive Directors of the Company have reviewed each of the Non Merger-related Continuing Connected Transactions and

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the Third XRL Agreement and confirmed that the Non Merger-related Continuing Connected Transactions were entered into:

- (1) in the ordinary and usual course of business (within the meaning of the Listing Rules) of the Group;
- (2) on normal commercial terms or better (within the meaning of the Listing Rules); and
- (3) according to the agreement governing them on terms that are fair and reasonable and in the interests of the Company's shareholders as a whole.

The Company has engaged the auditors of the Company to carry out a review of each of the Non Merger-related Continuing Connected Transactions and the Third XRL Agreement in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. In accordance with paragraph B(l)(iii)(b) of the Waiver, the auditors have provided a letter to the Board confirming that:

- (a) nothing has come to their attention that causes them to believe that the Non Merger-related Continuing Connected Transactions and the Third XRL Agreement have not been approved by the Board; and
- (b) nothing has come to their attention that causes them to believe that the Non Merger-related Continuing Connected Transactions and the Third XRL Agreement were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions.

### III Non Merger-related Continuing Connected Transactions with parties other than Government and / or its Associates

The following disclosures are made in accordance with Rule 14A.71 of the Listing Rules.

#### A Pre-Existing UGL Contract and Pre-Existing Supplemental UGL Contract for the provision of maintenance and other services for certain trains

Metro Trains Melbourne Pty. Ltd. ("MTM") is a joint venture company incorporated in Australia. The Company controls 60% of the voting power at any general meeting of MTM and each of UGL and John Holland controls 20% of the voting power at any general meeting of MTM. Accordingly, subsequent to the Company entering into the Pre-Existing UGL Contract as amended by the Pre-Existing Supplemental UGL Contract (each, as defined below), UGL is treated as a substantial shareholder of MTM (a subsidiary of the Company) and therefore a "connected person" of the Company within the meaning of Chapter 14A of the Listing Rules. The Pre-

Existing UGL Contract (as amended by the Pre-Existing Supplemental UGL Contract) is therefore a "continuing connected transaction" within the meaning of Rule 14A.31 of the Listing Rules.

On 11 January 2002, the Company entered into a contract with UGL for the provision of maintenance and other services in respect of trains at certain depots for a period of seven years commencing on or around 1 October 2002 to 30 September 2009 (the "Pre-Existing UGL Contract"). The commencement date was subsequently advanced by three months. On 14 April 2009, the Company entered into a supplemental agreement with UGL for the extension of the Pre-Existing UGL Contract for a further period of seven years from 1 August 2009 and for the transfer of the provision of certain services to the Kowloon Bay depot (the "Pre-Existing Supplemental UGL Contract").

The Pre-Existing UGL Contract (as amended by the Pre-Existing Supplemental UGL Contract) provides for the provision of maintenance and other services by UGL in respect of 15 G/H stock trains used by the Company on the Kwun Tong Line, the Island Line, the Tsuen Wan Line and the Tseung Kwan O Line, in each case at the Tseung Kwan O depot and the Kowloon Bay depot, including provisions in relation to:

- payment by the Company of a total sum of approximately HK\$171,966,450 to UGL (including for variations and additional works) in consideration of UGL providing certain services between 1 August 2002 and 31 July 2009 and payment by the Company of HK\$152,940,000 to UGL for the extended term of seven years pursuant to the Pre-Existing Supplemental UGL Contract (which amount is to be paid on a scheduled basis), subject to certain adjustments, including for the level of performance by the relevant trains;
- indemnification by UGL of the Company against certain losses and expenses sustained by the Company arising out of or in connection with UGL carrying out its obligations under the Pre-Existing UGL Contract (as amended by the Pre-Existing Supplemental UGL Contract);
- maintenance by UGL of insurance in relation to certain liabilities to the Company;
- the Company effecting and maintaining third party insurance covering the legal liability of both UGL and the Company for accidental death or injury to persons or accidental loss of or damage to property, in each case, arising out of the UGL's obligations under the Pre-Existing UGL Contract (as amended by the Pre-Existing Supplemental UGL Contract); and
- the Company maintaining "Contractors All Risks" insurance covering loss or damage to certain goods, equipment and temporary buildings at the Tseung Kwan O depot and the Kowloon Bay depot.



