

# Report of the Members of the Board

The Members of the Board have pleasure in submitting their Report and the audited statement of Consolidated Accounts for the financial year ended 31 December 2016.

## 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 businesses of the Company's subsidiaries and associates as at 31 December 2016 are set out in notes 27 and 28 to the Consolidated 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 requirement under the Companies Ordinance for companies to have a "business review" section in the directors' report, a summary of the relevant sections in the Company's Annual Report 2016 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 2016 are provided in Chairman's Letter Section (pages 14 to 19), CEO's Review of Operations and Outlook Section (pages 20 to 39), Business Review Section (pages 40 to 97) and Financial Review Section (pages 98 to 109); particulars of important events affecting the Group that have occurred since the end of the financial year 2016 are set out in Chairman's Letter Section (pages 14 to 19), CEO's Review of Operations and Outlook Section (pages 20 to 39) and Business Review Section (pages 40 to 97); a description of the significant risks and uncertainties facing

the Group can be found in CEO's Review of Operations and Outlook Section (pages 20 to 39), Business Review Section (pages 40 to 97) and Risk Management Section (pages 125 to 128); the outlook for the Group's business is set out in Chairman's Letter Section (pages 14 to 19), CEO's Review of Operations and Outlook Section (pages 20 to 39) and Business Review Section (pages 40 to 97); a description of the Group's relationships with its key stakeholders is included in Chairman's Letter Section (pages 14 to 19), CEO's Review of Operations and Outlook Section (pages 20 to 39), Business Review Section (pages 40 to 97), Investor Relations Section (pages 112 to 113), Corporate Responsibility Section (pages 114 to 119), Human Resources Section (pages 120 to 123) and Corporate Governance Report Section (pages 129 to 148); the Group's environmental policies and performance are listed in Corporate Responsibility Section (pages 114 to 119); 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 129 to 148). 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 2016 Sustainability Report to be published in late May 2017.

## Dividends

The Board has recommended to pay a final dividend of HK\$0.82 per share (2015: HK\$0.81 per share) and proposes that a scrip dividend option will be offered to all shareholders except for shareholders with registered addresses in New Zealand and the United States of America or any of its territories or possessions. Subject to the approval of the shareholders at the forthcoming annual general meeting ("AGM"), the proposed 2016 final dividend, with a scrip dividend option, is expected to be distributed on 12 July 2017 to shareholders whose names appear on the Register of Members of the Company as at the close of business on 26 May 2017.

On 7 March 2017, the Board also announced that the Second Special Dividend (which term shall bear the same meaning as in the circular of the Company dated 7 January 2016) in the amount of HK\$2.20 per share is expected to be distributed at the same time as payment of the 2016 final dividend. There will be no scrip dividend option for the Second Special Dividend.

## Accounts

The financial position of the Group as at 31 December 2016 and the Group's financial performance and cash flows for the year are set out in the Consolidated Accounts on pages 213 to 302.

## 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 110 to 111.

## Members of the Board

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

Name	First Elected at AGM	Last Re-elected at AGM	To be Re-elected at 2017 AGM
<b>Non-Executive Directors</b>			
Professor Frederick Ma Si-hang (Chairman since 1 January 2016)	2014		☑
Professor Chan Ka-keung, Ceajer (Secretary for Financial Services and the Treasury)		2015	
Secretary for Transport and Housing (Professor Anthony Cheung Bing-leung)		Not subject to retirement by rotation*	
Permanent Secretary for Development (Works) (Hon Chi-keung)		Not subject to retirement by rotation*	
Commissioner for Transport (Ingrid Yeung Ho Poi-yan)		Not subject to retirement by rotation*	
<b>Independent Non-Executive Directors</b>			
Pamela Chan Wong Shui	2014		☑
Dr Dorothy Chan Yuen Tak-fai	2014		☑
Vincent Cheng Hoi-chuen		2016	
Anthony Chow Wing-kin (since 18 May 2016)	2016		
Dr Eddy Fong Ching	2015		
Edward Ho Sing-tin		Retired at 2016 AGM held on 18 May 2016	
James Kwan Yuk-choi	2015		
Lau Ping-cheung, Kaizer	2016		
Lucia Li Li Ka-lai	2015		
Alasdair George Morrison		2014	☑
Ng Leung-sing		2014	☒ <sup>^</sup>
Abraham Shek Lai-him		2014	☑
Benjamin Tang Kwok-bun	2015		
Dr Allan Wong Chi-yun	2016		
<b>Executive Director</b>			
Lincoln Leong Kwok-kuen (Chief Executive Officer)	2015		

\* Pursuant to the Articles of Association, Directors appointed by the Chief Executive of the HKSAR pursuant to Section 8 of the MTR Ordinance are not required to retire by rotation.

