ANNUAL REPORT 2009

Building CONNECTIONS
Expanding HORIZONS

About this year's cover

Building Connections Expanding Horizons

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

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

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- Kwun Tong Line Extension
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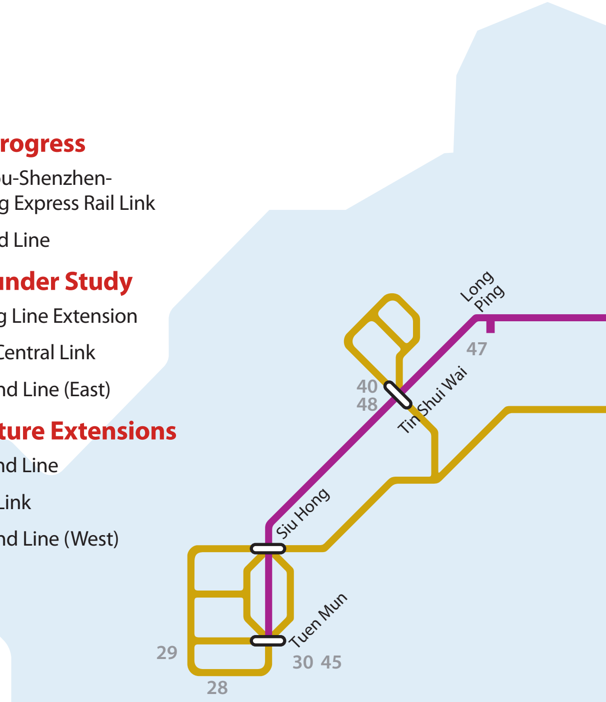

Properties Owned / Developed / Managed by the Corporation

01 Telford Gardens / Telford Plaza I and II
02 World-wide House
03 Admiralty Centre
04 Argyle Centre
05 Luk Yeung Sun Chuen / Luk Yeung Galleria
06 New Kwai Fong Gardens
07 Sun Kwai Hing Gardens
08 Fairmont House
09 Kornhill / Kornhill Gardens
10 Fortress Metro Towers
11 Hongway Garden / Vicwood Plaza
12 Perfect Mount Gardens
13 New Jade Garden
14 Southorn Garden
15 Heng Fa Chuen / Heng Fa Villa / Paradise Mall
16 Park Towers
17 Felicity Garden
18 Tierra Verde / Maritime Square
19 Tung Chung Crescent / Citygate / Novotel Citygate / Seaview Crescent / Coastal Skyline / Caribbean Coast
20 Central Park / Island Harbourview / Park Avenue / Harbour Green / Bank of China Centre / HSBC Centre / Olympian City One / Olympian City Two
21 The Waterfront / Sorrento / The Harbourside / The Arch / Elements / The Cullinan / The Harbourview Place / W Hong Kong / International Commerce Centre
22 One International Finance Centre / Two International Finance Centre / IFC Mall / Four Seasons Hotel / Four Seasons Place
23 Central Heights / The Grandiose / The Edge
24 Residence Oasis / The Lane
25 No.8 Clear Water Bay Road / Choi Hung Park & Ride
26 Metro Town
27 Royal Ascot / Plaza Ascot
28 Pierhead Garden / Ocean Walk
29 Sun Tuen Mun Centre / Sun Tuen Mun Shopping Centre
30 Hanford Garden / Hanford Plaza
31 Citylink Plaza
32 MTR Hung Hom Building / Hung Hom Station Carpark
33 Trackside Villas
34 The Capitol
35 The Palazzo
36 Lake Silver

Property Developments under Construction / Planning

21 Kowloon Station Package 5, 6 & 7
23 Tseung Kwan O Station Area 56
34 LOHAS Park Package 2-10
37 Tai Wai Maintenance Centre
38 Che Kung Temple Station
39 Tai Wai Station
40 Tin Shui Wai Light Rail Terminus
41 Austin Station Site C
42 Austin Station Site D

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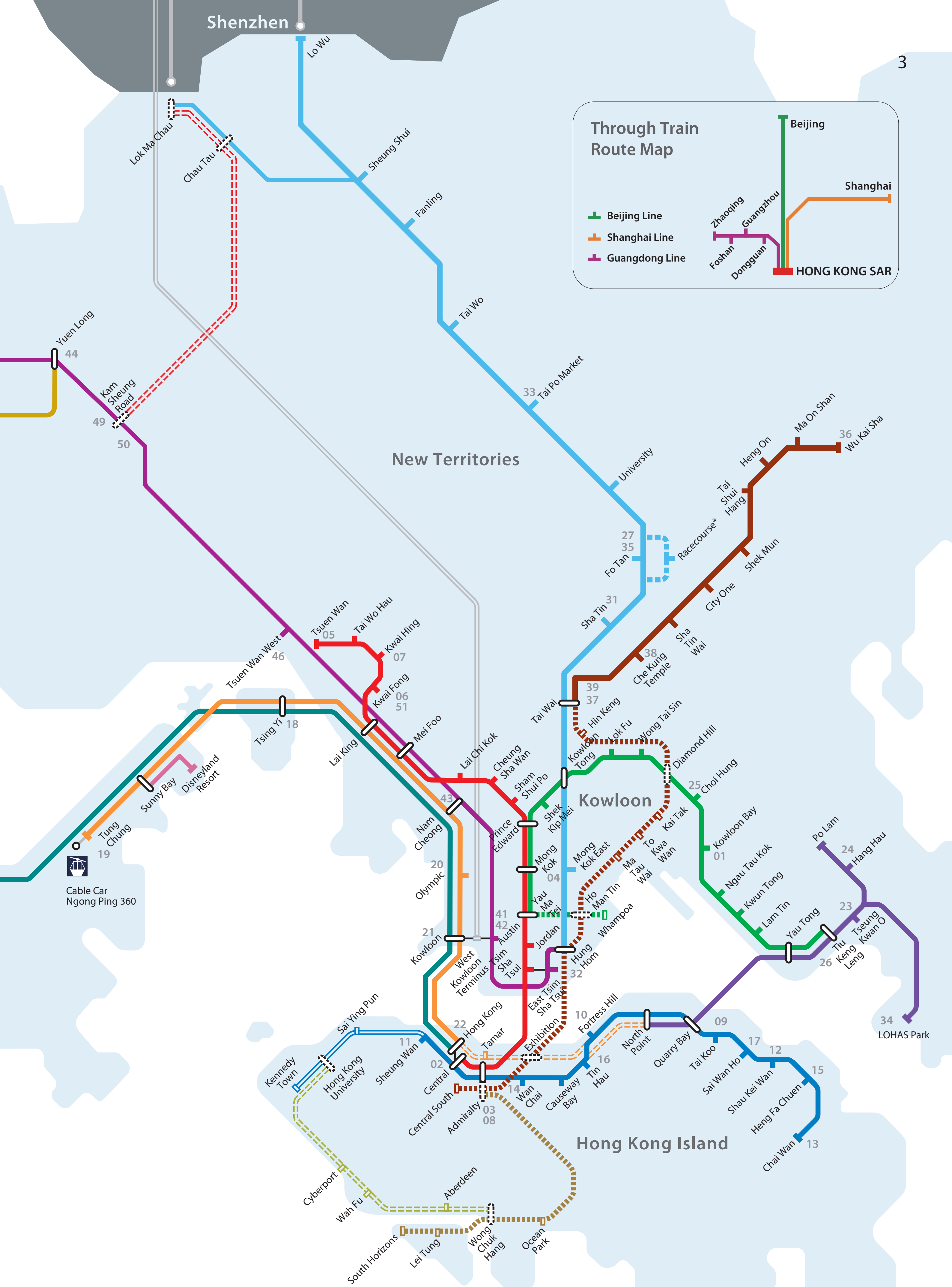
44 Yuen Long Station
45 Tuen Mun Station
46 Tsuen Wan West Station
47 Long Ping Station
48 Tin Shui Wai Station
49 Kam Sheung Road Station
50 Pat Heung Maintenance Centre
51 Kwai Fong Site


Through Train
Route Map
Beijing Line
Shanghai Line
Guangdong Line
Beijing
Shanghai
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Foshan
Dongguan
HONG KONG SAR
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Kennedy Town
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Tin Hau
Hong Kong Island
Cyberport
Wah Fu
Aberdeen
South Horizons
Lei Tung
Wong Chuk Hang
Ocean Park

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

Hong Kong Passenger Services

Business Description

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

2009 Highlights

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

Station Commercial and Rail Related Businesses

Business Description

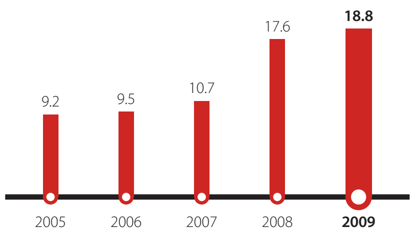
We leverage our railway assets and expertise into additional businesses, including rental of station retail space, advertising in trains and stations, telecommunications, and rail consultancy.

2009 Highlights

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

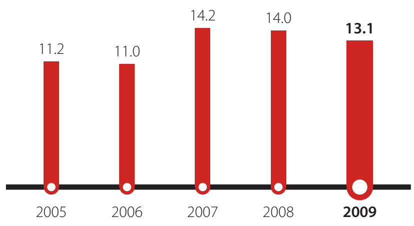
Turnover

(HK$ billion)



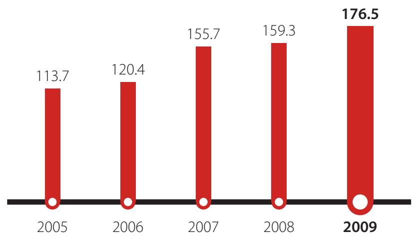
Operating Profit before Depreciation and Amortisation

(HK$ billion)



Total Assets

(HK$ billion)



Property and Other Businesses

Business Description

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

2009 Highlights

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

Mainland and Overseas Growth

Business Description

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

2009 Highlights

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

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

Dear Stakeholders,

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

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

Financial Results

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

Growth Strategy

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

Our Mainland of China and overseas businesses continued to make steady progress. In September 2009, Beijing Metro Line 4 (BJL4), opened for passenger service. Concession Agreements for the Shenzhen Metro Line 4 Build-Operate-Transfer (BOT) project and for the operation and maintenance of Shenyang Metro Lines 1 and 2 were signed in March 2009 and May 2009 respectively. On 30 December 2009, our joint venture company Beijing MTR Corporation Limited signed the Concession Agreement for the operation and maintenance of the Daxing Line, an extension of BJL4. In March 2010, we signed the Concession Agreement for the Hangzhou Metro Line 1 Public-Private-Partnership (PPP) project, which is subject to approval by relevant authorities in the Mainland of China. In November 2009, our wholly owned subsidiary began operation of the Stockholm Metro, and in the same month our 60% owned subsidiary, Metro Trains Melbourne, took over operation of the metropolitan train network in Melbourne. The route length of the metro lines in operation in Beijing, Stockholm and Melbourne referred to above totals 508 km with over 6,900 staff working for these lines.

Sustainability and Corporate Responsibility

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

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

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

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

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

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

A snapshot of the milestones tracking MTR Corporation's sustainable growth along with that of Hong Kong was a highlighted feature of our eighth annual Sustainability Report 2008, *Engagement*, published in June. Throughout its history, the Company has been committed to building and maintaining sustainable railways and properties that meet the needs of present and future generations, facilitating sustainable development in Hong Kong and the Pearl River Delta region of the Mainland of China. The Sustainability Report 2008 focuses on how this engagement has shaped our vision, mission and values.

Community Initiatives

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

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

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

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

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

Conclusion

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

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

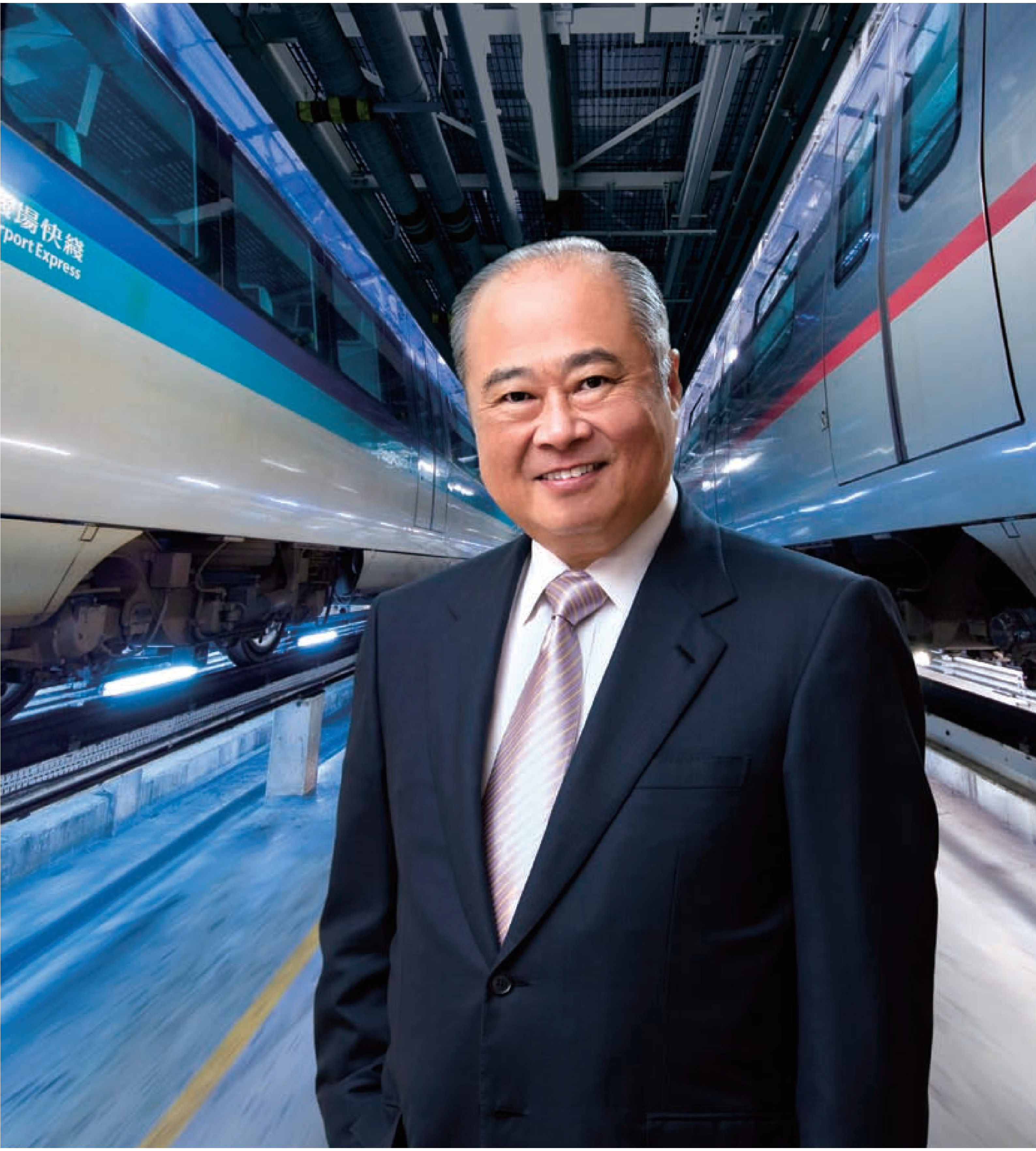
"The growth of our businesses in Hong Kong and overseas accelerated, with new milestones achieved."

Dear Stakeholders,

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

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

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


Airport Express

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

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

Hong Kong Passenger Services

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

Patronage

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

Our Domestic Service, comprising the Kwun Tong, Tsuen Wan, Island, Tung Chung, Tseung Kwan O, Disneyland Resort, East Rail (excluding Cross-boundary Service), West Rail and Ma On Shan lines, recorded total patronage of 1,218.8 million. This represents an increase of 1.1% when compared with patronage in 2008, partly due to the opening of the LOHAS Park Station on 26 July 2009 and Kowloon Southern Link on 16 August 2009. Average weekday patronage for the Domestic Service in 2009 was 3.5 million, which represents an increase of 0.9% over 2008.

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

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

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

Market Share

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

Fare Revenue

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

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

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

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

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

Attracting Patronage

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

Service and Performance

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

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

Station Commercial and Rail Related Businesses

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

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

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

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

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

Property and Other Businesses

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

Property Development

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

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

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

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

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

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

Property Rental, Property Management and Other Businesses

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

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

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

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

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

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

Octopus

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

Ngong Ping 360

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

Future Growth

Hong Kong

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

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

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

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

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

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

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

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

Hong Kong Project Funding

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

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

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

Mainland and Overseas Growth

The Company's growth strategy in the Mainland of China and overseas achieved a number of milestones during the year. Railway franchise revenue outside of Hong Kong was HK$1,043 million, derived from the Stockholm and Melbourne rail concessions after we took over their operations in November 2009. Operating costs for these two franchises were HK$1,035 million, with a resultant operating profit margin of 0.8% in line with our expectations for the early months after takeover. The business model for operation and maintenance franchises such as those of the Stockholm and Melbourne train systems generally requires little capital investment. Their operating margins are therefore generally lower than other rail projects that require investment. However, due to the size of their businesses, they have significant revenue and operation costs. BJL4 (which started service on 28 September 2009), London Overground Rail Operations Ltd (LOROL) and the 50% owned rolling stock maintenance company in Sweden are accounted for as associates, and contributed a total of HK$11 million post-tax profit (HK$19 million pre-tax) in 2009. Our share of the profits of LOROL was HK$17 million and BJL4 made a loss of HK$5 million. The BJL4 loss is expected, as investment projects of this nature, with relatively large depreciation and interest cost, will take a few years to achieve profit.

Mainland of China

In Beijing, BJL4 successfully opened on 28 September 2009. The investment and construction of the line was undertaken by Beijing MTR Corporation Limited, a joint venture comprising MTR Corporation (49%), Beijing Infrastructure Investment Co. Ltd. (2%) and Beijing Capital Group Ltd. (49%). Initial reaction from the Beijing public and media to the train service, station design and customer service was positive and patronage has been very encouraging.

On 30 December 2009, Beijing MTR Corporation Limited signed a Concession Agreement with Beijing Metro Daxing Line Investment Company Limited, a wholly owned subsidiary of Beijing Municipal Government, for the operation and maintenance of the Daxing Line, a 22-km extension of BJL4 to the district of Daxing.

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

■ In Beijing, BJL4 successfully opened on 28 September 2009. ■

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

On 4 March 2010, our subsidiary, MTR Hangzhou Line 1 Investment Company Limited, together with a subsidiary of Hangzhou Metro Group Company Limited, entered into a Concession Agreement with Hangzhou Municipal Government for a PPP project for the investment, construction and operations of Hangzhou Metro Line 1 for a term of 25 years. The Concession Agreement is subject to approval by relevant authorities in the Mainland.

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

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

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

Overseas

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

In Sweden, on 21 January 2009, our wholly-owned subsidiary was selected as the operator of the Stockholm Metro system under an eight-year concession and we took over operation of the concession on 2 November 2009. For the maintenance of the rolling stock, we formed a 50:50 joint venture company, Tunnelbanan Teknik Stockholm AB (TBT), with Mantena AS, a rolling stock maintainer in Norway. Operational performance has been good, and plans are in place to further improve performance.

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

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

Financial Review

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

Owing to the different timing of profit bookings, property development profit decreased by 23.9% to HK$3,554 million. Operating profit before depreciation and amortisation therefore decreased by 6.7% to HK$13,056 million. Depreciation and amortisation increased by 1.7% to HK$2,979 million with additional depreciation on the newly opened LOHAS Park Station while the remaining expenses for merger integration were HK$12 million. Interest and finance charges decreased by 24.7% to HK$1,504 million, reflecting the decrease in average cost of borrowing and reduced level of debt outstanding. Including the non-cash revaluation gains on investment properties of HK$2,798 million as well as the share of profits from Octopus Holdings Limited, LOROL, BJL4 and TBT totalling HK$160 million, profit before taxation in 2009 increased by 27.6% to HK$11,519 million. Income tax increased by 151.7% to HK$1,880 million mainly due to the one-off reduction in deferred tax balances resulting from the reduction in Hong Kong Profits Tax rate from 17.5% to 16.5% in 2008. Net profit attributable to shareholders of the Company in 2009 therefore increased by 16.4% to HK$9,639 million, or HK$1.69 per share as compared with HK$1.47 per share in 2008.

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

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

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

The Board has recommended a final dividend of HK$0.38 per share, which, when added to the interim dividend of HK$0.14, will give a total dividend of HK$0.52 per share for the year, representing an increase of HK$0.04 or 8.3% as compared to last year. Our financial year ended 31 December 2009 marks the last year in which the Financial Secretary Incorporated has agreed to receive its entitlement to dividends in the form of shares to the extent necessary to ensure that a maximum of 50% of the Company's total dividend will be paid in cash. Going forward, subject to the financial conditions of the Company, the Board intends to follow a progressive dividend policy.

Human Resources

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

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

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

Outlook

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

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

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

2010 will see the full year impact of a number of our businesses in the Mainland of China and overseas which commenced operations in 2009. We will also take over the operation of Phase 1 of SZL4. As indicated previously, the investment projects generally take a few years from commencement of operation to break even. Hence, we expect BJL4 and SZL4 to show small losses in 2010.

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

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

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

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

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

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

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

January

The Company entered into a Principle Agreement for a Public-Private Partnership (PPP) project with Hangzhou Municipal Government and Hangzhou Metro Group Company Limited for the investment, construction and operations of Hangzhou Metro Line 1.

The Company was awarded the concession rights to operate Sweden's Stockholm Metro for eight years from November 2009 with a possible six year extension.

March

The Chief Executive of Hong Kong SAR, Mr Donald Tsang, visited Majiapu Depot of Beijing Metro Line 4 and officiated at the inaugural ceremony of the train integration test together with Mr Huang Wei, the Vice-Mayor of Beijing.

The Company's wholly-owned subsidiary, MTR Corporation (Shenzhen) Limited, formally signed the Concession Agreement with the Shenzhen Municipal Government for the Build-Operate-Transfer (BOT) Shenzhen Metro Line 4 project.

May

The Company was ranked first among the benchmarked Hong Kong companies and second among 50 listed companies in Asia in Environmental, Social Responsibility and Governance by Responsible Research, an independent research company.

Pre-sales of the 2,169 units of Lake Silver, a property development in Wu Kai Sha, were launched in late May and over 90% of the units were sold.

The Company signed a Concession Agreement with Shenyang Metro Group Company Limited and Shenyang Municipal Government for the operation and maintenance of Shenyang Metro Lines 1 and 2 for a term of 30 years.

February

Athletes of the Company won the Championship in two Corporation Cups in the Green Power Hike, which was held to promote a greener environment and healthy living.

The Company expanded a trial of environmentally-friendly and energy-efficient High Brightness Light Emitting Diode (HB-LED) lights on board trains and in stations as part of its commitment to sustainability and environmental excellence.

April

A record-number of over 1,400 race walkers participated in the MTR Hong Kong Race Walking 2009 to promote healthy living. More than HK$1 million was raised for the Hospital Authority Health InfoWorld for health education.

The Company launched a new branding campaign "caring for life's journeys", to showcase the Company's long-held values of quality and caring service for its passengers on their life's journeys.

To celebrate 30 years of Intercity Through Train service, the Company unveiled a distinctive photo exhibition at Hung Hom Station and teamed up with local travel agents to offer special Weekend Through Train Travel Packages.

June

The Hong Kong Management Association awarded the Company a Gold Prize in recognition of its excellence and best practices in staff training in the HKMA "Award for Excellence in Training 2009".

The Company joined hands with the Kowloon City District Council to organise a series of public consultations regarding the Kowloon City Section of the Shatin to Central Link.

July

The Company's LOHAS Park Station was opened for passenger service, marking the full completion of the Tseung Kwan O Line and bringing passenger rail service to a growing and young community.

Pre-sale for the 1,688 units of Le Prestige of LOHAS Park Package Two were launched in mid July and all units were sold in about a month's time.

The Legislative Council Finance Committee approved the final funding support for the 3-km West Island Line.

The Company signed the Project Agreement with the Government for the financing, design, construction and operation of the West Island Line.

The Company's majority-owned subsidiary, Metro Trains Melbourne, signed a Franchise Agreement with the State of Victoria Government in Australia to operate and maintain the Melbourne metropolitan train network for an initial period of eight years.

The Company held a ground-breaking ceremony to inaugurate the construction of the West Island Line.

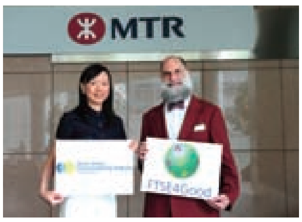
The Company's 3.8-km Kowloon Southern Link with the new Austin Station commenced passenger service, thereby connecting the West Rail Line with the East Rail Line to form a major East-West rail artery.

August

September

The Company commenced the operation of the 28-km and 24-station Beijing Metro Line 4.

MTR Corporation was ranked number one in Corporate Sustainability within the global "Travel and Tourism" sector by the Dow Jones Sustainability World Index.



The Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link was authorised by the Chief Executive-in-Council under the Railways Ordinance.

October

November

The Kwun Tong Line Extension was gazetted under the Railways Ordinance.

Pre-sales of the 1,416 units of Le Prime, also at LOHAS Park Package Two, were launched with good results.

The Company's Sustainability Report 2008, *Engagement*, was recognised as the best in Hong Kong in the Association of Chartered Certified Accountants (ACCA) Hong Kong Awards for Sustainability Reporting 2009.

The Company took over the operations of Sweden's Stockholm Metro and Melbourne's metropolitan train network during the month.

The Company launched its newest community initiative "'Friend' for Life's Journeys", to help secondary students from Kwun Tong District to broaden their horizons and equip them with useful life skills.

Beijing MTR Corporation Limited, the joint venture company comprising MTR Corporation, Beijing Infrastructure Investment Co. Ltd. and Beijing Capital Group Ltd. signed an Operation and Maintenance Concession Agreement for Beijing Metro Daxing Line with Beijing Metro Daxing Line Investment Company.

The Company implemented a new Half Fare Promotion Scheme for recipients under the Comprehensive Social Security Assistance Scheme aged between 12 and 64 with 100% disability and the recipients of Disability Allowance in the same age group.

December

Building Connections to

ENHANCE YOUR QUALITY OF LIFE

Hong Kong Passenger Services

Our passenger services in Hong Kong are among the best in the world.

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

Patronage

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

Our Domestic Service, comprising the Kwun Tong, Tsuen Wan, Island, Tung Chung, Tseung Kwan O, East Rail (excluding Cross-boundary Service), West Rail, Ma On Shan and Disneyland Resort lines, recorded total patronage of 1,218.8 million for 2009, an increase of 1.1% when compared with 2008, partly due to the opening of the LOHAS Park Station on 26 July 2009 and Kowloon Southern Link on 16 August 2009. Average weekday patronage for the Domestic Service in 2009 was 3.5 million, which represents an increase of 0.9 % over 2008.

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

42.6% Share of Franchised Public Transport Market
in 2009

3.5 Million Average Weekday Patronage
For Domestic Services in 2009

HK$7.63 Average Fare
Per Passenger for All Services in 2009

99.9% Passenger Journeys on Time

Passengers using the Airport Express fell by 6.9% to 9.9 million in 2009 due to a decrease in air travellers as a result of the human swine influenza and the economic downturn.

Passenger volume on Light Rail, Bus and Intercity was 183.9 million in 2009, an increase of 4.7% compared with 2008.

Overall, average weekday patronage for all rail and bus passenger services in Hong Kong was 4.3 million in 2009.

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

■ Our overall share of the franchised public transport market rose from 42.0% for 2008 to 42.6% for 2009. ■

Over 99.8% Train Service Delivery

HK$4.01 Operating Costs Per Passenger
for All Services in 2009

Hong Kong Passenger Services

LOHAS Park Station opened for service in July 2009.

Fare Revenue

Total Hong Kong fare revenue in 2009 was HK$11,498 million, which represents an increase of 0.3% over 2008.

Fare revenue in 2009 from Domestic Service was HK$7,986 million, which represents an increase of 0.7% over last year with average fare per passenger decreasing by 0.4% to HK$6.55 due to the full year impact of extending student half fares to the East Rail, West Rail and Ma On Shan lines in September 2008.

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

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

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

Service Promotions

Our customers are at the centre of all our activities. In order to meet their increasingly high service expectations and generate incremental patronage growth as well as to enhance brand awareness and loyalty, the Company continues to launch well-targeted and innovative service promotions.

In April, a new branding campaign "caring for life's journeys" was launched, showcasing the Company's long-held values of quality and caring customer service for each of our passengers on their life's journeys. The campaign was complemented by "'Train' for life's journeys", a two-week training programme provided free for 100 Form 5 graduates in cooperation with the School of Continuing and Professional Studies of the Chinese University of Hong Kong, which was aimed at enhancing participating students' communication, team-building and leadership skills.

Ticket promotions continued to enhance customer loyalty. Souvenir ticket sets featuring favourite characters from the popular Dr Slump and Dragonball cartoon series were introduced in March, much to the delight of both young and old fans. The success of this promotion was followed by the launch of a "Doraemon Miracle Gadget" ticket set in June featuring Doraemon and friends enjoying a fun journey at Choi Hung Station. To support the Hong Kong Summer Spectacular 2009 organised by the Hong Kong Tourism Board, a tailor-made "MTR Summer Super Value Pack" consisting of 16 shopping and dining offers was distributed to tourists purchasing either an MTR Day Pass or Airport Express Travel Pass. Also during the summer, Airport Express launched group ticket promotions in partnership with the movie "Transformers: Revenge of the Fallen".

A number of initiatives underlined the Company's commitment to building a better community and appreciating Hong Kong's

■ Total Hong Kong fare revenue in 2009 was HK$11,498 million, which represents an increase of 0.3% over 2008. ■

heritage. In the "Art in MTR" series, over 40 winning entries from the 30th International Children's Drawing Competition with the theme "Better Environment, Better Life" were displayed at Sheung Wan Station. An exhibition entitled "MTR – Part of Our Lives" was held at Tai Po Market Station to honour the station's important place in the community and to share images and emotions from both the past and present. A similar nostalgic journey was celebrated at Wan Chai Station, with both platforms turned into memory lanes of old Wan Chai in a new "History Alive – Hong Kong Journeys" community initiative.

In addition to the 26 popular fare saver machines for domestic travellers, cross-boundary passengers can also enjoy discounts for their travel in Hong Kong by using the two new fare saver machines installed at Shenzhen Metro Fu Tian Kou An Station and the restricted area of Hung Hom Station Intercity Through Train Arrival Hall. Other fare promotions included one-year extension of the Sheung Shui-East Tsim Sha Tsui Monthly Pass and Tuen Mun-Nam Cheong Monthly Pass, along with free MTR Bus and Light Rail transfer for passengers using West Rail Line and Light Rail, and the introduction of Tuen Mun-Hung Hom Monthly Pass in August.

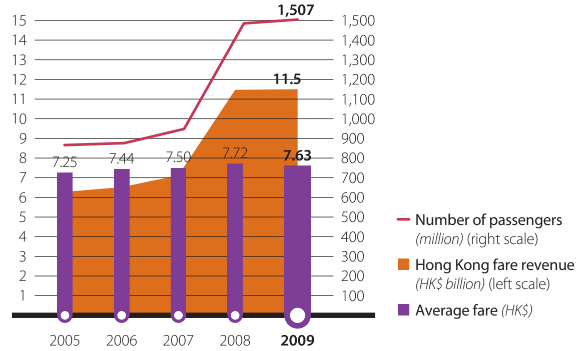
Service Performance

Passenger safety, comfort and service reliability have been the cornerstone of our passenger service since our founding. In an era of rapid expansion and development of our network, we have continued with our strong commitment to a culture of continuous improvement.

A contented family after a day out on our trains.

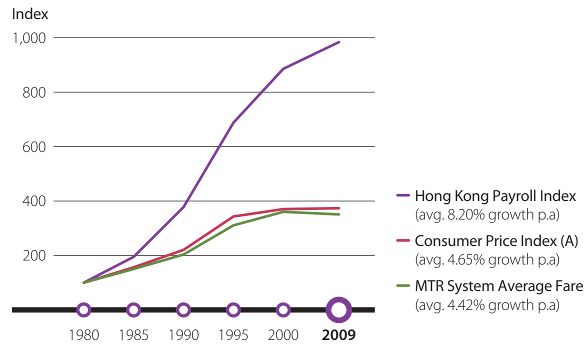
Passengers and Fares (Hong Kong Passenger Services)

Total fare revenue and patronage rose.



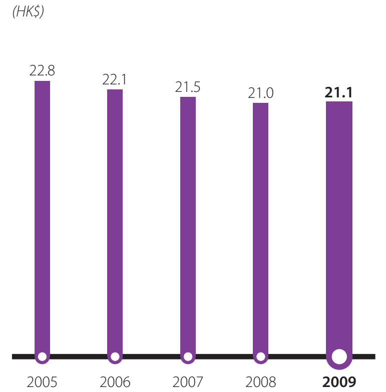
Fare Trend

In recent years, MTR fares have consistently lagged wage growth but were in line with the long-term changes in consumer prices in Hong Kong.



Operating Costs Per Car-km Operated for Hong Kong Passenger Services

Operating costs per car-km were maintained at a low level.

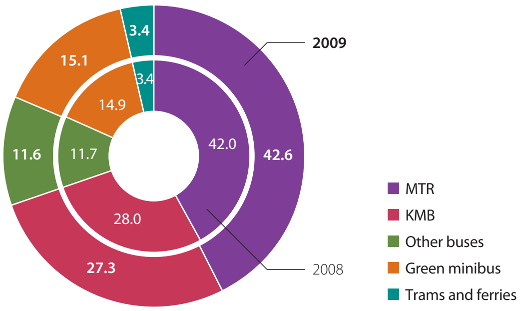


Hong Kong Passenger Services

Market Shares of Major Transport Operators in Hong Kong

The Company's overall market share increased from 42.0% in 2008 to 42.6% in 2009.

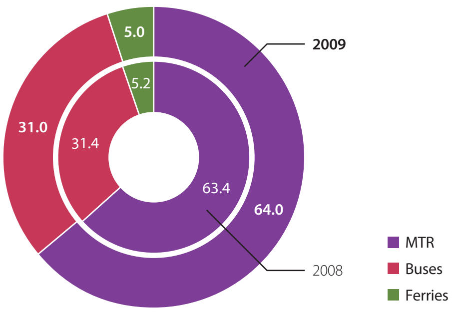
(Percentage)



Market Shares of Major Transport Operators Crossing the Harbour

The Company's market share of cross-harbour traffic rose to 64.0%.

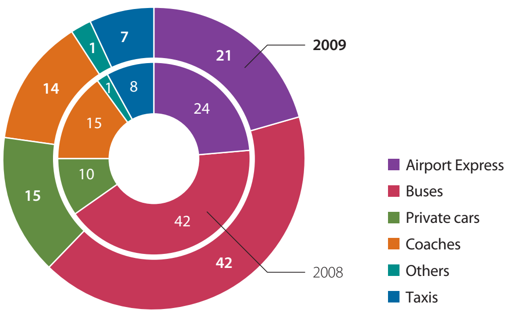
(Percentage)



Market Shares of Major Transport Operators to/from the Airport

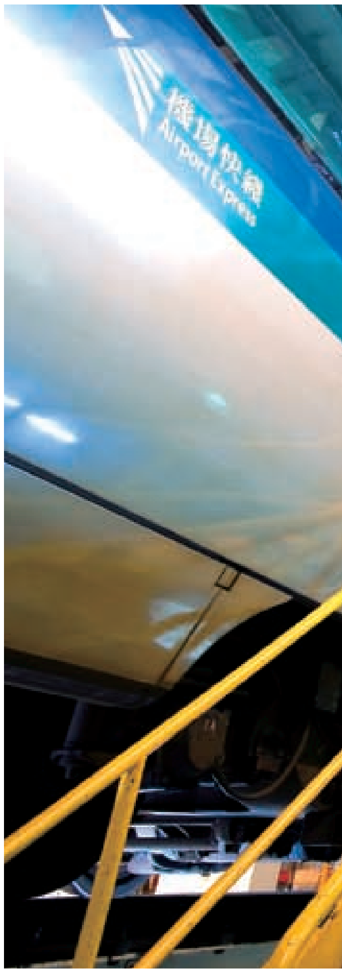
The proportion of people travelling to and from the Hong Kong International Airport on the Airport Express decreased.

(Percentage)



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

A month-long train door and escalator safety campaign was launched in May, aimed at educating passengers not to block train doors or rush into a train when train doors are closing, to stand behind the yellow line, and to hold the handrail and stand firm when travelling on escalators. Beginning in September, two pairs of eye-catching green footprints were prominently displayed on escalator steps of three selected escalators in Tai Koo Station, Causeway Bay Station and Lam Tin Station as part of a trial programme to guide passengers to stand safely when riding on escalators. Other safety promotions included a bi-monthly campaign together with the Police to educate the public on the safe way of crossing the Light Rail tracks. This was supported by the launch of a "You can make it a safe Light Rail journey" exhibition, in which children from the Northwest New Territories helped promote safety on Light Rail to all passengers through creative drawings.



Customer satisfaction recorded by our regular surveys remained at high levels during the year. In 2009, the Service Quality Index for the Domestic/Cross-boundary services and Airport Express stood at 70 and 82 respectively (2008: 71 and 82 respectively), while the Fare Index of the two segments, which measures the level of satisfaction of customers with our fares, stood at 61 and 63 respectively (2008: 61 and 64 respectively). In the benchmarking performed by the 12-member international Community of Metros (CoMET) for 2008, we maintained our leading position in the areas of customer service, service reliability, business performance and safety.

The high level of achievement reached by our service performance was once again recognised by our winning of a broad spectrum of awards, including the Gold Award in The Hong Kong Association for Customer Service Excellence Limited's "Customer Service Excellence Award – Grand Award 2008" and "Top Service Award – Category Award of Public Transportation" presented by Next Magazine. Our performances in environmental protection and Corporate Social Responsibility were recognised as outstanding by the judges of the "Prime Awards for Eco-Business 2009" and the "Corporate Social Responsibility Award" presented by Prime magazine and East Week magazine respectively. Our marketing campaign, "Rail Merger Campaign – The Unprecedented Marketing Challenge" won Gold Prize in the HKMA/TVB Awards for Marketing Excellence 2009. We also received the "Prime Award for Brand Excellence 2009 – Transportation" from Prime magazine for our outstanding corporate culture, corporate image and brand development.

■ The high level of achievement reached by our service performance was once again recognised by our winning of a broad spectrum of awards ...... ■

Service Improvements

We continue to make improvements to our services and network infrastructure to enhance our role as the leading public transport operator in Hong Kong.

To meet passenger demand and enhance comfort following the opening of the Kowloon Southern Link, 22 new Light Rail Vehicles had been ordered and the first two vehicles were put into service in December. In addition, 15 new double deck buses entered into service in August to replace retired vehicles. To enable customers to have a more comfortable and enjoyable journey, refurbishment of the interior of all Airport Express trains was completed in mid 2009, and all seat cushions and carpets were replaced. To further upgrade customer service and asset performance, the contract for the mid-life refurbishment of the Light Rail Phase I vehicles was awarded in the fourth quarter of 2009 and the work is targeted for completion in 2015. One of

Our maintenance programmes ensure safe and reliable journeys for our passengers.

Hong Kong Passenger Services

We carry passengers rapidly between work and home.

the two multi-purpose compartments on the Beijing-Kowloon Through Train was modified in August to become more spacious and accessible for wheelchair passengers.

The renovations under the Station Commercial Opportunity projects at Mong Kok, Prince Edward and Mong Kok East stations were completed in October, and refurbishing of Tsing Yi Station was finished in December. Station ambience enhancements were completed at all East Rail stations and the floor tiles at Cheung Sha Wan, Kowloon Tong and Sheung Wan stations were also replaced. In order to further improve customer service, the footbridges at Po Lam Station were renovated with air-conditioning in late 2009 and a wide gate was installed at each of the East Rail Line stations (except Racecourse Station) by November to improve accessibility for wheelchair users. New integrated entrances were opened at Olympic, Tsim Sha Tsui, Tuen Mun and Tsing Yi stations.

An unfolding series of "Art in MTR" projects was completed to enhance the travelling environment in the MTR and to give our customers a moment to relax and reflect on works of imagination. As part of the initiative, an Art in Station Architecture programme was launched in February with "The Grace of the Ballerinas", a collection of three bronze sculptures, followed by a floating "Spider Web" in Lai King Station in August to remind passengers of the cycle of nature. In October, "Climbing Up", a bronze sculpture of a giant book, was launched in Tin Shui Wai Station to inspire students to achieve their goals.

Our Operations Control Centre in Tsing Yi monitors train operations.

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

To capture the opportunities arising from the renewed influx of tourists, a new MTR Travel shop opened at Hung Hom Station offering a wide variety of tourist products including MTR tickets and tourist travel passes. The first licensed train sets with Takara TOMY were successfully launched in December in Hong Kong and Southeast Asian countries, increasing our brand exposure and customer loyalty in both local and overseas markets.

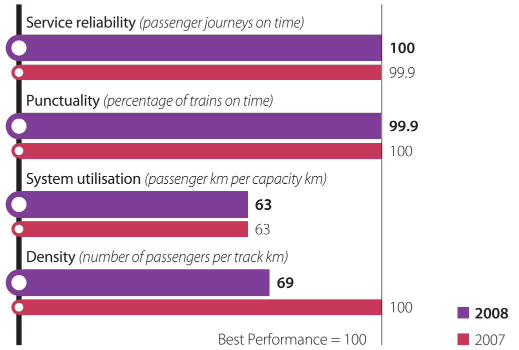
Access to the Network for the Disabled

The Company continues to invest its resources to ensure the integration and standardisation of facilities across the network for passengers with disabilities. During the year, external passenger lifts at Tai Wo Hau Station and full length tactile guide paths were launched for all stops on the Light Rail network and portable ramps were launched in all West Rail stations in May. Light Rail Platforms have been equipped with a Portable Card Processor with Voice Function to assist visually impaired passengers. In each station on East Rail, Ma On Shan and West Rail lines, an Audible Octopus Card reading function has been added to the exit gate connected to the tactile guide path. Also, for each of the East Rail Line stations (except Racecourse Station), a wide gate has been added to facilitate barrier free access for disabled passengers.

Benchmarking Comparisons

MTR Corporation maintained its strong position, particularly in service reliability, against international benchmarks.

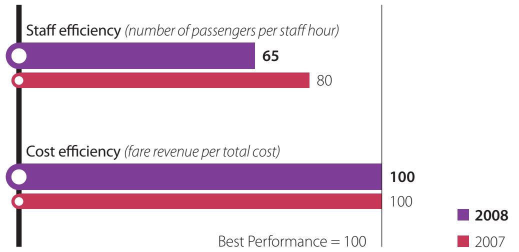
MTR performance vs. Best Performance



Staff Efficiency and Cost Efficiency

New initiatives continue to be introduced to enhance operating efficiency.

MTR performance vs. Best Performance



Hong Kong Passenger Services

Our spacious and clean stations provide total convenience, comfort and safety.

Human Swine Influenza

The human swine influenza pandemic continues to pose a threat to public health. In response to the serious alert from May to July 2009, the Company took extensive measures to educate both customers and staff about taking precautions and implemented a series of risk mitigation initiatives. These included enhanced procedures to ensure the maintenance of a hygienic environment, the provision of personal protective equipment and the establishment of a command team responsible for monitoring and managing the situation.

Productivity

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

Further improvements in performance were achieved through various productivity improvement initiatives, including rationalisation of manpower, alternative sourcing of spares, and streamlining work processes.

The Company plans to replace the conventional fluorescent tube used for Urban Line train saloon lighting with energy saving and environmentally friendly LED lighting. Pre-qualification of tenders has been completed and the projects will be completed in 2013.

System and Market Information

Railway operation data	2009		2008	
Total route length *(km)*	**218.2**		211.6	
Number of rail cars	**1,921**		1,919	
Number of stations (Island Line, Tsuen Wan Line, Kwun Tong Line, Tseung Kwan O Line, Tung Chung Line, Disneyland Resort Line, West Rail Line, Airport Express Line, East Rail Line and Ma On Shan Line)	**84**		82	
Number of Light Rail stops	**68**		68	
Number of e-instant Bonus machines in stations	**36**		31	
Number of station kiosks and mini-banks in stations	**1,228**		1,186	
Number of advertising points in stations	**20,742**		20,539	
Number of advertising points in trains	**26,823**		26,619	
Daily hours of operation				
Island Line, Tsuen Wan Line, Kwun Tong Line,Tseung Kwan O Line, Tung Chung Line, Disneyland Resort Line, West Rail Line, Airport Express and Light Rail	**19.0**		19.0	
East Rail Line and Ma On Shan Line	**19.5**		19.5	
Minimum train headway *(second)*	**Morning Peak**	**Evening Peak**	Morning Peak	Evening Peak
– Tsuen Wan Line	**128**	**130**	128	130
– Kwun Tong Line	**128**	**144**	128	144
– Island Line	**120**	**150**	120	150
– East Rail Line				
Hung Hom to Sheung Shui	**212**	**212**	212	212
Hung Hom to Lo Wu	**327**	**327**	327	327
Hung Hom to Lok Ma Chau	**600**	**600**	600	600
– Ma On Shan Line	**180**	**240**	180	240
– Tseung Kwan O Line	**160**	**180**	160	180
– Tung Chung Line				
Hong Kong to Tung Chung	**360**	**480**	360	480
Hong Kong to Tsing Yi	**240**	**240**	240	240
– Airport Express	**720**	**720**	720	720
– West Rail Line	**180**	**270**	210	270
– Disneyland Resort Line	**270**	**270**	270	270
– Light Rail	**270**	**300**	270	300

International Performance Comparisons: The 12-member Community of Metros (CoMET)

Metro system network data (2008)	MTR *	Metro A	Metro B	Metro C	Metro D	Metro E	Metro F	Metro G	Metro H	Metro I	Metro J	Metro K
Passenger journeys *(million)*	**1,299**	447	1,103	1,467	689	2,573	1,629	1,526	483	643	745	684
Car kilometres *(million)*	**246**	113	481	344	202	734	559	240	105	105	129	109
Route length *(km)*	**168**	144	439	201	275	292	480	215	115	86	174	61
Number of stations	**80**	170	270	147	241	161	424	300	66	85	113	55

* For the 2008 data, the Lines included in the CoMET metro benchmarking programme are Kwun Tong Line, Tsuen Wan Line, Island Line, Tung Chung Line, Tseung Kwan O Line and Disneyland Resort Line, East Rail Line, Ma On Shan Line and West Rail Line. The Airport Express is excluded from the benchmarking.