The terms of the Pre-existing UGL Contract were agreed upon subsequent to a tender process that invited submissions from a number of contractors, including UGL. UGL was selected by the Company in accordance with the Company's established procedures for the assessment of tenders.

The Company regularly outsources certain services to third parties that specialise in the type of work outsourced, thereby improving the efficiency of the Company's operations and allowing the Company to concentrate its resources on its core business areas. UGL is a specialist in the provision of construction, refurbishment and maintenance services to the railway industry.

### ***B Supplemental Agreement for the extension of the Original Contract for the Mid-Life Refurbishment of Phase 1 Light Rail Vehicles***

The Supplemental Agreement for the extension of the Original Contract (defined below) for the Mid-Life Refurbishment of Phase 1 Light Rail Vehicles (the "Phase 1 LRVs"), was entered into on 26 February 2010 between the Company and UGL (the "Supplemental Agreement").

On 30 November 2007, KCRC entered into the Original Contract with UGL (the "Original Contract"), for the refurbishment of the Phase 1 LRVs for a period of 45 months from 30 November 2007 to 31 August 2011. On 2 December 2007, the rights and obligations of KCRC under the Original Contract were vested in the Company pursuant to section 52(B) of the MTR Ordinance. The Supplemental Agreement extends the Original Contract for a further period of 16 months from 31 August 2011 until 31 December 2012. A second supplemental agreement was entered into by the Company and UGL on 21 December 2011 (the "Second Supplemental Agreement") which extended the Original Contract to 31 December 2013. A third supplemental agreement was entered into by the Company and UGL on 21 July 2014 (the "Third Supplemental Agreement") which extended the Original Contract to 17 February 2014. The final payment certificate for the works under the Original Contract and the Supplemental Agreements was issued in 2015. The Original Contract (as amended) contains the following provisions:

- in consideration of UGL providing the Refurbishment Works (defined below) under the Original Contract, the Company is obliged to pay UGL a total sum of approximately HK\$48,260,000 (excluding amounts for variations and additional works). The Supplemental Agreement, inter alia, extended the scope of the Refurbishment Works of the Original Contract and the consideration payable by the Company to UGL for such extension is HK\$83,736,143, which was further increased by the Second Supplemental Agreement by an additional

HK\$34,957,178 (the "Contract Sum"). The total sum under the Original Contract plus the Contract Sum is to be paid progressively based on materials delivered and on works completed as set out in the Supplemental Agreement, subject to adjustments to take account of variations made by the Company's Chief Electrical and Mechanical Engineer (the "Engineer") to the scope of the Refurbishment Works. The maximum aggregate amount payable annually by the Company under the Original Contract plus the Contract Sum is approximately HK\$78,632,000;

- the Company is obliged to effect "Contractor's All Risks" and "Third Party Liability" insurance with a third party liability limit of not less than HK\$30 million;
- UGL shall carry out a carbody structure review to assess the mechanical condition of the Phase 1 LRVs; refurbish the drivers' consoles, the operators' seats and the passenger saloons of the Phase 1 LRVs; conduct a brake software upgrade of the Phase 1 LRVs; and carry out further miscellaneous repairs to the Phase 1 LRVs (together the "Refurbishment Works");
- UGL shall indemnify the Company against any certain losses or expenses which may arise out of or in connection with the Refurbishment Works, subject to any proportionate reduction in liability on account of any related negligence by the Company, its employees or agents, the Engineer or those appointed by the Engineer;
- UGL shall indemnify the Company against certain damages, compensation, costs and expenses in respect of any damages or compensation payable at law in respect of or in consequence of any accident, injury or illness to any person in the employment of UGL arising out of and in the course of such employment;
- UGL shall effect and maintain insurance with a limit of not less than HK\$100 million in relation to certain of its liabilities for the period commencing on 30 November 2007 until the date of the completion of the Refurbishment Works;
- UGL's liability to indemnify the Company is reduced proportionally to the extent that any act or omission of the Company, its employees or agents, the Engineer or those appointed by the Engineer, caused or contributed to the relevant death, illness, injury, loss or damage and the total liability of UGL shall not exceed 100% of the total sum payable under the Original Contract, save and except for UGL's liability for death, personal injury, wilful misconduct, fraud and infringement of third party intellectual property rights; and
- the total liability of UGL to the Company for liquidated damages arising as a result of delay is limited to 10% of the total sum payable under the Original Contract and, subject