<sup>^</sup> Mr Ng Leung-sing has informed the Company that he will not stand for re-election at the 2017 AGM.

In addition, resolutions for electing Mr Andrew Clifford Winawer Brandler and Mr Zhou Yuan (also known as Johannes Zhou) as new Directors will be proposed at the 2017 AGM. Please refer to the 2017 AGM Circular to be sent together with this Report.

Biographical details for Board Members are set out on pages 160 to 167.

## Alternate Directors

The Alternate Directors in office during the year and up to the date of this Report (unless otherwise stated) were:

Name	Alternate to
(i) Andrew Lai Chi-wah (since 1 August 2016) (ii) Mable Chan (up to 31 July 2016) (iii) Elizabeth Tse Man-yee (up to 30 November 2016)	Professor Chan Ka-keung, Ceajer
(i) Under Secretary for Transport and Housing (Yau Shing-mu) (ii) Permanent Secretary for Transport and Housing (Transport) (Joseph Lai Yee-tak) (iii) Deputy Secretaries for Transport and Housing (Transport) (Rebecca Pun Ting-ting and Andy Chan Shui-fu)	Secretary for Transport and Housing (Professor Anthony Cheung Bing-leung)
Deputy Secretary for Development (Works) <sup>2</sup> (Mak Shing-cheung (since 5 October 2016) and Chan Chi-ming (up to 4 October 2016))	Permanent Secretary for Development (Works) (Hon Chi-keung)
Deputy Commissioner for Transport/Transport Services and Management (Macella Lee Sui-chun (since 1 September 2016) and Cinderella Law Fung-ping (up to 31 August 2016))	Commissioner for Transport (Ingrid Yeung Ho Poi-yan)

## Executive Directorate

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

Name	Position Held
Lincoln Leong Kwok-kuen	Chief Executive Officer and a Member of the Board
Dr Jacob Kam Chak-pui	Managing Director – Operations and Mainland Business since 1 May 2016 (formerly Operations Director up to 30 April 2016)
Margaret Cheng Wai-ching	Human Resources Director since 1 June 2016
Morris Cheung Siu-wa	President of MTR Academy since 1 July 2016 (formerly European Business Director up to 30 June 2016)
Dr Peter Ronald Ewen	Engineering Director since 22 February 2016
Herbert Hui Leung-wah	Finance Director since 2 July 2016
Adi Lau Tin-shing	Operations Director since 1 May 2016
Stephen Law Cheuk-kin	Finance Director up to 1 July 2016
Gillian Elizabeth Meller	Legal and European Business Director since 1 July 2016 (formerly Legal Director & Secretary up to 30 June 2016)
Linda So Ka-pik	Corporate Affairs Director
David Tang Chi-fai	Property Director
Dr Philco Wong Nai-keung	Projects Director
Jeny Yeung Mei-chun	Commercial Director

Biographical details for Members of the Executive Directorate are set out on pages 168 to 173.

## 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 208.

## 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 Hon Chi-keung), 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 187 to 206, 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 2016, the interests or short positions of the Members of the Board and the Executive Directorate in the shares, underlying shares and debentures of the Company (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) ("SFO")) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the HKSE pursuant to the Model Code set out in Appendix 10 of the Listing Rules (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 <sup>*</sup>	Family interests <sup>†</sup>	Other interests	Corporate interests	Personal interests <sup>*</sup>	Personal interests <sup>*</sup>		
Professor Frederick Ma Si-hang	–	70,000 (Note 1)	70,000 (Note 1)	–	–	–	70,000	0.00119
Lincoln Leong Kwok-kuen	1,180,066	–	–	23,000 (Note 2)	–	359,984	1,563,050	0.02647
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 3)	2,215 (Note 3)	–	–	–	3,829	0.00006
Ingrid Yeung Ho Poi-yan	1,116	–	–	–	–	–	1,116	0.00002
Mak Shing-cheung (Note 4)	558	8,058 (Note 4)	–	–	–	–	8,616	0.00015

## Directors' Interests in Shares and Underlying Shares of the Company (continued)

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 <sup>*</sup>	Family interests <sup>†</sup>	Other interests	Corporate interests	Personal interests <sup>*</sup>	Personal interests <sup>*</sup>		
Dr Jacob Kam Chak-pui	169,135	–	–	–	–	93,850	262,985	0.00445
Margaret Cheng Wai-ching	–	–	–	–	–	71,428	71,428	0.00121
Morris Cheung Siu-wa	44,839	–	–	–	–	43,750	88,589	0.00150
Dr Peter Ronald Ewen	–	–	–	–	–	35,700	35,700	0.00060
Herbert Hui Leung-wah	50	2,233 (Note 5)	–	–	–	–	2,283	0.00004
Adi Lau Tin-shing	21,567	–	–	–	158,000	26,684	206,251	0.00349
Gillian Elizabeth Meller	5,810	–	–	–	–	86,200	92,010	0.00156
Linda So Ka-pik	–	–	–	–	–	60,450	60,450	0.00102
David Tang Chi-fai	86,799	–	–	–	–	87,850	174,649	0.00296
Dr Philco Wong Nai-keung	7,395	–	–	–	55,000	93,267	155,662	0.00264
Jeny Yeung Mei-chun	562,850	–	–	–	–	89,350	652,200	0.01104