Note: The other metros in the comparison are Berliner Verkehrsbetriebe, London Underground Limited, New York City Transit, Sistema de Transporte Colectivo, Régie Autonome des Transports Parisiens Metro, Régie Autonome des Transports Parisiens Réseau Express Régional, Metropolitano de São Paulo, Moscow Metro, Metro de Madrid, Metro de Santiago and Shanghai Metro Operation Corporation. The benchmarking agreement prohibits specifically identifying the data by metro system.

Hong Kong Passenger Services

Operations Performance in 2009

Service performance item	Performance Requirement	Customer Service Pledge Target	**Actual Performance**
Train service delivery			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, Tung Chung Line, Disneyland Resort Line and Airport Express	98.5%	99.5%	**99.8%**
– East Rail Line (including Ma On Shan Line)	98.5%	99.5%	**99.9%**
– West Rail Line	98.5%	99.5%	**99.9%**
– Light Rail	98.5%	99.5%	**99.9%**
Passenger journeys on time			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, Tung Chung Line and Disneyland Resort Line	98.5%	99.5%	**99.9%**
– Airport Express	98.5%	99.0%	**99.9%**
– East Rail Line (including Ma On Shan Line)	98.5%	99.0%	**99.9%**
– West Rail Line	98.5%	99.0%	**99.9%**
Train punctuality			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, Tung Chung Line and Disneyland Resort Line	98.0%	99.0%	**99.7%**
– Airport Express	98.0%	99.0%	**99.9%**
– East Rail Line (including Ma On Shan Line)	98.0%	99.0%	**99.9%**
– West Rail Line	98.0%	99.0%	**99.9%**
– Light Rail	98.0%	99.0%	**99.9%**
Train reliability: train car-km per train failure causing delays ≥5 minutes			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, Tung Chung Line, Disneyland Resort Line and Airport Express	N/A	500,000	**1,926,928**
– East Rail Line (including Ma On Shan Line) and West Rail Line	N/A	500,000	**2,636,479**
Ticket reliability: magnetic ticket transactions per ticket failure			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, Tung Chung Line, Disneyland Resort Line, Airport Express, East Rail Line (including Ma On Shan Line) and West Rail Line	N/A	8,000	**21,549**
Add value machine reliability			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, Tung Chung Line, Disneyland Resort Line and Airport Express	98.0%	99.0%	**99.5%**
– East Rail Line (including Ma On Shan Line)	98.0%	99.0%	**99.8%**
– West Rail Line	98.0%	99.0%	**99.9%**
– Light Rail	N/A	99.0%	**99.8%**
Ticket machine reliability			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, Tung Chung Line, Disneyland Resort Line and Airport Express	97.0%	99.0%	**99.5%**
– East Rail Line (including Ma On Shan Line)	97.0%	99.0%	**99.6%**
– West Rail Line	97.0%	99.0%	**99.7%**
– Light Rail	N/A	99.0%	**99.9%**

Operations Performance in 2009 *(continued)*

Service performance item	Performance Requirement	Customer Service Pledge Target	**Actual Performance**
Ticket gate reliability			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, Tung Chung Line, Disneyland Resort Line and Airport Express	97.0%	99.0%	**99.8%**
– East Rail Line (including Ma On Shan Line)	97.0%	99.0%	**99.9%**
– West Rail Line	97.0%	99.0%	**99.7%**
Light Rail platform Octopus processor reliability	N/A	99.0%	**99.9%**
Escalator reliability			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, Tung Chung Line, Disneyland Resort Line and Airport Express	98.0%	99.0%	**99.9%**
– East Rail Line (including Ma On Shan Line)	98.0%	99.0%	**99.9%**
– West Rail Line	98.0%	99.0%	**99.9%**
Passenger lift reliability			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, Tung Chung Line, Disneyland Resort Line and Airport Express	98.5%	99.5%	**99.7%**
– East Rail Line (including Ma On Shan Line)	98.5%	99.5%	**99.8%**
– West Rail Line	98.5%	99.5%	**99.8%**
Temperature and ventilation			
– Trains, except Light Rail: to maintain a cool, pleasant and comfortable train environment generally at or below 26°C	N/A	97.0%	**99.9%**
– Light Rail: on-train air-conditioning failures per month	N/A	<3	**0.2**
– Stations: to maintain a cool, pleasant and comfortable environment generally at or below 27°C for platforms and 29°C for station concourses, except on very hot days	N/A	90.0%	**99.8%**
Cleanliness			
– Train compartment: cleaned daily	N/A	98.5%	**99.9%**
– Train exterior: washed every 2 days (on average)	N/A	99.0%	**100%**
Northwest Transit Service Area Bus Service			
– Service Delivery	N/A	99.0%	**99.7%**
– Cleanliness: washed daily	N/A	99.0%	**99.9%**
Passenger enquiry response time within 6 working days	N/A	99.0%	**100%**

Building Connections to

PROVIDE A TOTAL CUSTOMER EXPERIENCE


ROSITA

Station Commercial and Rail Related Businesses

MTR shops offer a wide variety of products and services.

Station Retail

Station retail revenue, comprising duty free shops and kiosk rental, increased to HK$1,605 million, 3.8% more than the previous year. This increase was mainly due to growth in the number of shops, increase of rental rates upon contract renewals, and the repartition and renovation of shop areas in the Airport Express, Tung Chung Line and East Rail Line stations. To attract customers and increase revenue, renovation works for 80 shops at 13 stations were completed and 23 new retailers were also added. The total number of shops, including Duty Free and other shops, was 1,228 as at 31 December 2009, an increase of 42 shops over the end of 2008. The resulting total station retail area was 52,788 square metres of which 9,540 square metres related to Duty Free businesses.

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

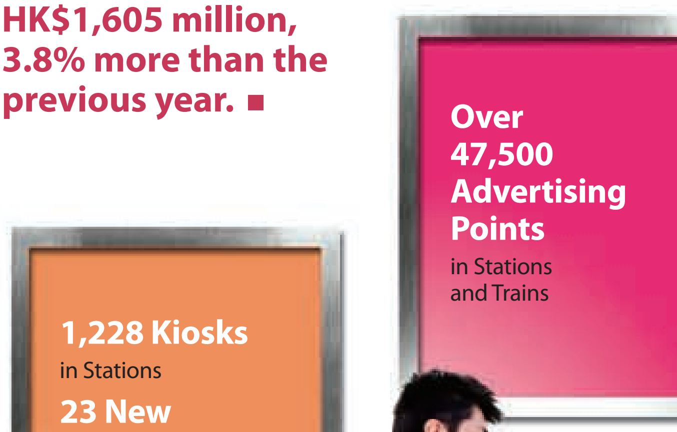
Station Commercial and Rail Related Revenue Comprised 17.7% of Total Revenue

■ **Station retail revenue, comprising duty free shops and kiosk rental, increased to HK$1,605 million, 3.8% more than the previous year.** ■

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

Advertising

Advertising revenue decreased by 19.4% to HK$597 million in 2009 when compared with 2008. The main cause of this decrease was a marked reduction in advertising spending due to the economic downturn. To address this challenge, more aggressive sales packages and incentive schemes to advertisers were launched. A series of new advertising formats were also introduced, including a Digital Panel Network at ten stations and enlarging and standardising



Station Commercial and Rail Related Businesses

Hong Kong Station interchange provides extensive advertising opportunities.

escalator crown panels on the East Rail Line and West Rail Line. A programme of replacement and rationalisation of locations of advertising panels on the East Rail Line and West Rail Line has begun and will be completed in 2010. At the end of 2009, there were 20,742 advertising points in stations, 26,823 in trains (including 4,545 Liquid Crystal Displays) and 67 exhibition and display sites in 42 stations.

Telecommunications

Revenue from telecommunications services decreased by 23.3% in 2009 to HK$273 million due to the one-off receipt in 2008 mentioned above. Excluding this one-off receipt in 2008, revenue from this business would have increased by 1.1%. The year was notable for the full launch of 3G and extension of Wi-Fi services along our network. In January, all Airport Express trains were fully Wi-Fi enabled, allowing passengers to send e-mails while travelling to and from the airport. One of Hong Kong's leading telecom operators launched an advanced 2G/3G mobile network in March, enabling passengers to enjoy high data speed of up to 21Mbps in our railway system. With the completion of installation of 3G infrastructure along the West Rail Line in August, passengers with 3G-enabled devices like cell phones and PDAs were able to access streaming audio, video, and other high speed internet services anywhere in our system. Full 2G and 3G mobile phone coverage was also enabled in Austin and LOHAS Park stations. Further revenue was added through the conclusion of 43 new contracts during the year for the renting of our railway premises rooftops for satellite and antennae equipment.

■ A series of new advertising formats were also introduced, including a Digital Panel Network at ten stations and enlarging and standardising escalator crown panels on the East Rail Line and West Rail Line. ■

Our Digital Escalator Crown Bank offers an eye-catching medium of advertisement.

External Consultancy

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

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

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

Freight Services

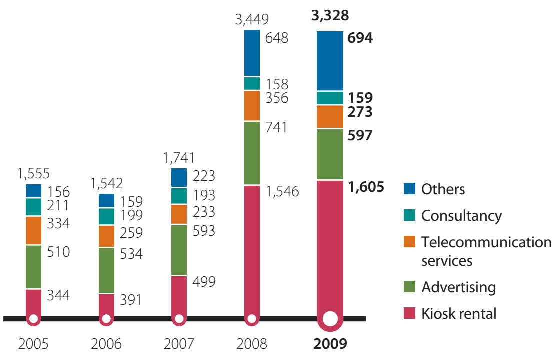
Revenue from freight services was HK$32 million during 2009, a decrease of 13.5% over 2008.

Different types of trains currently operate on the East Rail Line tracks including East Rail Line trains, Intercity Through Trains, and Freight trains. Over the years, there has been rapid development of road, rail, and port facilities in the Mainland of China. Increased choice and enhanced competition have resulted in a sharp drop in the Company's freight business. The Company has therefore decided to wind down its freight business over the next several months to better utilise train paths currently used for the freight business to provide greater flexibility for passenger train services.

Revenue from Station Commercial and Rail Related Businesses

Revenue dropped in 2009 due to the impact of the economic downturn on advertising and the one-off termination receipt on telecommunication in 2008.

(HK$ million)



All Airport Express trains are now fully Wi-Fi enabled.

Building Connections to

CREATE SUPERBLY PLANNED AND MANAGED COMMUNITIES

Property and Other Businesses

Property Rental

8.6% Increase in Rental Income for HK and Mainland China

274,508 sq.m.

of Investment Properties in Hong Kong (in Lettable Floor Area)

Property Development

HK$3.55 Billion Property Development Profit

5,968 residential units sold

Property Management

79,449 HK residential units

742,414 sq.m. of HK Commercial Properties

973,254 sq.m. of Managed GFA

in the Mainland of China

Units of Le Prestige at LOHAS Park sold out rapidly.

There was some consolidation in the Hong Kong property market in the beginning of 2009. Nevertheless, as confidence improved and with low interest rates, market sentiment returned by mid year and property activities rose.

As at February 2010, property prices, in both the luxury and mass residential markets, have surpassed the levels achieved before the financial crisis.

Property Development

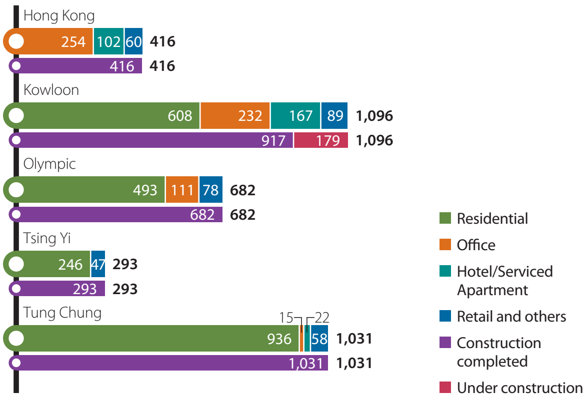
Profit from property development for 2009 was HK$3,554 million, a decrease from the HK$4,670 million recognised in 2008 mainly due to timing of profit recognition. The major contributors to property development profit in 2009 were the final profit recognition relating to The Harbourside at Kowloon Station,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

Property and Other Businesses

Airport Railway Property Development Plan and Progress

Along the Airport Railway, the sale of La Mer, the town house development which is the last phase of Caribbean Coast will commence shortly. In February 2009, unit sales were launched for The Cullinan.

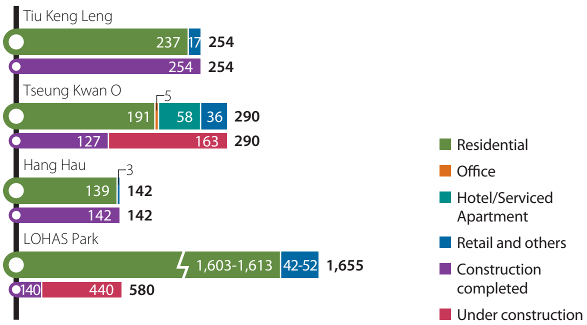
Gross floor area *(thousand sq.m.)*



Tseung Kwan O Line Property Development Plan and Progress

All 1,688 units of Le Prestige of LOHAS Park Package Two were sold by August 2009.

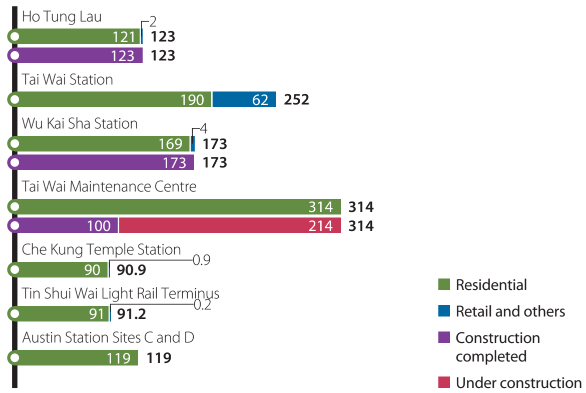
Gross floor area *(thousand sq.m.)*



East Rail Line, Ma On Shan Line, Light Rail and Austin Station Property Development Plan and Progress

Pre-sale of the 2,169 units of Lake Silver, a property development in Wu Kai Sha, was launched in late May and over 90% of the units were sold.

Gross floor area *(thousand sq.m.)*



Property sales continued to perform well, with pre-sales of Lake Silver at Wu Kai Sha being launched in May 2009 and the Occupation Permit was obtained in July. Over 90% of the 2,169 units have been sold. In August 2009, all 1,688 units of Le Prestige of LOHAS Park Package Two were sold and the Occupation Permit was issued on 29 January 2010. Pre-sales were also launched for Le Prime, also at LOHAS Park Package Two, in November 2009 with good results. We do not have any financial interest in Le Prime. In September, we sold all the units that we received as final profit sharing with the developer at The Harbourside in Kowloon Station.

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

Along the Airport Railway, the sale of La Mer, the town house development that is the last phase of Caribbean Coast will commence shortly. In February 2009, unit sales were launched for The Cullinan. We have no financial interests in The Cullinan. The only remaining Airport Railway property development to be completed is Kowloon Station Package Five, Six and Seven, which is anticipated in 2010 when Occupation Permits will be issued for the top storeys of the International Commerce Centre ("ICC") and the approximately remaining 500-square-metre Phase III of Elements.

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

Good progress was made in the continuous design improvement of property development schemes under planning. A major

Our developments offer high-quality facilities, such as the Clubhouse at LOHAS Park.

Elements at Kowloon Station provides an enjoyable shopping experience for our customers.

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

Property Rental, Property Management and Other Businesses

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

Property Rental

Demand for both office and retail space remained subdued throughout 2009. However, property rental income rose to HK$2,548 million, an increase of 8.6% over 2008, due mainly to the addition of another 988 square metres of rental space at Elements in November 2008 as well as an average increase in rental reversion of 7% across our retail shopping mall portfolio. We maintained close to 100% occupancy of our shopping malls and the Company's 18 floors at Two International Finance Centre were fully leased out.

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

Our commitment to continuous enhancement of our retail and investment properties, as well as our emphasis on our "Premier" management services, saw our shopping malls once again honoured with a variety of local and international awards. Our premium shopping mall Elements, situated above Kowloon Station, won the 2009 Distinguished Market Leadership Award and Award for Marketing Excellence from the Hong Kong Management Association. Elements continued to receive international recognition by winning the GOLD Direct Market Lotus Award in the Asia-Pacific Advertising Festival (AdFest) and an Official Honouree distinction in the 13th Annual Webby Awards. Elements also won the Cityscape Asia Real Estate Award as Best Commercial / Retail Development. The "ELEMENTS Grand Opening" in Autumn 2007 and "ELEMENTS Flirting with Sound"

West Rail Line Property Development Plan

The Company acts as development agent for the West Rail property projects.

Station	Site Area *(hectares)*	Period of package tenders	Expected completion date
Tuen Mun	2.65	Aug 2006	By phases from 2012 – 2013
Nam Cheong	6.20	First half of 2010	Under review
Tsuen Wan West (TW5)	5.60	Under review	Under review
Tsuen Wan West (TW6)	1.39	Under review	Under review
Tsuen Wan West (TW7)	2.37	Sep 2008	2013
Yuen Long	3.47	Under review	Under review
Long Ping (North)	1.12	Under review	Under review
Long Ping (South)	1.49	Under review	Under review
Tin Shui Wai	3.48	Under review	Under review
Kam Sheung Road	9.85	Under review	Under review
Pat Heung Maintenance Centre	24.00	Under review	Under review
Kwai Fong	1.92	Under review	Under review
Total	**63.54**		

Property and Other Businesses

■ We continue to evaluate new shopping mall investment opportunities in the Mainland of China. ■

campaigns won two Gold Awards and Telford Plaza's "Sichuan Relief Programme" won the Silver Award in the Community Relations Category of the 2009 Asia Shopping Centres Awards organised by the International Council of Shopping Centres (ICSC). "MTR Malls – Total Quality Services Regime" also won the Best Practice in Customer Experience Management 2009 awarded by the Best Practice Management Group.

Ginza Mall in Beijing, our first shopping mall in Mainland China with 18,720 square metres of lettable floor area, continues to set new standards for service and quality in the retail sector in the capital city. Average rental increment on lease renewals and re-lettings rose 0.6% compared to 2008 and occupancy was close to 100%. Amongst the many awards and honours received in its second full year of operation was an Outstanding Contribution Award for the 60th National Anniversary Celebration sponsored by the Beijing Dongcheng District People's Government Dongzhimen Jiedao Office. We continue to evaluate new shopping mall investment opportunities in the Mainland of China.

A number of attractive promotions were launched in our shopping malls to attract more shoppers. Elements introduced some of the most innovative and compelling tactical promotions in town including the exclusive presentation of the Sarah Brightman concert to Elements' shoppers, the XpressMusic Nokia phone redemption scheme, and "Christmas Rush 2009". Various promotion campaigns were launched across MTR Malls including "21st Century Dr. Slump Exhibition", featuring the classic popular characters Dr. Slump and his friends, at Maritime Square and Paradise Mall during summer, "The Bears' Palace" at Telford Plaza and "Sanrio 50th Anniversary Christmas Legend" at Maritime Square during Christmas.

New tenants in our shopping malls included world-renowned luxury brands Louis Vuitton and Hermès. Both opened for business at Elements in the last quarter in 2009 enhancing Elements' range of exclusive luxury offerings. Other new names that were brought into MTR Malls included ZARA, Bershka, Christian Dior cosmetics, SKII cosmetics, Jurlique, KOSÉ, Menard, Guess, Thomas Sabo, Clarks, Folli Follie, Artini, Adidas and Itacho Sushi.

24-hour surveillance provided by our property management team in IFC Control Centre.

The new Crystal Cabins of Ngong Ping 360 were met with enthusiastic responses.

Property Management

Property management revenue in 2009 was HK$207 million, a slight decrease of 1.4% over 2008. During the year, 1,375 residential units were added to our property management portfolio from The Palazzo, 524 units from Le Bleu Deux, 2,096 units from The Capitol and 2,169 units from Lake Silver, bringing the total number of residential units under our management to 79,449 as at the end of December, whilst total commercial space under management was 742,414 square metres. Our managed property portfolio in the Mainland of China amounted to 973,254 square metres.

Other Businesses

Octopus

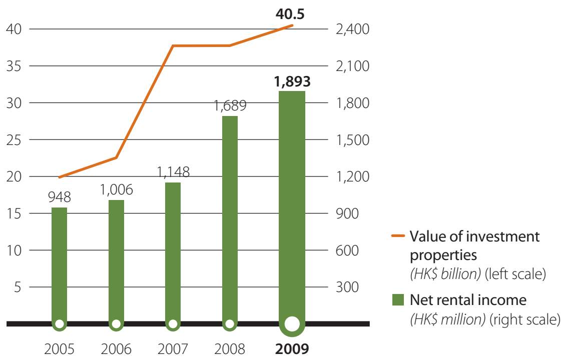
Octopus continued its expansion in the retail sector by recruiting more small-to medium-sized retail merchants and introducing new application solutions to provide greater convenience to consumers and businesses. By the end of December, there were over 3,000 service providers (including those serviced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

Ngong Ping 360

The Ngong Ping cable car and associated theme village on Lantau Island generated HK$173 million of revenue in 2009 with visitor numbers exceeding 1.4 million despite a challenging market. The number of Asian visitors, not including those from the Mainland of China, increased by 33.6% in 2009 as compared to 2008, and they were the key contributor to patronage growth. A series of vigorous promotion initiatives included Valentine's packages, Shaolin Kung Fu performances, a drum festival and the launch of Crystal Cabins, the world's first cable car cabins to be fitted with a full-width transparent floor. Awards received included "Best Creative Search Award – Outstanding" from Yahoo! Hong Kong Limited and the Prime Award for Corporate Social Responsibility sponsored by Prime magazine. In April, Ngong Ping's cable car operations department received ISO 9001:2008 certification.

Investment Properties

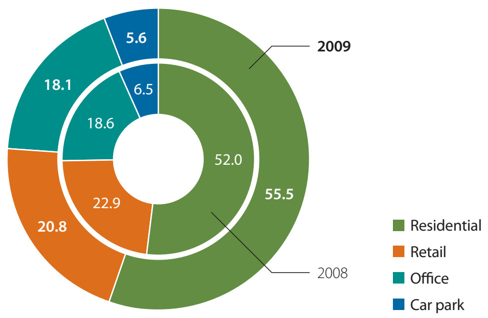
Rental income continued to grow despite subdued demand for office and rental space throughout 2009.



Distribution of Property Management Income

At the end of the year, the Company had 79,449 residential units and 742,414 sq.m. commercial properties under management in Hong Kong, and 973,254 sq.m. of managed GFA in Mainland China.

(Percentage)



Property and Other Businesses

Property Development Packages Awarded and to be Completed

Location	Developers	Type	Gross floor area *(sq. m.)*	No. of parking spaces	Period of package tenders	Expected completion date
Kowloon Station						
Package Five, Six and Seven (Elements, International Commerce Centre, The Cullinan, W Hong Kong, The Harbourview Place)	Sun Hung Kai Properties Ltd.	Retail Office Service apartment Hotel Residential Kindergarten Car park	82,750 231,778 72,472 95,000 21,300 1,045	1,683	Awarded in September 2000	By phases from 2006 - 2010
Tseung Kwan O Station						
Area 56	Sun Hung Kai Properties Ltd.	Residential Hotel Retail Office Car park	80,000 58,130 20,000 5,000	360	Awarded in February 2007	By phases from 2010-2011
LOHAS Park Station						
Package Two (Le Prestige)	Cheung Kong (Holdings) Ltd.	Residential Kindergarten Car park	309,696 800	905	Awarded in January 2006	By phases from 2010-2013
Package Three	Cheung Kong (Holdings) Ltd.	Residential Kindergarten Car park	128,544 1,000	350	Awarded in November 2007	2012
Tai Wai Maintenance Centre	Cheung Kong (Holdings) Ltd.	Residential Car park	313,955	745	Awarded in April 2006	By phases from 2010 - 2011
Che Kung Temple Station	New World Development Co. Ltd.	Residential Retail Kindergarten Car park	89,792 193 670	232	Awarded in April 2008	2012
Austin Station						
Sites C and D	New World Development Co. Ltd. and Wheelock Properties Limited	Residential Car park	119,116	450	Awarded in March 2010	2014
Tuen Mun Station#	Sun Hung Kai Properties Ltd.	Residential Retail Car park	119,512 25,000	349	Awarded in August 2006	By phases from 2012 - 2013
Tsuen Wan West Station TW7#	Cheung Kong (Holdings) Ltd.	Residential Car park	113,064	444	Awarded in September 2008	2013

\# as development agent for the Government of HKSAR

Property Development Packages to be Awarded Notes 1 and 2

Location	No. of packages envisaged	Type	Gross floor area *(sq. m.)*	Expected no. of parking spaces	Period of package tenders	Expected completion date
LOHAS Park Station	6 – 10	Residential	1,025,220 – 1,035,220		2010-2015	2019
		Retail	39,500 – 49,500			
		Car park		3,303 (max)		
Tai Wai Station	1 – 2	Residential	190,480		Under review	Under review
		Retail	62,000			
		Car park		801		
Tin Shui Wai Light Rail Terminus	1	Residential	91,051		Under review	Under review
		Retail	205			
		Car park		267		

Notes:
1. Property development packages for which we are acting as development agent for the Government of HKSAR are not included.
2. These property development packages are subject to review in accordance with planning approval, land grant conditions and completion of statutory processes.

Lake Silver rises above Wu Kai Sha Station.

Property and Other Businesses

Investment Property Portfolio in Hong Kong (as at 31 December 2009)

Location	Type	Lettable floor area (sq. m)	No. of parking spaces	Company's ownership interest
Telford Plaza I, Kowloon Bay, Kowloon	Shopping centre	39,470	–	100%
	Car park	–	993	100%
Telford Plaza II, Kowloon Bay, Kowloon	Shopping centre	19,434	–	50%
	Car park	–	136	50%
Luk Yeung Galleria, Tsuen Wan, New Territories	Shopping centre	11,224	–	100%
	Car park	–	651	100%
Paradise Mall, Heng Fa Chuen, Hong Kong	Shopping centre	18,772	–	100%
	Wet market	1,216	–	100%
	Car park	–	415	100%
Maritime Square, Tsing Yi	Shopping centre	28,844	–	100%
	Kindergarten	920	–	100%
	Car park	–	220	100%
	Motorcycle park	–	50	100%
The Lane, Hang Hau	Shopping centre	2,645	–	100%
	Car park	–	16	100%
	Motorcycle park	–	1	100%
The Edge, Tseung Kwan O	Shopping centre	7,640	–	70%
	Car park	–	50	70%
G/F, No. 308 Nathan Road, Kowloon	Shop unit	70	–	100%
G/F, No. 783 Nathan Road, Kowloon	Shop unit	36	–	100%
New Kwai Fong Gardens, Kwai Chung, New Territories	Kindergarten	540	–	100%
	Car park	–	126	100%
International Finance Centre (IFC), Central, Hong Kong				
– Two IFC	Office	39,373	–	100%
– One and Two IFC	Car park	–	1,308	51%
Phase I, Carpark Building, Kornhill, Quarry Bay, Hong Kong	Car park	–	292	100%
Roof Advertising Signboard, Admiralty Centre, No. 18 Harcourt Road, Hong Kong	Advertising signboard	–	–	100%
Ten Shop Units, First Floor Podium, Admiralty Centre, No. 18 Harcourt Road, Hong Kong	Shop unit	286	–	50%
Olympian City One, Tai Kok Tsui, Kowloon	Indoor sports hall	13,219	–	100%
Olympian City Two, Tai Kok Tsui, Kowloon	Shop unit	1,252	–	100%
Choi Hung Park & Ride Public Car Park, No. 8 Clear Water Bay Road, Choi Hung, Kowloon	Car park	–	54	51%
	Motorcycle park	–	10	51%
	Park & ride	–	450	51%
Elements, No. 1 Austin Road West, Kowloon	Shopping centre (Phase 1&2)	41,943	–	81%
	Car park	–	898	81%
Cross Border Coach Terminus, No. 1 Austin Road West, Kowloon	Coach terminus	5,113	–	100%
Kindergarten, No. 1 Austin Road West, Kowloon	Kindergarten	1,045	–	81%
Plaza Ascot, Fo Tan	Shopping centre	7,463	–	100%
Royal Ascot, Fo Tan	Residential	2,784	–	100%
	Car park	–	20	100%
Ocean Walk, Tuen Mun	Shopping centre	6,109	–	100%
	Car park	–	32	100%
Sun Tuen Mun Shopping Centre, Tuen Mun	Shopping centre	9,039	–	100%
	Car park	–	421	100%
Hanford Plaza, Tuen Mun	Shopping centre	1,950	–	100%
	Car park	–	22	100%
Retail Floor and 1-6/F., Citylink Plaza, Sha Tin	Shopping centre	12,038	–	100%
Portion of G/F and portion of 1/F, MTR Hung Hom Building, Hung Hom	Office	1,686	–	100%
The Capitol, LOHAS Park*	Shop Unit	397	–	100%

* At The Capitol, there is also a Residential Care Home for the Elderly having a gross floor area of 3,100 square metres classified as investment property under construction.

Investment Property Portfolio in Hong Kong (as at 31 December 2009) *(continued)*

All Properties are held by the Company and its subsidiaries under Government Leases for over 50 years except for:

- Telford Plaza I and II, Luk Yeung Galleria, Maritime Square, New Kwai Fong Gardens, IFC, Olympian City, Elements, Cross Border Coach Terminus and Kindergarten at No. 1 Austin Road West, Plaza Ascot, Royal Ascot, Ocean Walk, Sun Tuen Mun Shopping Centre and Hanford Plaza where the Government Leases expire on 30 June 2047
- Choi Hung Park & Ride where the Government Lease expires on 11 November 2051
- The Lane where the Government Lease expires on 21 October 2052
- The Edge where the Government Lease expires on 27 March 2052
- Citylink Plaza and MTR Hung Hom Building where the Government Leases expire on 1 December 2057
- The Capitol where the Government Lease expires on 16 May 2052

Properties held for sale (as at 31 December 2009)

Location	Type	Gross floor area *(sq.m.)*	No.of parking spaces	Company's ownership interest
Island Harbourview, No. 11 Hoi Fai Road, Kowloon	Car park	–	579	40%
Olympian City One, No. 11 Hoi Fai Road, Kowloon	Shopping centre	6,042*	–	40%
	Car park	–	330	40%
Bank of China Centre, No. 11 Hoi Fai Road, Kowloon	Car park	–	117	40%
The Arch, No. 1 Austin Road West, Kowloon	Residential	857	–	38.5%
	Car park	–	15	38.5%
Residence Oasis, No. 15 Pui Shing Road, Hang Hau, Tseung Kwan O	Car park	–	172	71%
	Motorcycle park	–	18	71%
The Grandiose, No. 9 Tong Chun Street, Tseung Kwan O	Car park	–	101	70%
	Motorcycle park	–	25	70%
Metro Town, No. 8 King Ling Road, Tseung Kwan O	Motorcycle park	–	15	72%
Central Heights, No. 9 Tong Tak Street, Tseung Kwan O	Car park	–	3	100%
Harbour Green, No. 8 Sham Mong Road, Kowloon	Residential	973	–	35%
	Car park	–	68	35%
	Kindergarten	1,299	–	50%
Caribbean Coast, No. 1 Kin Tung Road, Tung Chung	Car park	–	133	20%
Coastal Skyline, No. 12 Tung Chung Waterfront Road, Tung Chung	Residential	117	–	20%
	Car park	–	146	20%
The Capitol, LOHAS Park, Tseung Kwan O	Car park	–	18	84.05%
The Palazzo, No. 28 Lok King Street, Shatin	Residential	34,644	–	55%
	Retail	2,000	–	55%
	Car park	–	239	55%
	Motorcycle park	–	15	55%
Lake Silver, No. 599, Sai Sha Road, Shatin	Residential	25,709	–	93%
	Retail	3,000	–	93%
	Kindergarten	1,000	–	93%
	Car park	–	309	93%
	Motorcycle park	–	36	93%

* Lettable floor area

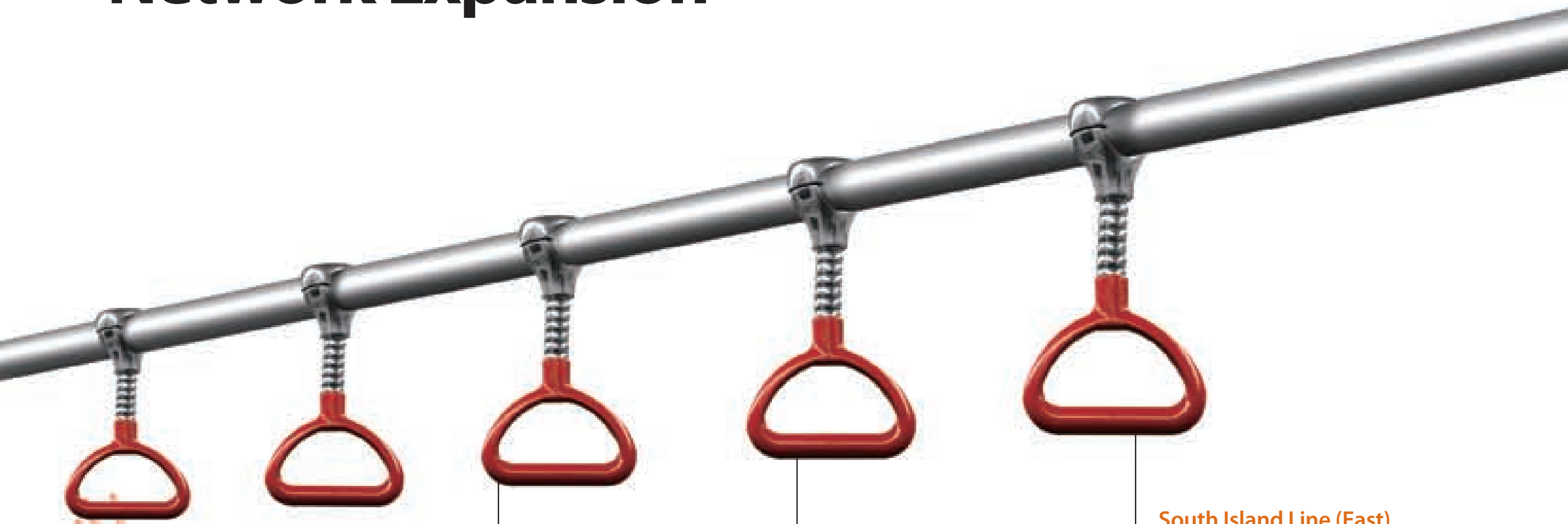
Managed properties in Hong Kong (as at 31 December 2009)

Number of managed residential flats	79,449 units
Area of managed commercial and office space	742,414 sq.m.

Building Connections to

SUPPORT LIFE'S JOURNEYS

Hong Kong Network Expansion



Completed Projects

LOHAS Park Station opened – 26 July 2009

Austin Station opened – 16 August 2009

West Island Line

Funding Approved by **LegCo Finance Committee** – July 2009

Project Agreement signed with Government – July 2009

South Island Line (East)

Gazetted under the **Railways Ordinance** – July 2009

Detailed Design commenced – July 2009

Following Government approvals, construction has commenced on the West Island Line and the Express Rail Link (Hong Kong section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link), the first two of our five new strategic extensions.

■ **On 16 August 2009, the Kowloon Southern Link with the new Austin Station opened for service.** ■

Kwun Tong Line Extension
Gazetted under the
Railways Ordinance
– November 2009

Detailed Design
commenced – December 2009

Express Rail Link
Project Approved by
LegCo Public Works Subcommittee
– December 2009

Funding Approved by **LegCo Finance Committee** and
Civil Contracts Awarded
– January 2010

Shatin to Central Link
Public Consultation
commenced – June 2009

Preliminary Design
substantially completed
– August 2009

Planning and design of the remaining three extensions, the South Island Line (East), the Kwun Tong Line Extension and the Shatin to Central Link is well underway. Together with the opening of the Kowloon Southern Link incorporating the new Austin Station, and the final phase of the Tseung Kwan O Line, these five rail projects represent a significant step forward in our 30 years' history of supporting Hong Kong's growth. These projects will extend our network to reach new catchment areas, new communities and new customers in Hong Kong as well as business opportunities in the Mainland of China and overseas.

Completed Projects

On 16 August 2009, the Kowloon Southern Link with the new Austin Station opened for service. The Kowloon Southern Link plays a strategic role in connecting the West Rail Line and the East Rail Line, with the terminus of both lines located at Hung Hom Station where a convenient cross-platform interchange is provided. This inter-connectivity enables commuters from the Northwest New Territories to travel directly to Tsim Sha Tsui without having to change trains or use other modes of transport. Conversely, passengers on the East Rail Line are also able to access the many destinations in West Kowloon.

The final phase of the Tseung Kwan O Line was completed with the opening of LOHAS Park Station on 26 July 2009 to coincide with occupancy of The Capitol at LOHAS Park. An enhanced train service was implemented with every three trains running between North Point Station and Po Lam Station while the fourth one continues to LOHAS Park Station. The opening marked the full completion of the Tseung Kwan O Line, enabling a growing young community to benefit from our railway service.

The South Island Line (East) will carry passengers to Aberdeen and tourist attractions in the south.

Hong Kong Network Expansion

Relaxed students at the University of Hong Kong which will be connected to one of three new stations on the West Island Line.

On-going Projects

West Island Line

The Project Agreement with the Government was signed on 13 July 2009 for the financing, design, construction and operation of the West Island Line Project. A ground breaking ceremony was held in August. The 3-km West Island Line is an extension of the existing Island Line from Sheung Wan to Kennedy Town, via Sai Ying Pun and the University of Hong Kong. The scope of the project includes the construction of railway tunnels, three new railway stations, procurement of rolling stock and the associated essential public infrastructure works.

The West Island Line is not only a railway extension, but is also a "Community Railway" with many features incorporating the results of detailed consultation with local stakeholders. These features embrace a number of public facilities in the area, including the re-provisioning works for the Kennedy Town swimming pool and the David Trench Rehabilitation Centre. Upon signing of the Project Agreement, the Company awarded contracts for the first stage of construction with completion targeted in 2014.

South Island Line (East)

The South Island Line (East) was gazetted on 24 July 2009, and a further period of public consultation began in September with the local communities, district councils and other stakeholders to integrate their needs in the railway's planning and design. The South Island Line (East) will connect Admiralty Station to South Horizons on Ap Lei Chau via Ocean Park, Wong Chuk Hang and Lei Tung, serving new customers as well as the tourist attractions in the southern part of the Island. The environmental impact assessment study is due to be completed in early 2010, followed by commencement of works in early 2011.

Kwun Tong Line Extension

Preliminary design of the Kwun Tong Line Extension was completed in June 2009, with gazettal and commencement of detailed design in the following November and December respectively. The 3-km Kwun Tong Line Extension will run from the existing Yau Ma Tei Station of the Kwun Tong Line to Whampoa via Ho Man Tin, which will be an interchange station with the East West Corridor of the Shatin to Central Link. Construction is expected to commence in 2011.

Express Rail Link

The Express Rail Link will be one of the most significant infrastructure developments in the history of Hong Kong, bringing Guangzhou within 48 minutes' travelling time, Shanghai eight hours and Beijing ten hours. The terminus, in the heart of West Kowloon, will be well positioned, within minutes of Central and Tsim Sha Tsui, providing ease of access for both outgoing and incoming passengers. This major high-speed rail project will bring both economic and environmental benefits to Hong Kong, making rail travel a viable alternative to flying for thousands of travellers.

Following the Government's decision to proceed with the planning and design of the Express Rail Link in April 2008, public consultations were held. An environmental impact assessment was approved by the Environmental Protection Department (EPD) in September with all mitigation measures for environmental impacts being made available to the public on the MTR Corporation and EPD websites. This information was complemented by a commitment to keep district councils informed of all updates to the project's status, as well as to provide a platform for direct communications with affected residents and stakeholders. Following these consultations, an amended scheme was authorised by the Government on 20 October 2009. Environmental Permits were also issued in October. The overall construction cost for both railway and non-railway works is HK$66.9 billion (in money-of-the-day prices). Following approval of this funding by the Legislative Council (LegCo) on 16 January 2010, the first major civil contracts were awarded and construction commenced on site with completion of the project targeted for 2015. Government has agreed to invite the Company to operate this service on a concessionary basis.

Shatin to Central Link

Following funding approval from LegCo in May 2008 for the further planning and design of the Shatin to Central Link, the Company carried out a series of activities to gather views from the public. Having taken into consideration the views expressed and the updated development plans of Kowloon City District, the Company refined the planning of the Kowloon City section to run along Ma Tau Wai Road and Ma Tau Chung Road, in order to better serve the population centre of To Kwa Wan.

Hong Kong Network Expansion at a Glance

Network Extensions	Estimated Route Length	Project Funding
West Island Line	3 km	Capital Grant
South Island Line (East)	7 km	Rail and Property
Kwun Tong Line Extension	3 km	Rail and Property
Express Rail Link	26 km	Service Concession
Shatin to Central Link		Service Concession
– Tai Wai to Hung Hom	11 km	
– Hung Hom to Hong Kong Island	6 km	

Further consultations were held in Shatin District with the local communities. These resulted in a newly proposed Hin Keng Station to be included in the plan to serve the local catchment area. The proposal for the Shatin Section also includes the modification of the stations along the Ma On Shan Line to facilitate future 8-car operations when the Shatin to Central Link opens. Preliminary design was completed in 2009 and the draft environmental impact assessment will be submitted to the Government in early 2010.

Project Funding

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

West Kowloon Terminus, the future gateway to the Mainland of China.

The South Island Line (East) and the Kwun Tong Line Extension will likely follow the Company's traditional "Rail and Property" approach whereby property development rights will be granted to us. Suitable sites have been identified and negotiations with the Government are continuing.

The Service Concession model used successfully in the Rail Merger was adopted for Kowloon Southern Link and will be adopted for the Shatin to Central Link and the Express Rail Link. Under this model, the Kowloon-Canton Railway Corporation (KCRC) or Government will pay all the capital cost of the line with the Company being responsible for operations, maintenance and asset renewals and replacement. The Company will pay KCRC or Government an annual Service Concession payment. On 26 January 2010 we signed an Entrustment Agreement whereby Government entrusted MTR Corporation with the construction and commissioning of the Express Rail Link. The Company will act as the project manager in the construction phase and the Government will invite the Company to operate the railway after its completion. Operational requirements relating to the Express Rail Link are still under discussion with the Government and certain entities from the Mainland of China. For the Shatin to Central Link, we continue further planning and design work funded by Government under an Entrustment Agreement signed in November 2008. Further funding arrangements for the construction of this system will be subject to future agreement with the Government.

Subways and Pedestrian Links

A further and effective means to extend the Company's catchment areas and enhance customer access is through the provision of subways and pedestrian links.

All structural works for the Middle Road Subway Extension were completed during the year. Electrical and mechanical works made good progress, with all six travelators delivered and installed. The extension opened on 10 February 2010.

Construction of the integrated entrances within the new development at No. 63 Nathan Road at Tsim Sha Tsui Station were completed and the entrances were opened on 17 December 2009.

The scheme proposal for the new subway extension and the new concourse at the north end of Tsim Sha Tsui Station has been amended to include one new integrated entrance connecting to Tung Ying Building Redevelopment. The amended scheme retains the proposed upgrading of the existing entrance A1 at Kowloon Park to provide a lift for the disabled and is planned for gazettal amendment in 2010.

Civil construction of the new subway connection to Liberte, the residential property in Lai Chi Kok, and the new entrances at Cheung Lai Street at Lai Chi Kok Station progressed well with the opening date scheduled for mid-2010.

Building Connections to

REACH NEW HORIZONS AND NEW BUSINESS OPPORTUNITIES

Mainland and Overseas Growth

Our growth strategy outside of Hong Kong remained firmly on track. Our investments in the Mainland of China and projects overseas made substantial progress during the year with the commencement of service or takeover of franchises in a number of cities.

Railway franchise revenue outside of Hong Kong was HK$1,043 million derived from the Stockholm and Melbourne rail concessions after we took over their operations in November 2009. Operating costs for these two franchises were HK$1,035 million, with a resultant operating profit margin of 0.8% in line with our expectations for the early months after takeover. The business model for operation and maintenance franchises, like those of the Stockholm and Melbourne trains systems, generally requires little capital investment. Their operating margins are therefore generally lower than other rail projects that require investment. However, due to the size of their businesses, they have significant revenue and operation costs. Beijing Metro Line 4 (BJL4), London Overground Rail Operations Ltd (LOROL) and the 50% owned rolling stock maintenance company in Sweden are accounted for as associates, and contributed a total of HK$11 million post-tax profit (HK$19 million pre-tax) in 2009. Our share of the profits of LOROL was HK$17 million and BJL4 made a loss of HK$5 million. The BJL4 loss is expected, since for investment projects of this nature with relatively large depreciation and interest cost, it will take a few years to achieve profit.