# Report of the Members of the Board

to the provisions regarding liquidated damages, UGL is not liable for any kind of economic, financial, indirect or consequential loss or damage, including but not limited to loss of profit, loss of use, loss of production, loss of any contract and the like, suffered by the Company.

## *C Contract 903 between the Company and LCAL relating to certain works on the South Island Line (East)*

As mentioned above, MTM is a joint venture company incorporated in Australia. MTM is a non-wholly owned subsidiary of the Company and each of UGL and John Holland controls 20% of the voting power at any general meeting of MTM.

Accordingly, John Holland is treated as a substantial shareholder of MTM. As of April 2015, LCAL ceased to be an associate of John Holland as a result of the transfer of 100% of the equity interests in John Holland Group Pty Ltd and its subsidiaries by Leighton Holdings Limited to CCCC International Holding Limited. Therefore, each of John Holland, JHL and LCAL (up to 20 April 2015) is / was a “connected person” of the Company within the meaning of Chapter 14A of the Listing Rules. Contract 903 (as defined below) is therefore a “continuing connected transaction” within the meaning of Rule 14A.31 of the Listing Rules.

On 17 May 2011, the Company and LCAL entered into Contract 903 (as amended by a supplemental agreement on 14 November 2014) (the “Contract 903”) for the construction of certain works relating to the Aberdeen Channel Bridge, Wong Chuk Hang Station and Ocean Park Station in respect of the South Island Line (East) (the “Contract 903 Works”).

Contract 903 is in substantially the same form as the Company’s standard conditions of contract for target cost construction and contains the following provisions:

- the principal obligation of LCAL under Contract 903 is the construction of the Contract 903 Works;
- LCAL shall indemnify the Company against any loss or expense sustained by the Company and against all losses and claims in respect of death or injuries or damage to any person or property whatsoever which may arise out of or in consequence of the execution of the Contract 903 Works and against all claims, proceedings, damages, costs, charges and expenses whatsoever in respect of or in relation thereto, except for compensation or damages related to the permanent use or occupation of land by the Contract 903 Works, or the right of the Company to execute the Contract 903 Works on any part of the land, or on account of any negligence by the Company, its agents, servants or other contractors, not being employed by LCAL;
- LCAL shall indemnify the Company against all damages and compensation and against all claims, demands, proceedings, costs, charges and expenses whatsoever in respect of any damages or compensation payable at law in respect of or in consequence of any accident, injury or illness to any workman or other person in the employment of LCAL or its sub-contractors or suppliers arising out of and in the course of such employment;
- LCAL shall effect and maintain insurance with a limit of not less than HK\$200 million in relation to certain of its liabilities for the period commencing on 29 April 2011 until 30 June 2016;
- a bond issued by Chartis Insurance Hong Kong Limited will be provided to the Company in respect of the obligations of LCAL under Contract 903;
- LCAL’s liability to indemnify the Company is reduced proportionally to the extent that any act or neglect of the Company, the Engineer or any other person employed by the Company in connection with the Contract 903 Works, their respective agents, employees or representatives, may have contributed to the relevant death, illness, or damage. The total liability of LCAL to the Company for all damages (liquidated damages and general) for delay shall not exceed 10% of the target cost plus fees as calculated under Contract 903;
- the total amount payable by the Company to LCAL under Contract 903 is the Contract Sum, which includes the target cost for the Contract 903 Works and fees to LCAL. From time to time the scope of the Contract 903 Works may vary and the Company will be obliged to revise the fees payable to LCAL in accordance with the terms of the Contract;
- the Company is obliged to pay the target cost for the Contract 903 Works to LCAL on a scheduled basis set out in Contract 903. If the final total cost of the Contract 903 Works exceeds or is less than the target cost for the Works, the deficit or, as the case may be, the excess will be borne by or, as the case may be, distributed to the Company and LCAL on a basis calculated in accordance with Contract 903;
- the maximum aggregate amount payable annually by the Company under Contract 903 is approximately HK\$1,400 million. As payments by the Company to LCAL are paid on a scheduled basis as set out in Contract 903, the maximum aggregate annual amount is set by reference to the highest amount payable by the Company in any given year under such schedule;
- the Company is obliged to effect “Contractor’s All Risks” and “Third Party Liability” insurance with a third party liability limit of not less than HK\$700 million. In addition, LCAL has agreed to separately purchase additional cover for “Third Party Liability” insurance in the amount of HK\$ 3,638 million; and
- the Company may at any time, by giving 30 days’ notice in writing to LCAL, terminate Contract 903 but without prejudice to any claims by the Company for breach of contract.