### Notes

- <sup>1</sup> The 70,000 shares are indirectly held by The Ma Family Trust established by Professor Frederick Ma Si-hang for himself and his family of which his spouse is also a beneficiary.
- <sup>2</sup> The 23,000 shares were held by Linsan Investment Ltd., a private limited company beneficially wholly owned by Mr Lincoln Leong Kwok-kuen.
- <sup>3</sup> 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>4</sup> Mr Mak Shing-cheung became an Alternate Director to the office of the Permanent Secretary for Development (Works) (Mr Hon Chi-keung), a non-executive Director of the Company, by virtue of his appointment to the post of the Deputy Secretary for Development (Works)<sup>2</sup>, with effect from 5 October 2016. The 8,058 shares were held by his spouse.
- <sup>5</sup> The 2,233 shares were held by Mr Herbert Hui Leung-wah's 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 182 to 185

<sup>\*</sup> Interests as beneficial owner

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

Save as disclosed above and in the sections headed "2007 Share Option Scheme" and "2014 Share Incentive Scheme":

- A** as at 31 December 2016, no Member of the Board or the Executive Directorate of the Company had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO); and
- B** during the year ended 31 December 2016, 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 2016 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	75.09%

The Company has been informed by the Hong Kong Monetary Authority that, as at 31 December 2016, approximately 0.39% of the Ordinary Shares in issue (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 2016, 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 granted under the 2007 Share Option Scheme during the year ended 31 December 2016 are set out below:

Executive Directorate and eligible employees	Date granted	Options granted (Notes 1 to 5)	Period during which rights exercisable (day/month/year)	Options outstanding as at 1 January 2016	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 2016	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	–	–	170,000	26.85	–	38.40
	17/12/2010	170,000	16/12/2011 – 16/12/2017	170,000	–	–	170,000	28.84	–	38.40
	30/3/2012	201,000	23/3/2013 – 23/3/2019	201,000	–	–	201,000	27.48	–	38.40
Dr Jacob Kam Chak-pui	6/5/2013	256,000	26/4/2014 – 26/4/2020	256,000	85,000	–	256,000	31.40	–	38.31
	14/12/2009	65,000	8/12/2010 – 8/12/2016	65,000	–	–	65,000	26.85	–	38.40
	21/7/2010	50,000	28/6/2011 – 28/6/2017	50,000	–	–	50,000	27.73	–	38.40
	17/12/2010	170,000	16/12/2011 – 16/12/2017	170,000	–	–	170,000	28.84	–	38.40
Morris Cheung Siu-wa	30/3/2012	172,000	23/3/2013 – 23/3/2019	172,000	–	–	172,000	27.48	–	38.40
	6/5/2013	202,500	26/4/2014 – 26/4/2020	202,500	67,500	–	202,500	31.40	–	38.40
	21/7/2010	35,000	28/6/2011 – 28/6/2017	11,000	–	–	11,000	27.73	–	37.55
	20/12/2010	65,000	16/12/2011 – 16/12/2017	21,000	–	–	21,000	28.84	–	37.55
Adi Lau Tin-shing	30/3/2012	122,000	23/3/2013 – 23/3/2019	122,000	–	–	122,000	27.48	–	37.55
	6/5/2013	180,500	26/4/2014 – 26/4/2020	180,500	59,500	–	180,500	31.40	–	37.96
	11/12/2009	75,000	8/12/2010 – 8/12/2016	75,000	–	–	75,000	26.85	–	38.20
	21/12/2010	75,000	16/12/2011 – 16/12/2017	75,000	–	–	75,000	28.84	–	38.45
Stephen Law Cheuk-kin	30/3/2012	69,000	23/3/2013 – 23/3/2019	69,000	–	–	69,000	27.48	–	38.45
	6/5/2013	78,000	26/4/2014 – 26/4/2020	78,000	26,000	–	–	31.40	78,000	–
	30/5/2014	80,000	23/5/2015 – 23/5/2021	80,000	27,000	–	–	28.65	80,000	–
	1/11/2013	196,000	25/10/2014 – 25/10/2020	196,000	65,000	–	196,000	29.87	–	40.26
Gillian Elizabeth Meller	10/12/2009	65,000	8/12/2010 – 8/12/2016	65,000	–	–	65,000	26.85	–	38.45
	17/12/2010	90,000	16/12/2011 – 16/12/2017	90,000	–	–	90,000	28.84	–	38.45
	30/3/2012	158,500	23/3/2013 – 23/3/2019	158,500	–	–	158,500	27.48	–	38.45
	6/5/2013	184,000	26/4/2014 – 26/4/2020	184,000	61,000	–	184,000	31.40	–	38.45