Mainland of China

In Beijing, a ceremony was held to mark the commencement of operations of BJL4 on 28 September 2009. With the opening of the new line, Beijing MTR Corporation Limited, a joint venture comprising MTR Corporation (49%), Beijing Infrastructure Investment Co. Ltd. (2%) and Beijing Capital Group Ltd. (49%), celebrated the culmination of more than three years' intensive preparation and hard work since the signing of the Concession Agreement on 12 April 2006.

The response from the Beijing public and media to the line's performance, comfort and customer service was positive. Average train service availability and punctuality rates in the first month of operation exceeded planned targets, while average daily patronage reached 563,000 in the National Day


President Hu Jintao rides BJL4 in October.

Golden Week holiday. On 7 October 2009, President Hu Jintao experienced at first hand BJL4's performance by travelling from Xidan Station to Xiyuan Station. He praised Hong Kong's railway management and expertise, and looked forward to further cooperation between Hong Kong and Mainland of China.

Around 60 Hong Kong colleagues worked in Beijing to support the initial period of service including planning, operational management and training of local staff.

On 30 December 2009, Beijing MTR Corporation Limited signed a Concession Agreement with Beijing Metro Daxing Line Investment Company Limited, a wholly-owned subsidiary of Beijing Municipal Government, for the operation and maintenance of the Daxing Line, a 22-km extension of BJL4 to the district of Daxing. The concession covers a period of 10 years and is renewable for further terms of 10 years until the expiry of the concession period for BJL4.

On 4 March 2010, our subsidiary, MTR Hangzhou Line 1 Investment Company Limited, together with a subsidiary of Hangzhou Metro Group Company Limited, entered into a Concession Agreement with Hangzhou Municipal Government for a Public-Private-Partnership (PPP) project for the investment, construction and operations of the Hangzhou Metro Line 1 for a term of 25 years. The Concession Agreement is subject to approval by relevant authorities in the Mainland.

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

The 48-km Hangzhou Metro Line 1 project is divided into Part A and Part B of the project, representing approximately 63% and 37% respectively of the total investment of approximately RMB22 billion. Part A involves the civil construction of the project which is being undertaken by Hangzhou Metro Group Company Limited, whilst Part B, which covers the electrical and mechanical system and rolling stock,

Mainland and Overseas Growth

The Melbourne public makes approximately 0.7 million trips on the metropolitan train network on each weekday.

The Melbourne metropolitan train network spans 15 lines and 213 stations covering 372 kilometres, with an average weekday patronage of approximately 0.7 million.

will be provided by the Joint Venture Company. The Joint Venture Company will be funded by a combination of debt and equity with MTR Corporation's equity investment being approximately RMB2.2 billion.

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

Recruitment and operations training begin for SZL4.

In Shenzhen, the Concession Agreement for the Shenzhen Metro Line 4 (SZL4) Build-Operate-Transfer (BOT) project was signed in March 2009 with the Shenzhen Municipal Government. By the end of 2009, approximately 93% of civil works for the 16-km SZL4 Phase 2 were finished and all electrical and mechanical contracts were awarded. The operation of the 4.5-km Phase 1 of SZL4 is set to begin in the middle of 2010 with full line operations, including Phase 2, by the middle of 2011. A management team has now been established and recruitment of operations staff and training has commenced in both Shenzhen and Hong Kong.

In Shenyang, a Concession Agreement was signed in May 2009 between our Joint Venture Company comprising MTR Corporation (49%) and Shenyang Metro Group Company Limited (51%) and the Shenyang Municipal Government for the operation and maintenance of the 50-km Shenyang Metro Lines 1 and 2 for a term of 30 years. A management team for the joint venture has been established and preparation works has started, including project interfacing, operation and maintenance planning, recruitment and training. Lines 1 and 2 are expected to begin service by 2010 and 2012 respectively.

Overseas

We continue to develop our "asset light" strategy overseas, focusing on operating concessions in the railway and metro markets that show significant potential for growth.

In the UK, following takeover of the concession in November 2007, our 50:50 joint venture, LOROL, brought an ongoing series of service improvements to the London Overground. The

Mainland of China and Overseas Railway Businesses at a Glance

	In Operation				Confirmed Projects to be in Operation			
	Beijing Metro Line 4 (BJL4), Mainland of China	London Overground, United Kingdom	Stockholm Metro, Sweden	Melbourne Metro, Australia	Shenyang Metro Line 1 and 2, Mainland of China	Daxing Line of BJL4, Mainland of China	Shenzhen Metro Line 4, Mainland of China	Hangzhou Metro Line 1, Mainland of China#
Effective interest of MTR Corporation	49%	50%	100%	60%	49%	49%	100%	49%
Business Model	Public-Private-Partnership (PPP)/Build-Operate-Transfer (BOT)	Operation and Maintenance (O&M) Concession	O&M Concession*	O&M Concession	O&M Concession	O&M Concession	BOT^	PPP/BOT
Commencement of Franchise/Expected date of commencement of operation	Sep 2009	Nov 2007	Nov 2009	Nov 2009	Line 1: 2010 Line 2: 2012	End 2010	Phase 1: 2010 Phase 2: 2011	2012
Franchise/Concession Period	30 Years	7 Years	8 Years	8 Years	30 Years	10 Years	30 Years	25 Years
Number of Stations	24	55	100	213	Line 1: 22 Line 2: 19	11	Phase 1: 5 Phase 2: 10	31
Route length *(km)*	28	107.2	108	372	Line 1: 28 Line 2: 22	22	Phase 1: 4.5 Phase 2: 16	48

* Rolling Stock maintenance under a 50:50 joint venture between MTR Stockholm and Mantena AS.

\# The Concession Agreement with Hangzhou Municipal Government is subject to approval by relevant authorities in the Mainland of China.

^ Shenzhen Metro Line 4 Phase 1 assets are owned by the Shenzhen Municipal Government and MTR Corporation (Shenzhen) Ltd will take over the operation of Phase 1 in 2010.

programme of station renovations continued. A new station staffing arrangement was introduced and ticketless travel was reduced. The semi-orbital route connects West, North and East London and will constitute a significant transport link for the 2012 Olympic Games. In order to assist Transport for London in its plans for the expansion of public transport services, ten new trains were launched into passenger service.

In Sweden, our wholly-owned subsidiary was selected in January 2009 as the operator of the Stockholm Metro for eight years beginning on 2 November 2009 with an optional six-year extension. The Company took over operation of the concession on 2 November 2009. The Stockholm Metro links the Swedish capital's central areas with the surrounding suburbs. Approximately 1.2 million passenger trips are made each day on the three rail lines measuring a total of 108 km and served by a network of 100 stations. The Company was chosen to operate the concession from a shortlist of six international bidders. For the maintenance of the rolling stock, we formed a 50:50 joint venture company, Tunnelbanan Teknik Stockholm AB (TBT), with Mantena AS, a rolling stock maintainer in Norway. Operational performance has been good, and plans are in place to further improve performance.

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

In Australia, our 60% owned subsidiary, Metro Trains Melbourne (MTM), comprising MTR Corporation (60%), John Holland Melbourne Rail Franchise Pty Ltd (20%) and United Group Rail Services Ltd (20%), signed an agreement with the State of Victoria on 31 August 2009 for the operation and maintenance of the Melbourne metropolitan train network for an initial period of eight years beginning on 30 November 2009. The Melbourne metropolitan train network spans 15 lines and 213 stations covering 372 kilometres, with an average weekday patronage of approximately 0.7 million. Following signing of the agreement, the Premier of the State of Victoria visited the Company in late September 2009 to personally experience our service and to learn more about our train operations and reliability.

We now operate the Stockholm Metro. (photo by Hans Ekestang)

Building Connections to

NURTURE OUR COMMUNITY AND OUR WORKFORCE

Human Resources

Our people are the key to our success both now and in the future. They drive forward our business expansion by their commitment, professionalism and caring service, which have become the hallmarks of the Company's culture and values since our founding 30 years ago.

The aim of all our manpower resourcing, staff development, knowledge management and employee volunteering projects is to nurture both our staff and the community they serve.

Support for Future Growth

In view of the significant manpower needs in the coming years arising from the anticipated growth of our businesses both in Hong Kong and overseas as well as succession planning, we continued with proactive planning and recruitment through the establishment of an integrated manpower resourcing mechanism to secure an optimal level of manpower resources for both operational and project management needs in the coming peak years of activity. In this respect, each year 200 general staff of

High Staff Engagement & Commitment

Over 4,000 staff participated in Work Improvement Teams with project realised savings of HK$25.7 million

Voluntary Staff Turnover Rate about 2%

in Hong Kong (Market Average: 8.2 %)

167 More Time Reaching Community Projects Completed

with over 3,500 volunteers involved

Outward bound activities are one of the enjoyable ways to foster staff development.

Operations Division at different levels are admitted into the Integrated Staff Development Programme. To meet the challenge of railway network expansion in Hong Kong, career management initiatives for Projects Division have also been implemented to identify managerial staff with potential for taking up challenging roles in upcoming railway projects.

In order to support our business expansion in the Mainland of China in 2009, we launched a Mainland Graduate Engineer Scheme and a Mainland Operating Management Associate Scheme. We also jointly organised maintenance management and engineering programmes with Tong Ji University and Beijing Jiao Tong University to equip staff with railway knowledge in the local context. Comprehensive training programmes for local recruits were undertaken for the opening of BJL4 and the future opening of SZL4.

Continuous Improvement

The findings of the 2008 Staff Attitude Survey, which had an encouraging participation rate of 96%, revealed that our staff engagement level was high (over 80%). The survey also helped us to identify our strengths and areas for seeking continuous improvement. Working groups comprising managers and general staff were formed to formulate initiatives for further improvements.

70,047/16,895 Man-days

for Operations/Management Training respectively

5.8 Training Days

per staff in Hong Kong (Market Average: 2.6 days)

Over 20,000 Staff

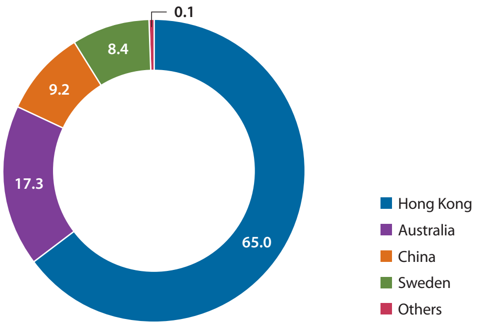
as at 31 Dec 2009

Human Resources

Training is a vital element in sustaining our business growth.

Staff Distribution By Geographical Location

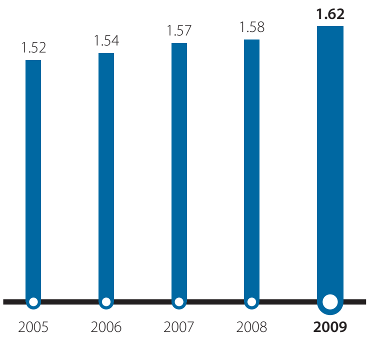
(Percentage)



Staff Productivity – Turnover Per Operating Railway Employee

Productivity has shown continuous improvement.

(HK$ million)



The working groups placed emphasis on building on the existing high staff engagement and strengthening our communication with our staff through various channels. The identified issues and the corresponding action plans have been communicated to staff through the MTR Express, our internal newsletter and briefings.

Caring for the Community

Supporting the health, quality of life and environment of the people of Hong Kong has long been one of the Company's key priorities.

Throughout 2009, our colleagues took part in 167 volunteering projects in our "More Time Reaching Community" programme with over 3,500 volunteers participating in activities that brought care and support to the elderly, to the physically and mentally challenged, to young people and families in need, and to the environment. In April, ten top race walkers from across the Asia-Pacific and more than a thousand walkers from all walks of life took part in the MTR HONG KONG Race Walking 2009 to promote healthy living. The event raised more than HK$1 million for health education. Further community schemes included our annual Christmas Children's Day, to which over 200 children from the Hong Kong Family Welfare Society and Yan Oi Tong were invited to join staff and families at the Christmas festivity at Pat Heung Depot, as well as a volunteering project named "'Friend' for Life's Journeys" to help the younger generation develop healthily and make positive contributions to society in future.

In 2009, in recognition of the Company's excellent performance in contributing to society, we received three Caring Company Logos from the Hong Kong Council of Social Service for the "More Time Reaching Community" Scheme, for our Premier (Sorrento) management service, and for our Ngong Ping 360 cable car operation.

Training and Development

With the Corporation's expansion plans both in Hong Kong and offshore, proactive people development continues to be a vital element to sustain the Company's business success and growth.

In 2009, a full range of railway and safety training was implemented successfully and in a timely manner for the opening of LOHAS Park Station, Austin Station in Hong Kong and BJL4 in Beijing.

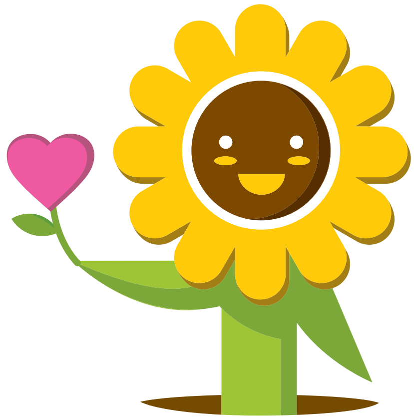
In order to further enhance caring customer skills and service operations, a Caring Service Best Practice Handbook was launched in March and a major training programme began in April called "Happy Staff, Happy Customer" to equip frontline staff with a positive mindset and refresh their customer service skills. As part of our new Caring Campaign launched in June, a two-week "Most Caring Station Staff Election" was held to cast votes for the most caring station staff at 81 stations of the network. The favourable response from over 28,000 passengers reflected their appreciation of our quality service and our care for their life's journeys.

During the year, a number of international and local professional associations extended their recognition of our strong performance in training and development. These recognitions included an American Society for Training and Development (ASTD) BEST Award, in which the Company finished first in Asia Pacific, second among 93 global competing entries, and was the only transportation company on the list. The Company also won an ASTD Excellence in Practice Award, a Gold Prize in the Hong Kong Management Association (HKMA) Award for Excellence in Training, and the Hong Kong Most Admired Knowledge Enterprise (MAKE) Award. Three of our graduated apprentices received the Outstanding Apprentice/Excellent Performance Award from the Vocational Training Council, marking the 12th consecutive year the Company has received this Award.

■ Supporting the health, quality of life and environment of the people of Hong Kong has long been one of the Company's key priorities. ■

Management Development

We continued to develop management and leadership qualities for the future of the Company through major ongoing programmes such as the Executive Associate Scheme, which prepares capable, mobile and well-equipped managers to take up senior positions in the Company. In July, we launched the Executive Continuous Learning Programme to keep senior managers, and potential leaders in the development pipeline, abreast of the latest business best practices and management insights through blended modes of training.



With a view to attracting and nurturing young top calibre graduates to support our business growth, the Company continued with its annual intake of graduate trainees, graduate engineers and functional associates to cultivate fresh perspectives and nurture a pool of home-grown high potential staff. The graduate trainee programme alone attracted over 14,000 applications in Hong Kong, the Mainland and overseas.

Six Hong Kong and six Mainland Graduate Trainees were recruited in 2009, along with 45 Functional Trainees, including 21 Graduate Engineers and 24 Management Associates with the aim of developing their potential to follow their chosen career path.

In addition to recruitment and development of graduates, different tiers of development programmes were conducted during the year for high performing staff at junior supervisory to senior management levels to help them identify their strengths and explore their potential.

Our Social Programme promotes the Company's Vision, Mission and Values.

Profit from Underlying Businesses of
HK$7,303 million

Net Profit attributable to Equity Shareholders of
HK$9,639 million

Turnover Increased 6.6% to
HK$18,797 million

Profit Contribution from Property Development of
HK$3,554 million

Net Assets Increased 8.8% to
HK$106,453 million

Net Cash Inflow of
HK$13,654 million
Generated to Reduce Borrowings

RMB4,000 million
Project Financing Signed for Shenzhen Metro Line 4

Credit Ratings Affirmed at
AA+ and **Aa2 (Outlook Positive)**
on par with Hong Kong SAR

Review of 2009 Financial Results

Profit and Loss

The Group's recurring businesses remained resilient despite the global economic downturn. With the commencement of international railway concessions in Stockholm and Melbourne, total revenues in 2009 grew by 6.6% to HK$18,797 million while operating profit from railway and related businesses rose 1.9% to HK$9,502 million.

Total Hong Kong fare revenue for 2009 increased marginally by 0.3% to HK$11,498 million. Fare revenue from Domestic Service grew 0.7% to HK$7,986 million with patronage growth of 1.1% to 1,218.8 million partly offset by a drop in average fare of 0.4% to HK$6.55. The growth in patronage was partly due to the opening of LOHAS Park Station on 26 July 2009 and Kowloon Southern Link with the new Austin Station on 16 August 2009 while the decrease in average fare was due to the full year impact of extending student half fares to the East Rail, West Rail and Ma On Shan Lines on 28 September 2008. Fare revenue from Cross-boundary Service increased by 1.9% to HK$2,327 million with patronage and average fare increasing by 0.7% to 94 million and 1.2% to HK$24.75 respectively. Against the backdrop of the global economic downturn and the outbreak of human swine flu, Airport Express recorded a revenue decline of 8.3% to HK$617 million attributable to a 6.9% drop in patronage to 9.9 million and a 1.6% decrease in average fare to HK$62.48. Fare revenues from Light Rail, Bus and Intercity totaled HK$568 million, down 2.2% from last year due to the effects of the economic downturn and the human swine flu on our Intercity service.

Revenue from station commercial and rail related businesses decreased 3.5% to HK$3,328 million in 2009, mainly due to the impact of the economy on our advertising business and the one-off receipt from an operator on termination of a telecommunications license in 2008, which was not repeated in 2009. Excluding this one-off income in 2008, the decrease in station commercial and rail related business revenue would have been 1.0%. Advertising revenue in 2009 dropped by 19.4% to HK$597 million while revenue from station retail business increased by 3.8% to HK$1,605 million due to favourable rental reversions as well as rental increases from repartition and renovation of shop areas. Telecommunication income in 2009 dropped by 23.3% to HK$273 million. Excluding the one-off termination receipt in 2008, telecommunication income would have increased by 1.1% mainly from the expansion of commercial bandwidth business. Consultancy revenue was at a similar level to 2008 at HK$159 million. Other miscellaneous incomes from station commercial and rail related businesses recorded an increase of 7.1% to HK$694 million.

Rental, management and other revenue in 2009 increased by 8.0% to HK$2,928 million, with revenue from property rental and management rising 7.8% to HK$2,755 million mainly due to positive rental reversion and the full year income contribution from Elements Phase 2A, which opened in November 2008. Revenue from Ngong Ping 360 increased by 10.9% to HK$173 million due to a variety of marketing and commercial initiatives including the launch of the Crystal Cabin in April 2009.

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

Total operating costs before depreciation and amortisation in 2009 were HK$9,295 million, an increase of 11.9% mainly due to the costs incurred in the operations of Stockholm Metro and Melbourne Train after taking over these two franchises. Excluding the operating costs of these two international franchises, total operating expenses would have shown a decrease of 0.5%, mainly due to lower station commercial and rail related businesses expenditure in line with the drop in advertising revenue as well as reduced costs relating to the project management, for KCRC, of the Kowloon Southern Link on completion of the project. Cost control measures in place during the year limited the increases in a number of expenses such as staff costs and related expenses. The operating costs for Stockholm Metro and Melbourne Train in the period since takeover in November 2009, of HK$494 million and HK$541 million, were in line with original forecasts.

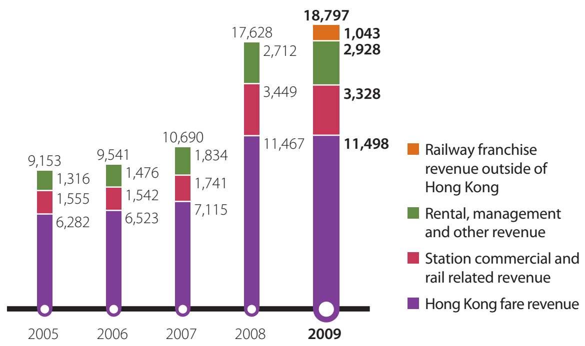
The resulting operating profit from railway and related businesses before depreciation and amortisation increased by 1.9% to HK$9,502 million. Owing to the inclusion of the asset-light, hence lower profit margin railway franchises of Stockholm Metro and Melbourne Train, operating margin decreased from 52.9% in 2008 to 50.6% in 2009. Excluding these two international railway franchises, operating margin would have increased by 0.6 percentage point to 53.5%.

Profits from property development were lower in 2009 by 23.9% when compared to 2008 due mainly to the timing of profit bookings. Property development profits in the year were HK$3,554 million mainly comprising the final profit split with the developer relating to The Harbourside at Kowloon Station, additional profit bookings from The Palazzo and The Capitol as well as surplus proceeds from Lake Silver at Wu Kai Sha Station. As a result of the lower property development profit, operating profit before depreciation and amortisation decreased by 6.7% to HK$13,056 million.

Turnover

Recurring businesses remained resilient with a marginal revenue increase of 0.7%. Including contribution from the new railway franchises outside of Hong Kong, total revenue grew 6.6%.

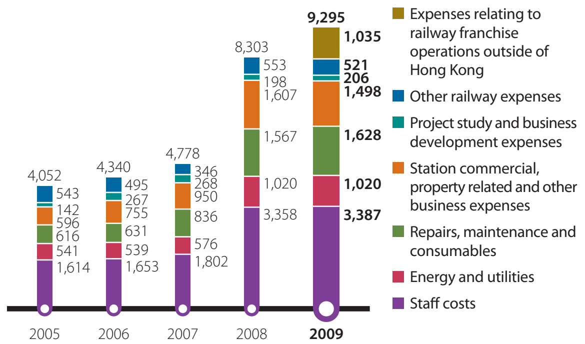
(HK$ million)



Operating Expenses

Effective cost control measures contained total operating costs excluding railway franchises outside of Hong Kong to 0.5% decrease from last year.

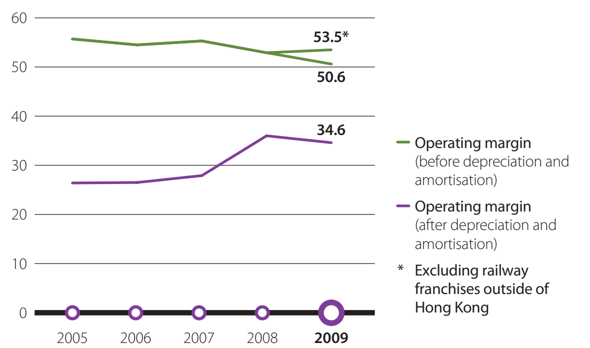
(HK$ million)



Operating Margin

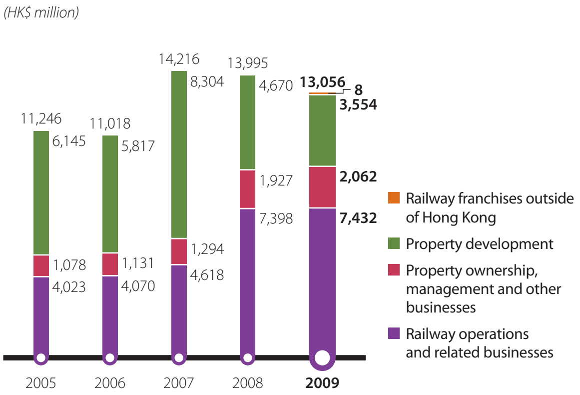
Excluding the lower profit margin railway franchises outside of Hong Kong, operating margin before depreciation and amortisation increased to 53.5%.

(Percentage)



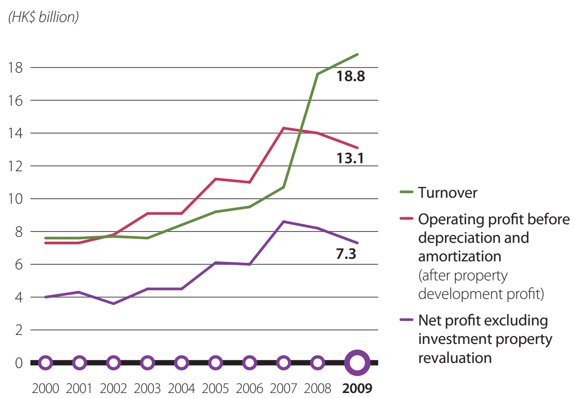
Operating Profit Contributions

Reduction in property development profit due to the timing of profit booking was partially compensated by profit growths in recurring businesses and the new railway franchises outside of Hong Kong.



Net Results from Underlying Businesses

Net profits excluding investment property revaluation decreased 10.8%, reflecting lower property development profit and the impact of tax rate reduction in 2008.



Depreciation and amortisation charges increased by 1.7% to HK$2,979 million, with the capitalisation of LOHAS Park Station, while remaining expenses relating to merger integration were HK$12 million.

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

Profit before taxation increased by 27.6% to HK$11,519 million. Income tax amounted to HK$1,880 million, an increase of 151.7% due mainly to the impact of the one-off reduction in deferred tax balances as a result of the reduction in Hong Kong Profits Tax rate from 17.5% to 16.5% in 2008. Net profit attributable to equity shareholders increased by 16.4% to HK$9,639 million. Correspondingly, earnings per share increased from HK$1.47 in 2008 to HK$1.69 in 2009.

Excluding investment property revaluation and the related deferred tax provision, the underlying profit attributable to equity shareholders decreased by 10.8% from HK$8,185 million to HK$7,303 million, reflecting lower property development profits and the impact of the tax reduction in the prior year. Underlying earnings per share decreased by 11.7% from HK$1.45 to HK$1.28.

With good results and strong cash flow in our businesses, including our recurring businesses, the Board has recommended a final dividend of HK$0.38 per share, which, when added to the interim dividend of HK$0.14 per share, will bring full year dividend to HK$0.52 per share, an increase of HK$0.04 per share or 8.3% compared with 2008. The final dividend, amounting to HK$2,177 million in total, offers a scrip dividend option to all shareholders except those with registered addresses in the United States of America or any of its territories or possessions. Our financial year ending 31 December 2009 marks the last year in which the Financial Secretary Incorporated ("FSI") has agreed to receive its entitlement to dividends in the form of shares to the extent necessary to ensure that a maximum of 50% of the Company's total dividend will be paid in cash. Going forward, subject to the financial conditions of the Company, the Board intends to follow a progressive dividend policy.

Balance Sheet

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

Total fixed assets increased from HK$131,004 million in 2008 to HK$137,634 million as at 31 December 2009. The major additions for the year included further investment in our SZL4 project as well as the revaluation gain in the Group's investment properties and the transfer of the construction costs of LOHAS Park Station from railway construction in progress upon opening of the station in July 2009.

Railway construction in progress had no balance at the end of 2009 as construction costs incurred in the West Island Line, amounting to HK$1,685 million as at 31 December 2009, were netted off against the Government funding support, and the total costs for LOHAS Park Station were transferred to fixed assets.

Property development in progress, including the costs of development rights acquired in the Rail Merger and other costs of development, decreased from HK$7,895 million in 2008 to HK$6,718 million as the acquisition costs of Lake Silver were taken to the profit and loss account upon development completion. Properties held for sale increased from HK$2,228 million to HK$3,783 million as unsold residential units at Lake Silver were added to inventory. Other than these units, inventory as at the end of 2009 comprised mainly the residential units at The Palazzo.

Interest in non-controlled subsidiaries increased from HK$381 million to HK$490 million following the continued net asset growth at Octopus Holdings Limited. Interest in associates also increased from HK$743 million to HK$823 million, reflecting mainly the equity injections into Shenyang Metro Lines 1 and 2 and the 50% owned Stockholm Metro rolling stock maintenance company of HK$56 million and HK$16 million respectively.

Investment in securities decreased from HK$471 million to HK$227 million due to disposal of investments. Derivative financial assets and liabilities, representing the fair value of derivative financial instruments, were recorded at HK$370 million and HK$237 million respectively as at 31 December 2009 as compared to HK$528 million and HK$305 million in 2008, mainly due to higher medium and long term interest rates, weaker Hong Kong dollar exchange rates, and maturity of certain derivative financial instruments.

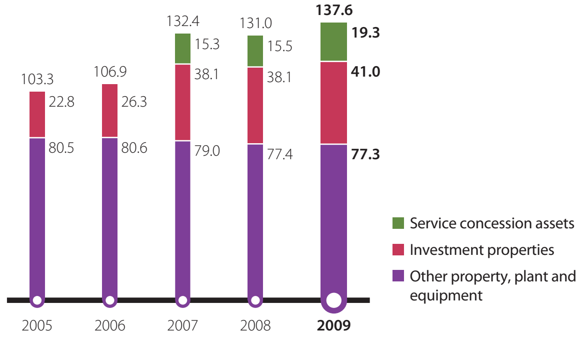
Stores and spares increased from HK$690 million in 2008 to HK$1,040 million as higher levels of critical spares were maintained, and additional stores and spares of HK$140 million were taken up for the operations of the Stockholm Metro and Melbourne Train.

Debtors, deposits and payments in advance decreased from HK$7,190 million in 2008 to HK$2,428 million as at 31 December 2009 following cash receipts from purchasers of units at The Capitol and The Palazzo. Loan to a property developer decreased from HK$3,720 million in 2008 to HK$1,916 million as a result of a scheduled repayment made in December 2009 of HK$2,000 million. Amounts due from the Government and other related parties increased from HK$426 million in 2008 to HK$12,788 million due mainly to an amount of HK$12,252 million to be received from the Government later in March 2010 relating to funding support for the West Island Line.

Fixed Assets Growth

Fixed assets increased owing to further investment in SZL4 and investment property revaluation gains.

(HK$ billion)



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

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

Amounts due to the Government and a related party included the Group's obligation to reimburse KCRC after tender award on the costs of property enabling works for certain KCRC property development sites, the accrued fixed annual payment for the service concession, and the additional land rent payable to the Government in relation to the West Island Line. The amount increased from HK$882 million in 2008 to HK$923 million as at 31 December 2009 mainly due to interest accrued on the costs of property enabling works.

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

Deferred income increased from HK$156 million in 2008 to HK$167 million as at 31 December 2009, comprising HK$124 million relating to property development mainly for Kowloon Packages 5, 6 and 7 and LOHAS Park Package Two and HK$43 million relating to the telecommunication business.

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

Share capital, share premium and capital reserve increased by HK$1,378 million to HK$42,497 million at the end of 2009 as a result of shares issued for scrip dividend and share options exercised. Together with the increase in retained earnings, net of dividends paid, of HK$6,917 million and the increase in fixed assets revaluation reserve and other reserves of HK$291 million, total equity attributable to shareholders of the Company increased by HK$8,586 million to HK$106,387 million as at 31 December 2009. Including obligations under the service concession and loan from minority shareholders of a subsidiary as components of debt, the Group's net debt-to-equity ratio decreased from 42.1% at 2008 year end to 25.8% at 2009 year end.

Cash Flow

While recurring railway and related businesses generated a similar level of cash inflow as in 2008 at HK$9,479 million, tax payment in 2009, including income tax for 2008 and provisional income tax for 2009, was HK$795 million more than in 2008 as the cumulative tax losses of the Company had been fully utilised since the second half of 2008. As a result, net cash inflow from railway and related activities after tax payments decreased by 9.1% to HK$8,107 million. During the year, substantial amounts of cash in respect of property developments were received, including HK$11,784 million from purchasers of The Capitol, Le Prestige, The Palazzo and The Harbourside coupled with HK$2,000 million of scheduled loan repayment from the developer of LOHAS Park Package Two. Including net proceeds from sales of investment in securities of HK$236 million, dividend income and net cash receipts in respect of investments in non-controlled subsidiaries and associates of HK$174 million, as well as proceeds from disposal of fixed assets of HK$43 million, total cash inflow for 2009 was HK$22,344 million.

Cash outflows for capital projects and property developments were HK$5,391 million, principally for the purchase of railway operational assets and railway extension projects in Hong Kong, construction of SZL4 as well as property renovation and development projects. After settlement of the fixed annual payment of HK$750 million on service concession, equity injection of HK$72 million to the associates for Shenyang Metro Lines 1 and 2 and the Stockholm rolling stock maintenance company, payments of interest and dividends of HK$1,134 million and HK$1,362 million respectively as well as change in working capital, a net cash inflow of HK$13,654 million was generated before loan repayment and borrowings. After a net loan repayment of HK$7,294 million, cash balance of the Group increased by HK$6,360 million to HK$7,094 million as at 31 December 2009.

Financing Activities

New Financings

In 2009, governments worldwide continued to provide monetary and fiscal stimuli to counter the effect of a deep recession triggered by the global financial crisis. The US Federal Reserve held the Fed Funds target rate steady at 0 – 0.25% throughout the year and suppressed long-term interest rates through quantitative easing by buying back treasury and mortgage-backed bonds. By year end, the global economy had shown more concrete signs of recovery, and the US yield curve began to steepen, reflecting expectation of higher inflation and fear of a potentially large supply of treasury debts in later years.

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

Domestic liquidity remained strong, further boosted by significant funds flowing into Hong Kong. The very ample liquidity saw 3-month HIBOR declining from 1% per annum at the beginning of 2009 to 0.14% per annum at year end. However, yield of the 10-year Hong Kong Exchange Fund Notes rose to 2.6% from 1.2% during the period in line with the steepening US yield curve.

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

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

Cost of Borrowing

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

Treasury Risk Management

The Board of Directors approves policies for overall treasury risk management including specific area, such as liquidity risk, interest rate risk, foreign exchange risk, credit risk, concentration risk, use of derivative and non-derivative financial instruments, as well as investment of excess liquidity.

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

The use of derivative financial instruments to control and hedge against interest rate and foreign exchange risk exposures forms an integral part of the Group's risk management strategy. In accordance with Board policy, these instruments shall only be used for controlling or hedging risk exposures, and cannot be used for speculative purposes. All of the derivative instruments used by the Group are over-the-counter derivatives comprising principally interest rate swaps, cross currency swaps and foreign exchange forward contracts.

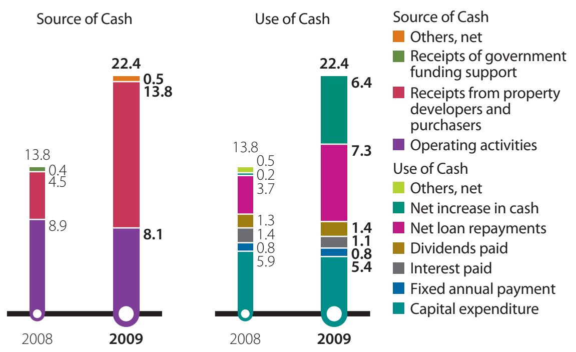
To control and diversify counterparty risks, the Group limits its exposure to credit risk by placing deposits and transacting derivative financial instruments only with financial institutions with acceptable investment grade credit ratings.

All derivative financial instruments are subject to a maximum counterparty limit based on the respective counterparty's credit ratings in accordance with policy approved by the Board. Credit exposure in terms of estimated fair market value of and largest potential loss arising from these instruments based on

Cash Utilisation

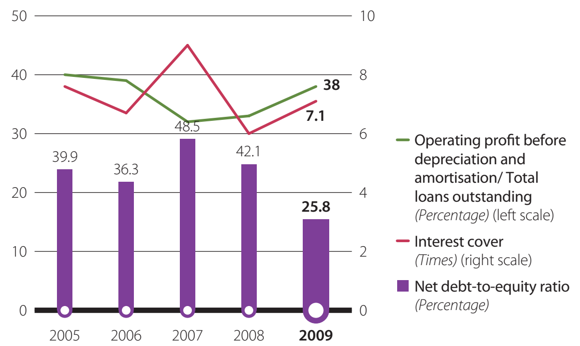
Net cash inflow generated in 2009 was used to reduce borrowings.

(HK$ billion)



Debt Servicing Capability

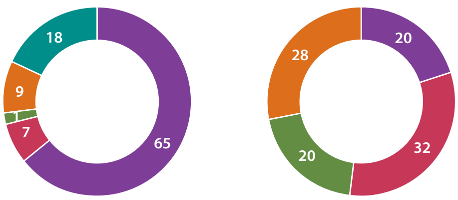
Total debt outstanding decreased in 2009, with a corresponding decrease in debt-to-equity ratio.



Sources of Borrowing

Although Hong Kong is our main market, our strategy is to diversify our funding sources and maintain ready access to other important international markets.

(Percentage) (As at 31 December 2009)



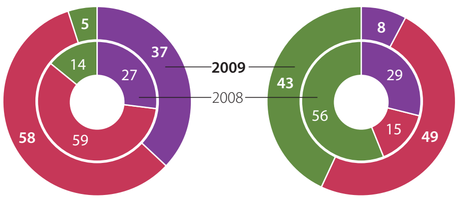
By market
- Hong Kong
- US
- Japan
- Europe
- Asia (excluding Japan)

By instrument
- US$ Global bonds
- Medium term notes
- US$ Eurobonds
- Bank loans & export credits

Use of Interest Rate and Currency Risk Hedging Products

The Company is an active user of derivative financial instruments, and has a strict policy of limiting their usage for hedging purposes only.

(Percentage)* (As at 31 December 2009)



By instrument
- Interest rate swaps
- Cross currency & interest rate swaps
- Foreign exchange forwards

By maturity
- Beyond 5 years
- 2 to 5 years
- Within 2 years

* Calculated based on nominal value

the "value-at-risk" concept is measured, monitored and controlled against their respective counterparty limits. To further reduce risk exposure, the Group also applies set-off and netting arrangements across all derivative financial instruments and other financial transactions with the same counterparty.

All deposits are similarly subject to a separate counterparty limit based on the respective counterparty's credit ratings and/or status as Hong Kong's note issuing bank. There is also a limit on the length of time that the Group can maintain a deposit with a counterparty based upon its credit ratings. Deposit outstanding and maturity profile are monitored on a frequent basis to ensure they are within the approved limits. In anticipation of continuing cash surplus in the next few years, the Group has recently revised the guidelines to allow for longer term investment.

The Group actively monitors credit ratings and credit related changes of all its counterparties using such additional information as the counterparties' credit default swap levels, and would on the basis of all such information adjust the maximum counterparty limits of, and/or credit exposure to, its counterparties.

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

Credit Ratings

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

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

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

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

Credit ratings	Short-term ratings*	Long-term ratings*
Standard & Poor's	A-1+/A-1+	AA+/AA+
Moody's	-/P-1	Aa2/Aa2
Rating & Investment Information Inc. (R&I)	a • 1+	AA+

* Ratings for Hong Kong dollar/foreign currency denominated debts respectively

Financing Capacity

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

Capital expenditure for railway projects in Hong Kong comprises mainly investment in and expenditures relating to new railway projects, including ownership projects such as the West Island Line, South Island Line (East) and the Kwun Tong Line Extension, as well as outlays for maintaining and upgrading the existing rail lines. Concession projects such as the Shatin to Central Link and Express Rail Link will be fully funded by the Government.

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

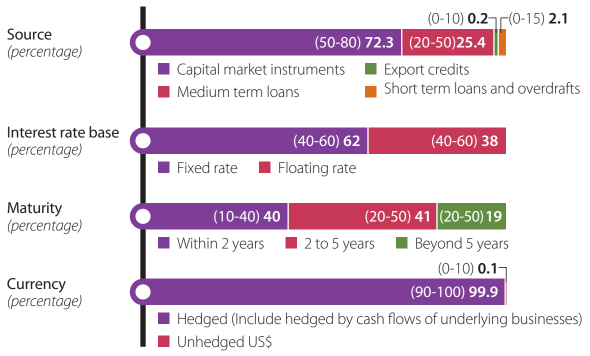
Based on current programmes and before netting off the Government funding support for the West Island Line, total capital expenditures for the next three years of 2010, 2011 and 2012 are estimated at HK$32.5 billion for railway projects in Hong Kong, HK$8.2 billion for property investment and development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

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

Preferred Financing Model and Debt Profile

The Preferred Financing Model exemplifies the Company's prudent approach to debt management and helps ensure a well balanced debt portfolio.

(Preferred Financing Model) vs. **Actual debt profile** As at 31 December 2009



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

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

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

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

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

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

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

Investors and MTR Corporation

The Company is committed to maintaining good relations with its wide base of institutional and retail investors. We believe that shareholder value can be enhanced by clearly communicating the Company's corporate strategies, business development and future outlook through a continuous and active dialogue with existing and potential investors.

As a result of this commitment, for over two decades in the international capital markets the Company has demonstrated a high standard of corporate governance and disclosure, becoming recognised as a leader in investor relations practices in Asia.

Communicating with Institutional Investors

Our proactive approach to investor relations has made the Company one of the most widely covered companies in Hong Kong. A number of local and international brokers currently publish reports on the Company on a regular basis and we are also followed by a wide range of institutional investors.

Management remains dedicated to maintaining an open dialogue with the investment community to ensure a thorough understanding of the Company and its business strategies. During the year, the Company participated in a number of investor conferences, as well as organised roadshows both locally and internationally. In total, over 360 meetings were held with institutional investors and research analysts in 2009.

Retail Shareholder Programmes

The Company greatly values the long-standing shareholder support from our many individual shareholders. Following the success of shareholder programmes in previous years, four retail shareholders programmes were organised in 2009 allowing shareholders to enjoy various exclusive benefits, such as attractive promotions for rides on our network, MTR shopping malls promotions, and limited edition souvenirs.

Access to Information

To ensure all shareholders have equal and timely access to important company information, the Company makes extensive use of the company website to deliver up-to-date information. During the year, the Investor's Information section of the website was upgraded to enhance the navigation and the level of information disclosure. Financial reports, patronage figures, together with other company news and stock exchange filings, are easily accessible on the corporate website.

In addition to the shareholder services offered by Computershare, there is also the Company's dedicated hotline to answer individual shareholders' enquiries. In 2009, the hotline handled more than 74,000 such calls.

Index Recognition

The Company's position in the Hong Kong market as a blue chip stock is affirmed through the continued inclusion of our stock in some of the most important indices. The stock is currently a constituent member of the Hang Seng Index, MSCI Index and FTSE Index Series. Since 2002, our achievements in the areas of sustainability and corporate responsibility have been recognised by both the Dow Jones Sustainability Indexes and the FTSE4Good Index Series. In 2009, the Dow Jones Sustainability World Index (DJSI World) continued to rank MTR Corporation number one in Corporate Sustainability within the global travel and tourism industry sector.

Market Recognition

The Company's Annual Report 2008 received a Gold Award in the 2009 International Annual Report Competition (ARC) Awards. For the 21st consecutive year our Annual Report also achieved recognition in the Hong Kong Management Association (HKMA) Annual Report Awards, with the 2008 report winning the Silver Award under the "General Category" in the 2009 Best Annual Reports Awards Competition. Our Sustainability Report 2008, *Engagement*, was judged the "Best Sustainability Report" by the Association of Chartered Certified Accountants (ACCA) Hong Kong Awards for Sustainability Reporting 2009. During the year, the Company was also awarded "Best Investor Relations" from *FinanceAsia*.

Key Shareholder Information

Financial Calendar 2010

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

Principal Place of Business and Registered Office

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

Telephone: (852) 2993 2111

Facsimile: (852) 2798 8822

Share Information

Listing

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

Ordinary Shares *(as at 31 December 2009)*

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

Nominal Value HK$1 per share

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

Share Price Performance

Dividend Policy

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

Dividend per Share

	(in HK$)
2008 Total Dividend	0.48
2009 Interim Dividend	0.14
2009 Final Dividend	0.38

ADR Level 1 Programme

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

Stock Codes

Ordinary Shares

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

ADR Level 1 Programme MTRJY

Annual Report 2009

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

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

If you are not a shareholder, please write to:

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

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

Shareholder Services

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

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

Telephone: (852) 2862 8628

Facsimile: (852) 2529 6087

Shareholder Enquiries

Our enquiry hotline is operational during normal office hours:

Telephone: (852) 2881 8888

Investor Relations

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

Investor Relations Department, MTR Corporation Limited
MTR Headquarters Building, Telford Plaza, Kowloon Bay,
Kowloon, Hong Kong
Email: investor@mtr.com.hk

The Company is committed to delivering our vision as a globally recognised leader in sustainable development that connects and grows the communities in which we operate with caring service. As our new rail lines reach out across Hong Kong and our operations expand into the Mainland of China and overseas, we have engaged across the Company with the community and stakeholders through awareness, listening and action on society's aspirations and the impacts we have on society and the environment. Through our property and related businesses, we also provide leadership in how the future Hong Kong urban environment will be built and how it will function.

Climate Change

In committing to becoming a true community railway and reducing the impacts of climate change, we are not just thinking locally, but in terms of the challenges to the regional and global communities. Guided by our corporate Climate Change Policy issued in 2006, our focus on managing carbon emissions remains strong. Several of the key actions under the Policy have been adopted and measured for impact under our internal Enterprise Risk Management Framework, particularly in regard to electricity consumption.

In 2009, we proactively managed our greenhouse gas emissions from operating railways and managed properties. Several initiatives on electricity management were undertaken during the year. These included cooling reduction at stations, train speed optimisation and coasting. We began a pilot project in a MTR station in partnership with Clinton Climate Initiative to adopt world-class best practices in energy efficiency improvement.

The Company also expanded trials of environmentally friendly and energy-efficient High Brightness Light Emitting Diode (HB-LED) lights on board trains and in stations, which began in 2006. The new HB-LED system, consuming 30% less electricity and with improved reliability and lighting, was fitted in a Tsuen Wan Line train in February 2009 and on two additional trains in June 2009. It was tested for use in stations for the first time in August 2009, with Choi Hung Station as the pilot.