#### ***D Contract 904 between the Company, LCAL and JHL relating to certain works on the South Island Line (East)***

As explained above, each of LCAL (up to 20 April 2015) and JHL was / is a “connected person” under the Listing Rules. Contract 904 (as defined below) is therefore a “continuing connected transaction” within the meaning of Rule 14A.31 of the Listing Rules.

On 17 May 2011, the Company, LCAL and JHL (LCAL and JHL being “the Contractors”) entered into Contract 904 (as amended by a supplemental agreement on 7 June 2013) (the “Contract 904”) for the construction of certain works relating to Lei Tung Station and South Horizons Station in respect of the South Island Line (East) (the “Contract 904 Works”).

Contract 904 is in substantially the same form as the Company’s standard conditions of contract for engineering works and contains the following provisions:

- the principal obligation of the Contractors is the construction of the Contract 904 Works. The obligations of the Contractors under Contract 904 are joint and several;
- the Contractors shall indemnify the Company against any loss or expense sustained by the Company and against all losses and claims in respect of death or injuries or damage to any person or property whatsoever which may arise out of or in consequence of the execution of the Contract 904 Works and against all claims, proceedings, damages, costs, charges and expenses whatsoever in respect of or in relation thereto, except for compensation or damages related to the permanent use or occupation of land by the Contract 904 Works, or the right of the Company to execute the Contract 904 Works on any part of the land, or on account of any negligence by the Company, its agents, servants or other contractors, not being employed by the Contractors;
- the Contractors shall indemnify the Company against all damages and compensation and against all claims, demands, proceedings, costs, charges and expenses whatsoever in respect of any damages or compensation payable at law in respect of or in consequence of any accident, injury or illness to any workman or other person in the employment of the Contractors or their subcontractors or suppliers arising out of and in the course of such employment;
- the Contractors shall effect and maintain insurance with a limit of not less than HK\$200 million in relation to certain of its liabilities for the period commencing on 29 April 2011 until 30 June 2016;
- a bond issued by Chartis Insurance Hong Kong Limited will be provided to the Company in respect of the obligations of the Contractors under Contract 904;
- the Contractors’ liability to indemnify the Company is reduced proportionally to the extent that any act or

neglect of the Company, the Engineer or any other person employed by the Company in connection with the Contract 904 Works, their respective agents, employees or representatives, may have contributed to the relevant death, illness, or damage;

- the total liability of the Contractors to the Company for all damages (liquidated damages and general) for delay shall not exceed 10% of the contract sum under the Contract;
- the total amount payable by the Company to the Contractors under Contract 904 is the Contract Sum. From time to time the scope of Works may vary and the Company will be obliged to revise the Contract Sum in accordance with the terms of Contract 904;
- the maximum aggregate amount payable annually by the Company under Contract 904 is approximately HK\$1,400 million. As payments by the Company to the Contractors are paid on a scheduled basis as set out in Contract 904, the maximum aggregate annual amount is set by reference to the highest amount payable by the Company in any given year under such schedule;
- the Company is obliged to effect “Contractor’s All Risks” and “Third Party Liability” insurance with a third party liability limit of not less than HK\$700 million. In addition, the Contractors have agreed to separately purchase additional cover for “Third Party Liability” insurance in the amount of AU\$485 million; and
- the Company may at any time, by giving 30 days’ notice in writing to the Contractors, terminate Contract 904 but without prejudice to any claims by the Company for breach of contract.