## 2007 Share Option Scheme (continued)

Executive Directorate and eligible employees	Date granted	Options granted (Notes 1 to 5)	Period during which rights exercisable (day/month/year)	Options outstanding as at 1 January 2016	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 2016	Weighted average closing price of shares immediately before the date(s) on which options were exercised (HK\$)
David Tang Chi-fai	15/12/2009	65,000	8/12/2010 – 8/12/2016	43,000	–	–	43,000	26.85	–	38.25
	17/12/2010	65,000	16/12/2011 – 16/12/2017	65,000	–	–	65,000	28.84	–	37.55
	30/3/2012	163,500	23/3/2013 – 23/3/2019	163,500	–	–	163,500	27.48	–	37.83
Dr Philco Wong Nai-keung	6/5/2013	182,500	26/4/2014 – 26/4/2020	182,500	60,500	–	182,500	31.40	–	38.43
	30/3/2012	70,500	23/3/2013 – 23/3/2019	23,500	–	–	23,500	27.48	–	38.50
	6/5/2013	81,000	26/4/2014 – 26/4/2020	81,000	27,000	–	81,000	31.40	–	38.50
Jeny Yeung Mei-chun	30/5/2014	83,000	23/5/2015 – 23/5/2021	83,000	28,000	–	28,000	28.65	55,000	38.50
	10/12/2009	65,000	8/12/2010 – 8/12/2016	65,000	–	–	65,000	26.85	–	38.40
	17/12/2010	65,000	16/12/2011 – 16/12/2017	65,000	–	–	65,000	28.84	–	38.40
Other eligible employees	30/3/2012	161,000	23/3/2013 – 23/3/2019	161,000	–	–	161,000	27.48	–	38.40
	6/5/2013	187,000	26/4/2014 – 26/4/2020	187,000	62,000	–	187,000	31.40	–	38.40
	9/12/2009	670,000	8/12/2010 – 8/12/2016	470,000	–	–	470,000	26.85	–	38.40
	10/12/2009	2,551,000	8/12/2010 – 8/12/2016	726,000	–	–	726,000	26.85	–	38.63
	11/12/2009	2,297,000	8/12/2010 – 8/12/2016	570,500	–	–	570,500	26.85	–	38.47
	12/12/2009	610,000	8/12/2010 – 8/12/2016	135,000	–	–	135,000	26.85	–	38.40
	14/12/2009	2,443,000	8/12/2010 – 8/12/2016	514,000	–	–	514,000	26.85	–	39.34
	15/12/2009	2,773,000	8/12/2010 – 8/12/2016	532,000	–	45,000	487,000	26.85	–	38.57
	16/12/2009	1,550,000	8/12/2010 – 8/12/2016	373,500	–	–	373,500	26.85	–	38.93
	17/12/2009	1,000,000	8/12/2010 – 8/12/2016	167,000	–	–	167,000	26.85	–	39.39
	18/12/2009	389,000	8/12/2010 – 8/12/2016	108,000	–	–	108,000	26.85	–	39.07
	19/12/2009	70,000	8/12/2010 – 8/12/2016	70,000	–	–	70,000	26.85	–	38.69
	20/12/2009	75,000	8/12/2010 – 8/12/2016	75,000	–	–	75,000	26.85	–	39.87
	21/12/2009	520,000	8/12/2010 – 8/12/2016	158,000	–	–	158,000	26.85	–	39.67
	22/12/2009	256,000	8/12/2010 – 8/12/2016	122,000	–	–	122,000	26.85	–	39.66
	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	55,000	–	–	55,000	28.84	–	38.60
	17/12/2010	4,907,000	16/12/2011 – 16/12/2017	2,349,000	–	6,000	1,749,000	28.84	594,000	38.44
	18/12/2010	673,000	16/12/2011 – 16/12/2017	389,500	–	–	164,000	28.84	225,500	38.75
	19/12/2010	174,000	16/12/2011 – 16/12/2017	25,000	–	–	25,000	28.84	–	38.30
	20/12/2010	4,789,500	16/12/2011 – 16/12/2017	1,675,000	–	–	1,122,500	28.84	552,500	39.13
21/12/2010	3,020,000	16/12/2011 – 16/12/2017	1,096,500	–	–	611,500	28.84	485,000	38.84	
22/12/2010	975,000	16/12/2011 – 16/12/2017	486,000	–	–	178,000	28.84	308,000	37.61	
23/12/2010	189,000	16/12/2011 – 16/12/2017	75,000	–	–	42,000	28.84	33,000	41.34	
7/7/2011	215,000	27/6/2012 – 27/6/2018	35,000	–	–	35,000	26.96	–	42.25	
30/3/2012	15,868,500	23/3/2013 – 23/3/2019	7,258,000	–	9,500	3,886,500	27.48	3,362,000	38.69	
6/5/2013	20,331,500	26/4/2014 – 26/4/2020	15,559,000	5,925,500	48,000	8,407,000	31.40	7,104,000	39.07	
1/11/2013	188,500	25/10/2014 – 25/10/2020	188,500	61,500	46,500	117,500	29.87	24,500	38.59	
30/5/2014	19,812,500	23/5/2015 – 23/5/2021	17,796,000	6,472,000	278,500	4,859,000	28.65	12,658,500	39.38	