During construction of the Lok Ma Chau Spur Line, a "no net loss" compensation scheme was established so that the ecological value of the adjacent fishponds was compensated for any loss of wetland habitat. We also undertook active management of the wetland, including vegetation and water quality control, management of fish stocks, drain-down of ponds and construction of a water distribution network.

Sustainability Leadership

In December, MTR Corporation supported the International Association of Public Transport (UITP) initiative entitled "Bridging the Gap" to ensure that public transport was placed on the agenda at the 15th United Nations Climate Change Conference of Parties (COP15) in Copenhagen. Although no final binding agreement resulted from COP15, the Company continues to support efforts to demonstrate the climate benefits of electrically powered mass transit and the "rail plus property" business model to ensure financial sustainability. Locally, we chaired the Best Practice Committee of Hong Kong's Climate Change Business Forum. The Forum is a leadership platform to influence carbon-related policies and regulations in Hong Kong in addition to encouraging the public to understand and respond to climate change impacts.

Our efforts to incorporate sustainability best practices into all our business decisions continue to attract international recognition. In January 2010, we were again recognised as a Sustainability Leader within the global travel and tourism industry sector, and we won a Gold Class award and a Sector Mover award from Sustainable Asset Management (SAM). We were included as the only Hong Kong company in the 2010 Global 100 Most Sustainable Corporations in the World (the Global 100). We were also ranked first among local companies and second among 50 listed companies in Asia by Responsible Research in recognition of our public disclosure of environmental, social and governance issues.

Sustainability Reporting

Since our first environmental report in 2000, we have published an annual corporate sustainability report that follows the Global Reporting Initiative (GRI) and reflects those material issues relevant to the Company. In June, we issued our award-winning Sustainability Report 2008, *Engagement*, with an A+ application level of the GRI G3 Guidelines (www.mtr.com.hk/sustainability). The Report provides a snapshot of the Company's sustainable growth with that of Hong Kong over the past three decades. Throughout its 30-year history, the Company has been committed to building and maintaining a sustainable railway that meets the needs of the present and future generations, facilitating sustainable development in Hong Kong and the Pearl River Delta region of the Mainland of China. The Report focuses on how stakeholder engagement has shaped our vision, mission and values. The Report was recognised as the best in Hong Kong in the Association of Chartered Certified Accountants (ACCA) Hong Kong Awards for Sustainability Reporting 2009.

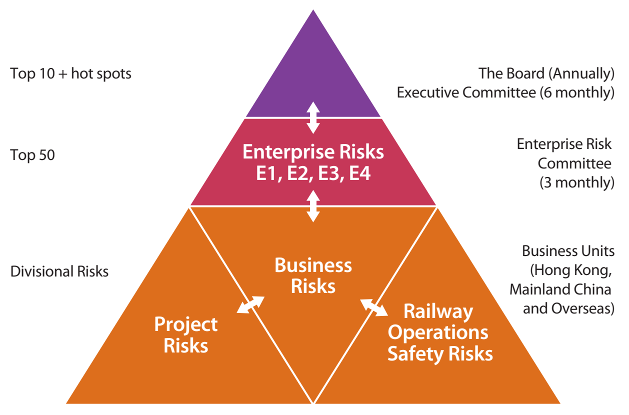
Global Benchmarks

We actively maintain our listings in global benchmarks that promote and measure sustainability such as the internationally recognised Dow Jones Sustainability Indexes (DJSI World, DJSI Asia/Pacific) and the FTSE4Good Index Series. We also participate each year in major best practice reporting exercises under the Global Reporting Initiative (GRI), CoMET (Community of Metros) and Carbon Disclosure Project (CDP).

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

The ERM Framework

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

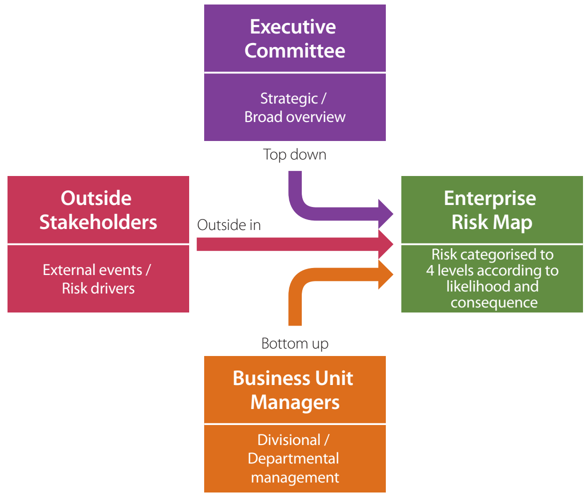


The ERM Framework

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

Systematic Risk Assessment and Reporting

Changes to existing and emerging risks are regularly reviewed by line management. The ERC reviews the operation of the ERM framework and key business risks every three months. The risk reviews cover changes in business environments, the key internal and external risks facing the Company, and the risk perspectives of the Executive Committee, business managers and outside stakeholders. The ERC promotes a proactive risk culture by learning from risk events and failures. The ERC is also supported by risk co-ordinators from different divisions and departments who have been appointed to review risks and processes and share lessons throughout the organisation.



The Risk Assessment Process

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

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

Continuous Improvement

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

Corporate Governance Practices

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

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

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

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

The Board of Directors

The overall management of the Company's business is vested in the Board. Pursuant to the Articles of Association and the Protocol adopted by the Board, the Board has delegated the day-to-day management of the Company's business to the Executive Directorate, and focuses its attention on matters affecting the Company's overall strategic policies, finances and shareholders. These include financial statements, dividend policy, significant changes in accounting policy, annual operating budget, certain material contracts, strategies for future growth, major financing arrangements and major investments, risk management strategies, treasury policies and fare structures.

The Board comprises eleven Members, consisting of one executive Director (the Chief Executive Officer) and ten non-executive Directors, of whom six are independent non-executive Directors. In this regard, the Company *well exceeds* the requirement of the Listing Rules which requires every board of directors of a listed issuer to have at least three independent non-executive directors.

Dr. Raymond Ch'ien Kuo-fung, a Member of the Board since 1998, was re-appointed by the Government in November 2009 as the non-executive Chairman of the Company with effect from December 2009 until December 2012. Dr. Ch'ien was first appointed as the non-executive Chairman of the Company with effect from 21 July 2003 for a term of three years, which was renewed in 2006 for a further term up to 31 July 2007. In July 2007, Dr. Ch'ien was re-appointed as the non-executive Chairman with effect from 1 August 2007 for a term up to 31 December 2007 or the day to be appointed by the Secretary for Transport and Housing ("S for T&H") by notice published in the Gazette under the Rail Merger Ordinance, whichever was the earlier. The Rail Merger Ordinance relates to the Rail Merger between the Company and KCRC. On 8 August 2007, Dr. Ch'ien was re-appointed by the Government as the non-executive Chairman for a term of 24 months with effect from the Rail Merger, which took effect from 2 December 2007.

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

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

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

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

Mr. Vincent Cheng Hoi-chuen, a career banker with extensive international business experience particularly in Asia (Mr. Cheng's biography is set out on page 103), has been appointed as an independent non-executive Director of the Company with effect from 10 July 2009. Also, with effect from the same date, Mr. Cheng has been appointed as a Member of both the Remuneration Committee and the Corporate Responsibility Committee of the Board.

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

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

Biographies of the Members of the Board are set out on pages 102 to 105. None of the Members of the Board and the Executive Directorate has any relationship (including financial, business, family or other material or relevant relationships) between each other, although the office of the S for T&H (Ms. Eva Cheng) and the office of the C for T (Mr. Alan Wong Chi-kong up to and including 16 August 2009 and Mr. Joseph Lai Yee-tak with effect from 17 August 2009) were both appointed by the Chief Executive of the HKSAR, and Professor Chan Ka-keung, Ceajer is the Secretary for Financial Services and the Treasury of the Government, and Ms. Christine Fang Meng-sang sits on various government advisory committees.

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

Headed by the Chief Executive Officer, the Executive Directorate comprises six other Members. Biographies of the Members of the Executive Directorate are set out on pages 105 to 107.

Chairman and Chief Executive Officer

The posts of Chairman and Chief Executive Officer are distinct and separate (please refer to the respective appointment of Dr. Raymond Ch'ien Kuo-fung as the non-executive Chairman of the Company, and Mr. Chow Chung-kong as the Chief Executive Officer of the Company and a Member of the Board on page 86). The non-executive Chairman is responsible for chairing and managing the operations of the Board, as well as monitoring the performance of the Chief Executive Officer and Members of the Executive Directorate. Apart from ensuring that adequate information about the Company's business is provided to the Board on a timely basis, the Chairman also ensures that the non-executive Directors make an effective contribution at Board Meetings. As head of the Executive Directorate and chairman of the Executive Committee (which comprises all other Members of the Executive Directorate, General Manager – Corporate Relations, and General Manager – Marketing & Station Commercial), the Chief Executive Officer is responsible to the Board for managing the business of the Company. Biographies of the Members of the Executive Committee are set out on page 107.

Board Proceedings

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

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

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

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

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

Board Meetings

The Board held seven Meetings in 2009. In this regard, the Company *exceeds* the requirement of the Code which requires every listed issuer to hold Board Meetings at least four times a year. When matters which might result in conflicts of interest between the Company and Government who is a substantial shareholder of the Company, were discussed at Board Meetings, the Government-nominated Members of the Board, i.e. the office of the S for T&H (Ms. Eva Cheng), Professor Chan Ka-keung, Ceajer (the Secretary for Financial Services and the Treasury), and the office of the C for T (Mr. Alan Wong Chi-kong up to and including 16 August 2009 and Mr. Joseph Lai Yee-tak with effect from 17 August 2009) (or their respective alternates) did not attend the relevant parts of the Board Meetings.

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

Private/Other Board Meetings

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

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

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

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

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

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

Meetings Held in 2009

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

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

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

Material Interests and Voting

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

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

Government's Representatives on the Board

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

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

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

If a conflict arises between the interests of the Company and those of the Government, a Director appointed by the Chief Executive of the HKSAR pursuant to Section 8 of the MTR Ordinance or by the Government through its shareholding, would not be included in the quorum of part of a Meeting that relates to the transaction, arrangement or other proposal being considered by the Board and would not be allowed to vote on the related resolution.

Please refer to pages 87 and 88 regarding the Board proceedings in 2009.

There are a number of contractual arrangements that have been entered into between the Company and the Government (and its related entities), some of which are continuing in nature. As the Government is a substantial shareholder of the Company, such contractual arrangements are connected transactions (and in some cases continuing connected transactions) for the purposes of the Listing Rules. The section headed "Connected Transactions" on pages 120 to 132 explains how, in accordance with the Listing Rules, these transactions are treated.

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

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

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

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

As there are currently nine Directors subject to the requirement to retire by rotation, and one-third of them shall retire at each annual general meeting of the Company (subject to re-election by the shareholders), each of these Directors is effectively appointed for a term of approximately three years.

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

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

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

Accountability

The Members of the Board are responsible for preparing the accounts of the Company and of the Group. The accounts are prepared on a going concern basis and give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2009, and of the Group's profit and cash flow for the year then ended. In preparing the accounts for the year ended 31 December 2009, the Members of the Board have selected appropriate accounting policies and, apart from those new and amended accounting policies as disclosed in the notes to the accounts for the year ended 31 December 2009, have applied them consistently with previous financial periods. Judgments and estimates have been made that are prudent and reasonable. The reporting responsibilities of the External Auditor are set out on page 134.

In support of the above, the accounts presented to the Board have been reviewed by the Members of the Executive Directorate. For both the annual and interim reports and accounts, the Finance Division is responsible for clearing them with the External Auditor and then the Audit Committee. In addition, all new and amended accounting standards and requirements, as well as changes in accounting policies adopted by the Company have been discussed and approved at the Audit Committee before adoption by the Company.

Board Committees

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

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

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

Audit Committee

The Audit Committee consists of four non-executive Directors, three of whom are independent non-executive Directors. The Members of the Committee are Mr. T. Brian Stevenson (chairman), Mr. Ng Leung-sing, the C for T (Mr. Joseph Lai Yee-tak succeeded Mr. Alan Wong Chi-kong with effect from 17 August 2009), and Mr. Abraham Shek Lai-him (effective from 1 February 2010). Professor Cheung Yau-kai served the Committee up to the conclusion of the 2009 AGM (please refer to page 87). Mr. Stevenson, Mr. Ng and Mr. Shek are also independent non-executive Directors. None of the Committee Members is a partner or former partner of KPMG, the Company's External Auditor. The Finance & Business Development Director, the Head of Internal Audit and representatives of the External Auditor of the Company are expected to attend Meetings of the Committee. At the discretion of the Committee, others may also be invited to attend Meetings. The Committee meets regularly, and the External Auditor or the Finance & Business Development Director may request a Meeting if they consider it necessary.

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

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

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

Duties of Audit Committee

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

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

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

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

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

Work Performed by Audit Committee

In 2009, the Audit Committee held four Meetings and, based on the Agenda Framework pre-agreed with the chairman of the Committee, a total of four Meetings had been scheduled for 2010. The attendance record of each Audit Committee Member is set out on page 89 under the section "Board Proceedings". The major work performed by the Committee in 2009 included:

- Review of and recommendation for the Board's approval the draft 2008 Annual Report and Accounts and 2009 Interim Report and Accounts;
- Approval of the 2010 Internal Audit Plan;
- Pre-approval of the audit and non-audit services provided by KPMG, the External Auditor, for 2009;
- Approval of the remuneration and terms of engagement of KPMG for the 2009 audit;
- Preview of 2009 annual accounting issues;
- Review of the effectiveness of the Company's internal control systems;
- Review of the effectiveness of the Internal Audit Department;
- Review of a report on staff complaints;
- Review of enterprise risk management;
- Review of the outstanding litigation and compliance with statutes and regulations relevant to the business of the Company;
- Review of the revised Terms of Reference in the light of the amendments to the Listing Rules effective from 1 January 2009, and to permit the Secretary of the Committee to be either the Company Secretary of the Company or his designate (Please refer to page 91); and
- Review of the Company's processes and structures put in place to control and monitor its exposures in the Mainland of China and overseas investments.

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

Remuneration Committee

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

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

Duties of Remuneration Committee

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

Work Performed by Remuneration Committee

In 2009, the Remuneration Committee held four Meetings. The attendance record of each Committee Member is set out on page 89 under the section "Board Proceedings". In accordance with its Terms of Reference, the Committee performed the following work during the year:

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

The Remuneration Committee also met on 4 March 2010 to approve the 2009 Remuneration Report, which is set out on pages 99 to 101 and includes a description of the remuneration policy of the Company.

Nominations Committee

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

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

Duties of Nominations Committee

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

Work Performed by Nominations Committee

In 2009, the Nominations Committee held one Meeting. Attended by all Members of the Committee at the Meeting on 22 June 2009 and after discussion, the Committee agreed to recommend to the Board the appointment of Mr. Vincent Cheng Hoi-chuen, a career banker with extensive international business experience particularly in Asia (Mr. Cheng's biography is set out on page 103), as a Member of the Board, and as a Member of the Remuneration Committee and the Corporate Responsibility Committee respectively, all to take effect from 10 July 2009. Mr. Cheng was invited to join part of the Meeting and share views with the Members. This took place prior to the Committee reaching the recommendation decision. The appointment was approved by the Board on 10 July 2009.

Attendance record of each Committee Member is shown on page 89 under the section "Board Proceedings".

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

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

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

Corporate Responsibility Committee

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

Duties of Corporate Responsibility Committee

The duties of the Committee are to recommend a corporate responsibility policy to the Board for approval, monitor and oversee the implementation of the Company's corporate responsibility policy and initiatives, identify emerging corporate responsibility issues arising from external trends, review annual Sustainability Report and recommend endorsement by the Board, and provide updates to the Board as required. Please also refer to the "Sustainability" section on page 84 of this Annual Report.

Work Performed by Corporate Responsibility Committee

In 2009, the Corporate Responsibility Committee held two Meetings. The attendance record of each Committee Member is set out on page 89 under the section "Board Proceedings". The major work performed by the Committee in 2009 included:

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

Internal Controls

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

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

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

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

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

- Operations Executive Management Committee
- Operations Business Meeting
- Property Executive Management Committee
- Project Control Group
- Railway Development Steering Group

- Consultancy Services Management Committee
- European Business Executive Committee
- China Business Executive Committee
- Information Technology Executive Management Committee
- Financial Planning Committee
- Investment Committee
- Corporate Safety Management Committee
- Enterprise Risk Committee
- Code of Conduct Steering Committee
- Tender Board
- Executive Tender Panel
- Corporate Responsibility Steering Committee

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

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

Risk Assessment and Management

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

More details of the framework and process are given in the section headed Risk Management on page 85.

Control Activities and Processes

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

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

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

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

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

- the changes in the nature and extent of significant risks since the previous review and the Company's ability to respond to changes in its business and external environment;
- the scope and quality of management's ongoing monitoring of risks and the system of internal controls, the work of the Internal Audit Department, and the assurance provided by the Executive Committee;

- the extent and frequency with which the results of monitoring are communicated, enabling the Audit Committee to build up a cumulative assessment of the state of control in the Company and the effectiveness with which risk is being managed;
- the incidence of any significant control failings or weaknesses that have been identified at any time during the period and the extent to which they have resulted in unforeseen outcomes or contingencies that have had, could have had, or may in the future have, a material impact on the Company's financial performance or condition; and
- the effectiveness of the Company's processes in relation to financial reporting and statutory and regulatory compliance.

The processes for assessing internal controls by the Audit Committee have included: regular interviews with Members of the Executive Committee in relation to key business operations, internal control and compliance issues, both financial and non-financial; review of significant issues arising from internal audit reports and external audit report, and private sessions with internal and external auditors. The Audit Committee has also reviewed the papers prepared by the Executive Committee and Internal Audit Department covering: 2008 Annual Report and Accounts, Preview of 2009 Annual Accounting issues, 2009 Interim Accounts, 2010 Internal Audit Plan, Internal Audit Department's Half-yearly Reports, Annual Report on Staff Complaints, Report on the Company's Internal Control System, Reporting of Outstanding Litigation and Compliance Issues, Enterprise Risk Management Report 2008 and Evaluation of Effectiveness of Internal Audit Department. The chairman of the Committee meets on an ad hoc basis with the Head of Internal Audit, representatives of the External Auditor and Management of the Company as appropriate. He summarizes activities of the Committee and highlights issues arising therefrom by a report to the Board after each Audit Committee Meeting.

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

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

Continuous Disclosure Obligations regarding Price Sensitive Information

The Company has developed a system with established policies, processes and procedures across all relevant Division(s) and Department(s) for complying with the disclosure obligations regarding price sensitive information. Further, a taskforce comprising all relevant heads of department reviewed the system in detail and thoroughly went through the checklist from the Stock Exchange to all issuers in late 2008. The recommendation that the Company has an effective system in dealing with the disclosure obligations was reported to the Executive Committee, and then to the Board of Directors in December 2008. Efforts to enhance the system in the light of the business operation and development of the Company continued in 2009.

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

The Company has adopted the Model Code. After having made specific enquiry, the Company confirms that, save as disclosed in the following paragraph, Members of the Board and the Executive Directorate complied throughout the year with the Model Code set out in Appendix 10 to the Listing Rules. Senior managers, other nominated managers and staff who, because of their office in the Company, are likely to be in possession of unpublished price sensitive information, have been requested to comply with the provisions of the Model Code. In addition, every employee is bound by the Code of Conduct issued by the Company, amongst other things, to keep unpublished price sensitive information in strict confidence.

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

Business Ethics

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

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

External Auditor

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

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

The nature of audit and non-audit services provided by KPMG and fees paid to KPMG (including any entity that is under common control, ownership or management with the audit firm or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as part of the audit firm nationally or internationally) are set out in note 8D to the accounts on page 156.

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

Communication with Shareholders

Annual General Meeting ("AGM")

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

Chairman's Statement

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

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

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

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

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

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

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

Resolutions Passed at the 2009 AGM

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

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

(1) Adoption of the audited Statement of Accounts and the Reports of the Directors and the Auditors of the Company for the year ended 31 December 2008;

(2) Declaration of a final dividend of HK$0.34 per share for the year ended 31 December 2008;

(3) (a) Re-election of Dr. Raymond Ch'ien Kuo-fung as a Member of the Board of Directors of the Company; and

(b) Re-election of Mr. T. Brian Stevenson as a Member of the Board of Directors of the Company;

(4) Re-appointment of KPMG as Auditors of the Company and authorisation of the Board of Directors to determine their remuneration;

(5) Grant of a general mandate to the Board of Directors to allot, issue, grant, distribute and otherwise deal with additional shares in the Company, not exceeding ten per cent. of the Company's issued share capital as at the date of this resolution*;

(6) Grant of a general mandate to the Board of Directors to purchase shares in the Company, not exceeding ten per cent. of the Company's issued share capital as at the date of this resolution*;

(7) Conditional on the passing of resolutions 5 and 6, authorisation of the Board of Directors to exercise powers to allot, issue, grant, distribute and otherwise deal with additional shares in the Company under resolution 5 in respect of the aggregate nominal amount of share capital in the Company purchased by the Company*; and

(8) Amendment to the Articles of Association of the Company to permit the Company to deliver or serve any notice or other document (including any corporate communication) to or on its shareholders by publishing it on a computer network (including the Company's website)*.

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

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

Extraordinary General Meeting ("EGM")

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

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

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

Enquiries from Shareholders

Details of other means of communication with shareholders are set out in the section of Investor Relations on pages 82 and 83.

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

Remuneration Policy

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

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

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

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

A summary of the work performed by the Remuneration Committee during 2009 is set out in the "Corporate Governance Report" on pages 86 to 98.

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

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

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

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

Remuneration Structure for Employees

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

Fixed Compensation

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

Variable Incentives

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

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

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

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

Discretionary Awards

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

Long-Term Incentives

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

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

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

Details of the three Schemes and options granted to Members of the Executive Directorate and selected employees of the Company under the Schemes are set out in notes 9 and 51 to the accounts.

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

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

Retirement Schemes

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

(a) MTR Retirement Scheme

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

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

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

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

(b) MTR RBS

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

(c) MTR Provident Fund Scheme

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

The MTR Provident Fund Scheme is a registered scheme under the Occupational Retirement Schemes Ordinance and has been granted an MPF Exemption so that it can be offered to employees as an alternative to the MPF Scheme. On or after 1 March 2008, employees who are eligible to join the MTR Provident Fund Scheme can choose between the MTR Provident Fund Scheme and the MTR MPF Scheme, except where they were previously members of the KCRC MPF Scheme, whereupon they can choose between the MTR Provident Fund Scheme and the KCRC MPF Scheme. All benefits payable under the MTR Provident Fund Scheme are calculated by reference to the Company's contributions and members' own contributions, together with investment returns on these contributions. Both members' and the Company's contributions are based on fixed percentages of members' base salary.

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

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

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

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

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

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

Remuneration of Non-Executive and Executive Directors

(i) The total remuneration of the Members of the Board and the Executive Directorate (excluding share-based payments) is shown below and the remuneration details are set out in note 9 to the accounts.

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

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

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

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

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

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

Members of the Board

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

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

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

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

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

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

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

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

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

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

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

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

Members of the Executive Directorate

Chow Chung-kong Biographical details are set out on page 102.

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

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

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

Thomas Ho Hang-kwong 58, has served as the Property Director since joining the Company in 1991. He is responsible for the development and management of all properties above and adjacent to MTR stations and depots. He leads a multi-disciplinary team of managers involved in the planning, design, construction and management of large-scale property developments. Between 1971 and 1990, Mr. Ho worked for the Hong Kong Government specialising in land administration and latterly held a directorate post in the Lands Department, responsible for formulating policies and procedures to make land available for the airport and the Airport Railway project. Mr. Ho qualified in 1974 as a chartered surveyor in Hong Kong. He is serving The Community Chest of Hong Kong as a Campaign Committee Member and Corporate and Employee Contribution Programme Organising Committee Co-chairman.

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

Andrew McCusker 64, has served as the Operations Director since December 2005. Mr. McCusker has more than 40 years of experience in the operating, engineering and projects fields in Defence, Power, Water and Rail Industries. He joined the Company as Operations Engineering Manager in 1987, and since then has been posted to other responsible positions, including Operations Engineering Design Manager, Project Manager (Operations) and General Manager (Operations). He was appointed Deputy Operations Director in March 2004 and Acting Operations Director in October 2005. Mr. McCusker holds a degree in Mechanical Engineering from the Kensington University in the United States and is a chartered member of both the Institution of Mechanical Engineers of the United Kingdom and the Chartered Institute of Personnel and Development (U.K.). In 2007, he was awarded the prestigious Steve Maxwell Leadership Award from the Australian Asset Management Council. Mr. McCusker is an Adjunct Professor of Railway Engineering for The Hong Kong Polytechnic University.

From Left to Right:
Leonard Bryan Turk
Russell John Black
CK Chow
Lincoln Leong Kwok-kuen

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

Members of the Executive Committee

The Executive Committee comprises all Members of the Executive Directorate (whose biographies are on pages 105 to 107), General Manager – Corporate Relations, and General Manager – Marketing & Station Commercial.

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

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

From Left to Right (back):
Andrew McCusker
Thomas Ho Hang-kwong
William Chan Fu-keung

From Left to Right (front):
Miranda Leung Chan Che-ming
Jeny Yeung Mei-chun

Chow Chung-kong
Chief Executive Officer

Operations

Andrew McCusker
Operations Director

Morris Cheung Siu-wa
Chief of Operating

Choi Tak-tsan
Head of Operating

Jacob Kam Chak-pui
Chief of Operations Engineering

William Leung Hon-wai
Head of Operations Strategic Business Management

David Leung Chuen-choi
General Manager – Technical & Engineering Services

Ronald Cheng Kin-wai
Deputy General Manager – Asset Engineering

Richard Keefe
General Manager – Infrastructure

Tony Lee Kar-yun
Rolling Stock Fleet Manager

George Lee Kai-wing
General Manager – Safety & Quality

Ho Chun-wing
Planning & Development Manager

Carmen Li Wai-ching
General Manager – Intercity & Freight

China & International Business

Lincoln Leong Kwok-kuen
Finance and Business Development Director

Chen Yan
CEO – Mainland China Business

Wilfred Lau Cheuk-man
Head of Operations – China & International Business

Richard Wong Shiu-ki
General Manager – Beijing & Tianjin

Adi Lau Tin-shing
General Manager – Shenzhen

Leung Kwok-yiu
General Manager – Shenyang

Antonio Choi Fung-chung
Chief Project Manager – Shenzhen Line 4

Lee Tze-man
Project Manager – Beijing Line 4

Jeremy Long
Chief Executive Officer – European Business

Projects

Russell Black
Projects Director (up to 31 January 2010)

Chew Tai-chong
Projects Director (w.e.f. 1 February 2010)

Lee Kang-kuen
Deputy Projects Director – Operations Projects

Paul Lo Po-hing
General Manager – XRL

David Sorton
General Manager – XRL Civil Construction

Alvin Luk Wing-kwok
Project Manager – XRL E&M

Alan Morris
Project Manager – XRL Tunnels

Calum Smith
Project Manager – XRL Terminus

Roderic Hockin
General Manager – WIL/SIL

Barry Hill
Project Manager – WIL/SIL E&M

Julian Saunders
Project Manager – WIL Civil

Mark Cuzner
Project Manager – SIL Civil

Henry Lam Hing-cheung
General Manager – SCL/KTE

James Chow So-hung
Project Manager – SCL/KTE Civil

Dono Tong Kwok-wai
Project Manager – Operations Projects (w.e.f. 1 January 2010)

Mike Yeoman
Project Manager – Rolling Stock (w.e.f. 18 January 2010)

Malcolm Gibson
Head of Project Engineering

Wilfred Yeung Sze-wai
Chief Architect

Stephen Chik Wai-keung
Chief Civil & Planning Engineer

Leung Chi-lap
Chief E&M Engineer

Property

Thomas Ho Hang-kwong
Property Director

Roger Poon Fat-chi
Head of Property Investment & Management

Victor Chan Hin-fu
Head of Property Development

David Tang Chi-fai
Head of Property Project

Steve Yiu Chin
Head of Town Planning

Mingo Kwan Sze-ming
General Manager – Property Management

Betty Leong Sin-ling
General Manager – Investment Property

Finance

Lincoln Leong Kwok-kuen
Finance and Business Development Director

Jimmy Lau Chiu-chung
General Manager – Financial Control & Treasury (up to 31 December 2009)

Ricky Tsang Tin-for
General Manager – Financial Control

Herbert Hui Leung-wah
General Manager – Corporate Finance

Jeff Kwan Wai-hung
Treasurer

Daniel Lai Sik-cheung
Head of Information Technology

Denise Ng Kee Wing-man
Head of Investor Relations and Retirement Benefits

Legal & Procurement

Leonard Turk
Legal Director & Secretary

David Fleming
Deputy Legal Director

Gillian Meller
Corporate Counsel (w.e.f. 1 January 2010)

Martin Dunn
General Manager – Procurement & Contracts

Teresa Tang Sui-ching
Procurement & Contracts Manager – Operations

Stephen Griffin
Procurement & Contracts Manager – HK Projects (E&M)

Scott Mackenzie
Procurement & Contracts Manager – HK Projects (Civil)

Lila Fong Man-lee
Legal Manager – Company Secretarial

Linda Li Sau-lin
Legal Manager – Property

Human Resources & Administration

William Chan Fu-keung
Human Resources Director

Vincent Luk Kin-ping
General Manager – Human Resources

Daniel Shim Ming-yi
General Manager – Human Resources Development

Marketing

Jeny Yeung Mei-chun
General Manager – Marketing & Station Commercial

Corporate Relations

Miranda Leung Chan Che-ming
General Manager – Corporate Relations

May Wong May-kay
Deputy General Manager – Corporate Relations

Internal Audit

Stanley Woo Kam-ming
Head of Internal Audit

Octopus Holdings Limited

Prudence Chan
Chief Executive Officer

Ngong Ping 360 Limited

Li Yun-tai
Managing Director

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

Principal Activities of the Group

The principal activities of the Company and its subsidiaries are:

A the operation of a modern railway system with lines from Central to Tsuen Wan (Tsuen Wan Line), from Yau Ma Tei to Tiu Keng Leng (Kwun Tong Line), from Po Lam and LOHAS Park to North Point (Tseung Kwan O Line), from Chai Wan to Sheung Wan (Island Line), from Hong Kong to Tung Chung (Tung Chung Line), from Hong Kong to the Hong Kong International Airport and then AsiaWorld-Expo both at Chek Lap Kok (Airport Express), from Sunny Bay to Disneyland Resort (Disneyland Resort Line), from Hung Hom to the boundary at Lo Wu and Lok Ma Chau (East Rail Line), from Tai Wai to Wu Kai Sha (Ma On Shan Line), from Hung Hom to Tuen Mun (West Rail Line), the North-west Railway (commonly known as Light Rail) in the North-West New Territories of Tuen Mun, Tin Shui Wai and Yuen Long, and an intercity railway system between Hong Kong and some major cities in the Mainland of China;

B property development, either as owner or as an agent for KCRC, at locations relating to the railway system including the Tseung Kwan O Line, the Ma On Shan Line, the East Rail Line, the Light Rail and the West Rail Line;

C related commercial activities, including the letting of advertising and retail space, bandwidth services on the railway telecommunication system, property management and leasing management of investment properties (including shopping malls, offices and residential units);

D the investment in a 50% equity share in the operation of the 7-year UK's London Overground Concession, consisting of 107.2 route kilometres of 4 London railway lines with connections into the London Underground network;

E the investment in the operation (including rolling stock maintenance which is undertaken by a 50:50 joint venture) of the 8-year Sweden's Stockholm Metro Concession, consisting of three lines measuring a total of 108 kilometres, linking the Swedish capital's central areas with surrounding suburbs;

F the investment in a 60% equity share in the operation and maintenance of Australia's Melbourne train system, consisting of 15 lines measuring a total of 372 kilometres, linking Melbourne's central business district with surrounding suburbs, under a franchise agreement with an initial period of 8 years;

G the design and construction of the West Island Line as an extension of the Island Line;

H the further design, construction, procurement of services and equipment, testing, commissioning and all other matters associated with bringing the Hong Kong section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link into service;

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

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

K worldwide consultancy services covering all areas of expertise required in the project management, planning, construction, operation, maintenance and up-grading of railways plus fare collection, property integration/development advice including other property related services and advice on generation of non-fare revenues;

L investment in Octopus Holdings Limited, a subsidiary of the Company, which has business activities both in Hong Kong and overseas including the operation of a smart card system by its subsidiary Octopus Cards Limited for the collection of payments for both transport and non-transport applications in Hong Kong;

M equity investments and long term operations and maintenance contracts outside of Hong Kong;

N property management, shopping mall investment and railway related property development business in the Mainland of China;

O the investment in a 49% equity interest in the construction and operations of Beijing Metro Line 4, consisting of 28 kilometres with 24 stations forming the main north-south traffic artery for Beijing, Mainland of China under a 30 years concession agreement with the Beijing Municipal Government, and future operations and maintenance of Beijing Metro Daxing Line, an extension of the Beijing Metro Line 4, consisting of 22 kilometres with 11 stations, under a concession agreement with Beijing Metro Daxing Line Investment Company Limited, a wholly owned subsidiary of Beijing Municipal Government with an initial period of 10 years;

P the investment in, design and construction of Phase 2 of Shenzhen Metro Line 4 together with future operations of Phase 1 and Phase 2, a 20.5 kilometres double-track urban railway running from Futian Checkpoint at the boundary between Hong Kong and Shenzhen, Mainland of China, to Longhua New Town in Shenzhen with a total of 15 stations, under a 30 years Build-Operate-Transfer concession agreement with the Shenzhen Municipal Government; and

Q the investment in a 49% equity interest in future operations and maintenance of Shenyang Metro Line 1 (consisting of 28 kilometres with 22 underground stations forming the east-west traffic corridor in Shenyang, Mainland of China) and Line 2 (consisting of 22 kilometres with 19 underground stations forming the north-south corridor in Shenyang), under a 30 years concession agreement with Shenyang Municipal Government and its wholly owned subsidiary, Shenyang Metro Group Company Limited.

A Concession Agreement for a Public-Private Partnership project for the investment, construction and operations of Hangzhou Metro Line 1 for a term of 25 years was entered into by MTR Hangzhou Line 1 Investment Company Limited (a wholly-owned subsidiary of the Company) and a subsidiary of Hangzhou Metro Group Company Limited together with Hangzhou Municipal Government. The Concession Agreement is subject to approval by relevant authorities in the Mainland.

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

Dividend

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

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

Members of the Board

Members of the Board who served during the year were Raymond Ch'ien Kuo-fung (non-executive Chairman), Chow Chung-kong (Chief Executive Officer), Cheung Yau-kai [retired by rotation and did not offer himself for re-election at the Annual General Meeting on 4 June 2009], Vincent Cheng Hoi-chuen [appointed on 10 July 2009], Christine Fang Meng-sang, Edward Ho Sing-tin, Ng Leung-sing, Abraham Shek Lai-him, T. Brian Stevenson, Chan Ka-keung, Ceajer, the Secretary for Transport and Housing (Eva Cheng) and the Commissioner for Transport (Alan Wong Chi-kong ceased to hold the post of the Commissioner for Transport and Joseph Lai Yee-tak was appointed to that post, both with effect from 17 August 2009).

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

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

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

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

Biographical details for Board Members are set out on pages 102 to 105.

Alternate Directors

The Alternate Directors in office during the year were:

- for Chan Ka-keung, Ceajer: Ying Yiu-hong and Leung Cheuk-man;
- for the office of the Secretary for Transport and Housing: (i) the Under Secretary for Transport and Housing (Yau Shing-mu); (ii) the Permanent Secretary for Transport and Housing (Transport) (Ho Suen-wai); and (iii) the Deputy Secretary for Transport and Housing (Transport) (Yung Wai-hung [who ceased to be Deputy Secretary for Transport and Housing (Transport) and accordingly ceased to be an alternate director to the office of the Secretary for Transport and Housing with effect from 1 February 2010], Shirley Yuen and Maisie Cheng Mei-sze [with effect from 1 February 2010]); and
- for the Commissioner for Transport: the Deputy Commissioner for Transport/Transport Services and Management (Carolina Yip Lai-ching).

Executive Directorate

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

Russell John Black retired as Projects Director and a Member of the Executive Directorate, and Chew Tai Chong was appointed as Projects Director and a Member of the Executive Directorate, both with effect from 1 February 2010. Mr. Chew joined the Company as Deputy Projects Director – New Projects in May 2009.

Biographical details for Members of the Executive Directorate during the year are set out on pages 105 to 107.

Internal Audit

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

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

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

Business Ethics

Please refer to page 97.

Policies

The Board has adopted the following risk management strategies and policies:

A Construction and Insurance Risk Management Strategy;

B Finance Risk Management Strategy;

C Treasury Risk Management Strategy;

D Safety Risk Management Strategy;

E Enterprise Risk Management Strategy;

F Security Risk Management Policy; and

G Environmental Risk Management Policy.

Public Float

The Stock Exchange granted to the Company, at the time of its listing on the Main Board of the Stock Exchange in 2000, a waiver from strict compliance with Rule 8.08(1) of the Listing Rules ("Public Float Waiver"). Pursuant to the Public Float Waiver, the Company's prescribed minimum percentage of shares which must be in the hands of the public must not be less than 10% of the total issued share capital of the Company. Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained the prescribed amount of public float during the year and up to the date of this report as required by the Public Float Waiver.

Bank Overdrafts, Bank Loans and Other Borrowings

The total borrowings of the Group as at 31 December 2009 amounted to HK$23,868 million (2008: HK$31,289 million). Particulars of borrowings including bank overdrafts and bank loans are set out in note 41 to the accounts.

Accounts

The state of affairs of the Company and the Group as at 31 December 2009 and of the Group's results, changes in equity and cash flows for the year are set out in the accounts on pages 135 to 231.

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 80 to 81.

Fixed Assets and Railway Construction in Progress

Movements in fixed assets and railway construction in progress during the year are set out in notes 21 to 23 and 25 to the accounts respectively.

Movements in Reserves

Movements in reserves during the year are set out in the Consolidated Statement of Changes in Equity and notes 49 and 50 to the accounts.

Share Capital

As at 31 December 2008, the authorised share capital of the Company was HK$6.5 billion, divided into 6.5 billion Ordinary Shares, 5,661,143,113 of which were issued and credited as fully paid.

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

A 657,500 Ordinary Shares were issued by the Company pursuant to the exercise of share options which had been granted under the Company's Pre-Global Offering Share Option Scheme (as referred in note 49A to the accounts). In respect of each Ordinary Share issued, the relevant exercise price per share of options is HK$8.44 to the Company;

B 828,500 Ordinary Shares were issued by the Company pursuant to the exercise of share options which had been granted under the Company's New Joiners Share Option Scheme (as referred in note 49A to the accounts). In respect of each Ordinary Share issued, the relevant exercise price per share of options are HK$9.75, HK$15.97 and HK$20.66 to the Company;

C 56,500 Ordinary Shares were issued by the Company pursuant to the exercise of share options which had been granted under the Company's 2007 Share Option Scheme (as referred in note 49A to the accounts). In respect of each Ordinary Share issued, the relevant exercise price per share of options is HK$18.30 to the Company;

D 50,160,754 Ordinary Shares were issued by the Company in order to satisfy shareholders' scrip dividend elections in respect of the final dividend of the Company for the year ended 31 December 2008 (for which the cash dividend was HK$0.34 per Ordinary Share); and

E 14,987,325 Ordinary Shares were issued by the Company in order to satisfy shareholders' scrip dividend elections in respect of the interim dividend of the Company for the six months ended 30 June 2009 (for which the cash dividend was HK$0.14 per Ordinary Share).

As at 31 December 2009, the authorised share capital of the Company was HK$6.5 billion, divided into 6.5 billion Ordinary Shares, 5,727,833,692 of which were issued and credited as fully paid.

Redemption of Listed Securities

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

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

Properties

Particulars of the principal investment properties and properties held for sale of the Company are shown on pages 52 to 53.

Donations

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

In addition, the MTR HONG KONG Race Walking 2009 raised more than HK$1 million for the Hospital Authority Health InfoWorld to promote good health.

The Company helped raise funds for the Community Chest and the Hong Kong Cancer Fund with a total cash donation of over HK$284,000 through different activities such as CARE Scheme, Green Day, Love Teeth Day and Dress Special Day for the former organisation and Dress Pink Day for the latter.

Reporting and Monitoring

There is a comprehensive budgeting system for all operational and business activities, with an annual budget approved by the Board. Monthly results of the Company's operations, businesses and projects are reported against the budget to the Board and updated forecasts for the year are prepared regularly.

Treasury Management

The Company's Treasury Department operates within approved guidelines from the Board. It manages the Company's debt profile with reference to the Preferred Financing Model which defines the preferred mix of financing instruments, fixed and floating rate debts, maturities, interest rate risks, currency exposure and financing horizon. The model is reviewed and refined periodically to reflect changes in the Company's financing requirements and market environment. Derivative financial instruments such as interest rate swaps and cross currency swaps are used only as hedging tools to manage the Group's exposure to interest rate and currency risks. Prudent guidelines and procedures are in place to control the Company's derivatives activities, including a comprehensive credit risk management system for monitoring counterparty credit exposure using the Value-at-Risk approach. There is also appropriate segregation of duties within the Company's Treasury Department.

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

Capital and Revenue Expenditure

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

Bonds and Notes Issued

The Group issued bonds and notes during the year ended 31 December 2009, details of which are set out in note 41 to the accounts. Such bonds and notes were issued in order to meet the Group's general corporate funding requirements, including the financing of new capital expenditure and the refinancing of maturing debts.

Computer Processing

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

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

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

Board Members' and Executive Directorate's Interests in Shares

As at 31 December 2009, the interests or short positions of the Members of the Board and the Executive Directorate in the shares, underlying shares and debentures of the Company (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) ("SFO")) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

Long Positions in Shares and Underlying Shares of the Company

				Derivatives			
	Number of Ordinary Shares held			Share Options	Other		
Member of the Board or the Executive Directorate	Personal* interests	Family† interests	Corporate interests	Personal* interests	Personal* interests	Total interests	Percentage of aggregate interests to total issued share capital
Raymond Ch'ien Kuo-fung	51,499	–	–	–	–	51,499	0.00090
Chow Chung-kong	–	–	–	1,660,000 (Note 1)	222,161 (Note 2)	1,882,161	0.03286
Vincent Cheng Hoi-chuen	1,675	1,675	–	–	–	3,350	0.00006
Christine Fang Meng-sang	1,712	–	–	–	–	1,712	0.00003
T. Brian Stevenson	4,983	–	–	–	–	4,983	0.00009
Russell John Black	57,389	–	–	382,500 (Note 1)	–	439,889	0.00768
William Chan Fu-keung	46,960	–	–	(i) 117,500 (Note 3) (ii) 510,000 (Note 1)	–	674,460	0.01178
Thomas Ho Hang-kwong	146,223	2,541	–	510,000 (Note 1)	–	658,764	0.01150
Lincoln Leong Kwok-kuen	23,000	–	23,000 (Note 4)	(i) 417,500 (Note 5) (ii) 510,000 (Note 1)	160,000 (Note 6)	1,133,500	0.01979
Andrew McCusker	–	–	–	510,000 (Note 1)	–	510,000	0.00890
Leonard Bryan Turk	–	–	–	510,000 (Note 1)	–	510,000	0.00890

Long Positions in Shares and Underlying Shares of the Company *(continued)*

	Number of Ordinary Shares held			Derivatives: Share Options	Derivatives: Other		
Member of the Executive Directorate	Personal* interests	Family† interests	Corporate interests	Personal* interests	Personal* interests	Total interests	Percentage of aggregate interests to total issued share capital
Chew Tai Chong (Note 7)	–	–	–	255,000 (Note 1)	–	255,000	0.00445

Notes

1 Further details of the above share options are set out in the table below showing details of the options to subscribe for ordinary shares granted under the 2007 Share Option Scheme.

2 Chow Chung-kong has a derivative interest in respect of 222,161 shares in the Company within the meaning of Part XV of the SFO. That derivative interest represents Mr. Chow's entitlement to receive an equivalent value in cash of 222,161 shares in the Company on completion of his existing contract (on 31 December 2011).

3 Further details of the above share options are set out in the table below showing details of the options to subscribe for ordinary shares granted under the Pre-Global Offering Share Option Scheme.

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

5 Further details of the above share options are set out in the table below showing details of the options to subscribe for ordinary shares granted under the New Joiners Share Option Scheme.

6 Lincoln Leong Kwok-kuen has a derivative interest in respect of 160,000 shares in the Company within the meaning of Part XV of the SFO. That derivative interest represents Mr. Leong's entitlement to receive an equivalent value in cash of 160,000 shares in the Company on 9 April 2010.