In relation to the Pre-Existing UGL Contract as amended by the Pre-Existing Supplemental UGL Contract, the Original Contract (as amended), Contract 903 and Contract 904 (together the “Continuing Connected Transactions with Parties other than Government and/or its Associates”) and in accordance with Rule 14A.55 of the Listing Rules, the Company confirms that the Independent Non-executive Directors of the Company have reviewed the Continuing Connected Transactions with Parties other than Government and/or its Associates and confirmed that each of the Continuing Connected Transactions with Parties other than Government and/or its Associates was entered into:

- (1) in the ordinary and usual course of business (within the meaning of the Listing Rules) of the Group;
- (2) on normal commercial terms or better (within the meaning of the Listing Rules); and
- (3) according to the agreement governing them on terms that are fair and reasonable and in the interests of the Company’s shareholders as a whole.

# Report of the Members of the Board

The Company has engaged the auditors of the Company to carry out a review of the Continuing Connected Transactions with Parties other than Government and/or its Associates in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. In accordance with Rule 14A.56 of the Listing Rules, the auditors have provided a letter to the Board confirming that:

- (a) nothing has come to their attention that causes them to believe that the Continuing Connected Transactions with Parties other than Government and/or its Associates have not been approved by the Board;
- (b) for transactions involving the provision of goods or services by the Group, nothing has come to their attention that causes them to believe that the Continuing Connected Transactions with Parties other than Government and/or its Associates were not, in all material respects, in accordance with the pricing policies of the Group;
- (c) nothing has come to their attention that causes them to believe that the Continuing Connected Transactions with Parties other than Government and/or its Associates were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and
- (d) with respect to the aggregate amount of each of the Continuing Connected Transactions with Parties other than Government and/or its Associates, nothing has come to their attention that causes them to believe that the Continuing Connected Transactions with Parties other than Government and/or its Associates have exceeded the relevant annual caps as set by the Company in respect of each of the Continuing Connected Transactions with Parties other than Government and/or its Associates.

## Additional Information in respect of the Rail Merger

The Rail Merger consisted of a number of separate agreements, each of which was detailed in the circular issued by the Company on 3 September 2007 in connection with the Rail Merger, and which together formed a complete package deal which was approved by the independent shareholders of the Company at an Extraordinary General Meeting held on 9 October 2007. The information set out at paragraph A below describes the payment framework adopted in respect of the Rail Merger and paragraphs B to E below set out, summaries of the various agreements entered into by the Company in

respect of the Rail Merger in addition to those agreements disclosed above under the heading "Merger-related Continuing Connected Transactions".

## A Payments in connection with Merger-related Agreements

In connection with the Rail Merger, the following initial payments were made by the Company to KCRC on 2 December 2007 (being the Merger Date):

- an upfront payment of HK\$4.25 billion, payable under the Service Concession Agreement (as described in paragraph B below), being the upfront fee for the right to operate the Service Concession (as defined in paragraph B below) and the consideration for the purchased rail assets; and
- an upfront payment of HK\$7.79 billion payable under the Merger Framework Agreement (as described on page 151) in consideration for the execution of the Property Package Agreements (as described on pages 152 to 154 and in paragraph E below) and the sale of the shares in the KCRC Subsidiaries (as defined on page 152) that were transferred to the Company under the Sale and Purchase Agreement which was entered into on 9 August 2007 between the Company and KCRC.