### 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 47(i) to the Consolidated 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 2016 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 Award 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 held as part of the funds of the trust to acquire existing Ordinary Shares 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 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% of the number of issued Ordinary Shares as at 1 January 2015, the effective date of the 2014 Share Incentive Scheme (the “Effective Date”).

For the year ended 31 December 2016, a total of 2,659,778 Award Shares (2015: 4,029,200 Award Shares) were awarded under the 2014 Share Incentive Scheme. As at 31 December 2016, a total of 5,524,599 Award Shares were neither vested, lapsed nor been forfeited, representing 0.09% of the issued Ordinary Shares 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 157 to 158) and notes 10C and 47(ii) to the Consolidated 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 2016	Award Shares vested during the year	Award Shares lapsed and/or forfeited during the year	Award Shares outstanding as at 31 December 2016
		Restricted Shares	Performance Shares				
Lincoln Leong Kwok-kuen	27/4/2015	60,200	255,000	315,200	20,066	–	295,134
	8/4/2016	64,850	–	–	–	–	64,850
Dr Jacob Kam Chak-pui	27/4/2015	22,050	57,600	79,650	7,350	–	72,300
	8/4/2016	21,550	–	–	–	–	21,550
Margaret Cheng Wai-ching	19/8/2016	71,428	–	–	–	–	71,428
Morris Cheung Siu-wa	27/4/2015	–	28,800	28,800	–	–	28,800
	8/4/2016	14,950	–	–	–	–	14,950
Dr Peter Ronald Ewen	8/4/2016	–	35,700	–	–	–	35,700
Adi Lau Tin-shing	27/4/2015	8,600	12,550	21,150	2,866	–	18,284
	8/4/2016	8,400	–	–	–	–	8,400



## 2014 Share Incentive Scheme (continued)

Executive Directorate and eligible employees	Date of award	Types of Award Shares granted		Award Shares outstanding as at 1 January 2016	Award Shares vested during the year	Award Shares lapsed and/or forfeited during the year	Award Shares outstanding as at 31 December 2016
		Restricted Shares	Performance Shares				
Stephen Law Cheuk-kin	27/4/2015	16,700	57,600	74,300	11,132	63,168	–
Gillian Elizabeth Meller	27/4/2015	16,950	57,600	74,550	5,650	–	68,900
	8/4/2016	17,300	–	–	–	–	17,300
Linda So Ka-pik	8/4/2016	16,400	44,050	–	–	–	60,450
David Tang Chi-fai	27/4/2015	18,450	57,600	76,050	6,150	–	69,900
	8/4/2016	17,950	–	–	–	–	17,950
Dr Philco Wong Nai-keung	27/4/2015	21,700	57,600	79,300	7,233	–	72,067
	8/4/2016	21,200	–	–	–	–	21,200
Jeny Yeung Mei-chun	27/4/2015	19,350	57,600	76,950	6,450	–	70,500
	8/4/2016	18,850	–	–	–	–	18,850
Other eligible employees	27/4/2015	2,172,750	1,051,650	3,105,650	716,498	149,766	2,239,386
	8/4/2016	2,199,700	107,450	–	12,465	57,985	2,236,700

## Shares Issued

	No. of Ordinary Shares issued	Consideration/Value (HK\$)
As at 31 December 2015	5,858,228,236	N/A
Shares issued under the 2007 Share Option Scheme (Further details can be found in note 47(i) to the Consolidated Accounts)	28,996,000	845 million (received by the Company)
Scrip shares issued in respect of 2015 final dividend	15,683,803	566 million
Scrip shares issued in respect of 2016 interim dividend	2,382,026	101 million
As at 31 December 2016	5,905,290,065	N/A

Details of the movements in share capital of the Company during the year are set out in note 44 to the Consolidated Accounts.