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

* Interests as beneficial owner

† Interests of spouse or child under 18 as beneficial owner

Options to Subscribe for Ordinary Shares Granted under the Pre-Global Offering Share Option Scheme, as Referred to in Notes 9B(i) and 51A(i) to the Accounts

Executive Directorate and eligible employees	Date granted	No. of options granted	Period during which rights exercisable (day/month/year)	Options outstanding as at 1 January 2009	Options vested during the year	Options lapsed during the year	Options exercised during the year	Exercise price per share of options (HK$)	Options outstanding as at 31 December 2009	Weighted average closing price of shares immediately before the date(s) on which options were exercised (HK$)
William Chan Fu-keung	20/9/2000	1,066,000	5/4/2001 – 11/9/2010	217,500	–	–	100,000	8.44	117,500	23.25
Other eligible employees	20/9/2000	41,409,000	5/4/2001 – 11/9/2010	3,388,000	–	–	557,500	8.44	2,830,500	23.21

Notes

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

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

3 The above share options fully vested on 5 October 2003. The proportion of underlying shares in respect of which the share options have vested is as follows:

Date	Proportion of underlying shares in respect of which an option is vested
Before 5 October 2001	none
5 October 2001 to 4 October 2002	one-third
5 October 2002 to 4 October 2003	two-thirds
After 4 October 2003	all

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

Options to Subscribe for Ordinary Shares Granted under the New Joiners Share Option Scheme, as Referred to in Notes 9B(ii) and 51A(ii) to the Accounts

Executive Directorate and eligible employees	Date granted	No. of options granted	Period during which rights exercisable (day/month/year)	Options outstanding as at 1 January 2009	Options granted during the year	Options vested during the year	Options lapsed during the year	Options exercised during the year	Exercise price per share of options (HK$)	Options outstanding as at 31 December 2009	Weighted average closing price of shares immediately before the date(s) on which options were exercised (HK$)
Lincoln Leong Kwok-kuen	1/8/2003	1,066,000	14/7/2004 – 14/7/2013	1,043,000	–	–	–	625,500	9.75	417,500	27.37
Other eligible employees	1/8/2003	495,200	14/7/2004 – 14/7/2013	202,200	–	–	–	63,000	9.75	139,200	26.42
	13/9/2005	94,000	9/9/2006 – 9/9/2015	49,000	–	–	–	49,000	15.97	–	27.40
	23/9/2005	213,000	9/9/2006 – 9/9/2015	213,000	–	–	–	–	15.97	213,000	–
	31/3/2006	94,000	20/3/2007 – 20/3/2016	94,000	–	31,000	–	–	18.05	94,000	–
	5/10/2006	94,000	29/9/2007 – 29/9/2016	94,000	–	31,000	–	–	19.732	94,000	–
	12/5/2006	266,500	25/4/2007 – 25/4/2016	266,500	–	88,500	–	–	20.66	266,500	–
	15/5/2006	213,000	25/4/2007 – 25/4/2016	183,000	–	71,000	–	91,000	20.66	92,000	26.03
	22/3/2007	355,500	19/3/2008 – 19/3/2017	355,500	–	–	355,500	–	19.404	–	–

Notes

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

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

3 The proportion of underlying shares in respect of which the above share options will vest is as follows:

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

Options to Subscribe for Ordinary Shares Granted under the 2007 Share Option Scheme, as Referred to in Notes 9B(iii) and 51A(iii) to the Accounts

Executive Directorate and eligible employees	Date granted	No. of options granted	Period during which rights exercisable (day/month/year)	Options outstanding as at 1 January 2009	Options granted during the year	Options vested during the year	Options lapsed during the year	Options exercised during the year	Exercise price per share of options (HK$)	Options outstanding as at 31 December 2009	Weighted average closing price of shares immediately before the date(s) on which options were exercised (HK$)
Chow Chung-kong	13/12/2007	720,000	10/12/2008 – 10/12/2014	720,000	–	240,000	–	–	27.60	720,000	–
	9/12/2008	470,000	8/12/2009 – 8/12/2015	470,000	–	157,000	–	–	18.30	470,000	–
	9/12/2009	470,000	8/12/2010 – 8/12/2016	–	470,000	–	–	–	26.85	470,000	–
Russell John Black	12/12/2007	170,000	10/12/2008 – 10/12/2014	170,000	–	57,000	–	–	27.60	170,000	–
	9/12/2008	170,000	8/12/2009 – 8/12/2015	170,000	–	57,000	–	–	18.30	170,000	–
	10/12/2009	42,500	8/12/2010 – 8/12/2016	–	42,500	–	–	–	26.85	42,500	–
William Chan Fu-keung	13/12/2007	170,000	10/12/2008 – 10/12/2014	170,000	–	57,000	–	–	27.60	170,000	–
	9/12/2008	170,000	8/12/2009 – 8/12/2015	170,000	–	57,000	–	–	18.30	170,000	–
	10/12/2009	170,000	8/12/2010 – 8/12/2016	–	170,000	–	–	–	26.85	170,000	–
Thomas Ho Hang-kwong	12/12/2007	170,000	10/12/2008 – 10/12/2014	170,000	–	57,000	–	–	27.60	170,000	–
	11/12/2008	170,000	8/12/2009 – 8/12/2015	170,000	–	57,000	–	–	18.30	170,000	–
	14/12/2009	170,000	8/12/2010 – 8/12/2016	–	170,000	–	–	–	26.85	170,000	–
Lincoln Leong Kwok-kuen	12/12/2007	170,000	10/12/2008 – 10/12/2014	170,000	–	57,000	–	–	27.60	170,000	–
	9/12/2008	170,000	8/12/2009 – 8/12/2015	170,000	–	57,000	–	–	18.30	170,000	–
	10/12/2009	170,000	8/12/2010 – 8/12/2016	–	170,000	–	–	–	26.85	170,000	–
Andrew McCusker	12/12/2007	170,000	10/12/2008 – 10/12/2014	170,000	–	57,000	–	–	27.60	170,000	–
	12/12/2008	170,000	8/12/2009 – 8/12/2015	170,000	–	57,000	–	–	18.30	170,000	–
	10/12/2009	170,000	8/12/2010 – 8/12/2016	–	170,000	–	–	–	26.85	170,000	–
Leonard Bryan Turk	12/12/2007	170,000	10/12/2008 – 10/12/2014	170,000	–	57,000	–	–	27.60	170,000	–
	9/12/2008	170,000	8/12/2009 – 8/12/2015	170,000	–	57,000	–	–	18.30	170,000	–
	10/12/2009	170,000	8/12/2010 – 8/12/2016	–	170,000	–	–	–	26.85	170,000	–
Chew Tai Chong (Note 4)	18/6/2009	85,000	12/6/2010 – 12/6/2016	–	85,000	–	–	–	24.50	85,000	–
	10/12/2009	170,000	8/12/2010 – 8/12/2016	–	170,000	–	–	–	26.85	170,000	–
Other eligible employees	11/12/2007	45,000	10/12/2008 – 10/12/2014	45,000	–	15,000	–	–	27.60	45,000	–
	12/12/2007	1,880,000	10/12/2008 – 10/12/2014	1,792,000	–	559,500	226,000	–	27.60	1,566,000	–
	13/12/2007	915,000	10/12/2008 – 10/12/2014	915,000	–	309,000	–	–	27.60	915,000	–
	14/12/2007	1,005,000	10/12/2008 – 10/12/2014	1,005,000	–	330,500	32,000	–	27.60	973,000	–
	15/12/2007	435,000	10/12/2008 – 10/12/2014	370,000	–	124,500	–	–	27.60	370,000	–
	17/12/2007	835,000	10/12/2008 – 10/12/2014	835,000	–	283,000	62,000	–	27.60	773,000	–
	18/12/2007	445,000	10/12/2008 – 10/12/2014	380,000	–	128,000	–	–	27.60	380,000	–
	19/12/2007	115,000	10/12/2008 – 10/12/2014	115,000	–	39,000	–	–	27.60	115,000	–
	20/12/2007	190,000	10/12/2008 – 10/12/2014	190,000	–	63,500	–	–	27.60	190,000	–
	21/12/2007	45,000	10/12/2008 – 10/12/2014	45,000	–	15,000	–	–	27.60	45,000	–
	22/12/2007	35,000	10/12/2008 – 10/12/2014	35,000	–	12,000	–	–	27.60	35,000	–
	24/12/2007	118,000	10/12/2008 – 10/12/2014	118,000	–	39,500	–	–	27.60	118,000	–
	28/12/2007	35,000	10/12/2008 – 10/12/2014	35,000	–	12,000	–	–	27.60	35,000	–
	31/12/2007	130,000	10/12/2008 – 10/12/2014	130,000	–	43,500	–	–	27.60	130,000	–

Options to Subscribe for Ordinary Shares Granted under the 2007 Share Option Scheme, as Referred to in Notes 9B(iii) and 51A(iii) to the Accounts *(continued)*

Executive Directorate and eligible employees	Date granted	No. of options granted	Period during which rights exercisable (day/month/year)	Options outstanding as at 1 January 2009	Options granted during the year	Options vested during the year	Options lapsed during the year	Options exercised during the year	Exercise price per share of options (HK$)	Options outstanding as at 31 December 2009	Weighted average closing price of shares immediately before the date(s) on which options were exercised (HK$)
Other eligible employees	2/1/2008	75,000	10/12/2008 – 10/12/2014	75,000	–	25,500	–	–	27.60	75,000	–
	3/1/2008	40,000	10/12/2008 – 10/12/2014	40,000	–	13,500	–	–	27.60	40,000	–
	4/1/2008	65,000	10/12/2008 – 10/12/2014	65,000	–	–	65,000	–	27.60	–	–
	7/1/2008	125,000	10/12/2008 – 10/12/2014	125,000	–	42,000	–	–	27.60	125,000	–
	28/3/2008	255,000	26/03/2009 – 26/03/2015	255,000	–	87,500	–	–	26.52	255,000	–
	31/3/2008	379,000	26/03/2009 – 26/03/2015	379,000	–	131,000	–	–	26.52	379,000	–
	1/4/2008	261,000	26/03/2009 – 26/03/2015	261,000	–	91,000	–	–	26.52	261,000	–
	2/4/2008	296,000	26/03/2009 – 26/03/2015	296,000	–	103,000	–	–	26.52	296,000	–
	3/4/2008	171,000	26/03/2009 – 26/03/2015	171,000	–	59,500	–	–	26.52	171,000	–
	4/4/2008	23,000	26/03/2009 – 26/03/2015	23,000	–	8,000	–	–	26.52	23,000	–
	5/4/2008	17,000	26/03/2009 – 26/03/2015	17,000	–	6,000	–	–	26.52	17,000	–
	7/4/2008	390,000	26/03/2009 – 26/03/2015	358,000	–	124,000	–	–	26.52	358,000	–
	8/4/2008	174,000	26/03/2009 – 26/03/2015	155,000	–	54,000	–	–	26.52	155,000	–
	9/4/2008	85,000	26/03/2009 – 26/03/2015	85,000	–	29,500	–	–	26.52	85,000	–
	10/4/2008	58,000	26/03/2009 – 26/03/2015	58,000	–	20,000	–	–	26.52	58,000	–
	11/4/2008	134,000	26/03/2009 – 26/03/2015	117,000	–	40,500	–	–	26.52	117,000	–
	12/4/2008	48,000	26/03/2009 – 26/03/2015	48,000	–	16,500	–	–	26.52	48,000	–
	14/4/2008	40,000	26/03/2009 – 26/03/2015	40,000	–	14,000	–	–	26.52	40,000	–
	15/4/2008	34,000	26/03/2009 – 26/03/2015	34,000	–	12,000	–	–	26.52	34,000	–
	16/4/2008	57,000	26/03/2009 – 26/03/2015	40,000	–	14,000	–	–	26.52	40,000	–
	17/4/2008	147,000	26/03/2009 – 26/03/2015	124,000	–	43,000	–	–	26.52	124,000	–
	18/4/2008	32,000	26/03/2009 – 26/03/2015	32,000	–	5,000	17,000	–	26.52	15,000	–
	19/4/2008	25,000	26/03/2009 – 26/03/2015	25,000	–	8,500	–	–	26.52	25,000	–
	20/4/2008	23,000	26/03/2009 – 26/03/2015	23,000	–	8,000	23,000	–	26.52	–	–
	21/4/2008	66,000	26/03/2009 – 26/03/2015	66,000	–	23,000	–	–	26.52	66,000	–
	23/4/2008	34,000	26/03/2009 – 26/03/2015	19,000	–	6,500	–	–	26.52	19,000	–
	8/12/2008	155,000	8/12/2009 – 8/12/2015	155,000	–	52,500	45,000	–	18.30	110,000	–
	9/12/2008	313,000	8/12/2009 – 8/12/2015	313,000	–	106,000	–	–	18.30	313,000	–
	10/12/2008	2,176,400	8/12/2009 – 8/12/2015	2,176,400	–	734,000	–	15,000	18.30	2,161,400	26.25
	11/12/2008	2,294,200	8/12/2009 – 8/12/2015	2,294,200	–	772,500	–	–	18.30	2,294,200	–
	12/12/2008	1,311,500	8/12/2009 – 8/12/2015	1,311,500	–	427,000	–	6,500	18.30	1,305,000	26.65
	13/12/2008	84,500	8/12/2009 – 8/12/2015	84,500	–	28,500	–	–	18.30	84,500	–
	14/12/2008	88,200	8/12/2009 – 8/12/2015	88,200	–	30,000	–	8,500	18.30	79,700	26.75
	15/12/2008	1,084,700	8/12/2009 – 8/12/2015	1,084,700	–	366,500	–	–	18.30	1,084,700	–
	16/12/2008	581,500	8/12/2009 – 8/12/2015	581,500	–	197,000	–	–	18.30	581,500	–
	17/12/2008	513,500	8/12/2009 – 8/12/2015	513,500	–	173,000	–	–	18.30	513,500	–
	18/12/2008	611,500	8/12/2009 – 8/12/2015	611,500	–	206,500	–	–	18.30	611,500	–
	19/12/2008	198,000	8/12/2009 – 8/12/2015	198,000	–	67,000	–	–	18.30	198,000	–
	20/12/2008	19,000	8/12/2009 – 8/12/2015	19,000	–	6,500	–	–	18.30	19,000	–

Options to Subscribe for Ordinary Shares Granted under the 2007 Share Option Scheme, as Referred to in Notes 9B(iii) and 51A(iii) to the Accounts *(continued)*

Executive Directorate and eligible employees	Date granted	No. of options granted	Period during which rights exercisable (day/month/year)	Options outstanding as at 1 January 2009	Options granted during the year	Options vested during the year	Options lapsed during the year	Options exercised during the year	Exercise price per share of options (HK$)	Options outstanding as at 31 December 2009	Weighted average closing price of shares immediately before the date(s) on which options were exercised (HK$)
Other eligible employees	22/12/2008	772,500	8/12/2009 – 8/12/2015	772,500	–	259,500	–	5,000	18.30	767,500	26.65
	23/12/2008	306,000	8/12/2009 – 8/12/2015	306,000	–	104,000	–	6,500	18.30	299,500	26.30
	24/12/2008	500,500	8/12/2009 – 8/12/2015	500,500	–	168,500	–	15,000	18.30	485,500	26.25
	25/12/2008	45,000	8/12/2009 – 8/12/2015	45,000	–	15,000	–	–	18.30	45,000	–
	29/12/2008	148,000	8/12/2009 – 8/12/2015	148,000	–	50,000	–	–	18.30	148,000	–
	30/12/2008	19,000	8/12/2009 – 8/12/2015	19,000	–	6,500	–	–	18.30	19,000	–
	18/6/2009	170,000	12/6/2010 – 12/6/2016	–	170,000	–	–	–	24.50	170,000	–
	6/7/2009	45,000	12/6/2010 – 12/6/2016	–	45,000	–	–	–	24.50	45,000	–
	9/7/2009	45,000	12/6/2010 – 12/6/2016	–	45,000	–	–	–	24.50	45,000	–
	9/12/2009	200,000	8/12/2010 – 8/12/2016	–	200,000	–	–	–	26.85	200,000	–
	10/12/2009	1,958,500	8/12/2010 – 8/12/2016	–	1,958,500	–	–	–	26.85	1,958,500	–
	11/12/2009	2,362,000	8/12/2010 – 8/12/2016	–	2,362,000	–	–	–	26.85	2,362,000	–
	12/12/2009	610,000	8/12/2010 – 8/12/2016	–	610,000	–	–	–	26.85	610,000	–
	13/12/2009	19,000	8/12/2010 – 8/12/2016	–	19,000	–	–	–	26.85	19,000	–
	14/12/2009	2,338,000	8/12/2010 – 8/12/2016	–	2,338,000	–	–	–	26.85	2,338,000	–
	15/12/2009	2,838,000	8/12/2010 – 8/12/2016	–	2,838,000	–	–	–	26.85	2,838,000	–
	16/12/2009	1,550,000	8/12/2010 – 8/12/2016	–	1,550,000	–	–	–	26.85	1,550,000	–
	17/12/2009	1,000,000	8/12/2010 – 8/12/2016	–	1,000,000	–	–	–	26.85	1,000,000	–
	18/12/2009	389,000	8/12/2010 – 8/12/2016	–	389,000	–	–	–	26.85	389,000	–
	19/12/2009	70,000	8/12/2010 – 8/12/2016	–	70,000	–	–	–	26.85	70,000	–
	20/12/2009	75,000	8/12/2010 – 8/12/2016	–	75,000	–	–	–	26.85	75,000	–
	21/12/2009	520,000	8/12/2010 – 8/12/2016	–	520,000	–	–	–	26.85	520,000	–
	22/12/2009	256,000	8/12/2010 – 8/12/2016	–	256,000	–	–	–	26.85	256,000	–

Notes

1 No option may be exercised later than seven years after its date of offer and no option may be offered to be granted more than seven years after the adoption of the 2007 Share Option Scheme ("2007 Option Scheme") on 7 June 2007.

2 Unless approved by shareholders in the manner as required by the Listing Rules, the total number of shares issued and issuable upon exercise of the options granted to any eligible employee under the 2007 Option Scheme together with the total number of shares issued and issuable upon the exercise of any option granted to such eligible employee under any other share option scheme of the Company (including, in each case, both exercised and outstanding options) in any 12-month period must not exceed 0.2% of the shares of the Company in issue at the date of offer in respect of such option under the 2007 Option Scheme.

3 The proportion of underlying shares in respect of which the above share options will vest is as follows:

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

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

During the year ended 31 December 2009, 1,362,500 and 14,700,500 options to subscribe for shares of the Company were granted to 7 Members of the Executive Directorate and 424 employees respectively under the 2007 Share Option Scheme. Details of the grant are set out in the tables above. The respective closing price per share immediately before the respective date of grant of the options is set out below. Pursuant to the terms of the Scheme, each grantee undertakes to pay HK$1.00, on demand, to the Company, in consideration for the grant of the options. The share options granted are recognised on an accrued vesting basis in the accounts. The weighted average value per option granted, estimated at the respective date of grant using the Black-Scholes pricing model is as follows:

Date granted	Closing price per share immediately before the date of grant (HK$)	Estimated risk-free interest rate (%)	Expected life (Years)	Estimated Volatility	Expected dividend per share (HK$)	Weighted average value per option granted (HK$)
18/6/2009	23.65	1.56	3.5	0.31	0.45	5.27
6/7/2009	23.55	1.44	3.5	0.31	0.48	4.52
9/7/2009	23.45	1.29	3.5	0.31	0.48	4.41
9/12/2009	26.85	0.98	3.5	0.31	0.48	5.47
10/12/2009	26.35	0.98	3.5	0.31	0.48	5.17
11/12/2009	26.45	0.98	3.5	0.31	0.48	5.23
12/12/2009	26.50	0.98	3.5	0.31	0.48	5.25
13/12/2009	26.50	0.98	3.5	0.31	0.48	5.25
14/12/2009	26.50	0.99	3.5	0.31	0.48	5.25
15/12/2009	26.65	1.04	3.5	0.31	0.48	5.36
16/12/2009	26.25	1.11	3.5	0.31	0.48	5.14
17/12/2009	26.30	1.13	3.5	0.31	0.48	5.17
18/12/2009	26.10	1.10	3.5	0.31	0.48	5.05
19/12/2009	26.35	1.10	3.5	0.31	0.48	5.18
20/12/2009	26.35	1.10	3.5	0.31	0.48	5.18
21/12/2009	26.35	1.08	3.5	0.31	0.48	5.18
22/12/2009	26.15	1.15	3.5	0.31	0.48	5.08

The Black-Scholes option pricing model was developed for use in estimating the fair value of traded options and requires input of highly subjective assumptions, including the expected life and stock price volatility. Since the Company's share options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimates, the Black-Scholes option pricing model does not necessarily provide a reliable measure of the fair value of the share options.

Save as disclosed above:

A none of the Members of the Board or the Executive Directorate of the Company had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO); and

B during the year ended 31 December 2009, no Member of the Board or the Executive Directorate nor any of their spouses or children under 18 years of age held any rights to subscribe for equity or debt securities of the Company nor had there been any exercises of any such rights by any of them,

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

Directors' Service Contracts

No director proposed for election or re-election at the forthcoming Annual General Meeting 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 or make other payments equivalent to more than one year's emoluments.

Substantial Shareholders' Interests

Set out below is the name of the party which was interested in 5% or more of the nominal value of the share capital of the Company and the number of shares in which it was interested as at 31 December 2009 as recorded in the register kept by the Company under section 336 of the SFO:

Name	No. of Ordinary Shares	Percentage of Ordinary Shares to total issued share capital
The Financial Secretary Incorporated (in trust on behalf of the Government)	4,400,715,809	76.83

The Company has been informed by the Government that, as at 31 December 2009, approximately 0.62% of the shares of the Company were held for the account of the Exchange Fund. The Exchange Fund is a fund established under the Exchange Fund Ordinance (Cap. 66 of the Laws of Hong Kong) under the control of the Financial Secretary.

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

As at 31 December 2009, the Group had borrowings of HK$21,840 million with maturities ranging 2010 to 2020 and undrawn committed and uncommitted banking and other facilities of HK$18,970 million, which were subject to the condition that the Government, being the Company's controlling shareholder, owns more than half in nominal value of the voting share capital of the Company during the lives of the borrowings and the undrawn facilities. Otherwise, immediate repayment of borrowings may be demanded and cancellation of the undrawn facilities may result.

Major Suppliers and Customers

Less than 30% in value of supplies (which were not of a capital nature) purchased during the year ended 31 December 2009 was attributable to the Company's five largest suppliers. Less than 30% in value of the Company's turnover during the year ended 31 December 2009 was attributable to the Company's five largest customers combined by value.

Going Concern

The accounts on pages 135 to 231 have been prepared on a going concern basis. The Board has reviewed the Company's budget for 2010, together with the longer-term forecast for the following five years and is satisfied that the Company has sufficient resources to continue as a going concern for the foreseeable future.

Connected Transactions

During the year under review, the following transactions and arrangements described below were entered into with the Government which is a substantial shareholder of the Company as defined in the Listing Rules. The Government is therefore a "connected person" of the Company for the purposes of the Listing Rules, and the transactions described below are connected transactions 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.45 of the Listing Rules and in accordance with paragraph (B)(I)(i) of the Waiver.

Land Agreements

A By a Consent Letter dated 23 September 2009, the Government excluded balconies and utility platforms from the calculation of gross floor area of the buildings to be erected on Site E of The Remaining Portion of Tseung Kwan O Town Lot No.70 with a total consideration or value of HK$48,385,240.

B By a letter dated 25 November 2009, the Government agreed that it would not enforce its rights under Conditions of Grant No.UB12397 for non-completion in respect of Site G of Kowloon Inland Lot No.11080 on or before 31 March 2009 provided that the development of the said Site G is completed and made fit for occupation not later than 31 December 2009 with a total consideration or value of HK$71,138,500.

C In respect of the Remaining Portion of Mass Transit Railway Lot No. 1:

A Supplemental Lease was signed on 11 February 2002 between the Government and the Company in which the Government leased to the Company land occupied by the Quarry Bay Congestion Relief Works or the Quarry Bay Relief

Works connecting Quarry Bay Station to North Point Station at an annual rent of 3% of the rateable value of the leased area for a term commencing 1 October 2001 to 29 June 2050 on terms and conditions substantially similar to the lease for the Mass Transit Railway Lot No. 1. By a Modification Letter dated 13 May 2002 entered into between the Government and the Company, the lease for the Remaining Portion of Mass Transit Railway Lot No. 1 was modified in areas indicated in the lease plans attached to the Modification Letter at an administration fee of HK$16,200. By a Modification Letter dated 20 December 2003 entered into between the Government and the Company, the lease for the Remaining Portion of Mass Transit Railway Lot No. 1 was modified in areas indicated in the lease plans attached to the Modification Letter in the consideration of a premium of HK$1,000 and an administration fee of HK$16,200. By a Modification Letter executed by the Government and the Company dated 31 May 2004, the lease for the Remaining Portion of Mass Transit Railway Lot No. 1 was modified in areas indicated in the lease plans attached to the Modification Letter in the consideration of a premium of HK$1,000 and an administrative fee of HK$16,200. By a modification letter dated 1 March 2005 entered into between the Government and the Company, the lease for the Remaining Portion of Mass Transit Railway Lot No.1 was modified in areas indicated in the lease plans attached to the Modification Letter in the consideration of a premium of HK$1,000 and an administrative fee of HK$16,200. By a Modification Letter dated 9 March 2007 entered into between the Government and the Company, the lease for the Remaining Portion of Mass Transit Railway Lot No.1 was modified in areas indicated in the lease plans attached to the Modification Letter in the consideration of a premium of HK$1,000 and an administrative fee of HK$18,650. By a Modification Letter which was effective from 1 January 2009 entered into between the Government and the Company, the lease for the Remaining Portion of Mass Transit Railway Lot No.1 was modified in areas indicated in the lease plans attached to the Modification Letter in the consideration of a premium of HK$1,000 and an administrative fee of HK$21,450. By a Modification Letter dated 30 October 2009 entered into between the Government and the Company, the lease for the Remaining Portion of Mass Transit Railway Lot No.1 was modified in areas indicated in the lease plans attached to the Modification Letter in the consideration of a premium of HK$1,000 and an administrative fee of HK$21,450.

Continuing Connected Transactions

During the year under review, the following transactions and arrangements described below involved the provision of goods or services on an ongoing basis with the Government and/or KCRC, the Airport Authority (the "AA"), and United Group Rail Services Limited ("UGL"). As noted above under the section headed "Connected Transactions", the Government is a substantial shareholder of the Company. KCRC and the AA are both associates of the Company as defined in the Listing Rules. As explained under Section III below, UGL is a substantial shareholder of a subsidiary of the Company. The Government, KCRC, the AA and UGL are therefore each "connected persons" for the purposes of the Listing Rules and each transaction set out at paragraphs I, II and III below constitutes a continuing connected transaction for the Company under the Listing Rules.

I Merger-related Continuing Connected Transactions

Each of the transactions listed in paragraphs A to F 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, the 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 the 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 123 to 124 and in paragraph F 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 MTR Ordinance) the change of its Chinese name to "香港鐵路有限公司".

B KSL Project Management Agreement

The KSL Project Management Agreement was entered into between the Company and KCRC on 9 August 2007.

Pursuant to the terms of the KSL Project Management Agreement (as amended), the Company is appointed:

- to manage the performance of KCRC's principal obligations to the Government in relation to the design and construction of the Kowloon Southern Link ("KSL") (other than obligations relating to payment);
- to act as the engineer under the various KSL construction contracts;
- to act as KCRC's representative under the various KSL consultancy agreements; and
- to act as KCRC's agent in connection with the KSL under certain circumstances.

The Company itself will not construct, nor be responsible for the costs of, the KSL works.

In return for the performance of these services, the Company has received a project management fee of approximately HK$710.8 million. In addition, in the event that the final outturn cost of the KSL is under budget, the Company will receive an incentive payment (calculated with reference to the amount by which the final outturn cost of the project is under budget) of up to HK$110 million.

C 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 ("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.

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.

D Outsourcing Agreement

An Outsourcing Agreement was entered into on 9 August 2007 between the Company and KCRC. For the period from 2 December 2007 to 2 December 2009 (subsequently extended to 31 December 2009), KCRC, pursuant to the terms of the Outsourcing Agreement, outsourced certain financial and administrative functions to the Company. On 6 November 2009, a new Outsourcing Agreement was entered into for the period from 1 January 2010 to 31 December 2011, under which the Company would continue to:

- provide a number of financial and administrative services to KCRC;
- provide certain staff to enable KCRC to operate after the Rail Merger; and
- receive an annual fee of not more than HK$20 million from KCRC.

The scope of the services to be provided by the Company includes services relating to treasury, financial control, information technology, company secretarial, legal and other corporate functions, human resources, office administration and management of claims.

E 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 Cenrale 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.

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.

F Property Package Agreements

Category 2A Properties

On 9 August 2007, the Government entered into an undertaking that it would, within twelve months of the Merger Date or such further period of time as the 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 situate (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 the 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, the Government entered into an undertaking that it would, within twenty four months of the Merger Date or such further period of time as the 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 sub-license 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 the 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 the Government Lease is expected to be executed within 3 months' time.

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 131).

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 Property, 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 Property 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 KSL Project Management Agreement, the West Rail Agency Agreement (and related powers of attorney), the US CBL Assumption Agreements, the US CBL Allocation Agreement, the Outsourcing 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(I)(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 of the Company;

(2) on normal commercial terms or on terms which are no less favourable to the Company than terms available to or from independent third parties; and

(3) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company 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 Related Services 4400 "Engagements to Perform Agreed-Upon Procedures Regarding Financial Information" issued by the Hong Kong Institute of Certified Public Accountants. In accordance with paragraph B(I)(ii) of the Merger-related Waiver, the auditors have provided a letter to the Board of Directors confirming that each of the Merger-related Continuing Connected Transactions:

(a) has been approved by the Board of Directors of the Company; and

(b) has been entered into in accordance with the relevant agreement governing the relevant transaction.

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

The following disclosures are made in accordance with paragraph (B)(I)(i) of the Waiver and Rule 14A.46 of the Listing Rules.

A 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 "SCL Agreement") was entered into on 24 November 2008 between the Company and the Secretary for Transport and Housing for and on behalf of the Government.

The 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:

- the Government's obligation to pay the Company up to a maximum aggregate amount of HK$1,500,000,000 in respect of certain costs incurred by the Company pursuant to the SCL Agreement, including the Company's in-house design costs and certain on-costs and preliminary costs;
- the Government's obligation to bear and finance the total cost of the design and site investigation activities under the 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 the 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 the Government under the SCL Agreement, except in respect of death or personal injury caused by the negligence of the Company, to HK$600,000,000; 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 the 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.

B Entrustment Agreement for Design and Site Investigation in Relation to the Express Rail Link (Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link)

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

The 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:

- the Government's obligation to pay the Company, up to a maximum aggregate amount of HK$1,500,000,000, in respect of certain costs incurred by the Company pursuant to the XRL Agreement, including the Company's in-house design costs and certain on-costs, preliminary costs and recruited staff costs;
- the Government's obligation to bear and finance the total cost of the design and site investigation activities under the 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 the 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 the Government under the XRL Agreement, except in respect of death or personal injury caused by the negligence of the Company, to HK$700,000,000; 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 the 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.

C Renewal of the Existing Maintenance Agreement of the Automated People Mover System at the Hong Kong International Airport

The Company has had 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.

On 21 August 2008, the Company entered into a new Maintenance Agreement with the AA, for the renewal of the then expired Maintenance Agreement for the Automated People Mover system for a five year period (the "New Maintenance Agreement"), effective from 6 July 2008. It is expected that the highest amount per year receivable from the AA under the New Maintenance Agreement will be HK$37 million.

The New Maintenance Agreement 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 Agreement shall be five years from 6 July 2008 up to and including 5 July 2013;
- 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; and
- provisions relating to the carrying out by the Company (as additional services), in certain circumstances, of upgrade work on the System.

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 the 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 the 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 the 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 the Government for the Company to implement the West Island Line project;
- within 24 months of commercial operations commencing on the West Island Line on a revenue earning basis and providing scheduled transport for the public, payment by the Company to the 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 the 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 the Government to the Company in relation to the West Island Line on 12 January 2009.

The construction of the West Island Line is scheduled to take place between the date of the WIL Project Agreement and 2014.

In relation to the SCL Agreement, the XRL Agreement, the New Maintenance Agreement and the WIL Project Agreement (together the "Non Merger-related Continuing Connected Transactions") 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 confirmed that the Non Merger-Related Continuing Connected Transactions were entered into:

(1) in the ordinary and usual course of business of the Company;

(2) on normal commercial terms or on terms which are no less favourable to the Company than terms available to or from independent third parties; and

(3) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company 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 in accordance with Hong Kong Standard on Related Services 4400 "Engagements to Perform Agreed-Upon Procedures Regarding Financial Information" 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 of Directors confirming that each of the Non Merger-Related Continuing Connected Transactions:

(a) has been approved by the Board of Directors of the Company; and

(b) has been entered into in accordance with the relevant agreement governing the relevant transaction.

III Non Merger-related Continuing Connected Transaction with Parties Other than Government and/or its Associates - Pre-Existing UGL Contract and Pre-Existing Supplemental UGL Contract for the Provision of Maintenance and Other Services for Certain Trains

The following disclosures are made in accordance with Rule 14A.46 of the Listing Rules.

On 31 August 2009, the Company, UGL and John Holland Pty Limited ("JHL") each agreed to subscribe for shares in Metro Trains Melbourne Pty Ltd ("MTM"), a joint venture company incorporated in Australia. As a result, the Company controls 60% of the voting power at any general meeting of MTM and each of UGL and JHL controls 20% of the voting power at any general meeting of MTM. Accordingly, subsequent to the Company entering into the Pre-Existing UGL Contract as amended by the Pre-Existing Supplemental UGL Contract (each, as defined below), UGL is treated as a substantial shareholder of MTM (a subsidiary of the Company) and therefore a "connected person" of the Company within the meaning of Chapter 14A of the Listing Rules. The Pre-Existing UGL Contract (as amended by the Pre-Existing Supplemental UGL Contract) is therefore a "continuing connected transaction" within the meaning of Rule 14A.14 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 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 depot, including provisions in relation to:

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

- the Company maintaining "Contractors All Risks" insurance covering loss or damage to certain goods, equipment and temporary buildings at the Tseung Kwan O depot and the Kowloon 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.

In relation to the Pre-Existing UGL Contract as amended by the Pre-Existing Supplemental UGL Contract (the "Continuing Connected Transaction with UGL") and in accordance with Rule 14A.37 of the Listing Rules, the Company confirms that the Independent Non-executive Directors of the Company have reviewed the Continuing Connected Transaction with UGL and confirmed that the Continuing Connected Transaction with UGL was entered into:

(1) in the ordinary and usual course of business of the Company;

(2) on normal commercial terms or on terms which are no less favourable to the Company than terms available to or from independent third parties; and

(3) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Company has engaged the auditors of the Company to carry out a review of the Continuing Connected Transaction with UGL in accordance with Hong Kong Standard on Related Services 4400 "Engagements to Perform Agreed-Upon Procedures Regarding Financial Information" issued by the Hong Kong Institute of Certified Public Accountants. In accordance with Rule 14A.38 of the Listing Rules, the auditors have provided a letter to the Board of Directors confirming that the Continuing Connected Transaction with UGL:

(a) has been approved by the Board of Directors of the Company;

(b) is in accordance with the pricing terms set out in the relevant agreements governing the relevant transaction; and

(c) has been entered into in accordance with the relevant agreements governing the relevant transaction.

IV Post Balance Sheet Non Merger-related Continuing Connected Transactions

Following the end of the year under review, the following transactions and arrangements described below involved the provision of goods or services on an ongoing basis with the Government, and UGL.

A 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 the Government (the "Entrustment Agreement").

On 24 November 2008, the Company entered into the XRL Agreement with the Secretary of Transport and Housing for and on behalf of the Government, providing for the design of, and site investigation and procurement activities in relation to the Express Rail Link.

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 Entrustment Agreement contains the following provisions:

- in consideration of the Company executing or procuring the execution of certain entrustment activities as set out in the Entrustment Agreement and carrying out its other obligations under the Entrustment Agreement and the XRL Agreement, Government shall pay to the Company HK$4,590 million, to be paid in cash quarterly in advance on a scheduled basis as such sum may be varied in accordance with the Entrustment Agreement, subject to the maximum payment limits stated in the Entrustment 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 Entrustment 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 Entrustment 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 Entrustment 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 the Government or termination of the Entrustment Agreement, a final report on the activities required to be carried out under the Entrustment 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 the Government (or to a third party directed by the 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 Entrustment 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 Entrustment 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 Entrustment 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.
- the 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 Entrustment Agreement, (iii) any and all amounts payable to the Kowloon-Canton Railway Corporation as compensation for damage arising as a result of the Company and/or a third party contractor carrying out activities under the Entrustment 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; and
- the 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.

The 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 Entrustment Agreement) on the understanding that the Company will be invited to undertake the operation of the Express Rail Link under the concession approach.

The Entrustment Agreement remains in full force and effect until the completion of the activities set out in the Entrustment Agreement or until terminated earlier in accordance with the terms of the Entrustment Agreement. The Company expects that the substantial majority of the activities to be carried out under the Entrustment Agreement will be complete by the time of the projected handover of the completed Express Rail Link in mid-2015. However certain activities involve the provision of specified administrative services to the Government (for example, in relation to support to the Government in connection with third party land compensation claims), the Company expects to provide these services for a number of years following the completion of the Express Rail Link project. Notwithstanding this, certain provisions will remain in force following completion of the activities set out in the Entrustment Agreement, for example, provisions regarding confidentiality and dispute resolution.

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

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

On 30 November 2007, KCRC entered into the Original Contract with UGL (the "Original Contract"), for the refurbishment of the Phase 1 LRVs for a period of 45 months from 30 November 2007 to 31 August 2011. On 2 December 2007, the rights and obligations of KCRC under the Original Contract were vested in the Company pursuant to section 52(B) of the MTR Ordinance. The Supplemental Agreement extends the Original Contract for a further period of 16 months from 31 August 2011 until 31 December 2012. The Original Contract (as amended and supplemented by the Supplemental Agreement) is in substantially the same form as KCRC's standard conditions of contract for engineering works and contains the following provisions:

- in consideration of UGL providing the Refurbishment Works (defined below) under the Original Contract, the Company is obliged to pay UGL a total sum of approximately HK$48,260,000 (excluding amounts for variations and additional works). The Supplemental Agreement, inter alia, extended the scope of the Refurbishment Works of the Original Contract and the consideration payable by the Company to UGL for such extension is HK$83,736,143 (the "Contract Sum"). The total sum under the Original Contract plus the Contract Sum is to be paid on a scheduled basis set out in the Supplemental Agreement, subject to adjustments to take account of variations made by the Company's Chief Electrical and Mechanical Engineer (the "Engineer") to the scope of the maintenance services. The maximum aggregate amount payable annually by the Company under the Original Contract and the Supplemental Agreement is approximately HK$72,390,000;
- the Company is obliged to effect "Contractor's All Risks" and "Third Party Liability" insurance with a third party liability limit of not less than HK$30,000,000;
- UGL shall carry out a carbody structure review to assess the mechanical condition of the Phase 1 LRVs; refurbish the drivers' consoles, the operators' seats and the passenger saloons of the Phase 1 LRVs; conduct a brake software upgrade of the Phase 1 LRVs; and carry out further miscellaneous repairs to the Phase 1 LRVs (together the "Refurbishment Works");
- UGL shall indemnify the Company against any certain losses or expenses which may arise out of or in connection with the Refurbishment Works, subject to any proportionate reduction in liability on account of any related negligence by the Company, its employees or agents, the Engineer or those appointed by the Engineer;
- UGL shall indemnify the Company against certain damages, compensation, costs and expenses in respect of any damages or compensation payable at law in respect of or in consequence of any accident, injury or illness to any person in the employment of UGL arising out of and in the course of such employment;
- UGL shall effect and maintain insurance with a limit of not less than HK$100,000,000 in relation to certain of its liabilities for the period commencing on 30 November 2007 until the date of the completion of the Refurbishment Works;
- UGL's liability to indemnify the Company is reduced proportionally to the extent that any act or omission of the Company, its employees or agents, the Engineer or those appointed by the Engineer, caused or contributed to the relevant death, illness, injury, loss or damage and the total liability of UGL shall not exceed 100% of the total sum payable under the Original Contract, save and except for UGL's liability for death, personal injury, wilful misconduct, fraud and infringement of third party intellectual property rights; and
- the total liability of UGL to the Company for liquidated damages arising as a result of delay is limited to 10% of the total sum payable under the Original Contract and, subject to the provisions regarding liquidated damages, UGL is not liable for any kind of economic, financial, indirect or consequential loss or damage, including but not limited to loss of profit, loss of use, loss of production, loss of any contract and the like, suffered by the Company.

Pursuant to the Original Contract, a bank guarantee issued by HSBC Bank Australia Limited has been provided to the Company in respect of the obligations of UGL under the Original Contract.

If UGL fails to complete the Refurbishment Works within the contract period, the Engineer may terminate the contract by notice in writing to UGL.

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 F 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 pages 121 to 122) in consideration for the execution of the Property Package Agreements (as described on page 132 and in paragraph E below) and the sale of the shares in the KCRC Subsidiaries (as defined on page 123) 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 ("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 ("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 the Government as contemplated in the MTR Ordinance.

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

- the extension of the Company's franchise under the MTR Ordinance;
- the design, construction and maintenance of the railway;
- passenger services;
- a framework for the award of new projects and the operation and ownership structure of new railways;

- the adjustment mechanism to be applied to certain of the Company's fares; and
- compensation which may be payable under the MTR Ordinance to the Company in relation to a suspension, expiry or termination of the franchise.

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 of 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, the Government entered into an undertaking that it would, within periods to be agreed between the Company and the Government, offer to the Company a private treaty grant in respect of certain development sites ("Category 4 Properties"). The terms of each private treaty grant shall generally be determined by the 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 Liaison Committee Letter

The Liaison Committee Letter was issued on 9 August 2007 by KCRC, the terms of which were acknowledged and agreed to by the Company and the Government.

The letter sets out the agreement between the parties regarding a "Liaison Committee" established for the purposes of governing certain matters of KCRC between 9 August 2007 and the Merger Date. Upon the completion of the Rail Merger the Liaison Committee was dissolved.

G 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.