In addition to the initial payments above, the Company is also required to make the following payments to KCRC going forward:

- fixed annual payments of HK\$750 million payable under the Service Concession Agreement, for the right to use and operate the concession property for the operation of the service concession, in arrears on the day immediately preceding each anniversary of the Merger Date which falls during the concession period in respect of the 12 month period up to and including the date on which such payment falls due; and
- variable annual payments payable under the Service Concession Agreement, for the right to use and operate the concession property for the operation of the service concession, in each case, calculated on a tiered basis by reference to the amount of revenue from the KCRC system (as determined in accordance with the Service Concession Agreement) for each financial year of the Company. No variable annual payment is payable in respect of the first 36 months following the Merger Date.

As a complete package deal, other than the payment elements described above and unless stated otherwise in the relevant paragraph below, no specific allocation was made between the various elements of the Rail Merger.



## **B Service Concession Agreement**

The Service Concession Agreement was entered into on 9 August 2007 between the Company and KCRC.

The Service Concession Agreement contains provisions in relation to the grant and operation of a service concession and licence granted by KCRC to the Company (the "Service Concession"), including in relation to:

- the grant of the Service Concession to the Company to access, use and operate the concession property (other than KCRC railway land referred to immediately below) to certain specified standards;
- the grant of a licence to access and use certain KCRC railway land;
- the term (being an initial period of 50 years from the Merger Date) of the Service Concession and redelivery of the KCRC system upon expiry or termination of the concession period. The Service Concession will end if the Company's franchise relating to the KCRC railway is revoked;
- the payments of an upfront payment of HK\$4.25 billion and fixed annual payments and variable annual payments (as described in paragraph A above);
- KCRC remaining the legal and beneficial owner of the concession property as at the Merger Date and the Company being the legal and beneficial owner of certain future concession property (the "Additional Concession Property");
- the regime for compensation payable by KCRC to the Company if Additional Concession Property is returned to KCRC at the end of the concession period;
- the rights and restrictions of the Company and KCRC in relation to the concession property; and
- subject to certain conditions, the Company bearing all risks, liabilities and/or costs whatsoever associated with or arising from the concession property and the land on which any of the concession property is located during the concession period.

## **C Sale and Purchase Agreement**

The Sale and Purchase Agreement was entered into on 9 August 2007 between the Company and KCRC.

The Sale and Purchase Agreement provides the terms pursuant to which the Company acquired certain assets and contracts (the "Purchased Rail Assets") from KCRC.

The consideration for the sale of the Purchased Rail Assets (excluding the shares in the KCRC Subsidiaries) formed part of the upfront payment of HK\$4.25 billion. The consideration for the sale of the shares in the KCRC Subsidiaries (which own

the Category 1A Properties referred to at paragraph E below and act as property managers) formed part of the payment of HK\$7.79 billion for the property package (as described in paragraph A above and in paragraph E below).

## **D Operating Agreement**

The Operating Agreement was entered into on 9 August 2007 between the Company and the Secretary for Transport and Housing for and on behalf of Government as contemplated in the MTR Ordinance.

The Operating Agreement is based on the previous Operating Agreement which was signed on 30 June 2000. The Operating Agreement differs from the previous Operating Agreement to provide for, amongst other things, the nature of the combined MTRC railway and KCRC railway. The Operating Agreement includes terms relating to:

- the extension of the Company's franchise under the MTR Ordinance;
- the design, construction and maintenance of the railway;
- passenger services;
- a framework for the award of new projects and the operation and ownership structure of new railways;
- the adjustment mechanism to be applied to certain of the Company's fares; and
- compensation which may be payable under the MTR Ordinance to the Company in relation to a suspension, expiry or termination of the franchise.

Under the Operating Agreement, the fare adjustment mechanism is subject to review periodically. The first of such reviews was undertaken in 2013. The Company and Government agreed on 16 April 2013 to amend the fare adjustment mechanism. In addition, the wider terms of the Operating Agreement are subject to review every five years and such a review was also undertaken in 2013. As a result of such reviews, the Company and Government agreed measures in enhancing communication and liaison on operational arrangements.