## 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 2016. 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 2,588,350 Ordinary Shares (2015: 4,029,200 Ordinary Shares) for a total consideration of approximately HK\$99 million (2015: approximately HK\$150 million) 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 2016 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	20.16%

  

	As a percentage of the Group's total revenue
Total revenue attributable to the Group's five largest customers	30.27%
Total revenue attributable to the Group's largest customer	14.38%

As at 31 December 2016, Government, being one of the Group's five largest customers, through the FSI, the substantial shareholder of the Company, held approximately 75.09% of all the Company's voting shares in issue (see the section headed "Substantial Shareholders' Interests" above for further details).

As at 31 December 2016, the Non-executive Directors (excluding Professor Frederick Ma Si-hang and all the Independent Non-executive Directors) and Alternate Directors of the Company whose names are listed on pages 178 and 179 were officials of Government.

Save as disclosed above and as at 31 December 2016, 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\$13.5 million (2015: approximately HK\$8.2 million) to charitable and other organisations.

## Bank Overdrafts, Bank Loans and Other Borrowings

The total borrowings of the Group as at 31 December 2016 amounted to HK\$39,939 million (2015: HK\$20,811 million). Particulars of the borrowings are set out in note 36 to the Consolidated Accounts.

## Bonds and Notes Issued

The Group issued notes with total face value amounting to HK\$7,868 million equivalent during the year ended 31 December 2016 (2015: HK\$1,197 million equivalent), details of which are set out in note 36C to the Consolidated 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 2016, the Group had borrowings of HK\$34,700 million (2015: HK\$14,531 million) with maturities ranging from 2017 to 2055 and undrawn committed banking facilities of HK\$14,000 million (2015: HK\$10,200 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 68 to 71.

## 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 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\$2,851,990,000 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.

**B** On 16 March 2016, the Company accepted an offer dated 4 February 2016 from Government to allow the Company to proceed with the proposed LOHAS Park Package 10 property development in respect of Site I of The Remaining

Portion of Tseung Kwan O Town Lot No. 70 (the “Site I”) at a land premium of HK\$1,658,800,000 and of the terms and conditions of a further lease modification in respect of the Site I (the “Site I 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 eleven modification letters. The Site I Lease Modification was executed on 20 May 2016.

**C** On 6 December 2016, the Company accepted an offer dated 7 November 2016 from Government for the purpose of the development of the Wong Chuk Hang Station and the Wong Chuk Hang Depot at Aberdeen Inland Lot No. 464 (which forms part of the South Island Line (East)) subject to payment of a land premium of HK\$1,025,021,000 and on the terms and conditions of the land grant by private treaty to be entered into between the Company and Government. The land grant was executed on 22 December 2016.

**D** On 4 January 2017, the Company accepted an offer dated 24 November 2016 from Government to allow the Company to proceed with the proposed Ho Man Tin Property Development at Kowloon Inland Lot No. 11264 (the “Lot”) at a land premium of HK\$6,282,370,000 and on the terms and conditions of the land grant by private treaty of the Lot to be entered into between the Company and Government (the “Land Grant”). The Land Grant was executed on 27 February 2017.

### 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);

## Report of the Members of the Board

- (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 the Legislative Council of Hong Kong approved Government’s additional funding obligations on 11 March 2016. Accordingly, the conditions referred to in paragraph (vi) above have been satisfied. The first tranche of the special dividend of HK\$2.20 per share was distributed on 13 July 2016 and the second tranche, also of HK\$2.20 per share, will be paid in the second half of 2017, at the same time as payment of the 2016 final dividend.

### 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.

Metro Trains Melbourne Pty. Ltd. (“MTM”) is a joint venture company incorporated in Australia. Before completion of a reorganisation in December 2016, the Company directly controlled 60% of the voting power at general meetings of MTM and each of UGL and John Holland MTA Pty Ltd (“JHMTA”) (in the case of JHMTA, following its acquisition of a 20% interest in MTM from John Holland Melbourne Rail Franchise Pty Ltd (“John Holland”) on 16 September 2016) directly controlled 20% of the voting power at general meetings of MTM. Accordingly, UGL and JHMTA were direct substantial shareholders of MTM.