Auditors

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

By order of the Board

Leonard Bryan Turk
Secretary to the Board
Hong Kong, 9 March 2010

Independent Auditor's Report to the Shareholders of MTR Corporation Limited

(Incorporated in Hong Kong with limited liability)

We have audited the consolidated accounts of MTR Corporation Limited (the "Company") set out on pages 135 to 231, which comprise the consolidated and company balance sheets as at 31 December 2009, and the consolidated profit and loss account, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Accounts

The directors of the company are responsible for the preparation and the true and fair presentation of these accounts in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of accounts that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these accounts based on our audit. This report is made solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the accounts. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the accounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated accounts give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2009 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

KPMG

Certified Public Accountants

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

for the year ended 31 December in HK$ million	Note	2009	2008
Hong Kong fare revenue	4	**11,498**	11,467
Station commercial and rail related revenue	5A	**3,328**	3,449
Rental, management and other revenue	5B	**2,928**	2,712
Railway franchise revenue outside of Hong Kong	6	**1,043**	–
Other net income	7	**–**	–
		18,797	17,628
Staff costs and related expenses	8A	**(3,387)**	(3,358)
Energy and utilities		**(1,020)**	(1,020)
Operational rent and rates		**(183)**	(179)
Stores and spares consumed		**(403)**	(411)
Repairs and maintenance	8B	**(915)**	(856)
Railway support services		**(127)**	(121)
Expenses relating to station commercial and rail related businesses		**(632)**	(822)
Expenses relating to property ownership, management and other businesses		**(866)**	(785)
Expenses relating to railway franchise operations outside of Hong Kong	6	**(1,035)**	–
Project study and business development expenses	8C	**(206)**	(198)
General and administration expenses	8D	**(329)**	(342)
Other expenses	8E	**(192)**	(211)
Operating expenses before depreciation and amortisation		**(9,295)**	(8,303)
Operating profit from railway and related businesses before depreciation and amortisation		**9,502**	9,325
Profit on property developments	10	**3,554**	4,670
Operating profit before depreciation and amortisation		**13,056**	13,995
Depreciation and amortisation	11	**(2,979)**	(2,930)
Merger related expenses	12	**(12)**	(53)
Operating profit before interest and finance charges		**10,065**	11,012
Interest and finance charges	13	**(1,504)**	(1,998)
Change in fair value of investment properties	21	**2,798**	(146)
Share of profits of non-controlled subsidiaries and associates	14	**160**	159
Profit before taxation		**11,519**	9,027
Income tax	15A	**(1,880)**	(747)
Profit for the year		**9,639**	8,280
Attributable to:			
– Equity shareholders of the Company	16	**9,639**	8,284
– Minority interests		**–**	(4)
Profit for the year		**9,639**	8,280
Earnings per share:	18		
– Basic		**HK$1.69**	HK$1.47
– Diluted		**HK$1.69**	HK$1.47

The notes on pages 141 to 231 form part of the accounts

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December in HK$ million	Note	2009	2008
Profit for the year		**9,639**	8,280
Other comprehensive income for the year (after taxation and reclassification adjustments):			
Exchange differences on translation of:			
– financial statements of overseas subsidiaries		**(10)**	21
– minority interests		**–**	2
		(10)	23
Cash flow hedges: net movement in hedging reserve	20A&B	**102**	(129)
Self-occupied land and buildings:			
– Net movement in fixed assets revaluation reserve	20A&B	**172**	(210)
– Net movement in retained profits	20A&B	**–**	42
		264	(274)
Total comprehensive income for the year		**9,903**	8,006
Attributable to:			
– Equity shareholders of the Company		**9,903**	8,008
– Minority interests		**–**	(2)
Total comprehensive income for the year		**9,903**	8,006

The notes on pages 141 to 231 form part of the accounts

CONSOLIDATED BALANCE SHEET

at 31 December in HK$ million	Note	2009	2008
Assets			
Fixed assets			
– Investment properties	21	**40,993**	37,737
– Other property, plant and equipment	22	**77,290**	77,804
– Service concession assets	23	**19,351**	15,463
		137,634	131,004
Property management rights	24	**31**	35
Railway construction in progress	25	**–**	658
Property development in progress	26A	**6,718**	7,895
Deferred expenditure	27	**558**	1,988
Prepaid land lease payments	28	**554**	567
Interests in non-controlled subsidiaries	29	**490**	381
Interests in associates	31	**823**	743
Deferred tax assets	48B	**12**	11
Investments in securities	32	**227**	471
Staff housing loans	33	**7**	10
Properties held for sale	34	**3,783**	2,228
Derivative financial assets	35	**370**	528
Stores and spares	36	**1,040**	690
Debtors, deposits and payments in advance	37	**2,428**	7,190
Loan to a property developer	38	**1,916**	3,720
Amounts due from the Government and other related parties	39	**12,788**	426
Cash and cash equivalents	40	**7,115**	793
		176,494	159,338
Liabilities			
Bank overdrafts	41A	**21**	59
Short-term loans	41A	**25**	1,646
Creditors and accrued charges	42	**20,497**	5,334
Current taxation	48A	**430**	450
Contract retentions	43	**354**	224
Amounts due to the Government and a related party	44	**923**	882
Loans and other obligations	41A	**23,822**	29,584
Obligations under service concession	45	**10,625**	10,656
Derivative financial liabilities	35	**237**	305
Loan from minority shareholders of a subsidiary	46	**136**	–
Deferred income	47	**167**	156
Deferred tax liabilities	48B	**12,804**	12,220
		70,041	61,516
Net assets		**106,453**	97,822
Capital and reserves			
Share capital, share premium and capital reserve	49A	**42,497**	41,119
Other reserves	50	**63,890**	56,682
Total equity attributable to equity shareholders of the Company		**106,387**	97,801
Minority interests		**66**	21
Total equity		**106,453**	97,822

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

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

The notes on pages 141 to 231 form part of the accounts

BALANCE SHEET

at 31 December in HK$ million	Note	2009	2008
Assets			
Fixed assets			
– Investment properties	21	**39,879**	36,618
– Other property, plant and equipment	22	**76,979**	77,613
– Service concession assets	23	**15,725**	15,463
		132,583	129,694
Property management rights	24	**31**	35
Railway construction in progress	25	**–**	658
Property development in progress	26A	**6,718**	7,895
Deferred expenditure	27	**558**	338
Prepaid land lease payments	28	**554**	567
Investments in subsidiaries	30	**1,219**	1,150
Investments in securities	32	**–**	90
Staff housing loans	33	**7**	10
Properties held for sale	34	**3,783**	2,228
Derivative financial assets	35	**370**	528
Stores and spares	36	**874**	667
Debtors, deposits and payments in advance	37	**1,939**	7,000
Loan to a property developer	38	**1,916**	3,720
Amounts due from the Government and other related parties	39	**15,955**	2,128
Cash and cash equivalents	40	**5,622**	262
		172,129	156,970
Liabilities			
Bank overdrafts	41A	**21**	59
Short-term loans	41A	**25**	624
Creditors and accrued charges	42	**18,581**	4,666
Current taxation	48A	**425**	441
Contract retentions	43	**204**	166
Amounts due to the Government and other related parties	44	**13,159**	14,121
Loans and other obligations	41A	**10,381**	16,628
Obligations under service concession	45	**10,625**	10,656
Derivative financial liabilities	35	**237**	305
Deferred income	47	**124**	156
Deferred tax liabilities	48B	**12,798**	12,219
		66,580	60,041
Net assets		**105,549**	96,929
Capital and reserves			
Share capital, share premium and capital reserve	49A	**42,497**	41,119
Other reserves	50	**63,052**	55,810
Total equity		**105,549**	96,929

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

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

The notes on pages 141 to 231 form part of the accounts

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December in HK$ million	Note	Share capital, share premium and capital reserve	Other reserves: Fixed assets revaluation reserve	Other reserves: Hedging reserve	Other reserves: Employee share-based capital reserve	Other reserves: Exchange reserve	Other reserves: Retained profits	Total equity attributable to equity shareholders of the Company	Minority interests	Total equity
2009										
Balance as at 1 January 2009		**41,119**	**960**	**(154)**	**25**	**63**	**55,788**	**97,801**	**21**	**97,822**
Changes in equity for the year ended 31 December 2009										
– 2008 final dividend	50	**962**	**–**	**–**	**–**	**–**	**(1,925)**	**(963)**	**–**	**(963)**
– 2009 interim dividend	50	**399**	**–**	**–**	**–**	**–**	**(800)**	**(401)**	**–**	**(401)**
– Employee share-based payments		**–**	**–**	**–**	**32**	**–**	**–**	**32**	**–**	**32**
– Employee share options exercised	49A, 50	**17**	**–**	**–**	**(2)**	**–**	**–**	**15**	**–**	**15**
– Employee share options lapsed		**–**	**–**	**–**	**(3)**	**–**	**3**	**–**	**–**	**–**
– Increase in minority interests arising from shares issued by a subsidiary		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**45**	**45**
– Total comprehensive income for the year		**–**	**172**	**102**	**–**	**(10)**	**9,639**	**9,903**	**–**	**9,903**
Balance as at 31 December 2009		**42,497**	**1,132**	**(52)**	**52**	**53**	**62,705**	**106,387**	**66**	**106,453**
2008										
Balance as at 1 January 2008		39,828	1,170	(25)	7	42	49,992	91,014	23	91,037
Changes in equity for the year ended 31 December 2008										
– 2007 final dividend	50	868	–	–	–	–	(1,740)	(872)	–	(872)
– 2008 interim dividend	50	394	–	–	–	–	(790)	(396)	–	(396)
– Employee share-based payments		–	–	–	20	–	–	20	–	20
– Employee share options exercised	50	29	–	–	(2)	–	–	27	–	27
– Total comprehensive income for the year		–	(210)	(129)	–	21	8,326	8,008	(2)	8,006
Balance as at 31 December 2008		41,119	960	(154)	25	63	55,788	97,801	21	97,822

The notes on pages 141 to 231 form part of the accounts

for the year ended 31 December in HK$ million	2009		2008	
Cash flows from operating activities				
Operating profit from railway and related businesses before depreciation and amortisation	**9,502**		9,325	
Adjustments for:				
Decrease in provision for obsolete stock	**–**		(14)	
Loss on disposal of fixed assets	**6**		30	
Amortisation of prepaid land lease payments and deferred income from transfers of assets from customers	**11**		14	
(Increase)/decrease in fair value of derivative instruments	**(3)**		11	
Unrealised loss/(gain) on revaluation of investment in securities	**1**		(2)	
Employee share-based payment expenses	**40**		22	
Exchange loss/(gain)	**4**		(1)	
Operating profit from railway and related businesses before working capital changes	**9,561**		9,385	
(Increase)/decrease in debtors, deposits and payments in advance	**(490)**		113	
Increase in stores and spares	**(350)**		(34)	
Increase in creditors and accrued charges	**758**		34	
Cash generated from operations	**9,479**		9,498	
Current tax paid				
Hong Kong Profits Tax paid	**(1,369)**		(575)	
Overseas tax paid	**(3)**		(2)	
Net cash generated from operating activities		**8,107**		8,921
Cash flows from investing activities				
Capital expenditure				
– Purchase of Hong Kong operational railway assets	**(2,250)**		(1,512)	
– LOHAS Park Station Project	**(76)**		(230)	
– West Island Line Project	**(851)**		(306)	
– South Island Line Project	**(214)**		(96)	
– Kwun Tong Line Extension Project	**(78)**		(42)	
– Shenzhen Metro Line 4 Project	**(1,203)**		(827)	
– Tseung Kwan O property development projects	**(188)**		(204)	
– East Rail/Light Rail/Kowloon Southern Link property development projects	**(43)**		(1,962)	
– Property renovation, fitting out works and other development projects	**(300)**		(591)	
– Other capital projects	**(138)**		(72)	
Net payments in respect of Shatin to Central Link and Express Rail Link	**(50)**		(89)	
Fixed annual payment on service concession assets	**(750)**		(750)	
Payments in respect of the Rail Merger	**–**		(316)	
Receipts in respect of property development	**11,784**		4,448	
Loan repayment from a property developer	**2,000**		–	
Receipt of Government funding support for West Island Line Project	**–**		400	
Purchase of investment in securities	**(47)**		(147)	
Proceeds from sale of investment in securities	**283**		100	
Proceeds from disposal of fixed assets	**43**		48	
Loan (drawdown to)/repayments from non-controlled subsidiaries and associates	**(51)**		109	
Investment in associates	**(72)**		(528)	
Dividend received from non-controlled subsidiaries	**40**		23	
Receipts from minority shareholders on shares issued by and loan to a subsidiary	**185**		–	
Principal repayments under Staff Housing Loan Scheme	**3**		5	
Net cash generated from/(used in) investing activities		**8,027**		(2,539)
Cash flows from financing activities				
Proceeds from shares issued under share option schemes	**16**		26	
Drawdown of loans	**7,954**		6,150	
Proceeds from issuance of capital market instruments	**500**		1,750	
Repayment of loans	**(8,637)**		(10,438)	
Repayment of capital market instruments	**(7,111)**		(1,000)	
Interest paid	**(1,127)**		(1,442)	
Interest received	**14**		14	
Finance charges paid	**(21)**		(17)	
Dividends paid	**(1,362)**		(1,265)	
Net cash used in financing activities		**(9,774)**		(6,222)
Net increase in cash and cash equivalents		**6,360**		160
Cash and cash equivalents at 1 January		**734**		574
Cash and cash equivalents at 31 December		**7,094**		734
Analysis of the balances of cash and cash equivalents				
Cash and cash equivalents		**7,115**		793
Bank overdrafts		**(21)**		(59)
		7,094		734

The notes on pages 141 to 231 form part of the accounts

1 Statement of Compliance

These accounts have been prepared in compliance with the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). These accounts have also been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), and accounting principles generally accepted in Hong Kong. The HKFRSs are fully converged with International Financial Reporting Standards in all material respects. A summary of the principal accounting policies adopted by the Group is set out in note 2.

The HKICPA has issued certain new and revised HKFRSs that are effective for accounting periods beginning on or after 1 January 2009. Changes in accounting policies resulting from the initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these accounts are disclosed in note 2A(iii).

2 Principal Accounting Policies

A Basis of Preparation of the Accounts

(i) The measurement basis used in the preparation of the accounts is the historical cost basis except that the following assets and liabilities are stated at their fair value as explained in the accounting policies set out below:

- investment properties (see note 2F(i));
- other leasehold land and buildings, for which the fair values cannot be measured separately at inception of the lease and the entire lease is classified as a finance lease (see note 2F(ii));
- financial instruments classified as investments in securities other than those intended to be held to maturity (see note 2M); and
- derivative financial instruments (see note 2U).

(ii) The preparation of the accounts in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenditure. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements and estimations about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the accounts and estimates are discussed in note 58.

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

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

HKFRS 8 requires segment disclosure to be based on the way the Group's chief operating decision maker regards and manages the Group, with the amounts reported for each reportable segment being the measures reported to the Group's chief operating decision maker for the purposes of assessing segment performance and making decisions about operating matters. This contrasts with the presentation of segment information in prior years which was based on a disaggregation of the Group's financial statements into segments based on related services. The adoption of HKFRS 8 has resulted in the presentation of segment information in a manner that is more consistent with internal reporting provided to the Group's most senior executive management. Corresponding amounts have been provided on a basis consistent with the revised segment information.

2 Principal Accounting Policies *(continued)*

A Basis of Preparation of the Accounts *(continued)*

As a result of the adoption of HKAS 1 (revised 2007), details of changes in equity during the period arising from transactions with equity shareholders in their capacity as such have been presented separately from all other income and expenditure in a revised consolidated statement of changes in equity. All other items of income and expense are presented in the consolidated profit and loss account, if they are recognised as part of profit or loss for the period, or otherwise in a new primary statement, the consolidated statement of comprehensive income. The new format for the consolidated statement of comprehensive income and consolidated statement of changes in equity has been adopted in the 2009 accounts and corresponding amounts have been restated to conform to the new presentation. This change in presentation has no effect on reported profit or loss, total income and expense or net assets for any period presented.

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

As a result of the adoption of the amendments to HKFRS 7, the financial statements include expanded disclosures in notes 32 and 35 about the fair value measurements of the Group's financial instruments, categorising these fair value measurements into a three-level fair value hierarchy according to the extent to which they are based on observable market data.

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

Other HKFRS developments have no material impact on the Group's financial statements as the amendments and interpretations are consistent with policies already adopted by the Group.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 59).

B Basis of Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in non-controlled subsidiaries (see note 2D) and associates (see note 2E) made up to 31 December each year. The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from or to the date of their acquisition or disposal, as appropriate.

C Subsidiaries

A subsidiary in accordance with the Hong Kong Companies Ordinance is a company in which the Group, directly or indirectly, holds more than half of the issued share capital, or controls more than half of the voting power, or controls the composition of the board of directors. Subsidiaries are considered to be controlled if the Company has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities.

Intra-group balances and transactions, and any unrealised profits arising from intra-group transactions, are eliminated in full in preparing the consolidated accounts. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Minority interests at the balance sheet date, being the portion of the net assets of subsidiaries attributable to equity interests that are not owned by the Company, whether directly or indirectly through subsidiaries, are presented in the consolidated balance sheet and statement of changes in equity within equity, separately from equity attributable to the equity shareholders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated profit and loss account and the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between minority interests and the equity shareholders of the Company.

Where losses attributable to the minority exceed the minority interest in the equity of a subsidiary, the excess, and any further losses attributable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make good the losses. All subsequent profits of the subsidiary are allocated to the Group until the minority's share of losses previously absorbed by the Group has been recovered.

Investments in subsidiaries are carried in the Company's balance sheet at cost less any impairment losses (see note 2H(ii)).

2 Principal Accounting Policies *(continued)*

D Non-controlled Subsidiaries

Non-controlled subsidiaries are not consolidated in the accounts as the Group does not have effective control over their Boards. The investments in non-controlled subsidiaries are accounted for in the consolidated accounts of the Company using the equity method and are initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of their net assets. The consolidated profit and loss account reflects the Group's share of the results of those non-controlled subsidiaries for the year.

Unrealised profits and losses resulting from transactions between the Group and the non-controlled subsidiaries are eliminated to the extent of the Group's interest in those subsidiaries, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in the profit and loss account.

In the Company's balance sheet, its investments in non-controlled subsidiaries are stated at cost less impairment losses (see note 2H(ii)).

E Associates and Jointly Controlled Entities

An associate is an entity over which the Group or the Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A jointly controlled entity is an entity which operates under a contractual arrangement between the Group or the Company and other parties, where the contractual arrangement establishes that the Group or the Company and one or more of the other parties share joint control over the economic activity of the entity.

An investment in an associate or a jointly controlled entity is accounted for in the consolidated accounts of the Company using the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the investees' net assets. The Group's share of the post-acquisition results of the investees for the year is recognised in the consolidated profit and loss account, whereas the Group's share of the post-acquisition items of the investees' other comprehensive income is recognised in the consolidated statement of comprehensive income.

When the Group's share of losses equals or exceeds its interest in the associate or the jointly controlled entity, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest in the investee is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate or the jointly controlled entity.

Unrealised profits and losses resulting from transactions between the Group and its associates and jointly controlled entities are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in the profit and loss account.

In the Company's balance sheet, investments in associates and jointly controlled entities are stated at cost less impairment losses (see note 2H(ii)).

F Fixed Assets

(i) Investment properties are land and/or buildings which are owned or held under a leasehold interest to earn rental income and/or for capital appreciation. These include property that is being constructed or developed for future use as investment property.

Investment properties are stated in the balance sheet at fair value as determined semi-annually by independent professionally qualified valuers. Gains or losses arising from changes in the fair value are recognised as profit or loss in the year in which they arise.

(ii) Land held for own use under operating leases and buildings thereon, where the fair values of the leasehold interest in the land and buildings cannot be measured separately at inception of the lease are accounted for as being held under a finance lease, unless the buildings are also clearly held under an operating lease. The self-occupied land and buildings are stated in the balance sheet at their fair values on the basis of their existing use at the date of revaluation less any subsequent accumulated depreciation. Revaluations are performed by independent qualified valuers semi-annually, with changes in the value arising on revaluations treated as movements in the fixed asset revaluation reserve, except:

(a) where the balance of the fixed asset revaluation reserve relating to a self-occupied land and building is insufficient to cover a revaluation deficit of that property, the excess of the deficit is charged to the profit and loss account; and

(b) where a revaluation deficit had previously been charged to the profit and loss account and a revaluation surplus subsequently arises, this surplus is firstly credited to the profit and loss account to the extent of the deficit previously charged to the profit and loss account, and is thereafter taken to the fixed asset revaluation reserve.

(iii) Civil works and plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 2H(ii)).

(iv) Assets under construction are stated at cost less impairment losses (see note 2H(ii)). Cost comprises direct costs of construction, such as materials, staff costs and overheads, together with interest expense capitalised during the period of construction or installation and testing. Capitalisation of these costs ceases and the asset concerned is transferred to the appropriate fixed assets category when substantially all the activities necessary to prepare the asset for its intended use are completed.

2 Principal Accounting Policies *(continued)*

F Fixed Assets *(continued)*

(v) Leased Assets

(a) Leases of assets under which the lessee assumes substantially all the risks and rewards of ownership are classified as finance leases. Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments (computed using the rate of interest implicit in the lease), of such assets are included in fixed assets and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation and impairment losses are accounted for in accordance with the accounting policy as set out in notes 2I(iv) and 2H(ii) respectively. Finance charges implicit in the lease payments are charged to the profit and loss account over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

(b) Leases of assets, other than that mentioned in note 2F(v)(c) below, under which the lessor has not transferred substantially all the risks and rewards of ownership are classified as operating leases. Where the Group leases out assets under operating leases, the assets are included in the balance sheet according to their nature and, where applicable, are depreciated in accordance with the Group's depreciation policies. Impairment losses are accounted for in accordance with the accounting policies on impairment of assets (see note 2H(ii)). Revenue arising from operating leases is recognised in accordance with the Group's revenue recognition policies as set out in note 2AA(iv).

(c) Land held for own use under an operating lease, where its fair value cannot be measured separately from the fair value of a building situated thereon at inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease (see note 2F(ii)). For these purposes, inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee, or at the date of construction of those buildings, if later.

(vi) Subsequent expenditure relating to the replacement of certain parts of an existing fixed asset is recognised in the carrying amount of the asset if it is probable that future economic benefit will flow to the Group and the cost of the item can be measured reliably. The carrying amount of those parts that are replaced is derecognised, with gain or loss arising therefrom dealt with in the profit and loss account.

Expenditure on repairs or maintenance of an existing fixed asset to restore or maintain the originally assessed standard of performance of that asset is charged as an expense when incurred.

Gains or losses arising from the retirement or disposal of a fixed asset or an investment property are determined as the difference between the net disposal proceeds and the carrying amount of the asset. Such gains or losses are recognised as income or expense in the profit and loss account on the date of retirement or disposal. Any related revaluation surplus is transferred from the fixed asset revaluation reserve to retained profits and is not reclassified to profit or loss.

(vii) Service Concession Assets

Where the Group enters into service concession arrangements under which the Group acquires the right to access, use and operate certain assets for the provision of public services ("concession infrastructure"):

- Upfront payments at inception of the service concession are capitalised and amortised on a straight-line basis over the period of the service concession;
- Annual payments over the period of the service concession with the amounts fixed at inception are capitalised at the present value of the total fixed annual payments discounted at the incremental long-term borrowing rate determined at inception, and amortised on a straight-line basis over the period of the service concession with a corresponding liability recognised as obligations under service concession when the Group has a right to charge for usage of the concession infrastructure;
- Annual payments for the service concession which are not fixed or determinable at inception and which are contingent on future revenues generated from the service concession over certain thresholds are charged to the profit and loss account in the period when incurred;
- Expenditure directly attributable to the acquisition of the service concession up to inception, including the assumption of certain obligations of the grantor of the service concession, are capitalised and amortised on a straight-line basis over the period of the service concession; and
- Payments for the replacement and/or upgrade of assets subject to the service concession arrangement are capitalised and amortised on a straight-line basis over the shorter of the assets' useful lives and the remaining period of the service concession.

Where the Group enters into service concession arrangements under which the Group constructs, uses and operates certain assets for the provision of public services, construction revenues and costs are recognised in the profit and loss account by reference to the stage of completion at the balance sheet date while service concession assets are recognised in the balance sheet at fair value upon initial recognition and amortised on a straight-line basis over the period of the service concession. Expenditures for the replacement and/or upgrade of the assets subject to service concession are capitalised and amortised on a straight-line basis over the shorter of the assets' useful lives and the remaining period of the service concession.

Service concession assets are carried on the balance sheet, as an intangible asset, at cost less accumulated amortisation and impairment losses, if any (see note 2H(ii)).

Income and expenditure and assets and liabilities in relation to the operation of the service concessions are accounted for in the Group's and the Company's profit and loss accounts and balance sheets.

2 Principal Accounting Policies *(continued)*

G Property Management Rights

Where the Group makes payments for the acquisition of property management rights, the amounts paid are capitalised as intangible assets and stated in the balance sheet at cost less accumulated amortisation and impairment losses (see note 2H(ii)). Property management rights are amortised to the profit and loss account on a straight-line basis over the terms of the management rights.

H Impairment of Assets

(i) Impairment of Debtors and Other Receivables

Debtors and other current and non-current receivables are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets) where the effect of discounting is material.

If in a subsequent period the amount of an impairment loss decreases, the impairment loss is reversed through the profit and loss account.

(ii) Impairment of Other Assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

- fixed assets (including service concession assets but other than properties carried at revalued amounts);
- property management rights;
- railway construction in progress;
- property development in progress;
- deferred expenditure;
- prepaid land lease payments;
- investments in held-to-maturity securities; and
- investments in subsidiaries, non-controlled subsidiaries, associates and jointly controlled entities.

If any such indication exists, the asset's recoverable amount is estimated.

The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

An impairment loss is recognised in the profit and loss account whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount.

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount of the asset.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the profit and loss account in the year in which the reversals are recognised.

I Depreciation

(i) Investment properties are not depreciated.

(ii) Fixed assets other than investment properties and assets under construction are depreciated on a straight-line basis at rates sufficient to write off their cost or valuation, less their estimated residual value, if any, over their estimated useful lives as follows:

Land and Buildings

Self-occupied land and buildings .... the shorter of 50 years and the unexpired term of the lease

Civil Works

Excavation and boring .... Indefinite
Tunnel linings, underground civil structures, overhead structures and immersed tubes .... 100 years
Station building structures .... 100 years
Depot structures .... 80 years
Concrete kiosk structures .... 20 years
Cableway station tower and theme village structures .... 27 years

2 Principal Accounting Policies *(continued)*

I Depreciation *(continued)*

Plant and Equipment

Rolling stock and components	4 – 50 years
Platform screen doors	35 years
Rail track	7 – 30 years
Environmental control systems, lifts and escalators, fire protection and drainage system	7 – 30 years
Power supply systems	7 – 40 years
Aerial ropeway and cabin	5 – 27 years
Automatic fare collection systems, metal station kiosks, and other mechanical equipment	20 years
Train control and signalling equipment, station announcement systems, telecommunication systems and advertising panels	5 – 20 years
Station architectural finishes	20 – 30 years
Fixtures and fittings	10 – 15 years
Maintenance equipment	4 – 10 years
Office furniture and equipment	5 – 15 years
Computer software licences and applications	5 – 7 years
Computer equipment	4 – 5 years
Cleaning equipment and tools	5 years
Motor vehicles	4 years

Where parts of an item of property, plant and equipment have different useful lives, each part is depreciated separately. The useful lives of the various categories of fixed assets are reviewed annually in the light of actual asset condition, usage experience and the current asset replacement programme.

(iii) No depreciation is provided on assets under construction until construction is completed and the assets are ready for their intended use.

(iv) Depreciation on assets held under finance leases is provided at rates designed to write off the cost of the asset in equal annual amounts over the shorter of the lease term or the anticipated useful life of the asset as set out above, except in cases where title to the asset will be acquired by the Group at the end of the lease where depreciation is provided at rates designed to write off the cost of the asset in equal amounts over the anticipated useful life of the asset.

J Construction Costs

(i) Costs incurred by the Group in respect of feasibility studies on proposed railway related construction projects (including consultancy fees, in-house staff costs and overheads) are dealt with as follows:

- where the proposed projects are at a preliminary review stage with no certainty of materialising, the costs concerned are written off to the profit and loss account; and
- where the proposed projects are at a detailed study stage, having been agreed in principle by the Members of the Board based on a feasible financial plan, the costs concerned are recorded as deferred expenditure until such time as a project agreement is reached, whereupon the costs are transferred to railway construction in progress.

(ii) After entering into a project agreement, all costs incurred in the construction of the railway are dealt with as railway construction in progress until commissioning of the railway line, whereupon the relevant construction costs are transferred to fixed assets.

K Property Development

(i) Costs incurred by the Group in respect of site preparation, land costs and acquisition of development rights as well as notional interest in connection with interest-free loans to property developers are dealt with as property development in progress.

(ii) Upfront payments received from developers in respect of developments are offset against the amounts in property development in progress attributable to that development. Any surplus amounts of payments received from developers in excess of the balance in property development in progress are transferred to deferred income. In these cases, further costs subsequently incurred by the Group in respect of that development are charged against deferred income.

(iii) Expenditure incurred on the development of properties for self-occupation by the Group is transferred to fixed assets when the occupation permits are issued and the properties are put into use.

(iv) When agreement is reached with a developer to redevelop an existing self-occupied property, the relevant property is revalued on an existing use basis prior to commencement of redevelopment. The surplus arising on revaluation is credited to fixed assets revaluation reserve. On commencement of redevelopment, the net book value of the property is transferred to property development in progress.

2 Principal Accounting Policies *(continued)*

K Property Development *(continued)*

(v) Where an interest-free loan is provided to a developer as one of the terms of the development contract, such loan is initially stated at fair value which is its present value discounted at the prevailing market rates of interest at inception. The difference between the fair value and the face value of the loan is dealt with as property development in progress during construction and transferred to the profit and loss account upon completion of the development. Notional interest income is credited to the profit and loss account and debited to the loan over the period of the loan so that the fair value of the loan at maturity equates to its face value.

(vi) Profits arising from the development of properties undertaken in conjunction with property developers are recognised in the profit and loss account as follows:

- where the Group receives payments from developers at the commencement of the project, profits arising from such payments are recognised when the foundation and site enabling works are complete and acceptable for development, and after taking into account the outstanding risks and obligations, if any, retained by the Group in connection with the development;
- where the Group receives a right to a share of the net surplus from sale of the development, income is initially recognised by the Group upon the issue of occupation permits provided the amounts of revenue and costs can be estimated reliably. The interest in any unsold properties is subsequently remeasured on a basis consistent with the policy set out in note 2K(viii); and
- where the Group receives a distribution of the assets of the development, profit is recognised based on the fair value of such assets at the time of receipt and after taking into account any outstanding risks and obligations retained by the Group in connection with the development.

Upon recognition of profit, the balance of deferred income or property development in progress related to that development is credited or charged to the profit and loss account, as the case may be.

(vii) Where the Group is liable to pay the developer consideration for the retention of part of a property to be redeveloped, profit attributable to the Group in respect of the redevelopment (including any payment received from the developer) will be recognised in the profit and loss account when the quantum of the obligation of the Group and the amount of realised profit can be determined with reasonable accuracy.

(viii) Where properties are received as a profit distribution upon completion of development and are held for sale, those properties are stated at cost represented by their estimated net realisable value upon receipt. Net realisable value represents the estimated selling price less costs to be incurred in selling the properties. When properties are sold, the carrying amount of those properties is recognised as cost of properties sold in the period in which the related revenue is recognised. The amount of any write-down of properties to net realisable value is recognised as an expense in the period the write-down occurs. The amount of any reversal of any write-down of properties, arising from an increase in net realisable value, is recognised as a reduction in the cost of properties sold in the period in which the reversal occurs.

(ix) Where properties under construction are received as a sharing in kind from a development, these properties are initially recognised in assets under construction at fair value. Further costs incurred in the construction of those assets are capitalised into the assets under construction, which are transferred to fixed assets when substantially all the activities necessary to prepare the assets for their intended use have been completed.

L Jointly Controlled Operations

The arrangements entered into by the Group with developers for property developments without establishing separate entities are considered to be jointly controlled operations pursuant to HKAS 31, *Investments in joint ventures*. Under the development arrangements, the Group is normally responsible for its own costs, including in-house staff costs and the costs of enabling works, and the developers normally undertake to pay for all other project costs such as land premium (or such remaining portion as not already paid by the Group), construction costs, professional fees, etc. Such costs are deductible from the proceeds of sale before surplus proceeds are shared. In respect of its interests in such operations, the Group accounts for the costs of enabling works and land costs (including any land premiums) paid net of upfront payments received as property development in progress. In cases where upfront payments received from developers exceed the related expenditures incurred by the Group, such excess is recorded as deferred income. Expenses incurred by the Group on staff, overhead and consultancy fees in respect of these developments are also capitalised as property development in progress. The Group's share of income earned from such operations is recognised in the profit and loss account on the basis of note 2K(vi) after netting off any related balance in property development in progress at that time.

M Investments in Securities

The Group's policies for investments in securities (other than investments in its subsidiaries, non-controlled subsidiaries, associates and jointly controlled entities) are as follows:

(i) Investments in securities held for trading purpose are initially stated at fair value. At each balance sheet date the fair value is remeasured, with any resultant unrealised gain or loss being recognised in the profit and loss account.

(ii) Investments in debt securities on which the Group has the ability and intention to hold to maturity are classified as held-to-maturity securities, which are stated at amortised cost less impairment losses (see note 2(H)(ii)).

(iii) Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments.

(iv) Profit or loss on disposal of investments in securities are determined as the difference between the estimated net disposal proceeds and the carrying amount of the investments and are accounted for in the profit and loss account as they arise.

2 Principal Accounting Policies *(continued)*

N Defeasance of Long-term Lease Payments

Where obligations to make long-term lease payments have been defeased by the placement of securities, those obligations and securities (and income and charges arising therefrom) have been netted off in order to reflect the overall commercial effect of the arrangements. These transactions are not accounted for as leases and these liabilities and investment in securities are not recognised as liabilities and assets.

O Stores and Spares

Stores and spares used for railway and business operation are categorised as either revenue or capital. Revenue spares are stated in the balance sheet at cost, using the weighted average cost method and are recognised in the year in which the consumption occurred. Provision is made for obsolescence where appropriate. Capital items are included in fixed assets and stated at cost less aggregate depreciation and impairment losses. Depreciation is charged at the rates applicable to the relevant fixed assets against which the capital spares are held in reserve.

P Long-term Consultancy Contracts

The accounting policy for contract revenue is set out in note 2AA(iii). When the outcome of a fixed-price consultancy contract can be estimated reliably, contract costs are recognised as expenses by reference to the stage of completion of the contract activity at the balance sheet date. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately. When the outcome of a consultancy contract cannot be estimated reliably, contract costs are recognised as expenses in the period in which they are incurred.

Consultancy contracts in progress at the balance sheet date are recorded in the balance sheet at the net amount of costs incurred plus recognised profits less recognised losses and progress billings, and are presented in the balance sheet as the "Gross amount due from customers for contract work" (as an asset) or the "Gross amount due to customers for contract work" (as a liability), as applicable. Progress billings not yet paid by the customer are included in the balance sheet under "Debtors, deposits and payments in advance". Amounts received before the related work is performed are included in the balance sheet, as a liability, under "Creditors and accrued charges".

Q Cash and Cash Equivalents

Cash and cash equivalents comprise cash at banks and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

R Debtors, Deposits and Payments in Advance

Debtors, deposits and payments in advance are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts (see note 2H(i)), except where the effect of discounting would be immaterial or the discount is not measurable as the receivables are interest-free loans made to related parties without any fixed repayment terms. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts.

S Interest-bearing Borrowings

Interest-bearing borrowings are recognised initially at fair value, net of transaction costs incurred. The unhedged portion of interest-bearing borrowings are subsequently stated at amortised costs; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the profit and loss account over the period of the borrowings using the effective interest method.

Subsequent to initial recognition, the carrying amount of the hedged portion of interest-bearing borrowings is remeasured and the change in fair value attributable to the risk being hedged is recognised in the profit and loss account to offset the effect of the gain or loss on the related hedging instrument.

T Creditors and Accrued Charges

Creditors and accrued charges are stated at amortised cost if the effect of discounting would be material, otherwise they are stated at cost.

U Derivative Financial Instruments and Hedging Activities

The Group uses derivative financial instruments such as interest rate swaps and currency swaps to manage its interest rate and foreign exchange exposure. Based on Group's policy, these instruments are used solely for reducing or eliminating financial risks associated with the Group's liabilities and not for trading or speculation purposes.

Derivatives are initially recognised at fair value and are subsequently remeasured at their fair value at each balance sheet date. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and the nature of the item being hedged.

Where hedge accounting applies, the Group designates derivatives employed as either: (1) a fair value hedge: to hedge the fair value of recognised liabilities; or (2) a cash flow hedge: to hedge the variability in cash flows of a recognised liability or the foreign currency risk of a firm commitment.

(i) Fair Value Hedge

Changes in the fair value of derivatives that are designated and qualified as fair value hedges are recorded in the profit and loss account, together with any changes in the fair value of the hedged assets or liabilities that are attributable to the hedged risk.

2 Principal Accounting Policies *(continued)*

U Derivative Financial Instruments and Hedging Activities *(continued)*

(ii) Cash Flow Hedge

The effective portion of changes in the fair value of derivatives that are designated and qualified as cash flow hedges is recognised in other comprehensive income and accumulated separately in equity in the hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in the profit and loss account.

Amounts accumulated in equity are transferred to the profit and loss account in the periods when the hedged liability affects earning. However, when the firm commitment that is hedged results in the recognition of a non-financial asset, the associated gains and losses that were recognised in equity are transferred from equity and included in the initial cost or carrying amount of the asset.

When a hedging instrument expires or is sold, terminated or exercised, or when a hedge no longer meets the criteria for hedge accounting, the cumulative gain or loss existing in equity at that time shall remain in equity and is recognised when the hedged liability affects profit or loss, or when the firm commitment is recognised as a non-financial asset, in accordance with the above policy. However, when a hedged liability is no longer expected to take place or a firm commitment is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the profit and loss account.

(iii) Derivatives That Do Not Qualify for Hedge Accounting

Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the profit and loss account.

V Employee Benefits

(i) Salaries, annual leave, leave passage allowance and other costs of non-monetary benefits are accrued and recognised as an expense in the year in which the associated services are rendered by employees of the Group, except those benefits incurred for project staff in respect of construction projects and capital works, which are capitalised as part of the cost of the qualifying assets.

(ii) Contributions to defined contribution retirement plans, including contributions to Mandatory Provident Funds ("MPF") as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance, are recognised as an expense in the profit and loss account as incurred, except those contributions for project staff incurred in respect of construction projects and capital works, which are capitalised as part of the cost of the qualifying assets.

(iii) The Group's net obligation in respect of defined benefit retirement plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior years; that benefit is discounted to determine the present value, and the fair value of any plan assets is deducted. The discount rate is the yield at balance sheet date on high quality corporate bonds that have maturity dates approximating the terms of the Group's obligations. If there is no deep market in such bonds, the market yield on government bonds would be used. The calculation is performed by a qualified actuary using the Projected Unit Credit Method.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised either as an expense in the profit and loss account, or capitalised as part of the cost of the relevant construction projects or capital works in the case of project related employees, as the case may be, on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in a similar manner.

In calculating the Group's obligation in respect of a plan, to the extent that any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the defined benefit obligation and the fair value of plan assets, that portion is recognised in the profit and loss account over the expected average remaining working lives of the employees participating in the plan. Otherwise, the actuarial gain or loss is not recognised.

Where the calculation of the Group's net obligation results in a negative amount, the asset recognised is limited to the net total of any cumulative unrecognised net actuarial losses and past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

(iv) Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date is recognised as a staff cost, unless the relevant employee expenses qualify for recognition as an asset, on a straight-line basis over the vesting period and taking into account the probability that the options will vest, with a corresponding increase in the employee share-based capital reserve within equity. Fair value is measured by use of a Black-Scholes model, taking into account the terms and conditions upon which the options are granted. The expected life used in the model is adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit and loss account for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to the capital reserve). The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

For cash-settled share-based payments, a liability equal to the portion of the services received is recognised at the fair value of the shares determined at each balance sheet date.

(v) Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

2 Principal Accounting Policies *(continued)*

W Retirement Schemes

The Group operates both defined contribution and defined benefit retirement schemes.

Employer's contributions to defined contribution retirement schemes including MPF Schemes are recognised in the accounts in accordance with the policy set out in note 2V(ii).

Employer's contributions paid and payable in respect of employees of defined benefit retirement schemes as calculated annually by independent actuaries in accordance with the Retirement Scheme Rules and provisions of the Occupational Retirement Schemes Ordinance, are used to satisfy the pension expenses recognised in the accounts according to note 2V(iii). Any deficit or surplus thereof will be dealt with in the balance sheet as accrued or prepaid benefit expenses, as the case may be.

X Income Tax

(i) Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Income tax is recognised in the profit and loss account except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case it is recognised in other comprehensive income or directly in equity respectively.

(ii) Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

(iii) Deferred tax assets and liabilities arise from deductible and taxable temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination) and investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

(iv) Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if, and only if, the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

2 Principal Accounting Policies *(continued)*

Y Financial Guarantee Contracts

Financial guarantees are contracts that require the issuer to make specified payments to reimburse the holder of the guarantee for a loss it incurs because a specified debtor fails to make payment to the holder when due in accordance with the original or modified terms of a debt instrument.

When the Group issues a financial guarantee, where the effect is material, the fair value of the guarantee (being the transaction price, unless the fair value can otherwise be reliably estimated) after netting off any consideration received or receivable at inception is initially debited to the profit and loss account and recognised as deferred income within creditors and accrued charges.

The amount of the guarantee initially recognised as deferred income is amortised in the profit and loss account over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 2Z if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in creditors and accrued charges in respect of that guarantee, i.e. the amount initially recognised less accumulated amortisation.

Z Provisions and Contingent Liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Company or Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

AA Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits associated with the transactions will flow to the Group and the amount of revenue can be measured reliably, revenue is recognised in the profit and loss account as follows:

(i) Hong Kong fare revenue is recognised when the journey is provided.

(ii) Advertising income and service fees from telecommunication services provided within the railway are recognised when the services are provided.

(iii) Contract revenue is recognised when the outcome of a consultancy, service or construction contract can be estimated reliably. Contract revenue is recognised using the percentage of completion method, measured by reference to the percentage of contract costs incurred to date to estimated total contract costs for the contract. When the outcome of a consultancy or construction contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable.

(iv) Rental income from investment properties, station kiosks and other railway premises under operating leases is accounted for in accordance with the terms of the leases. Lease incentives granted are recognised in the profit and loss account as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned. Property management income is recognised when the services are provided.

(v) Franchise revenue from railway franchises outside of Hong Kong is recognised when the services are provided.

BB Operating Lease Charges

(i) Rentals payable under operating leases are charged on a straight-line basis over the period of the lease to the profit and loss account, except for rentals payable in respect of railway construction, property development in progress and proposed capital projects which are capitalised as part of railway construction in progress, property development in progress and deferred expenditure respectively.

(ii) Prepaid land lease payments for land are stated at cost and are amortised on a straight-line basis over the period of the lease terms to the profit and loss account as land lease expenses.

CC Interest and Finance Charges

Interest expense directly attributable to the financing of capital projects prior to their completion or commissioning is capitalised. Exchange differences arising from foreign currency borrowings related to the acquisition of assets are capitalised to the extent that they are regarded as an adjustment to capitalised interest costs. Interest expense attributable to other purposes is charged to the profit and loss account.

Finance charges implicit in the lease payments on assets held under finance leases are charged to the profit and loss account over the period of the lease so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

2 Principal Accounting Policies *(continued)*

DD Foreign Currency Translation

Foreign currency transactions during the year are translated into Hong Kong dollars and recorded at exchange rates ruling at the transaction dates. Foreign currency monetary assets and liabilities are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in the profit and loss account.

The results of foreign enterprises are translated into Hong Kong dollars at the average exchange rates for the year; balance sheet items are translated into Hong Kong dollars at the closing exchange rates at the balance sheet date. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

EE Segment Reporting

Operating segments are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocated resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of services and products, the type or class of customers, the methods used to provide the services or distribute the products, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

FF Related Parties

For the purposes of these accounts, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities including entities which are under the significant influence of related parties of the Group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group.

GG Government Grants

Government grants are assistance by Government in the form of transfer of resources in return for the Group's compliance to the conditions attached thereto. Government grants which represent compensation for the cost of an asset are deducted from the cost of the asset in arriving at its carrying value to the extent of the amounts received and receivable as at the date of the balance sheet. Any excess of the amount of grant received or receivable over the cost of the asset at the balance sheet date are carried forward as advance receipts to set off against the future cost of the asset.

3 Rail Merger with Kowloon-Canton Railway Corporation ("KCRC")

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

- The expansion of the Company's existing franchise under the Mass Transit Railway Ordinance ("MTR Ordinance") to cover the construction, operation and regulation of railways in addition to the MTRC railway for an initial period of 50 years from the Appointed Day ("Franchise Period"), which may be extended pursuant to the provisions of the MTR Ordinance (note 55J);
- The Service Concession Agreement ("SCA") pursuant to which KCRC granted the Company the right to access, use and operate the KCRC system for an initial term of 50 years (the "Concession Period"), which will be extended if the Franchise Period (as it relates to the KCRC railway) is extended. The SCA also sets out the basis on which the KCRC system will be returned at the end of the Concession Period. In accordance with the terms of the SCA, the Company paid an upfront lump sum to KCRC on the Appointed Day and is obliged to pay an annual fixed payment to KCRC for the duration of the Concession Period. Additionally, commencing after three years from the Appointed Day, the Company is obliged to pay an annual variable fee to KCRC based on the revenue generated from the KCRC system above certain thresholds;
- Under the SCA, the Company is responsible for the expenditure incurred in relation to the maintenance, repair, replacement and upgrade of the KCRC system (with any new assets acquired being classified as "additional concession property"). To the extent that such expenditure exceeds an agreed threshold ("Capex Threshold"), the Company will be reimbursed for any above threshold expenditure at the end of the Concession Period with such reimbursement to be on the basis of depreciated book value;
- In the event that the Concession Period is extended, the fixed annual payment and the variable annual payment will continue to be payable by the Company. On such extension, the Capex Threshold may also be adjusted;
- Property Package Agreements whereby property assets comprising certain investment and own-used properties, property management rights and property development rights were acquired by the Company;
- Merger Framework Agreement setting out the framework for the Rail Merger including the implementation of the Fare Adjustment Mechanism whereby the extent to which fares may be adjusted is linked to certain public indices, the provision of a fare reduction starting from the Appointed Day and the guarantee of job security for front line staff employed at the time of the Rail Merger;
- Pursuant to the above and the vesting and novation of certain contracts, the Company assumed certain assets and liabilities of KCRC on the Appointed Day. The assumption of the liabilities of deposits refundable to third parties was subject to compensation by KCRC on the Appointed Day; and
- Other post-Appointed Day arrangements between the Company and KCRC such as the arrangements documented by the Kowloon Southern Link ("KSL") Project Management Agreement, the West Rail Agency Agreement and the Outsourcing Agreement.

4 Hong Kong Fare Revenue

Hong Kong fare revenue comprises:

in HK$ million	2009	2008
Domestic Service	**7,986**	7,930
Cross-boundary Service	**2,327**	2,283
Airport Express	**617**	673
Light Rail, Bus and Intercity	**568**	581
	11,498	11,467

The Domestic Service comprises the Kwun Tong, Tsuen Wan, Island, Tung Chung, Tseung Kwan O, Disneyland Resort, East Rail (excluding Cross-boundary Service), West Rail and Ma On Shan lines. In 2009, the Tseung Kwan O Line was extended when the LOHAS Park Station opened on 26 July 2009 and the West Rail Line was extended with the commencement of passenger operation of the Kowloon Southern Link on 16 August 2009.

5 Non-fare Revenue

A Station Commercial and Rail Related Revenue

Station commercial and rail related revenue comprises:

in HK$ million	2009	2008
Advertising	**597**	741
Duty free shops and kiosk rental	**1,605**	1,546
Telecommunication income	**273**	356
Consultancy income	**159**	158
Miscellaneous business revenue	**694**	648
	3,328	3,449

B Rental, Management and Other Revenue

in HK$ million	2009	2008
Property rental income:		
– Telford Plaza	**585**	571
– Luk Yeung Galleria	**147**	146
– Paradise Mall	**115**	115
– Maritime Square	**355**	330
– International Finance Centre	**322**	211
– Ginza Mall – Beijing	**108**	109
– Elements	**442**	395
– Citylink Plaza	**118**	112
– Other properties	**356**	357
	2,548	2,346
Property management income	**207**	210
	2,755	2,556
Ngong Ping 360 business revenue	**173**	156
	2,928	2,712

Included in rental income is HK$111 million (2008: HK$107 million) in respect of the provision of air conditioning services. Phase 2A of Elements commenced operations in November 2008 while part of Phase 2B of Elements commenced operations in October 2009.

Ngong Ping 360 business revenue comprises revenue generated from the cable car operations in Tung Chung and related businesses at the Ngong Ping Theme Village.