## **E Additional Property Package Agreements Category 1A Properties**

The Category 1A Properties are held by the KCRC Subsidiaries. Under the terms of the Sale and Purchase Agreement, the Company acquired from KCRC the shares in the KCRC Subsidiaries (and thereby indirectly acquired the "Category 1A Properties").

# Report of the Members of the Board

## Category 1B Properties

On 9 August 2007, KCRC and the Company entered into an agreement for sale and purchase under which KCRC agreed to assign certain properties (the "Category 1B Properties") to the Company on the Merger Date. The relevant assignment was executed between KCRC and the Company on 2 December 2007.

## Category 4 Properties

On 9 August 2007, Government entered into an undertaking that it would, within periods to be agreed between the Company and Government, offer to the Company a private treaty grant in respect of certain development sites (the "Category 4 Properties"). The terms of each private treaty grant shall generally be determined by Government, and the premium for each private treaty grant shall be assessed on a full market value basis ignoring the presence of the railway other than the Tin Shui Wai Terminus, Light Rail, Yuen Long, New Territories.

On 9 August 2007, the Company issued a letter to KCRC confirming that, if there should be any railway premises on the Category 4 Properties, the Company would assign the railway premises to KCRC.

## Metropolis Equity Sub-participation Agreement

The Metropolis Equity Sub-participation Agreement was entered into on 9 August 2007 between KCRC and the Company. KCRC is obliged to act on the Company's instructions, and pay to the Company any distributions, or proceeds of sale, relating to its shareholding in the property management company The Metropolis Management Company Limited ("Metropolis"). The issued share capital of Metropolis is 25,500 A shares (which are held by KCRC) and 24,500 B shares (which are held by Cheung Kong Property Management Limited). Metropolis' business is property management.

## F Application of Merger-related Waiver

In relation to the Operating Agreement and the Service Concession Agreement, pursuant to paragraph A of the Merger-related Waiver, the Stock Exchange granted a waiver to the Company from strict compliance with all the continuing connected transaction requirements of Chapter 14A of the Listing Rules.

## Business Ethics

Please refer to page 120.

## 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.

In addition, the Board has also adopted a Shareholders' Communication Policy and a Board Diversity Policy.

## Computer Processing

There are defined procedures, controls and regular quality reviews on the operation of computer systems to ensure the accuracy and completeness of financial records and efficiency of data processing. The Company's computer centre operation and support, help desk operation and support services, and also software development and maintenance, have been certified under ISO 9001:2008. Disaster recovery rehearsal on critical applications is conducted annually. In addition, the Company has been certified with ISO 27001:2013 on the Information Security Management System that complies with the required standard for the comprehensive scope of IT services operation.

## 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:

- Carrying out the analysis and independent appraisal of the adequacy and effectiveness of the risk management and internal control systems of the Company;
- Recommending improvements to existing management controls and resources utilisation; and



- Performing special reviews, investigations, and consulting and advisory services related to corporate governance and controls as commissioned by management or the Audit Committee of the Company.

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

### Capital and Revenue Expenditure

There are defined procedures for the appraisal, review and approval of major capital and revenue expenditures. All project expenditures 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.

### 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 debt, 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 the 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 the credit risk management framework, are approved at the Board level.

### Permitted Indemnity Provision

Pursuant to the Articles of Association, subject to the statutes, the Company will indemnify every Director of the Company out of its own assets against any liability incurred by him/her in the execution of his/her office in defending any civil or criminal proceedings. The relevant Article was in force during the year ended 31 December 2015 and on 11 March 2016 when this Report was approved. To ensure sufficient coverage is provided, the Company undertakes an annual review of the Directors' and Officers' liability insurance policy of the Company (the "D&O Insurance Policy") in light of recent trends in the insurance market and other relevant factors. The D&O Insurance Policy also indemnifies the other directors within the Group.

### Going Concern

The Accounts on pages 171 to 262 have been prepared on a going concern basis. The Board has reviewed the Group's budget for 2016, together with the longer-term forecast for the following five years and is satisfied that the Group has sufficient resources to continue as a going concern for the foreseeable future.