Upon completion of the reorganisation, the Company, UGL and JHMTA have become indirect substantial shareholders of MTM after Metro Trains Australia Pty Ltd (“MTA”) has become the new holding company of MTM. Hence, the Company, UGL and JHMTA are substantial shareholders of MTA. The proportional shareholdings of the Company, UGL and JHMTA in MTA mirror their proportional shareholdings in MTM immediately before the reorganisation. Accordingly, UGL and JHMTA are connected persons of the Company. In addition, as JHL is an associate of JHMTA and John Holland, JHL is also a connected person of the Company.

Until April 2015, LCAL was an associate of John Holland and was, therefore, a connected person of the Company. As of April 2015, LCAL ceased to be an associate of John Holland and, therefore, ceased to be a connected person of the Company, as a result of the transfer of 100% of the equity interest in John Holland Group Pty Ltd and its subsidiaries by Leighton Holdings Limited (now known as CIMIC Group Limited (“CIMIC”)) to CCCC International Holding Limited.

Since December 2016, following a takeover bid by CIMIC Group Investments No. 2 Pty Limited (“CGI2”, a wholly-owned subsidiary of CIMIC) for the ordinary shares in UGL Limited, UGL Limited has become an indirect subsidiary of CIMIC. Hence, each of CIMIC and UGL Limited (being a holding company of UGL) is an indirect substantial shareholder of MTM. As a result, LCAL (being an indirect wholly-owned subsidiary of CIMIC) has become a connected person of the Company again.

Therefore, each of Government, KCRC, the AA, UGL, LCAL, and JHL is therefore each “connected person” for the purposes of the Listing Rules and, during 2016, each

transaction set out at paragraphs I, II and III below constituted a continuing connected transaction for the Company under the Listing Rules.

In accordance with Guidance Letter GL 73-14 issued by the Stock Exchange and taking into account the Stock Exchange's recommendation issued in January 2016, the Company's Internal Audit Department ("IAD") has reviewed the Company's continuing connected transactions set out below and the related internal control procedures. IAD found that the internal control procedures put in place by the Company were adequate and effective and reported the same to the Audit Committee of the Company to assist the Company's Independent Non-executive Directors in their annual review and confirmation required to be given pursuant to the Merger-related Waiver (as defined below), the Waiver and the Listing Rules (as appropriate).

## 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 190 to 193 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 the early termination of and exercise of purchase options under certain CBLs, Advanced Asset Limited, Washoe Asset Management Company, Quality Asset Limited, Circuit Asset Limited, Citicorp USA Inc., Shining Asset Limited, Storey Asset Management Company, Buoyant Asset Limited, BA Leasing & Capital Corporation, Utrecht-America Finance

Co. and Cooperatieve Centrale Raiffeisen-Boerenleenbank B.A., 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 205).



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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.

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

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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;
  - 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 as 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 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 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;

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- 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 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.

Pursuant to the Third XRL Agreement, certain amendments have been 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 five 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 (which period was extended to no later than 30 June 2018 by a supplemental agreement between the Company and Government dated 23 December 2016), 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.

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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 (as amended by the supplemental agreement) (together the “Non Merger-related Continuing Connected Transactions”) and the Third XRL Agreement and in accordance with paragraph B(I)(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 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(I)(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***

As explained above, UGL is 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 (each, as defined below) 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 HK\$172,059,100.12 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 Contract 903 between the Company and LCAL relating to certain works on the South Island Line (East)***

As explained above, LCAL is a "connected person" of the Company within the meaning of Chapter 14A of the Listing Rules again. 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;

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- LCAL shall effect and maintain insurance with a limit of not less than HK\$200 million in relation to certain of its liabilities;
- 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.

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

As explained above, each of LCAL and JHL is a "connected person" of the Company within the meaning of Chapter 14A of 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;
- 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, 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.

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;



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- (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 189) in consideration for the execution of the Property Package Agreements (as described on pages 190 to 193 and in paragraph E below) and the sale of the shares in the KCRC Subsidiaries (as defined on page 190) 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;



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- 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. On 23 March 2016, the Company announced that it had received a letter from Government requesting a joint review between Government and the Company of the fare adjustment mechanism with a view to advancing the next scheduled review by one year. On 20 April 2016, the Company announced that the Board of the Company had considered Government's request and that the Company had written to Government confirming its agreement to commence such joint review. The Company will make further announcement(s) in due course. 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 review, 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").

### **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.

## **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 portfolio 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.

## 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.

## 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 2016 and on 7 March 2017 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 Consolidated Accounts on pages 213 to 302 have been prepared on a going concern basis. The Board has reviewed the Group's budget for 2017, 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.