6 Railway Franchise Revenue and Expenses outside of Hong Kong

The operations and maintenance of the Stockholm Metro and Melbourne metropolitan train network ("Melbourne Train") were taken over by the Group on 2 November 2009 and 30 November 2009 respectively. Details of the respective concession arrangements are set out in notes 56H(ii) and (iii). Operating profits before depreciation and amortistation from the railway franchise operations are as follows:

	2009			2008		
in HK$ million	Stockholm Metro	Melbourne Train	Total	Stockholm Metro	Melbourne Train	Total
Revenue						
– Franchise income	**494**	**464**	**958**	–	–	–
– Project income	**–**	**85**	**85**	–	–	–
	494	**549**	**1,043**	–	–	–
Expenses						
– Staff salary and related expenses	**178**	**219**	**397**	–	–	–
– Operating lease expenses	**150**	**33**	**183**	–	–	–
– Repairs and maintenance	**89**	**73**	**162**	–	–	–
– Expenses relating to project income	**–**	**80**	**80**	–	–	–
– Other expenses	**77**	**136**	**213**	–	–	–
	494	**541**	**1,035**	–	–	–
Operating profit before depreciation and amortisation	**–**	**8**	**8**	–	–	–

7 Other Net Income

Other net income relates to the construction of Shenzhen Metro Line 4 Phase 2 and comprises:

in HK$ million	**2009**	2008
Construction revenue	**1,889**	–
Construction cost	**(1,889)**	–
	–	–

Construction revenue is recognised by reference to the construction costs incurred since signing of the Project Concession Agreement on 18 March 2009 (note 56G(i)). As at 31 December 2009, total construction cost incurred for the Shenzhen Metro Line 4 Phase 2 since 18 March 2009 was HK$1,889 million (31 December 2008: nil). There was no cumulative net profit or loss recognised as at 31 December 2009 and 2008.

8 Operating Expenses

A Staff costs comprise:

in HK$ million	2009	2008
Amount charged to profit and loss account under:		
– staff costs and related expenses	**3,387**	3,358
– repairs and maintenance	**73**	45
– expenses relating to station commercial and rail related businesses	**324**	454
– expenses relating to property ownership, management and other businesses	**155**	141
– expenses relating to railway franchises outside of Hong Kong	**397**	–
– project study and business development expenses	**110**	83
– other line items	**23**	47
Amount capitalised in:		
– railway construction in progress before offset by government funding support	**124**	46
– property development in progress	**85**	102
– assets under construction and other projects	**329**	482
– service concession assets	**172**	24
Amount recoverable	**633**	418
Total staff costs	**5,812**	5,200

Amount recoverable relates to property management, entrustment works and other agreements.

The following expenditure is included in staff costs:

in HK$ million	2009	2008
Share-based payments	**40**	22
Contributions to defined contribution retirement plans and Mandatory Provident Fund	**191**	156
Expense recognised in respect of defined benefit retirement plans	**214**	80
	445	258

B Repairs and maintenance costs relate mainly to contracted maintenance and revenue works. Other routine repairs and maintenance works are performed by in-house operations, the costs of which are included under staff costs and stores and spares consumed.

C Project study and business development expenses comprise:

in HK$ million	2009	2008
Business development expenses	**189**	182
Miscellaneous project study expenses	**17**	16
	206	198

Business development expenses relate mainly to studies on business opportunities in China, Europe and Australia in line with the Group's business strategy.

8 Operating Expenses *(continued)*

D Auditors' remuneration charged to the profit and loss account include:

in HK$ million	**2009**	2008
Audit services	**8**	7
Tax services	**1**	1
Other audit related services	**2**	1
	11	9

E Operating expenses include the following charges/(credits):

in HK$ million	**2009**	2008
Loss on disposal of fixed assets	**6**	30
Derivative financial instruments:		
– foreign exchange contracts – ineffective portion of cash flow hedges	**(4)**	8
– transfer from hedging reserve	**1**	3
Amortisation of land lease expenses (note 28)	**13**	14
Unrealised loss/(gain) on revaluation of investment in securities	**1**	(2)

F Operating lease expenses charged to the profit and loss account comprise:

in HK$ million	**2009**	2008
Shopping centre, office building, staff quarters and bus depot	**83**	79
Rolling stock, stations, office buildings, depots, depot equipment and other minor assets for railway franchise	**183**	–
Amount capitalised	**(18)**	(13)
	248	66

9 Remuneration of Members of the Board and the Executive Directorate

A Remuneration of Members of the Board and the Executive Directorate

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

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

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

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

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

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

In addition, C K Chow was entitled to receive an equivalent value in cash of 418,017 shares on completion of his three-year contract ended on 30 November 2009. Pursuant to this contract and following the completion of the contract period, HK$11.3 million was paid to C K Chow on 1 December 2009 (note 51B(i)).

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

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

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

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

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

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

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

- C K Chow was granted options in respect of 720,000 shares on 13 December 2007 and 470,000 shares each on 9 December 2008 and 9 December 2009, of which 397,000 options were vested in 2009 (2008: 240,000), and the respective fair value of the share-based payments recognised for the year ended 31 December 2009 was HK$1.7 million (2008: HK$1.2 million);
- Lincoln K K Leong and Leonard B Turk were each granted options in respect of 170,000 shares each on 12 December 2007, 9 December 2008 and 10 December 2009, of which 114,000 options were vested in 2009 (2008: 57,000), and the respective fair value of the share-based payments recognised for the year ended 31 December 2009 was HK$0.5 million (2008: HK$0.3 million) for each of them;
- Russell J Black was granted options in respect of 170,000 shares each on 12 December 2007 and 9 December 2008 and 42,500 shares on 10 December 2009, of which 114,000 options were vested in 2009 (2008: 57,000), and the respective fair value of the share-based payments recognised for the year ended 31 December 2009 was HK$0.4 million (2008: HK$0.3 million);
- Thomas H K Ho was granted options in respect of 170,000 shares each on 12 December 2007, 11 December 2008 and 14 December 2009, of which 114,000 options were vested in 2009 (2008: 57,000), and the respective fair value of the share-based payments recognised for the year ended 31 December 2009 was HK$0.5 million (2008: HK$0.3 million);
- Andrew McCusker was granted options in respect of 170,000 shares each on 12 December 2007, 12 December 2008 and 10 December 2009, of which 114,000 options were vested in 2009 (2008: 57,000), and the respective fair value of the share-based payments recognised for the year ended 31 December 2009 was HK$0.5 million (2008: HK$0.3 million);
- William F K Chan was granted options in respect of 170,000 shares each on 13 December 2007, 9 December 2008 and 10 December 2009, of which 114,000 options were vested in 2009 (2008: 57,000), and the respective fair value of the share-based payments recognised for the year ended 31 December 2009 was HK$0.5 million (2008: HK$0.3 million); and
- Francois K K Lung, who left office on 31 December 2008, was granted options in respect of 130,000 shares on 12 December 2007, of which 87,000 options were vested in 2008, and the respective fair value of the share-based payments recognised for the year ended 31 December 2008 was HK$0.4 million.

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

The details of directors' interest in the Company's shares are disclosed under the paragraph "Board Members' and Executive Directorate's Interests in Shares" of the Report of the Members of the Board and note 51.

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

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

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

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

(iv) Non-executive directors of the Company are not appointed for a specific term but are subject (save for those appointed pursuant to Section 8 of the Mass Transit Railway Ordinance (Chapter 556 of the Laws of Hong Kong)) to retirement by rotation and re-election at the Company's annual general meetings in accordance with Articles 87 and 88 of the Company's Articles of Association. Dr. Raymond Ch'ien Kuo-fung, a Member of the Board, was appointed as the non-executive Chairman of the Company with effect from 21 July 2003 for a term of three years. In July 2006, he was re-appointed as the non-executive Chairman of the Company until 31 July 2007. In July 2007, Dr. Ch'ien was re-appointed as the non-executive Chairman of the Company with effect from 1 August 2007 for a term up to 31 December 2007 or the day to be appointed by the Secretary for Transport and Housing by notice published in the Gazette under the Rail Merger Ordinance, whichever was the earlier. On 8 August 2007, he was appointed as the non-executive Chairman of the Company after the Rail Merger for a term of two years commencing from 2 December 2007. On 11 November 2009, he was re-appointed as the non-executive Chairman of the Company with effect from 2 December 2009 to 31 December 2012.

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

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

B Share Options

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

(i) Pre-Global Offering Share Option Scheme

Under the Company's Pre-Global Offering Share Option Scheme (the "Pre-IPO Option Scheme") described in note 51A(i), each Member of the Executive Directorate, except C K Chow, Lincoln K K Leong, Francois K K Lung, Andrew McCusker and T C Chew, was granted options on 20 September 2000 to acquire 1,066,000 shares. C K Chow, Lincoln K K Leong, Francois K K Lung and T C Chew joined the Company on 1 December 2003, 1 February 2002, 26 September 2005 and 11 May 2009 respectively, and are not beneficiaries of the Pre-IPO Option Scheme. Andrew McCusker was granted 266,500 options on 20 September 2000 under the Pre-IPO Option Scheme and no additional share options were granted upon his appointment as a Member of the Executive Directorate on 1 October 2005.

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

(ii) New Joiners Share Option Scheme

Under the New Joiners Share Option Scheme (the "New Option Scheme") as described in note 51A(ii), Lincoln K K Leong and Francois K K Lung, Members of the Executive Directorate, were granted options to acquire 1,066,000 shares on 1 August 2003 and 27 September 2005 respectively.

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

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

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

(iii) 2007 Share Option Scheme

Under the 2007 Share Option Scheme (the "2007 Option Scheme") as described in note 51A(iii), all Members of the Executive Directorate were granted options to acquire shares in 2007, 2008 and 2009. C K Chow was granted options to acquire 720,000 shares in 2007 and 470,000 shares in both 2008 and 2009. William F K Chan, Thomas H K Ho, Lincoln K K Leong, Andrew McCusker and Leonard B Turk were each granted options to acquire 170,000 shares in each of 2007, 2008 and 2009. Russell J Black was granted options to acquire 170,000 shares in both 2007 and 2008 and 42,500 shares in 2009. Francois K K Lung was granted options to acquire 130,000 shares in 2007. T C Chew was granted options to acquire 85,000 shares in June 2009 and 170,000 shares in December 2009.

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

10 Profit on Property Developments

Profit on property developments comprises:

in HK$ million	2009	2008
Transfer from deferred income on		
– upfront payments (note 26B(i))	**16**	139
– sharing in kind (note 26B(ii))	**1**	61
Share of surplus from development	**3,497**	4,505
Income recognised from sharing in kind	**72**	–
Other overhead costs	**(32)**	(35)
	3,554	4,670

11 Depreciation and Amortisation

Depreciation and amortisation comprise:

in HK$ million	2009	2008
Depreciation charge on:		
Hong Kong railway operations		
– on fixed assets held under finance leases	**19**	19
– on other railway fixed assets	**2,444**	2,449
Assets relating to station commercial and rail related businesses	**91**	76
Assets relating to property ownership, management and other businesses	**71**	71
Railway franchise outside of Hong Kong	**2**	–
	2,627	2,615
Amortisation charge on:		
Service concession assets	**347**	310
Property management rights	**4**	5
Railway franchise outside of Hong Kong	**1**	–
	352	315
	2,979	2,930

12 Merger Related Expenses

Merger related expenses incurred after the Rail Merger and not eligible for capitalisation are charged to the profit and loss account.

13 Interest and Finance Charges

in HK$ million	2009		2008	
Interest expenses in respect of:				
Bank loans, overdrafts and capital market instruments wholly repayable within 5 years	**719**		1,046	
Bank loans and capital market instruments not wholly repayable within 5 years	**172**		396	
Obligations under service concession	**719**		721	
Other obligations (note 22E)	**15**		100	
Finance charges	**47**		31	
Exchange loss/(gain)	**27**		(8)	
		1,699		2,286
Derivative financial instruments:				
Fair value hedges	**68**		34	
Cash flow hedges:				
– transfer from hedging reserve	**84**		39	
– ineffective portion	**–**		(1)	
Derivatives not qualified for hedge accounting	**3**		(2)	
		155		70
Interest expenses capitalised		**(139)**		(149)
		1,715		2,207
Interest income in respect of:				
Deposits with banks and other financial institutions	**(11)**		(8)	
Investments in debt securities	**(3)**		(7)	
Loan to non-controlled subsidiary and associate	**(1)**		(5)	
Staff housing loans	**–**		(1)	
		(15)		(21)
Accreted interest on loan to a property developer		**(196)**		(188)
		1,504		1,998

Interest expenses capitalised were calculated at the average cost of borrowings to the Group on a monthly basis. The average interest rates for each month varied from 3.4% to 4.0% per annum during the year (2008: 4.5% to 5.1% per annum).

During the year, the fair value loss on fair value hedges comprising interest rate and cross currency swaps was HK$208 million (gain in 2008: HK$368 million) whereas the fair value gain on the underlying financial assets and liabilities being hedged was HK$140 million (loss in 2008: HK$402 million), resulting in a net loss of HK$68 million (loss in 2008: HK$34 million).

14 Share of Profits of Non-controlled Subsidiaries and Associates

Share of profits of non-controlled subsidiaries and associates comprises:

in HK$ million	**2009**	2008
Share of profit before taxation of non-controlled subsidiaries (note 29)	**165**	152
Share of profit before taxation of associates (note 31)	**19**	32
	184	184
Share of income tax of non-controlled subsidiaries (note 29)	**(16)**	(16)
Share of income tax of associates (note 31)	**(8)**	(9)
	160	159

15 Income Tax

A Income tax in the consolidated profit and loss account represents:

in HK$ million	**2009**	2008
Current tax		
– Provision for Hong Kong Profits Tax at 16.5% (2008: 16.5%) for the year	**1,347**	1,021
– Overseas tax for the year	**4**	3
	1,351	1,024
Deferred tax		
– Origination and reversal of temporary differences on:		
– change in fair value of investment properties	**462**	(24)
– disposal of investment properties	**(2)**	–
– (provision)/utilisation of tax losses	**(6)**	532
– others	**75**	(81)
	529	427
– Effect on deferred tax balances resulting from a change in tax rate	**–**	(704)
	529	(277)
	1,880	747

The provision for Hong Kong Profits Tax for 2009 is calculated at 16.5% (2008: 16.5%) of the estimated assessable profits for the year after deducting accumulated tax losses brought forward, if any.

Current tax for overseas subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries.

Provision for deferred tax on temporary differences arising in Hong Kong is calculated at the Hong Kong Profits Tax rate of 16.5% (2008: 16.5%). In February 2008, the Hong Kong Government announced a decrease in the Hong Kong Profits Tax rate from 17.5% to 16.5% applicable to the Group's operations in Hong Kong as from the year ended 31 December 2008. Deferred tax balances were re-estimated accordingly.

15 Income Tax *(continued)*

B Reconciliation between tax expense and accounting profit at applicable tax rates:

	2009		2008	
	HK$ million	%	HK$ million	%
Profit before taxation	**11,519**		9,027	
Notional tax on profit before taxation, calculated at the rates applicable to profits in the tax jurisdictions concerned	**1,866**	**16.2**	1,472	16.3
Tax effect of non-deductible expenses	**122**	**1.1**	95	1.1
Tax effect of non-taxable revenue	**(114)**	**(1.0)**	(121)	(1.3)
Tax effect of unused tax losses not recognised	**6**	**0.1**	5	0.1
Effect on deferred tax balances resulting from a change in tax rate	**–**	**–**	(704)	(7.8)
Actual tax expenses	**1,880**	**16.4**	747	8.4

16 Profit Attributable to Equity Shareholders

The consolidated profit attributable to equity shareholders includes a profit of HK$9,663 million (2008: HK$8,118 million) which has been dealt with in the accounts of the Company. Details of dividend paid and payable to equity shareholders of the Company are set out in note 17.

17 Dividends

During the year, dividends paid and proposed to equity shareholders of the Company comprised:

in HK$ million	2009	2008
Dividends payable attributable to the year		
– Interim dividend of 14 cents (2008: 14 cents) per share	**800**	790
– Final dividend proposed after the balance sheet date of 38 cents (2008: 34 cents) per share	**2,177**	1,925
	2,977	2,715
Dividends paid attributable to the previous year		
– Final dividend of 34 cents (2007: 31 cents) per share approved and paid during the year	**1,925**	1,740

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

During the year, scrip dividend elections were offered to all shareholders except shareholders with registered addresses in the United States of America or any of its territories or possessions. The Company's majority shareholder, The Financial Secretary Incorporated ("FSI"), had elected to receive part of its entitlement to dividends in the form of scrip to the extent necessary to ensure that the amount payable in cash would not exceed 50% of the total dividend payable. Details of dividends paid to the FSI are disclosed in note 55Y. On 8 November 2006, the FSI agreed to extend the scrip dividend arrangement for another three financial years until the financial year ended 31 December 2009.

18 Earnings Per Share

A Basic Earnings Per Share

The calculation of basic earnings per share is based on the profit for the year attributable to equity shareholders of HK$9,639 million (2008: HK$8,284 million) and the weighted average number of ordinary shares of 5,691,839,821 in issue during the year (2008: 5,632,895,671), calculated as follows:

	2009	2008
Issued ordinary shares at 1 January	**5,661,143,113**	5,611,057,035
Effect of scrip dividends issued	**30,084,773**	20,529,968
Effect of share options exercised	**611,935**	1,308,668
Weighted average number of ordinary shares at 31 December	**5,691,839,821**	5,632,895,671

18 Earnings Per Share *(continued)*

B Diluted Earnings Per Share

The calculation of diluted earnings per share is based on the profit for the year attributable to equity shareholders of HK$9,639 million (2008: HK$8,284 million) and the weighted average number of ordinary shares of 5,697,441,733 in issue during the year (2008: 5,636,941,336) after adjusting for the number of dilutive potential ordinary shares under the employee share option schemes, calculated as follows:

	2009	2008
Weighted average number of ordinary shares at 31 December	**5,691,839,821**	5,632,895,671
Number of ordinary shares deemed to be issued for no consideration	**5,601,912**	4,045,665
Weighted average number of ordinary shares (diluted) at 31 December	**5,697,441,733**	5,636,941,336

C Both basic and diluted earnings per share would have been HK$1.28 (2008: HK$1.45) if the calculation is based on profit from underlying businesses attributable to equity shareholders, i.e. excluding change in fair value of investment properties net of related deferred tax, adjusted as follows:

in HK$ million	**2009**	2008
Profit attributable to equity shareholders	**9,639**	8,284
Change in fair value of investment properties	**(2,798)**	146
Deferred tax on change in fair value of investment properties		
– Effect of the change during the year (note 15A)	**462**	(24)
– Effect on deferred tax balances resulting from a change in tax rate	**–**	(221)
Profit from underlying businesses attributable to equity shareholders	**7,303**	8,185

19 Segmental Information

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

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

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

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

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

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

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

19 Segmental Information *(continued)*

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

in HK$ million	Hong Kong railway operations	Hong Kong station commercial activities	Hong Kong property rental and management	Railway franchises outside of Hong Kong	All others	Property developments	Total
2009							
Revenue	**11,530**	**2,741**	**2,633**	**1,043**	**850**	**–**	**18,797**
Operating expenses before depreciation and amortisation	**(6,604)**	**(315)**	**(616)**	**(1,035)**	**(519)**	**–**	**(9,089)**
	4,926	**2,426**	**2,017**	**8**	**331**	**–**	**9,708**
Profit on property developments	**–**	**–**	**–**	**–**	**–**	**3,554**	**3,554**
Operating profit before depreciation and amortisation	**4,926**	**2,426**	**2,017**	**8**	**331**	**3,554**	**13,262**
Depreciation and amortisation	**(2,803)**	**(97)**	**(7)**	**(3)**	**(69)**	**–**	**(2,979)**
	2,123	**2,329**	**2,010**	**5**	**262**	**3,554**	**10,283**
Project studies and business development expenses							**(206)**
Merger related expenses							**(12)**
Operating profit before interest and finance charges							**10,065**
Interest and finance charges							**(1,504)**
Change in fair value of investment properties			**2,798**				**2,798**
Share of profits of non-controlled subsidiaries and associates				**11**	**149**		**160**
Income tax							**(1,880)**
Profit for the year ended 31 December 2009							**9,639**
Assets							
Operational assets *	**84,668**	**2,069**	**41,453**	**2,029**	**1,482**	**808**	**132,509**
Assets under construction	**1,350**	**16**	**–**	**–**	**–**	**–**	**1,366**
Service concession assets	**15,725**	**–**	**–**	**3,626**	**–**	**–**	**19,351**
Property management rights	**–**	**–**	**31**	**–**	**–**	**–**	**31**
Railway construction in progress	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Property development in progress	**–**	**–**	**–**	**–**	**–**	**6,718**	**6,718**
Deferred expenditure	**529**	**–**	**8**	**–**	**–**	**21**	**558**
Prepaid land lease payments	**554**	**–**	**–**	**–**	**–**	**–**	**554**
Deferred tax assets	**–**	**2**	**6**	**–**	**4**	**–**	**12**
Investments in securities	**–**	**–**	**–**	**–**	**227**	**–**	**227**
Properties held for sale	**–**	**–**	**–**	**–**	**–**	**3,783**	**3,783**
Loan to a property developer	**–**	**–**	**–**	**–**	**–**	**1,916**	**1,916**
Interests in non-controlled subsidiaries	**–**	**–**	**–**	**–**	**490**	**–**	**490**
Interests in associates	**–**	**–**	**–**	**823**	**–**	**–**	**823**
	102,826	**2,087**	**41,498**	**6,478**	**2,203**	**13,246**	**168,338**
Unallocated assets							**8,156**
Total assets							**176,494**

19 Segmental Information *(continued)*

in HK$ million	Hong Kong railway operations	Hong Kong station commercial activities	Hong Kong property rental and management	Railway franchises outside of Hong Kong	All others	Property developments	Total
2009							
Liabilities							
Segment liabilities	**13,446**	**939**	**1,048**	**1,764**	**118**	**4,597**	**21,912**
Obligations under service concession	**10,625**	**–**	**–**	**–**	**–**	**–**	**10,625**
Deferred income	**–**	**43**	**–**	**–**	**–**	**124**	**167**
	24,071	**982**	**1,048**	**1,764**	**118**	**4,721**	**32,704**
Unallocated liabilities							**37,337**
Total liabilities							**70,041**
Other Information							
Capital expenditure on:							
Operational assets	**56**	**51**	**6**	**67**	**15**	**–**	**195**
Assets under construction	**1,297**	**201**	**–**	**–**	**–**	**–**	**1,498**
Investment properties	**–**	**–**	**123**	**–**	**–**	**–**	**123**
Service concession assets	**486**	**–**	**–**	**1,977**	**–**	**–**	**2,463**
Property management rights	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Railway construction in progress	**1,086**	**–**	**–**	**–**	**–**	**–**	**1,086**
Property development in progress	**–**	**–**	**–**	**–**	**–**	**303**	**303**
Non-cash expenses other than depreciation and amortisation	**18**	**10**	**(20)**	**–**	**–**	**–**	**8**

* Operational assets include property, plant and equipment and other assets employed in the operations of individual business segments.

19 Segmental Information *(continued)*

in HK$ million	Hong Kong railway operations	Hong Kong station commercial activities	Hong Kong property rental and management	Railway franchises outside of Hong Kong	All others	Property developments	Total
2008							
Revenue	11,504	2,894	2,432	–	798	–	17,628
Operating expenses before depreciation and amortisation	(6,543)	(343)	(536)	–	(683)	–	(8,105)
	4,961	2,551	1,896	–	115	–	9,523
Profit on property developments	–	–	–	–	–	4,670	4,670
Operating profit before depreciation and amortisation	4,961	2,551	1,896	–	115	4,670	14,193
Depreciation and amortisation	(2,778)	(76)	(7)	–	(69)	–	(2,930)
	2,183	2,475	1,889	–	46	4,670	11,263
Project studies and business development expenses							(198)
Merger related expenses							(53)
Operating profit before interest and finance charges							11,012
Interest and finance charges							(1,998)
Change in fair value of investment properties			(146)				(146)
Share of profits of non-controlled subsidiaries and associates				23	136		159
Income tax							(747)
Profit for the year ended 31 December 2008							8,280
Assets							
Operational assets *	73,602	1,148	38,266	419	1,515	5,899	120,849
Assets under construction	1,038	10	–	–	–	352	1,400
Service concession assets	15,463	–	–	–	–	–	15,463
Property management rights	–	–	35	–	–	–	35
Railway construction in progress	658	–	–	–	–	–	658
Property development in progress	–	–	–	–	–	7,895	7,895
Deferred expenditure	325	–	–	1,650	–	13	1,988
Prepaid land lease payments	567	–	–	–	–	–	567
Deferred tax assets	–	3	8	–	–	–	11
Investments in securities	–	–	–	–	471	–	471
Properties held for sale	–	–	–	–	–	2,228	2,228
Loan to a property developer	–	–	–	–	–	3,720	3,720
Interests in non-controlled subsidiaries	–	–	–	–	381	–	381
Interests in associates	–	–	–	743	–	–	743
	91,653	1,161	38,309	2,812	2,367	20,107	156,409
Unallocated assets							2,929
Total assets							159,338

19 Segmental Information *(continued)*

in HK$ million	Hong Kong railway operations	Hong Kong station commercial activities	Hong Kong property rental and manage-ment	Railway franchises outside of Hong Kong	All others	Property develop-ments	Total
2008							
Liabilities							
Segment liabilities	2,559	926	1,027	286	176	1,470	6,444
Obligations under service concession	10,656	–	–	–	–	–	10,656
Deferred income	–	–	–	–	–	156	156
	13,215	926	1,027	286	176	1,626	17,256
Unallocated liabilities							44,260
Total liabilities							61,516
Other Information							
Capital expenditure on:							
Operational assets	59	1	1	–	14	–	75
Assets under construction	1,153	137	–	–	–	61	1,351
Investment properties	–	–	108	–	–	–	108
Service concession assets	523	–	–	–	–	–	523
Property management rights	–	–	–	–	–	–	–
Railway construction in progress	234	–	–	–	–	–	234
Property development in progress	–	–	–	–	–	2,331	2,331
Non-cash expenses other than depreciation and amortisation	19	10	–	–	1	–	30

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

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

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

20 Other Comprehensive Income

A Tax effects relating to each component of other comprehensive income are shown below:

	2009			2008		
in HK$ million	Before-tax amount	Tax expense	Net-of-tax amount	Before-tax amount	Tax benefit	Net-of-tax amount
Exchange differences on translation of:						
– Financial statements of overseas subsidiaries	**(10)**	**–**	**(10)**	21	–	21
– Minority interests	**–**	**–**	**–**	2	–	2
	(10)	**–**	**(10)**	23	–	23
Cash flow hedges: net movement in hedging reserve	**122**	**(20)**	**102**	(154)	25	(129)
Self-occupied land and building:						
– Net movement in fixed asset revaluation reserve	**206**	**(34)**	**172**	(269)	59	(210)
– Net movement in retained profits	**–**	**–**	**–**	42	–	42
Other comprehensive income	**318**	**(54)**	**264**	(358)	84	(274)

B Reclassification adjustments relating to components of other comprehensive income are as follows:

in HK$ million	2009	2008
Cash flow hedges:		
Effective portion of changes in fair value of hedging instruments recognised during the year	**41**	(181)
Amounts transferred to initial carrying amount of hedged items	**(4)**	(14)
Transferred to profit or loss	**85**	41
Net deferred tax (debited)/credited to other comprehensive income resulting from:		
– Changes in fair value of hedging instrument recognised during the year	**(7)**	30
– Amounts transferred to initial carrying amount of hedged items	**1**	2
– Transferred to profit or loss	**(14)**	(7)
Net movement in the hedging reserve during the year recognised in other comprehensive income	**102**	(129)
Self-occupied land and buildings:		
Changes in fair value recognised during the year	**206**	(227)
Transferred to profit or loss:		
– Gain on disposal	**–**	(42)
Net deferred tax (debited)/credited to other comprehensive income resulting from:		
– Changes in fair value recognised during the year	**(34)**	38
– Gain on disposal	**–**	7
– Change in tax rate	**–**	14
Net movement in fixed asset revaluation reserve during the year recognised in other comprehensive income	**172**	(210)

21 Investment Properties

Movements and analysis of the Group's and the Company's investment properties, all of which are held in Hong Kong and carried at fair value, are as follows:

	The Group		The Company	
in HK$ million	**2009**	2008	**2009**	2008
Cost or valuation				
At 1 January	**37,737**	37,723	**36,618**	36,562
Additions	**123**	108	**117**	104
Disposal	**(17)**	–	**(17)**	–
Change in fair value	**2,798**	(146)	**2,809**	(100)
Reclassification from assets under construction (note 22)	**352**	–	**352**	–
Transfer from assets under construction (note 22)	**–**	98	**–**	98
Transfer to self-occupied land and buildings (note 22)	**–**	(46)	**–**	(46)
At 31 December	**40,993**	37,737	**39,879**	36,618
Long leases	**1,591**	1,575	**1,591**	1,575
Medium-term leases	**39,402**	36,162	**38,288**	35,043
	40,993	37,737	**39,879**	36,618

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

Phase 2A of Elements was completed in November 2008 and the respective value of the shell and costs of fitting-out works, which were carried as assets under construction in other property, plant and equipment, were transferred to investment properties during 2008.

All investment properties of the Group were revalued at open market value at 31 December 2009 by an independent firm of surveyors, Jones Lang LaSalle Limited, who have among their staff Members of the Hong Kong Institute of Surveyors. The valuations are based on a "term and reversion basis", which capitalises the existing and reversionary net rental income having regard to market valuation checks on comparable sale and yields. The net increase in fair value of HK$2,798 million (2008: net decrease of HK$146 million) arising from the revaluation has been credited to the consolidated profit and loss account.

The Group's future minimum lease receipts in respect of investment properties under non-cancellable operating leases are disclosed together with those in respect of other properties under note 22D.

22 Other Property, Plant and Equipment

The Group

in HK$ million	Self-occupied land and buildings	Civil works	Plant and equipment	Assets under construction	Total
2009					
Cost or Valuation					
At 1 January 2009	**1,965**	**46,359**	**59,473**	**1,400**	**109,197**
Additions	**–**	**–**	**195**	**1,498**	**1,693**
Capitalisation adjustments *	**–**	**–**	**(6)**	**–**	**(6)**
Disposals/Write-offs	**–**	**(4)**	**(270)**	**(2)**	**(276)**
Surplus on revaluation (note 20B)	**155**	**–**	**–**	**–**	**155**
Reclassification within other property, plant and equipment	**–**	**4**	**(15)**	**11**	**–**
Reclassification to investment properties (note 21)	**–**	**–**	**–**	**(352)**	**(352)**
Transfer to additional concession property (note 23)	**–**	**–**	**(79)**	**(46)**	**(125)**
Transfer from construction in progress (note 25)	**–**	**134**	**599**	**–**	**733**
Other assets commissioned	**–**	**14**	**1,129**	**(1,143)**	**–**
At 31 December 2009	**2,120**	**46,507**	**61,026**	**1,366**	**111,019**
At Cost	**–**	**46,507**	**61,026**	**1,366**	**108,899**
At 31 December 2009 Valuation	**2,120**	**–**	**–**	**–**	**2,120**
Aggregate depreciation					
At 1 January 2009	**–**	**4,612**	**26,781**	**–**	**31,393**
Charge for the year	**51**	**399**	**2,177**	**–**	**2,627**
Written back on disposal	**–**	**(3)**	**(235)**	**–**	**(238)**
Transfer to additional concession property (note 23)	**–**	**–**	**(2)**	**–**	**(2)**
Written back on revaluation (note 20B)	**(51)**	**–**	**–**	**–**	**(51)**
At 31 December 2009	**–**	**5,008**	**28,721**	**–**	**33,729**
Net book value at 31 December 2009	**2,120**	**41,499**	**32,305**	**1,366**	**77,290**
2008					
Cost or Valuation					
At 1 January 2008	2,240	46,471	58,820	1,037	108,568
Additions	–	–	75	1,351	1,426
Capitalisation adjustments *	–	(96)	5	–	(91)
Disposals/Write-offs	(36)	(15)	(316)	(2)	(369)
Deficit on revaluation	(285)	–	–	–	(285)
Reclassification	–	(4)	4	–	–
Transfer from/(to) investment properties (note 21)	46	–	–	(98)	(52)
Other assets commissioned	–	3	885	(888)	–
At 31 December 2008	1,965	46,359	59,473	1,400	109,197
At Cost	–	46,359	59,473	1,400	107,232
At 31 December 2008 Valuation	1,965	–	–	–	1,965
Aggregate depreciation					
At 1 January 2008	–	4,236	24,888	–	29,124
Charge for the year	58	389	2,174	–	2,621
Capitalisation adjustments *	–	(6)	–	–	(6)
Written back on disposal	–	(7)	(281)	–	(288)
Written back on revaluation	(58)	–	–	–	(58)
At 31 December 2008	–	4,612	26,781	–	31,393
Net book value at 31 December 2008	1,965	41,747	32,692	1,400	77,804

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

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

22 Other Property, Plant and Equipment *(continued)*

The Company

in HK$ million	Self-occupied land and buildings	Civil works	Plant and equipment	Assets under construction	Total
2009					
Cost or Valuation					
At 1 January 2009	**1,965**	**46,359**	**58,763**	**1,390**	**108,477**
Additions	**–**	**–**	**78**	**1,470**	**1,548**
Capitalisation adjustments *	**–**	**–**	**(6)**	**–**	**(6)**
Disposals/Write-offs	**–**	**(4)**	**(270)**	**(2)**	**(276)**
Surplus on revaluation (note 20B)	**155**	**–**	**–**	**–**	**155**
Reclassification within other property, plant and equipment	**–**	**4**	**(15)**	**11**	**–**
Reclassification to investment properties (note 21)	**–**	**–**	**–**	**(352)**	**(352)**
Transfer to additional concession property (note 23)	**–**	**–**	**(79)**	**(46)**	**(125)**
Transfer from construction in progress (note 25)	**–**	**134**	**599**	**–**	**733**
Other assets commissioned	**–**	**14**	**1,107**	**(1,121)**	**–**
At 31 December 2009	**2,120**	**46,507**	**60,177**	**1,350**	**110,154**
At Cost	**–**	**46,507**	**60,177**	**1,350**	**108,034**
At 31 December 2009 Valuation	**2,120**	**–**	**–**	**–**	**2,120**
Aggregate depreciation					
At 1 January 2009	**–**	**4,612**	**26,252**	**–**	**30,864**
Charge for the year	**51**	**399**	**2,152**	**–**	**2,602**
Written back on disposal	**–**	**(3)**	**(235)**	**–**	**(238)**
Transfer to additional concession property (note 23)	**–**	**–**	**(2)**	**–**	**(2)**
Written back on revaluation (note 20B)	**(51)**	**–**	**–**	**–**	**(51)**
At 31 December 2009	**–**	**5,008**	**28,167**	**–**	**33,175**
Net book value at 31 December 2009	**2,120**	**41,499**	**32,010**	**1,350**	**76,979**
2008					
Cost or Valuation					
At 1 January 2008	2,240	46,471	58,143	1,029	107,883
Additions	–	–	66	1,324	1,390
Capitalisation adjustments *	–	(96)	5	–	(91)
Disposals/Write-offs	(36)	(15)	(315)	(2)	(368)
Deficit on revaluation (note 20B)	(285)	–	–	–	(285)
Reclassification	–	(4)	4	–	–
Transfer from/(to) investment properties (note 21)	46	–	–	(98)	(52)
Other assets commissioned	–	3	860	(863)	–
At 31 December 2008	1,965	46,359	58,763	1,390	108,477
At Cost	–	46,359	58,763	1,390	106,512
At 31 December 2008 Valuation	1,965	–	–	–	1,965
Aggregate depreciation					
At 1 January 2008	–	4,236	24,377	–	28,613
Charge for the year	58	389	2,155	–	2,602
Capitalisation adjustments *	–	(6)	–	–	(6)
Written back on disposal	–	(7)	(280)	–	(287)
Written back on revaluation (note 20B)	(58)	–	–	–	(58)
At 31 December 2008	–	4,612	26,252	–	30,864
Net book value at 31 December 2008	1,965	41,747	32,511	1,390	77,613

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

Depreciation charge for the year was HK$2,602 million (2008: HK$2,596 million), comprising depreciation for the year of HK$2,602 million (2008: HK$2,602 million) less nil (2008: HK$6 million) capitalisation adjustment.

22 Other Property, Plant and Equipment *(continued)*

All of the Group's self-occupied land and buildings are held in Hong Kong under medium-term leases and carried at fair value.

A All self-occupied land and buildings were revalued at open market value on an existing use basis at 31 December 2009 by an independent firm of surveyors, Jones Lang LaSalle Limited, who have among their staff Members of the Hong Kong Institute of Surveyors. The valuation resulted in a revaluation surplus of HK$206 million (2008: loss of HK$227 million), which net of deferred tax provision of HK$34 million (2008: deferred tax credit of HK$38 million) (note 20B), has been recognised in other comprehensive income and accumulated in fixed asset revaluation reserve account (note 50).

The carrying amount of the self-occupied land and buildings at 31 December 2009 would have been HK$924 million (2008: HK$949 million) had the land and buildings been stated at cost less accumulated depreciation.

B Assets under construction include capital works on operating railways and, before 1 Janaury 2009, further renovation on a partially renovated shell of the retail shopping centre at Kowloon Station ("Elements") which was re-classified as investment properties since 1 January 2009.

C In 1986, the Company entered into a Management Agreement (the "1986 Agreement") with New Hong Kong Tunnel Company Limited ("NHKTC") to operate the Eastern Harbour Crossing ("EHC") until February 2008. Included in the assets held under the 1986 Agreement are railway and ancillary works relating to the rail tunnel.

At the expiry of the 1986 Agreement, title to the assets would, pursuant to the Eastern Harbour Crossing Ordinance, be vested in the Government which in turn entered into a Memorandum of Understanding dated 17 October 1986 with the Company to the effect that the assets would be vested in the Company on terms to be agreed between the Company and the Government. On 30 June 2000, the Company entered into a further agreement with the Government pursuant to which the relevant assets would be vested by the Government into the Company in 2008 for a nominal consideration and the Company agreed to indemnify the Government for certain amounts which were expected to be nominal. On this basis, the semi-annual payments made by the Company to NHKTC in respect of the EHC were dealt with in these accounts as payments under a finance lease.

In 2007, the Group made its final lease payment under the 1986 Agreement to NHKTC. On 5 February 2008, the Company entered into a new Operating Agreement with NHKTC whereby both companies agreed to share the future costs of maintenance, care, upkeep and repair of certain common facilities and utilities of the EHC assets; and the Company to carry out repair, maintenance and upkeep of the railway and assets solely for purpose of rail use in respect of the EHC following expiry of the 1986 Agreement.

The carrying amount of the assets in relation to the above arrangement is as follows:

The Group and The Company

	Civil works Eastern Harbour Crossing	
in HK$ million	**2009**	2008
Cost	**1,254**	1,254
Less: Aggregate depreciation	**(364)**	(345)
Net book value	**890**	909

D The Group leases out investment properties and station kiosks, including duty free shops, under operating leases. The leases typically run for an initial period of one to ten years, with an option to renew the lease after that date at which time all terms will be renegotiated. Lease payments are usually adjusted annually to reflect market rentals. Certain leases above carry additional rental based on turnover, some of which are with reference to thresholds. Lease incentives granted are amortised in the profit and loss account as an integral part of the net lease payment receivable.

The gross carrying amounts of investment properties of the Group and the Company held for use in operating leases were HK$40,993 million (2008: HK$37,737 million) and HK$39,879 million (2008: HK$36,618 million) respectively. The gross carrying amounts of station kiosks of the Group and the Company held for use in operating leases were HK$499 million (2008: HK$489 million) and the related accumulated depreciation charges were HK$162 million (2008: HK$143 million).

Total future minimum lease receipts under non-cancellable operating leases are receivable as follows:

	The Group		**The Company**	
in HK$ million	**2009**	2008	**2009**	2008
Within 1 year	**3,265**	3,300	**3,208**	3,265
After 1 year but within 5 years	**3,651**	5,188	**3,610**	5,152
Later than 5 years	**54**	123	**54**	123
	6,970	8,611	**6,872**	8,540

22 Other Property, Plant and Equipment *(continued)*

E In March 2003, the Group entered into a series of structured transactions with unrelated third parties to lease out and lease back certain of its passenger cars ("Lease Transaction") involving a total original cost of HK$2,562 million and a total net book value of HK$1,674 million as at 31 March 2003. Under the Lease Transaction, the Group has leased the assets to institutional investors in the United States (the "Investors"), who have prepaid all the rentals in relation to the lease agreement. Simultaneously, the Group has leased the assets back from the Investors based on terms ranging from 21 to 29 years with an obligation to pay rentals in accordance with a pre-determined payment schedule. The Group has an option to purchase the Investors' leasehold interest in the assets at the expiry of the lease term for fixed amounts. Part of the rental prepayments received from the Investors has been invested in debt securities to meet the Group's rental obligations and the amount payable for exercising the purchase option under the Lease Transaction. The Group has an obligation to replace these debt securities with other debt securities in the event those securities do not meet certain credit ratings requirements. In addition, the Group has provided standby letters of credit to the Investors to cover additional amounts payable by the Group in the event the transactions are terminated prior to the expiry of the lease terms.

The Group retains legal title to the assets and there are no restrictions on the Group's ability to utilise these assets in the operation of the railway business.

As a result of the Lease Transaction, an amount of approximately HK$3,688 million was received in an investment account and was used to purchase debt securities ("Defeasance Securities") to be used to settle the long-term lease payments with an estimated net present value in March 2003 of approximately HK$3,533 million. This resulted in the Group having received in 2003 an amount of HK$141 million net of costs. As the Group is not able to control the investment account in pursuit of its own objectives and its obligations to pay the lease payments are funded by the proceeds of the above investments, those obligations and investments in the Defeasance Securities were not recognised in March 2003 as liabilities and assets of the Group. The net amount of cash received was accounted for as deferred income by the Group.

A small portion of these Defeasance Securities was subject to replacement on credit rating downgrades. During 2008, credit ratings of some of these securities were downgraded and subsequently these securities were replaced by standby letters of credit issued to the relevant Investors to support the corresponding payment obligations. As a result, a total charge of HK$100 million was recorded as interest and finance charges in 2008.

23 Service Concession Assets

Movements and analysis of the Group and the Company's service concession assets are as follows:

The Group

	KCRC Rail Merger				
in HK$ million	Initial concession property	Additional concession property	Shenzhen Line 4	Stockholm Metro	Total
2009					
Cost					
At 1 January 2009	**15,226**	**572**	**–**	**–**	**15,798**
Net additions during the year	**–**	**486**	**1,889**	**88**	**2,463**
Transfer from other property, plant and equipment (note 22)	**–**	**125**	**–**	**–**	**125**
Transfer from deferred expenditure (note 27)	**–**	**–**	**1,650**	**–**	**1,650**
At 31 December 2009	**15,226**	**1,183**	**3,539**	**88**	**20,036**
Accumulated amortisation					
At 1 January 2009	**329**	**6**	**–**	**–**	**335**
Charge for the year	**305**	**42**	**–**	**1**	**348**
Transfer from other property, plant and equipment (note 22)	**–**	**2**	**–**	**–**	**2**
At 31 December 2009	**634**	**50**	**–**	**1**	**685**
Net book value at 31 December 2009	**14,592**	**1,133**	**3,539**	**87**	**19,351**
2008					
Cost					
At 1 January 2008	15,226	49	–	–	15,275
Net additions during the year	–	523	–	–	523
At 31 December 2008	15,226	572	–	–	15,798
Accumulated amortisation					
At 1 January 2008	25	–	–	–	25
Charge for the year	304	6	–	–	310
At 31 December 2008	329	6	–	–	335
Net book value at 31 December 2008	14,897	566	–	–	15,463

23 Service Concession Assets *(continued)*

The Company

in HK$ million	Initial concession property	Additional concession property	Total
2009			
Cost			
At 1 January 2009	**15,226**	**572**	**15,798**
Net additions during the year	**–**	**486**	**486**
Transfer from other property, plant and equipment (note 22)	**–**	**125**	**125**
At 31 December 2009	**15,226**	**1,183**	**16,409**
Accumulated amortisation			
At 1 January 2009	**329**	**6**	**335**
Charge for the year	**305**	**42**	**347**
Transfer from other property, plant and equipment (note 22)	**–**	**2**	**2**
At 31 December 2009	**634**	**50**	**684**
Net book value at 31 December 2009	**14,592**	**1,133**	**15,725**
2008			
Cost			
At 1 January 2008	15,226	49	15,275
Net additions during the year	–	523	523
At 31 December 2008	15,226	572	15,798
Accumulated amortisation			
At 1 January 2008	25	–	25
Charge for the year	304	6	310
At 31 December 2008	329	6	335
Net book value at 31 December 2008	14,897	566	15,463

Initial concession property and additional concession property are in respect of the Group's right to access, use and operate the KCRC system pursuant to the Rail Merger (note 3). The cost of initial concession property comprises the balance of upfront payment of HK$4,250 million net of HK$326 million in respect of stores and spares acquired and the present value of the total fixed annual payments of HK$750 million per annum discounted at the Company's estimated long-term incremental borrowing rate at inception of 6.75%. Additional concession property represents expenditure incurred in relation to the maintenance, repair, replacement and upgrade of the KCRC system.

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

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

24 Property Management Rights

Property management rights relate to the rights acquired by the Company from KCRC in the Rail Merger in respect of existing and future managed properties on the Appointed Day.