### Auditors

The retiring auditors, KPMG, have signified their willingness to continue in office. A resolution will be proposed at the forthcoming AGM to reappoint them and to authorise the Directors to fix their remuneration.

By order of the Board

Gillian Elizabeth Meller  
Secretary to the Board  
Hong Kong, 11 March 2016

# Report of the Members of the Board

## Directors of Subsidiaries

The names of all directors of the subsidiaries of the Company during the year and up to the date of this Report (unless otherwise stated) are listed below:

Name	Director	Alternate Director
Baal, Elisabeth	√(Resigned)	
Beacham, Alan Edward*	√	
Bråten, Tomm Otto	√(Resigned)	
Chan Chi-kun*	√	√(Resigned)
Chan Chun-tai	√(Resigned)	
Chan Hin-fu*	√	
Chan Wai-man, Raymond*	√	
Cheng Kin-wai	√	
Cheung Siu-wa, Morris*	√	
Chow Chiu-wai		√
Chu Fung-kuen, Margaret	√	
Collis, Charles G.	√	
Donelly, Allen Ross		√(Resigned)
Downie, Brian Francis*	√	√
Drake, Richard Francis*	√	
Fung Wai-yee*	√	
Hales, Rodney*		√(Resigned)
Hammarström, Stig Christer	√	√
Heyliger, J. Oliver	√(Resigned)	
Holmberg Wallberg, Lena Cecilia*	√	
Hundersmarck, Henrik	√(Resigned)	
Jerbi, Mohamed Moncef	√(Resigned)	
Jim Kwok-wah		√
Johns, Phillip Neil*	√(Resigned)	√(Resigned)
Johnson, Glenn H.		√
Jones, Niel L.		√
Kam Chak-pui, Jacob*	√	√
Keefe, Richard Michael*	√	
Kwan Mun-yee, Stella*	√	
Kwan Wai-hung	√	
Kwok Lai-kay, Lena*		√
Kwong Chung-hing*		√
Lai Ching-kai		√
Lai Kai-shing	√	
Lau Cheuk-man, Wilfred*		√
Lau Tin-shing*	√	
Lau Wai-ming	√	
Law Cheuk-kin, Stephen*	√	
Lee Kar-yun*	√	
Leong Kwok-kuen, Lincoln*	√	
Leong Sin-ling, Betty*	√	

Name	Director	Alternate Director
Leung Ching-man, Annie*	√(Resigned)	
Leung Chuen-choi, David Raymond	√(Resigned)	
Leung Yiu-fai, David*	√	
Lezala, Andrew Peter	√	√
Li Sau-lin, Linda*	√	√
Li Shing-kee	√	
Lo, Julian		√
Long, Jeremy Paul Warwick*	√	
Lundqvist, Curt Ove	√(Resigned)	
McCusker, Andrew*	√	
McLean, Neil Lauchlan McCreadie*		√
Meller, Gillian Elizabeth*	√	
Meyer, Peter*	√	√
Mociak, Karl Heinz*	√	√
Moros, Tony Antonio*	√	
Murphy, Stephen John	√	
Nilsen, Silje	√(Resigned)	
Norris, Mark Frederick*	√	
Pira, Thomas*	√	
Seto Siu-wah, Lisa*	√	√
Söör, Karl Johan	√	
Suen Yiu-tat	√	
Tang Chi-fai, David*	√	
Tong Ying-fai		√
Viinapuu, Hans Peter*	√	
Walker, Phillip Graeme	√	
Warmazyar, Mohammed		√
Warren, Nicholas P.	√	
Wennerberg, Matti Sigfrid Hasse	√	
Wong Nai-keung, Philco*	√	
Wong Ping-sau*	√	√(Resigned)
Wong Shiu-ki	√	
Wong Wing-kin	√	
Woo Shui-wah*	√	
Yam Pak-nin*	√	
Yan Po-wa	√	
Yeung Mei-chun, Jeny*	√	
Yi Min*	√	
Yong Kin-shing*	√(Resigned)	
Yu Ka-yin*	√	√
Yuen Lai-ki*	√	

\* Person who serves as a director and/or an alternate director in more than one subsidiary.