For and on behalf of the Board

Gillian Elizabeth Meller  
Company Secretary  
Hong Kong, 7 March 2017

## 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
Beacham, Alan Edward*	√	
Bellette, Irene Vera		√
Bergkvist, Gunnar Ove	√	
Bråten, Tømm Otto	√(Resigned)	
Chan Chi-kun*	√	√(Resigned)
Chan Hin-fu*	√	
Chan Wai-man, Raymond*	√	
Dr Chan Yuen Tak-fai, Dorothy	√	
Cheng Kin-wai	√(Resigned)	
Cheng Wai-ching, Margaret	√	
Cheung Siu-wa, Morris*	√	
Choi Tak-tsan*		√
Chow Chiu-wai		√
Chow Chun-ling	√	
Chu Fung-kuen, Margaret	√	
Collis, Charles G.	√	
Dagberg, Henrik J:son	√	
Downie, Brian Francis*	√	√
Drake, Richard Francis*	√(Resigned)	
Elfving, Hans-Åke Börje	√	
Dr Ewen, Peter Ronald	√	
Dr Fong Ching, Eddy	√	
Fung Wai-yee*	√	
Hales, Rodney*		√(Resigned)
Hammarström, Stig Christer		√
Haukeli, Kjell		√(Resigned)
Hildebrand, Dan Olofsson	√	
Ho Ka-wa*	√	
Ho Tin-kin	√(Resigned)	
Holmberg Wallberg, Lena Cecilia*	√	
Hor Wai-hong	√	
Houghton, Michael David	√	
Hui Leung-wah, Herbert*	√	
Hundersmarck, Henrik	√(Resigned)	
Jerbi, Mohamed Moncef		√
Jim Kwok-wah*		√
Johnson, Glenn H.		√
Johnstone, Key Bengt Ivar		√(Resigned)
Jones, Niel L.		√
Dr Kam Chak-pui, Jacob*	√	√(Resigned)
Kee Wing-man, Denise		√
Keefe, Richard Michael*	√	
Kwan Mun-yee, Stella*	√	
Kwan Wai-hung	√	
Kwok Lai-kay, Lena*	√	√
Kwong Chung-hing*		√
Lai Ching-kai		√(Resigned)
Lai Kai-shing	√(Resigned)	
Langridge, Neil Andrew*		√
Lau Cheuk-man, Wilfred*		√(Resigned)
Lau Ping-cheung, Kaizer	√	
Lau Tin-shing, Adi*	√	
Lau Wai-ming	√	
Law Cheuk-kin, Stephen*	√(Resigned)	
Lee Kar-yun*	√	

Name	Director	Alternate Director
Lee Wai-ying*	√	
Lee Yuen-ling	√	
Leong Kwok-kuen, Lincoln*	√	
Leong Sin-ling, Betty*	√(Resigned)	
Leung Nga-yee, Theresa*	√	
Leung Yiu-fai, David*	√	
Levai, Jack		√(Resigned)
Lezala, Andrew Peter*	√	√(Resigned)
Li Sau-lin, Linda*	√	√
Li Shing-kee	√(Resigned)	
Lo, Julian		√
Long, Jeremy Paul Warwick*	√	
Lundqvist, Curt Ove*	√	
Professor Ma Si-hang, Frederick	√	
McCusker, Andrew*	√	
McLean, Neil Lauchlan McCreadie*		√(Resigned)
Meller, Gillian Elizabeth*	√	
Meyer, Peter*	√	√
Mociak, Karl Heinz*	√	√
Moros, Tony Antonio	√(Resigned)	
Murphy, Stephen John	√	
Nelson, Michael John*	√	
Nilsen, Silje	√(Resigned)	
Norris, Mark Frederick*	√	
Oscarsson, Karl Johan	√	
Pira, Tomas*	√	
Qian Yu-hong	√	
Seto Siu-wah, Lisa*	√	√
Solberg, Trond Anders		√(Resigned)
Söör, Karl Johan	√(Resigned)	
Suen Yiu-tat	√	
Tang Chi-fai, David*	√	
Tong Ying-fai		√
Viinapuu, Hans Peter*	√	
Walker, Phillip Graeme	√(Resigned)	
Warmazyar, Mohammed		√(Resigned)
Warren, Nicholas P.	√	
Wennerberg, Matti Sigfrid Hasse	√	
Wong Chi-chung	√	
Dr Wong Chi-yun, Allan	√	
Dr Wong Nai-keung, Philco*	√(Resigned)	
Wong Ping-sau*	√	√(Resigned)
Wong Shiu-ki	√(Resigned)	
Wong Wing-kin	√	
Woo Shui-wah*	√	
Xia Jing	√	
Xu Muhan*	√	
Yam Pak-nin*	√	√
Yan Po-wa	√(Resigned)	
Yeung Mei-chun, Jeny*	√	
Yi Min*	√(Resigned)	
Yu Hon-kit, Henry	√	
Yu Ka-yin*	√	√
Yuen Lai-ki*	√	
Yuen Lap-hang		√

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