The Group and The Company

in HK$ million	2009	2008
Cost		
At 1 January	**40**	40
Additions during the year	**–**	–
At 31 December	**40**	40
Accumulated amortisation		
At 1 January	**5**	–
Charge for the year	**4**	5
At 31 December	**9**	5
Net book value at 31 December	**31**	35

25 Railway Construction in Progress

The Group and The Company

in HK$ million	Balance at 1 January	Transferred from deferred expenditure (note 27)	Expenditure	Capitalised on commissioning (note 22)	Balance at 31 December
2009					
LOHAS Park Station Project					
Construction costs	**490**	**–**	**50**	**(540)**	**–**
Consultancy fees	**13**	**–**	**–**	**(13)**	**–**
Staff costs and other expenses	**114**	**–**	**11**	**(125)**	**–**
Finance costs	**41**	**–**	**14**	**(55)**	**–**
	658	**–**	**75**	**(733)**	**–**
West Island Line					
Construction costs	**–**	**38**	**853**	**–**	**891**
Consultancy fees	**–**	**316**	**48**	**–**	**364**
Staff costs and other expenses	**–**	**318**	**100**	**–**	**418**
Finance costs	**–**	**2**	**10**	**–**	**12**
Utilisation of government funding support	**–**	**(400)**	**(1,285)**	**–**	**(1,685)**
	–	**274**	**(274)**	**–**	**–**
Total	**658**	**274**	**(199)**	**(733)**	**–**
2008					
LOHAS Park Station Project					
Construction costs	314	–	176	–	490
Consultancy fees	11	–	2	–	13
Staff costs and other expenses	81	–	33	–	114
Finance costs	18	–	23	–	41
	424	–	234	–	658
Total	424	–	234	–	658

25 Railway Construction in Progress *(continued)*

A LOHAS Park Station Project

The construction of the LOHAS Park Station is covered by the TKE Project Agreement with the Government signed on 4 November 1998.

The project was completed and LOHAS Park Station was opened on 26 July 2009. Negotiation on the final accounts with various contractors is in progress.

B West Island Line ("WIL") Project

On 13 July 2009, the Company entered into a Project Agreement with the Hong Kong Special Administrative Region Government for financing, design, construction and operation of the WIL and related services and facilities.

Pursuant to the agreement, the Government will provide funding support of HK$12,252 million (having already made HK$400 million available in February 2008 under a preliminary project agreement). This funding support is subject to a repayment mechanism whereby, within 24 months of commercial operations commencing on the WIL, the Company will pay to the Government amounts to reflect the excess of original estimation over actual costs incurred on certain capital expenditure, price escalation costs, land costs and the amount of contingency in relation to the railway and related works (together with interest).

The project's target completion date is in 2014. The capital cost for the project based on the defined scope of works and this programme is estimated at HK$17,196 million. As at 31 December 2009, the Company has incurred accumulative expenditure of HK$1,685 million on the project (2008: HK$499 million) and has authorised outstanding commitments on contracts totalling HK$3,340 million (2008: HK$148 million) and estimated future project costs of HK$12,171 million related to the project.

C Kowloon Southern Link ("KSL") Project

After the Rail Merger, the construction of KSL remains a responsibility of KCRC who continues to fund the related construction costs. Pursuant to the KSL Project Management Agreement, the Company acts as a project management agent to KCRC in connection with the KSL under certain circumstances in return for a project management fee plus incentive payment if the construction of KSL is completed ahead of time and under budget. Expenditure incurred by the Company for the project management is charged to the profit and loss account while the project management fee is recognised as revenue in accordance with the Group's accounting policy on revenue recognition of contracts.

KSL was completed and forms an integral part of the service concession arrangement with KCRC upon service commencement on 16 August 2009. During the year, project management fee of HK$317 million (2008: HK$310 million) and incentive payment receivable of HK$55 million (2008: nil) were recognised as income in the profit and loss account.

D Shatin to Central Link ("SCL") Project

On 11 March 2008, the Executive Council approved further planning and design of the SCL. On 24 November 2008, the Government and the Company entered into an Entrustment Agreement for the design of and site investigation and procurement activities in relation to the SCL.

Pursuant to the Entrustment Agreement, the Company shall carry out or procure the carrying out of the design, site investigation and procurement activities and the Government shall fund directly the total cost of such activities and pay to the Company a maximum amount of HK$1.5 billion in respect of certain costs incurred by the Company, including the Company's in-house design costs and certain on-costs and preliminary costs.

E Guangzhou-Shenzhen-Hong Kong Express Rail Link ("XRL") Project

On 22 April 2008, the Executive Council approved that the Company should be asked to proceed with further planning and design of the Hong Kong section of the XRL with a view to implementing the Hong Kong section of the XRL under concession approach. On 24 November 2008, the Government and the Company entered into an Entrustment Agreement for the design of and site investigation and procurement activities in relation to the XRL.

Pursuant to the Entrustment Agreement, the Company shall carry out or procure the carrying out of the design, site investigation and procurement activities and the Government shall fund directly the total cost of such activities and pay to the Company a maximum amount of HK$1.5 billion in respect of certain costs incurred by the Company, including the Company's in-house design costs and certain on-costs and preliminary costs.

26 Property Development in Progress

Under the Airport Railway Agreement related to the construction of the Airport Railway, the Government had granted to the Company development rights on the land ("Land Grant") over the five station sites along the railway at market value for property development. In preparing the sites for development, the Company incurs costs related to foundation and site enabling works and expects the costs to be reimbursed by property developers in the form of upfront cash payments when development packages are awarded. In accordance with the development agreements entered into with property developers, the developers are also responsible for the balance of the development costs.

Notwithstanding having entered into the development agreements with the developers, the Company being the grantee of the land remains primarily responsible for the fulfilment of all the conditions and obligations in the Land Grant. Such conditions and obligations include the type and quantity of the developments that must be built, public facilities to be provided, and the completion date of the project.

26 Property Development in Progress *(continued)*

Costs of foundation, site enabling works and land costs incurred by the Company are capitalised as property development in progress and payments received from developers are credited to property development in progress to offset costs incurred in respect of the same development. In cases where payments received from developers exceed the related expenditure incurred by the Company, such excess is recorded as deferred income (note 26B(i)). In these cases, any subsequent expenditure incurred by the Company in respect of that development will be charged against deferred income. Deferred income is to be recognised as profits of the Company at the appropriate time after charging remaining costs related to foundation and site enabling works, if any, and after taking into account the outstanding risks and obligations retained by the Company relating to each development. Until such time as deferred income is recognised as profit, it is recorded as a liability of the Company in recognition of the Company's obligations under the Land Grant.

The Tseung Kwan O Extension ("TKE") Project Agreement entered into in 1998 between the then Secretary for Transport, for and on behalf of the Government, and the Company in respect of the construction of the Tseung Kwan O Extension provides the Company with the right to undertake property developments at four station and depot sites along the Tseung Kwan O Line ("Tseung Kwan O Extension Property Projects") under separate land grant agreements. The basis of accounting for development costs incurred by the Company and payment related thereto is consistent with that for the property developments along the Airport Railway.

On the Appointed Day, the Company acquired property development rights on eight development sites, comprising three awarded and five not yet awarded sites, along the East Rail Line, Kowloon Southern Link and Light Rail ("ERL/KSL/LR Property Projects"), from KCRC pursuant to the Rail Merger (note 3). During 2008, the development site at Che Kung Temple Station of the East Rail Line was awarded.

A Property Development in Progress

The Group and The Company

in HK$ million	Balance at 1 January	Expenditure	Offset against payments received from developers (note 26B(i))	Transfer out on project completion	Balance at 31 December
2009					
Airport Railway Property Projects	**–**	**7**	**(2)**	**(5)**	**–**
Tseung Kwan O Extension Property Projects	**2,081**	**177**	**(13)**	**–**	**2,245**
East Rail Line/Light Rail/Kowloon Southern Link Property Projects	**5,814**	**119**	**–**	**(1,460)**	**4,473**
	7,895	**303**	**(15)**	**(1,465)**	**6,718**
2008					
Airport Railway Property Projects	–	31	(31)	–	–
Tseung Kwan O Extension Property Projects	3,307	382	(53)	(1,555)	2,081
East Rail Line/Light Rail/Kowloon Southern Link Property Projects	5,759	1,918	(42)	(1,821)	5,814
	9,066	2,331	(126)	(3,376)	7,895

Tseung Kwan O Extension Property Projects include capitalised interest of HK$769 million (2008: HK$768 million) in connection with the Company's interest-free loan of HK$4,000 million extended to the developer of Package 2, Tseung Kwan O Area 86 property development project in 2006 (note 38).

East Rail Line/Light Rail/Kowloon Southern Link Property Projects include the acquisition cost for the property development rights on the development sites from KCRC and mandatory payments in respect of enabling works carried out by KCRC for such sites. As at 31 December 2009, outstanding mandatory payments including interest accrued amounted to HK$840 million (2008: HK$818 million). Expenditure during the year ended 31 December 2008 included HK$1,831 million of land premium in respect of the Che Kung Temple property development.

B Deferred Income on Property Development

The Group and The Company

in HK$ million	2009	2008
Deferred income on property development comprises:		
– Upfront payments received from developers (note 26B(i))	**107**	138
– Sharing in kind (note 26B(ii))	**17**	18
	124	156

26 Property Development in Progress *(continued)*

B Deferred Income on Property Development *(continued)*

(i) Deferred Income on Upfront Payments

The Group and The Company

in HK$ million	Balance at 1 January	Payments received from developers	Offset against development in progress (note 26A)	Amount recognised as profit (note 10)	Balance at 31 December
2009					
Airport Railway Property Projects	**70**	**–**	**(2)**	**(16)**	**52**
Tseung Kwan O Extension Property Projects	**68**	**–**	**(13)**	**–**	**55**
East Rail Line/Light Rail/Kowloon Southern Link Property Projects	**–**	**–**	**–**	**–**	**–**
	138	**–**	**(15)**	**(16)**	**107**
2008					
Airport Railway Property Projects	240	–	(31)	(139)	70
Tseung Kwan O Extension Property Projects	81	40	(53)	–	68
East Rail Line/Light Rail/Kowloon Southern Link Property Projects	–	42	(42)	–	–
	321	82	(126)	(139)	138

(ii) Deferred Income on Sharing in Kind

Under the property development agreement in respect of an Airport Railway development package, the Company received during 2004 certain portions of the shell of a retail centre at Kowloon Station ("Elements") and its car parking spaces. Part of the property development profit is deferred as the Company has an obligation under the development agreement to complete the fitting-out works. On this basis, movements of the deferred income on this sharing in kind during the year are set out below:

The Group and The Company

in HK$ million	**2009**	2008
Balance as at 1 January	**18**	79
Less: Amount recognised as profit (note 10)	**(1)**	(61)
Balance as at 31 December	**17**	18

26 Property Development in Progress *(continued)*

C Stakeholding Funds

As stakeholder under certain Airport Railway, Tseung Kwan O Extension and East Rail Line Property Projects, the Company receives and manages deposit monies and sales proceeds in respect of sales of properties under those developments. These monies are placed in separate designated bank accounts and, together with any interest earned, will be released to the developers for the reimbursement of costs of the respective developments in accordance with the terms and conditions of the Government Consent Schemes and development agreements. Any balance remaining will only be released for distribution after all obligations relating to the developments have been met. Accordingly, the balances of the stakeholding funds and the corresponding bank balances have not been included in the Group's and the Company's balance sheets. Movements in stakeholding funds during the year are as follows:

The Group and The Company

in HK$ million	2009	2008
Balance as at 1 January	**4,575**	5,264
Stakeholding funds received	**39,540**	15,518
Add: Interest earned thereon	**17**	100
	44,132	20,882
Disbursements during the year	**(37,677)**	(16,307)
Balance as at 31 December	**6,455**	4,575
Represented by:		
Balances in designated bank accounts as at 31 December	**6,453**	4,573
Retention receivable	**2**	2
	6,455	4,575

In addition to the above, there are certain deposit monies and sales proceeds in respect of an East Rail Line property development site, amounting to HK$124 million at 31 December 2009 (2008: HK$1,221 million) that are under the custody of the solicitors and managed by the Company on behalf of KCRC as KCRC's agent.

D West Rail Property Developments

As part of the Rail Merger, the Company was appointed to act as the agent of KCRC and certain KCRC subsidiary companies ("West Rail Subsidiaries") in the development of specified development sites along the West Rail. The Company will receive an agency fee of 0.75% of the gross sale proceeds in respect of the developments except for the Tuen Mun development on which the Company will receive 10% of the net profits accrued under the development agreement. The Company will also recover from the West Rail Subsidiaries all the costs incurred in respect of the West Rail development sites plus 16.5% on-cost, together with interest accrued thereon. During 2009, the reimbursable costs incurred by the Company including on-cost and interest accrued were HK$72 million (2008: HK$66 million).

27 Deferred Expenditure

	The Group		The Company	
in HK$ million	2009	2008	2009	2008
Balance at 1 January	**1,988**	825	**338**	155
Expenditure during the year	**494**	1,163	**494**	183
Transfer to service concession assets (note 23)	**(1,650)**	–	**–**	–
Transfer to railway construction in progress (note 25)	**(274)**	–	**(274)**	–
Balance at 31 December	**558**	1,988	**558**	338

With the concession agreement in respect of Shenzhen Metro Line 4 signed on 18 March 2009, expenditure on Shenzhen Metro Line 4, amounting to HK$1,650 million as at 31 December 2008, was transferred to service concession assets. With the project agreement of the West Island Line signed on 13 July 2009, expenditure on the West Island Line Project, amounting to HK$274 million after netting off Government funding support of HK$400 million received prior to that date, was transferred to railway construction in progress. Deferred expenditure as at 31 December 2009 mainly related to design works for the proposed capital projects of the Kwun Tong Line Extension and South Island Line (East) Projects in Hong Kong.

28 Prepaid Land Lease Payments

The Group and The Company

in HK$ million	**2009**	2008
Cost		
At 1 January	**732**	732
Addition	**–**	–
At 31 December	**732**	732
Accumulated amortisation		
At 1 January	**165**	151
Charge for the year	**13**	14
At 31 December	**178**	165
Net book value at 31 December	**554**	567

A The above prepaid land lease payments, all of which relate to land held for railway depots in Hong Kong, is analysed as follows:

The Group and The Company

in HK$ million	**2009**	2008
At net book value		
– long leases	**148**	151
– medium-term leases	**406**	416
	554	567

B The lease of the land on which the civil works, plant and equipment are situated for the operation of the railway was granted to the Company under a running line lease for the period up to 29 June 2050 which can be extended for further periods of 50 years at nominal payment (note 55C).

Under the terms of the lease, the Company undertakes to keep and maintain all the leased areas, including underground and overhead structures, at its own cost. With respect to parts of the railway situated in structures where access is shared with other users, such as the Lantau Fixed Crossing, the Company's obligation for maintenance is limited to the railway only. All maintenance costs incurred under the terms of the lease have been dealt with as railway operating costs in the profit and loss account.

29 Interests in Non-controlled Subsidiaries

	The Group		**The Company**	
in HK$ million	**2009**	2008	**2009**	2008
Unlisted shares, at cost	**–**	–	**24**	24
Share of net assets	**490**	381	**–**	–
	490	381	**24**	24

29 Interests in Non-controlled Subsidiaries *(continued)*

The following list contains the particulars of all major non-controlled subsidiaries of the Group:

		Proportion of ownership interest				
Name of company	Issued and paid up ordinary share capital	Group's effective interest	Held by the Company	Held by subsidiary	Place of incorporation and operation	Principal activities
Octopus Holdings Limited	HK$42,000,000	57.4%	57.4%	–	Hong Kong	Investment holding
Octopus Cards Limited	HK$42,000,000	57.4%	–	100%	Hong Kong	Operate a contactless smartcard common payment system in Hong Kong
Octopus China Investments Limited	HK$1	57.4%	–	100%	Hong Kong	Investment holding
Octopus Connect Limited	HK$2	57.4%	–	100%	Hong Kong	Customer relationship management service
Octopus International Projects Limited	HK$1	57.4%	–	100%	Hong Kong	Marketing and management of overseas automatic fare collection consultancy projects
Octopus Investments Limited	HK$2	57.4%	–	100%	Hong Kong	Investment holding
Octopus Knowledge Limited	HK$2	57.4%	–	100%	Hong Kong	Consultancy services on introducing a smartcard system in Dubai
Octopus Netherlands Limited	HK$1	57.4%	–	100%	Hong Kong	Consultancy services on introducing a smartcard system in the Netherlands
Octopus Rewards Limited	HK$1	57.4%	–	100%	Hong Kong	Develop and operate a common loyalty scheme
Octopus Solutions Limited	HK$2	57.4%	–	100%	Hong Kong	Project management
Octopus Systems Limited	HK$2	57.4%	–	100%	Hong Kong	Project management
Octopus Cards Macau Limited	MOP10,000	57.4%	–	100%	Macau	Promote the contactless smartcard common payment system in Macau

In June 1994, the Company entered into an agreement with four local transport companies, Kowloon-Canton Railway Corporation, The Kowloon Motor Bus Company (1933) Limited (subsequently replaced by KMB Public Bus Services Holdings Limited), Citybus Limited and The Hongkong and Yaumati Ferry Co. Limited (subsequently replaced by New World First Bus Services Limited and New World First Ferry Services Limited), to incorporate a company, Creative Star Limited, now Octopus Cards Limited ("OCL"), to undertake the development and operation of the "Octopus" contactless smart card ticketing system, which was initially used by the shareholding transport companies. Although the Company currently holds a 57.4% interest in the issued shares of OCL, its appointees to the Board of Directors of OCL are limited to 49% of the voting rights at board meetings. The shareholders have agreed to provide the necessary funding to OCL for its operations and for the development of the "Octopus" system.

On 20 April 2000, OCL received approval from The Hong Kong Monetary Authority ("HKMA") to become a deposit-taking company ("DTC") for purposes of extending the use of Octopus cards to a wider range of services, including those that are non-transport related. Prior to becoming a DTC, the Octopus card was exempted from the definition of "multi-purpose card" under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) on the basis that its use was restricted to transport related services only.

On 17 January 2001, the Company entered into a new Shareholders' Agreement with the other shareholders of OCL. Under this agreement, the Company disposed of a shareholding interest of 10.4% in OCL to certain other shareholders of OCL for a consideration of HK$16 million, together with a deferred consideration to be received in the event of OCL subsequently becoming a stock exchange listed company.

29 Interests in Non-controlled Subsidiaries *(continued)*

On 21 October 2005, the Company and the other shareholders of OCL entered into a number of agreements to adjust the arrangements relating to OCL, in order to make the non-payment businesses of OCL into new, separate subsidiaries independent of the payment business of OCL that is regulated by the HKMA. Accordingly, a new holding company, Octopus Holdings Limited ("OHL"), has been set up to hold the entire issued share capital of each of these new companies as well as OCL. The Company's effective interest in OHL and its subsidiaries is 57.4%.

At the same time, the shareholders of OHL made a loan in aggregate amounting to HK$150 million to OHL pursuant to a Subordinated Loan Agreement, with each shareholder lending an amount in proportion to its shareholding in OHL. The Company has therefore lent HK$86 million to OHL (or 57.4% of the total amount of the loan). The loan is for a term of five years and is unsecured, the rights of the lenders are subordinated in all respects to the rights of the other unsubordinated creditors of OHL in respect of all other unsubordinated liabilities, and interest on the loan is payable at a rate of 5.5% per annum. In 2008, the loan was fully repaid.

On 31 December 2009, Octopus Cards (NL) B.V., which was established for the introduction of smart card system in the Netherlands, was dissolved after project completion.

During the year ended 31 December 2009, a total amount of HK$100 million (2008: HK$99 million) was paid by the Company to OCL in respect of the central clearing services provided by OCL to the Company. Load agent fees and fees for handling Octopus card issuance and refund amounting to HK$12 million (2008: HK$13 million) and HK$9 million (2008: HK$9 million) respectively were received from OCL in respect of services and facilities provided by the Company at various MTR stations. Service fees amounting to HK$3 million (2008: HK$3 million) were received from OCL in respect of rental of computer equipment and services and warehouse storage space provided by the Company under a service agreement. Dividend distribution from OHL to the Company amounted to HK$40 million (2008: HK$23 million).

The condensed consolidated profit and loss account and the balance sheet for OHL are shown below:

Consolidated Profit and Loss Account

Year ended 31 December in HK$ million	**2009 (Audited)**	2008 (Audited)
Turnover	**629**	527
Other operating income	**5**	61
	634	588
Staff costs	**(120)**	(133)
Load agent fees and bank charges for add value services	**(72)**	(66)
Other expenses	**(159)**	(149)
Operating profit before depreciation	**283**	240
Depreciation	**(62)**	(54)
Operating profit before interest and finance charges	**221**	186
Net interest income	**66**	80
Profit before taxation	**287**	266
Income tax	**(28)**	(28)
Profit for the year	**259**	238
Group's share of profit before taxation (note 14)	**165**	152
Group's share of income tax (note 14)	**(16)**	(16)

29 Interests in Non-controlled Subsidiaries *(continued)*

Consolidated Balance Sheet

at 31 December in HK$ million	**2009 (Audited)**	2008 (Audited)
Assets		
Fixed assets	**159**	164
Investments	**2,427**	2,142
Other assets	**209**	181
Cash at banks and on hand	**245**	227
	3,040	2,714
Liabilities		
Card floats and card deposits due to cardholders	**(1,834)**	(1,711)
Amounts due to related parties	**(24)**	(23)
Other liabilities	**(329)**	(316)
	(2,187)	(2,050)
Net assets	**853**	664
Equity		
Share capital	**42**	42
Retained profits	**811**	622
	853	664
Group's share of net assets	**490**	381

30 Investments in Subsidiaries

The Company

in HK$ million	**2009**	2008
Unlisted shares, at cost	**1,222**	1,153
Less: Impairment losses	**(3)**	(3)
	1,219	1,150

Investments in subsidiaries include HK$24 million (2008: HK$24 million) in respect of investments in non-controlled subsidiaries, the relevant details of which are disclosed in note 29. The following list contains details of controlled subsidiaries as defined under note 2C as at 31 December 2009, which have been consolidated into the Group's accounts.

30 Investments in Subsidiaries *(continued)*

Name of company	Issued and paid up ordinary/ registered share capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by subsidiary	Place of incorporation and operation	Principal activities
Subsidiaries held throughout 2009						
Glory Goal Limited	HK$10,000	100%	100%	–	Hong Kong	Investment holding
Hanford Garden Property Management Company Limited	HK$10,000	100%	100%	–	Hong Kong	Property management
MTR (Estates Management) Limited	HK$1,000	100%	100%	–	Hong Kong	Investment holding and property management
MTR (Shanghai Project Management) Limited	HK$1,000	100%	100%	–	Hong Kong	Railway consultancy services, property investment and development
MTR Beijing Line 4 Investment Company Limited	HK$1	100%	100%	–	Hong Kong	Investment holding
MTR China Commercial Management No. 1 Holdings Limited (previously MTR (Shanghai Metro Management) Limited)	HK$1,000	100%	100%	–	Hong Kong	Investment holding
MTR China Consultancy Company Limited	HK$1,000	100%	100%	–	Hong Kong	Railway consultancy services
MTR China Property Limited	HK$1,000	100%	100%	–	Hong Kong	Property management
MTR Engineering Services Limited	HK$1,000	100%	100%	–	Hong Kong	Engineering services
MTR Hangzhou Line 1 Investment Company Limited	HK$1,000	100%	100%	–	Hong Kong	Investment holding
MTR Information Solutions Company Limited	HK$1,000	100%	100%	–	Hong Kong	License MTR software to MTR's subsidiaries and associates
MTR Property Agency Co. Limited	HK$2	100%	100%	–	Hong Kong	Property agency
MTR Rail Transport Training (International) Company Limited	HK$2,800,000	100%	100%	–	Hong Kong	Provide rail transport training in Mainland China
MTR Shenyang Holdings Limited	HK$1,000	100%	100%	–	Hong Kong	Investment holding
MTR Shenzhen Investment Holding Limited	HK$400,000	100%	100%	–	Hong Kong	Investment holding
MTR Telecommunication Company Limited	HK$100,000,000	100%	100%	–	Hong Kong	Radio communication services
MTR Travel Limited	HK$2,500,000	100%	100%	–	Hong Kong	Travel services
Ngong Ping 360 Limited	HK$2	100%	100%	–	Hong Kong	Operate the Tung Chung to Ngong Ping cable car system and Theme Village in Ngong Ping
Pierhead Garden Management Company Limited	HK$50,000	100%	100%	–	Hong Kong	Property management
Rail Sourcing Solutions (International) Limited	HK$2	100%	100%	–	Hong Kong	Global railway supply and sourcing services
Royal Ascot Management Company Limited	HK$50,000	100%	100%	–	Hong Kong	Property management

30 Investments in Subsidiaries *(continued)*

Name of company	Issued and paid up ordinary/ registered share capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by subsidiary	Place of incorporation and operation	Principal activities
Sun Tuen Mun Centre Management Company Limited	HK$50,000	100%	100%	–	Hong Kong	Property management
TraxComm Limited	HK$15,000,000	100%	100%	–	Hong Kong	Fixed telecommunication network services
V-Connect Limited	HK$1,000	100%	100%	–	Hong Kong	Telecommunication
Fasttrack Insurance Ltd.	HK$77,500,000	100%	100%	–	Bermuda	Insurance underwriting
Candiman Limited *	US$1	100%	100%	–	British Virgin Islands	Investment holding
MTR Corporation (C.I.) Limited	US$1,000	100%	100%	–	Cayman Islands/ Hong Kong	Finance
MTR Finance Lease (001) Limited	US$1	100%	100%	–	Cayman Islands/ Hong Kong	Finance
MTR (Macau) Property Management Company Limited	MOP25,000	100%	–	100%	Macau	Property management, consultancy and other property management related businesses
Chongqing Premier Property Management Co. Ltd. * (Incorporated)	US$150,000	70%	–	70%	The People's Republic of China	Property management
MTR (Beijing) Commercial Facilities Management Co. Ltd. (Incorporated)	HK$93,000,000	100%	–	100%	The People's Republic of China	Property leasing and management
MTR (Beijing) Property Services Co. Limited (Incorporated)	RMB3,000,000	100%	100%	–	The People's Republic of China	Property management
MTR Consultancy (Beijing) Co. Ltd. (Incorporated)	HK$1,000,000	100%	100%	–	The People's Republic of China	Railway consultancy services, marketing and promotion
MTR Consulting (Shenzhen) Co. Ltd. (Incorporated)	HK$1,000,000	100%	100%	–	The People's Republic of China	Railway consultancy services
MTR Corporation (Shenzhen) Limited (Incorporated)	HK$1,339,600,000	100%	–	100%	The People's Republic of China	Railway construction, operation and management
MTR Corporation (Shenzhen) Training Centre (Incorporated)	RMB2,000,000	100%	–	100%	The People's Republic of China	Provide rail transport training
Shanghai Hong Kong Metro Construction Management Co. Ltd. (Incorporated)	HK$15,000,000	60%	–	60%	The People's Republic of China	Railway construction management and development
MTR Corporation (Silverlink) Limited	GBP1	100%	–	100%	United Kingdom	Investment holding
MTR Corporation (UK) Limited	GBP29	100%	100%	–	United Kingdom	Investment holding
Rail Sourcing Solutions (UK) Limited *	GBP1	100%	–	100%	United Kingdom	Railway supply and sourcing services

30 Investments in Subsidiaries *(continued)*

Name of company	Issued and paid up ordinary/ registered share capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by subsidiary	Place of incorporation and operation	Principal activities
Subsidiaries established during 2009						
360 Holidays Limited	HK$500,000	100%	–	100%	Hong Kong	Guided tour services
MTR Shenyang Investment Holdings Limited	HK$1	100%	100%	–	Hong Kong	Investment holding
MTR Shenyang Property No. 1 Limited	HK$1	100%	–	100%	Hong Kong	Property development, investment, management and other property related businesses
Metro Trains Melbourne Pty. Ltd. *	AUD16,250,000	60% on ordinary shares; 30% on Class A shares	60% on ordinary shares; 30% on Class A shares	–	Australia	Railway operations and maintenance
MTR Stockholm AB	SEK40,000,000	100%	–	100%	Sweden	Railway operations and maintenance

* Subsidiaries not audited by KPMG

During the year, MTR Corporation (IKF) Limited, MTR Corporation (No. 2) Limited and MTR Corporation (SWT) Limited, which were established as investment holding companies of the joint venture companies for certain railway franchises in the United Kingdom, were dissolved following unsuccessful bidding of the franchises.

On 26 January 2010, Rail Sourcing Solutions (UK) Limited was wound up.

31 Interests in Associates

The Group

in HK$ million	**2009**	2008
Share of net assets	**823**	743

The Group and the Company had interests in the following associates as at 31 December 2009:

Name of company	Issued and paid up ordinary/ registered share capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by subsidiary	Place of incorporation and operation	Principal activities
Beijing MTR Corporation Limited (Incorporated)	RMB1,380,000,000	49%	–	49%	The People's Republic of China	Railway construction, operation, management and development
Shenyang MTR Corporation Limited	RMB100,000,000	49%	–	49%	The People's Republic of China	Railway operation and management
Tunnelbanan Teknik Stockholm AB	SEK30,000,000	50%	–	50%	Sweden	Railway maintenance
London Overground Rail Operations Ltd ("LOROL") *	GBP2	50%	–	50%	United Kingdom	Railway management

* Companies not audited by KPMG

31 Interests in Associates *(continued)*

During the year ended 31 December 2009, the Group made equity injections into Shenyang MTR Corporation Limited and Tunnelbanan Teknik Stockholm AB at amounts of RMB49 million (HK$56 million) and SEK15 million (HK$16 million) respectively, as well as provided senior debt and subordinated debt of SEK50 million (HK$54 million) and SEK15 million (HK$16 million) respectively to Tunnelbanan Teknik Stockholm AB. During the same period, Tunnelbanan Teknik Stockholm AB provided rolling stock maintenance and other supporting services to MTR Stockholm AB at an amount of SEK104 million (HK$113 million) (2008: nil).

During the year ended 31 December 2009, LOROL repaid GBP1.5 million (HK$19 million) of the unsecured debt to the Company and the Company provided staff secondment, information technology and other support services to Beijing MTR Corporation Limited at a total amount of HK$48 million (2008: HK$38 million), staff secondment and consultancy service to LOROL at an amount of HK$1 million (2008: HK$4 million) and staff secondment to Shenyang MTR Corporation Limited at an amount of HK$14 million (2008: nil).

The summary financial information of the Group's effective interests in associates is as follows:

in HK$ million	**2009**	2008
Non-current assets	**2,771**	1,405
Current assets	**434**	208
Non-current liabilities	**(83)**	(36)
Current liabilities	**(2,299)**	(834)
Net assets	**823**	743
Income	**2,115**	1,313
Expenses	**(2,096)**	(1,281)
Profit before taxation	**19**	32
Income tax	**(8)**	(9)
Net profit for the year	**11**	23

32 Investments in Securities

Investments in securities represent debt securities held by the overseas insurance underwriting subsidiary and the Company comprising:

The Group

in HK$ million	**2009**	2008
Held-to-maturity securities, at amortised cost		
– maturing within 1 year	**–**	–
– maturing after 1 year	**–**	90
	–	90
Trading securities listed overseas, at fair value (Level 1, see Note 35 for definition)		
– maturing within 1 year	**107**	100
– maturing after 1 year	**120**	281
	227	381
	227	471

The Company

in HK$ million	**2009**	2008
Held-to-maturity securities, at amortised cost		
– maturing within 1 year	**–**	–
– maturing after 1 year	**–**	90
	–	90

33 Staff Housing Loans

The Group and The Company

in HK$ million	2009	2008
Balance at 1 January	**10**	15
Redemption	**(1)**	(3)
Repayment	**(2)**	(2)
Balance at 31 December	**7**	10

The Group and The Company

in HK$ million	2009	2008
Amounts receivable:		
– within 1 year	**2**	2
– after 1 year	**5**	8
	7	10

The MTR Staff Housing Loan Scheme, a Company financed scheme, was introduced in 1997 to replace, on a phased basis, the previous arrangements whereby interest subsidies were paid by the Company to eligible employees. All housing loans granted to employees carry interest either at the prevailing Best Lending Rate less 1.75% per annum or at the Company's Average Cost of Borrowings plus 0.75% per annum, and are secured by mortgages over the relevant properties. Since December 2001, the scheme has been closed for application and eligible employees have been provided with an option to switch the property mortgage to a specified commercial bank based on agreed terms.

The Company considers that the nominal value of housing loans is not significantly different from their fair values.

34 Properties Held for Sale

The Group and The Company

in HK$ million	2009	2008
Properties held for sale		
– at cost	**3,676**	2,092
– at net realisable value	**107**	136
	3,783	2,228

Properties held for sale at 31 December 2009 comprised mainly residential units and car parking spaces at The Palazzo at Fo Tan Station along the East Rail Line and Lake Silver at Wu Kai Sha Station along the Ma On Shan Line. They represent either properties received by the Company as sharing in kind or as part of the profit distribution upon completion of the development. The properties are stated in the balance sheet at the lower of cost, which is deemed to be their fair value upon initial recognition as determined by reference to an independent open market valuation at the date of receipt (notes 2K(vi) and (viii)), and their net realisable value at the balance sheet date. Net realisable value represents the estimated selling price less costs to be incurred in selling the properties. The net realisable values as at 31 December 2009 and 2008 are determined by reference to an open market valuation of the properties as at those dates, undertaken by an independent firm of surveyors, Jones Lang LaSalle Limited, who have among their staff Members of the Hong Kong Institute of Surveyors.

Properties held for sale at net realisable value are stated net of provision of HK$12 million (2008: HK$13 million), made in order to state these properties at the lower of their cost and estimated net realisable value.

35 Derivative Financial Assets and Liabilities

A Fair Value

The contracted notional amounts, fair values and maturities based on contractual undiscounted cash flows of derivative financial instruments outstanding are as follows:

The Group and The Company

in HK$ million	Notional amount	Fair value	Level *	Contractual undiscounted cash flow maturing in: Less than 1 year	1-2 years	2-5 years	Over 5 years	Total
2009								
Derivative Financial Assets								
Gross settled:								
Foreign exchange forwards								
– cash flow hedges:	756	32	2					
– inflow				639	92	58	–	789
– outflow				(617)	(85)	(54)	–	(756)
– not qualified for hedge accounting:	5	–	2					
– inflow				4	1	–	–	5
– outflow				(4)	(1)	–	–	(5)
Cross currency swaps								
– fair value hedges:	1,275	59	2					
– inflow				64	50	841	450	1,405
– outflow				(30)	(25)	(828)	(465)	(1,348)
Net settled:								
Interest rate swaps								
– fair value hedges	3,780	256	2	128	68	103	2	301
– cash flow hedges	350	23	2	(7)	(3)	13	29	32
	6,166	370		177	97	133	16	423
Derivative Financial Liabilities								
Gross settled:								
Foreign exchange forwards								
– cash flow hedges:	67	1	2					
– inflow				51	11	4	–	66
– outflow				(52)	(11)	(4)	–	(67)
– not qualified for hedge accounting:	76	2	2					
– inflow				65	9	–	–	74
– outflow				(67)	(9)	–	–	(76)
Cross currency swaps								
– fair value hedges:	9,342	97	2					
– inflow				4,664	29	4,728	–	9,421
– outflow				(4,700)	(39)	(4,812)	–	(9,551)
Net settled:								
Interest rate swaps								
– fair value hedges	500	15	2	5	(1)	(18)	–	(14)
– cash flow hedges	2,242	122	2	(81)	(30)	(36)	–	(147)
	12,227	237		(115)	(41)	(138)	–	(294)
Total	18,393							

35 Derivative Financial Assets and Liabilities *(continued)*

A Fair Value *(continued)*

The Group and The Company *(continued)*

in HK$ million	Notional amount	Fair value	Level *	Contractual undiscounted cash flow maturing in: Less than 1 year	1-2 years	2-5 years	Over 5 years	Total
2008								
Derivative Financial Assets								
Gross settled:								
Foreign exchange forwards								
– fair value hedges:	387	–	2					
– inflow				387	–	–	–	387
– outflow				(387)	–	–	–	(387)
– cash flow hedges:	961	14	2					
– inflow				441	535	–	–	976
– outflow				(432)	(528)	–	–	(960)
– not qualified for hedge accounting:	3	–	2					
– inflow				3	–	–	–	3
– outflow				(3)	–	–	–	(3)
Cross currency swaps								
– fair value hedges:	2,537	83	2					
– inflow				1,810	60	886	–	2,756
– outflow				(1,757)	(34)	(848)	–	(2,639)
Net settled:								
Interest rate swaps								
– fair value hedges	4,854	427	2	88	112	195	90	485
Others	300	4		–	–	–	–	–
	9,042	528		150	145	233	90	618
Derivative Financial Liabilities								
Gross settled:								
Foreign exchange forwards								
– cash flow hedges:	396	13	2					
– inflow				339	37	7	–	383
– outflow				(348)	(40)	(8)	–	(396)
– not qualified for hedge accounting:	131	4	2					
– inflow				127	–	–	–	127
– outflow				(131)	–	–	–	(131)
Cross currency swaps								
– fair value hedges:	13,547	100	2					
– inflow				3,798	4,666	47	5,038	13,549
– outflow				(3,787)	(4,700)	(48)	(5,133)	(13,668)
Net settled:								
Interest rate swaps								
– cash flow hedges	2,592	187	2	(48)	(62)	(67)	(16)	(193)
Others	300	1		–	–	–	–	–
	16,966	305		(50)	(99)	(69)	(111)	(329)
Total	26,008							

* The levels are defined in HKFRS 7 as follows:

Level 1: Fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments

Level 2: Fair values measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data

Level 3: Fair values measured using valuation techniques in which any significant input is not based on observable market data

35 Derivative Financial Assets and Liabilities *(continued)*

A Fair Value *(continued)*

The discounted cash flow method, which discounts the future contractual cash flows at the current market interest and foreign exchange rates that are available to the Group for similar financial instruments, is the main valuation technique used to determine the fair value of the Group's borrowings and derivative financial instruments such as interest rate swaps and cross currency swaps. The fair value of forward foreign exchange contracts is determined using forward exchange market rates at the balance sheet date.

The Group's derivative financial instruments consist predominantly of interest rate and cross currency swaps, and the relevant interest rate swap curves as of 31 December 2009 and 2008 were used to discount the cash flows of financial instruments. For Hong Kong dollars, interest rates used ranged from 0.08% to 3.713% (2008: 0.299% to 2.042%), U.S dollars from 0.193% to 4.703% (2008: 0.263% to 2.875%) and Euro from 0.236% to 4.247% (2008: 2.271% to 3.982%).

The table above details the remaining contractual maturities at the balance sheet date of the Group's and the Company's derivative financial liabilities and assets, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the balance sheet date) and the earliest date the Group and the Company can be required to pay.

B Financial Risks

The Group's operating activities and financing activities expose it to four main types of financial risks, namely liquidity risk, interest rate risk, foreign exchange risk and credit risk. The Group's overall risk management policy focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects of these financial risks on the Group's financial performance.

The Board of Directors provides principles for overall risk management and approves policies covering specific areas, such as liquidity risk, interest rate risk, foreign exchange risk, credit risk, concentration risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity. The Group's Preferred Financing Model (the "Model") is an integral part of its risk management policies. The Model specifies amongst other things, the preferred mix of fixed and floating rate debts, the permitted level of foreign currency debts and an adequate length of financing horizon for coverage of forward funding requirements, against which the Group's financing related liquidity, interest rate and currency risk exposures are measured, monitored and controlled. The Board regularly reviews its risk management polices and authorises changes if necessary based on operating and market conditions and other relevant factors. The Board also reviews on an annual basis as part of the budgeting process and authorises changes if necessary to the Model in accordance with changes in market conditions and practical requirements.

The use of derivative financial instruments to control and hedge against interest rate and foreign exchange risk exposures is an integral part of the Group's risk management strategy. In accordance with Board policy, these instruments shall only be used for controlling or hedging risk exposures, and cannot be used for speculation purposes. All of the derivative instruments used by the Group are over-the-counter derivatives comprising principally interest rate swaps, cross currency swaps and foreign exchange forward contracts.

(i) Liquidity Risk

Liquidity risk refers to the risk that funds are not to be available to meet liabilities as they fall due, and it may result from timing and amount mismatches of cash inflow and outflow.

The Group employs projected cash flow analysis to manage liquidity risk by forecasting the amount of cash required, including working capital, debt repayments, dividend payments, capital expenditures and new investments, and by maintaining sufficient undrawn committed banking facilities to ensure these requirements are met. It adopts a prudent approach and will maintain sufficient cash balance and committed banking facilities to provide forward coverage of at least 6 to 15 months of projected cash requirements as specified in the Model. The Group also conducts stress testing of its projected cash flow to analyse liquidity risk, and would arrange additional banking facilities or debt issuance or otherwise take appropriate actions if necessary should such stress test reveal significant risk of material cash flow shortfall.

The following table details the remaining contractual maturities at the balance sheet date of the Group's and the Company's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the balance sheet date) and the earliest date the Group and the Company can be required to pay:

The Group

	2009				2008			
in HK$ million	Capital market instruments	Bank loans and overdrafts	Others	Total	Capital market instruments	Bank loans and overdrafts	Others	Total
Loans and other obligations								
Amounts repayable beyond 5 years	**3,851**	**2,006**	**557**	**6,414**	8,705	–	536	9,241
Amounts repayable within a period of between 2 and 5 years	**8,573**	**2,532**	**–**	**11,105**	4,199	2,519	–	6,718
Amounts repayable within a period of between 1 and 2 years	**1,012**	**140**	**–**	**1,152**	6,919	3,126	–	10,045
Amounts repayable within 1 year	**6,622**	**3,195**	**–**	**9,817**	7,960	1,840	–	9,800
	20,058	**7,873**	**557**	**28,488**	27,783	7,485	536	35,804

35 Derivative Financial Assets and Liabilities *(continued)*

B Financial Risks *(continued)*

The Company

in HK$ million	2009 Capital market instruments	2009 Bank loans and overdrafts	2009 Others	2009 Total	2008 Capital market instruments	2008 Bank loans and overdrafts	2008 Others	2008 Total
Loans and other obligations								
Amounts repayable beyond 5 years	**593**	**134**	**557**	**1,284**	604	–	536	1,140
Amounts repayable within a period of between 2 and 5 years	**115**	**1,835**	**–**	**1,950**	116	2,519	–	2,635
Amounts repayable within a period of between 1 and 2 years	**39**	**60**	**–**	**99**	5,035	3,126	–	8,161
Amounts repayable within 1 year	**5,031**	**3,118**	**–**	**8,149**	6,418	812	–	7,230
	5,778	**5,147**	**557**	**11,482**	12,173	6,457	536	19,166

Others represent obligations under lease out/lease back transaction (note 22E).

(ii) Interest Rate Risk

The Group's interest rate risk arises principally from its borrowing activities. Borrowings issued at fixed rates expose the Group to fair value interest rate risk whilst borrowings based on floating rates expose the Group to cash flow interest rate risk both because of changes in market interest rates. The Group manages and controls its interest rate risk exposure by maintaining a level of fixed rate debt of 40% to 70% of total debt outstanding as specified by the Model. Should the actual fixed rate debt level deviate substantially from the Model, derivative financial instruments in the form of interest rate swaps would be procured to change the fixed and floating mix to align with the Model. As at 31 December 2009, 61.7% of the Group's total debt outstanding was denominated either in or converted to fixed interest rate after taking into account outstanding cross currency and interest rate swaps.

The Group's exposure due to its floating rate borrowings is offset by the floating rate interest income it earns on its cash balances, bank deposits and other investment instruments. As at 31 December 2009, the Group had total cash balances and bank deposits of HK$6,391 million on which it derived floating rate interest income compared to total floating rate borrowings of HK$8,946 million.

As at 31 December 2009, it is estimated that a 100 basis points increase / 50 basis points decrease in interest rates, with all other variables held constant, would decrease/decrease the Group's profit after tax and retained profits by approximately HK$4/HK$5 million. Other components of consolidated equity would increase/decrease by approximately HK$67/HK$35 million.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for both derivative and non-derivative financial instruments in existence at that date. The interest rate assumptions represent management's assessment of a reasonable possible change in interest rates over the period until the next annual balance sheet date in the light of the current low absolute levels of interest rates and the greater scope for rate increase than decrease in the future.

In 2008, a similar analysis was performed based on the assumption of a general increase/decrease of 200/50 basis points respectively in interest rates, which would decrease/increase the Group's profit after tax and retained profits by approximately HK$142/HK$37 million. Other components of consolidated equity would increase/decrease by approximately HK$173/HK$47 million.

(iii) Foreign Exchange Risk

Foreign exchange risk arises when recognised assets and liabilities are denominated in a currency that is not the Group's functional currency. For the Group, it arises principally from its borrowing and overseas procurement activities.

The Group manages and controls its exposure to the foreign exchange risk exposure by maintaining a modest level of unhedged non-Hong Kong dollar debt as specified by the Model, and minimal foreign exchange open positions created by its procurements overseas. This is usually achieved by converting non-Hong Kong dollar debt upon its inception to Hong Kong dollar through cross currency swaps and by entering into foreign exchange forward contracts to provide the necessary foreign currencies for settlement soon after the commitment to procure overseas.

The Group's exposure to US dollars due to its foreign currency borrowings is offset by the amount of US dollar cash balances and bank deposits that it maintains. As at 31 December 2009, the Group had HK$2,094 million equivalent of bank deposits denominated in US dollar compared to total unhedged US dollar borrowings of HK$21 million equivalent.

As most of the Group's receivables and payables are denominated in the respective Group companies' functional currencies (Hong Kong dollars, Renminbi, Australian dollars or Swedish krona) or United States dollars (with which Hong Kong dollars are pegged) and most of its payment commitments denominated in foreign currencies are covered by foreign exchange forward contracts, management does not expect that there will be any significant currency risk associated with them.

35 Derivative Financial Assets and Liabilities *(continued)*

B Financial Risks *(continued)*

(iv) Credit Risk

Credit risk refers to the risk that a counterparty will be unable to pay amounts in full when due. For the Group, this arises mainly from the deposits it maintains and the derivative financial instruments that it has entered into with various banks and counterparties as well as from the Defeasance Securities it procured under the lease out/lease back transaction (note 22E). The Group limits its exposure to credit risk by placing deposits and transacting derivative financial instruments only with financial institutions with acceptable investment grade credit ratings or guarantee, and diversifying its exposure to various counterparties.

All derivative financial instruments are subject to a maximum counterparty limit based on the respective counterparty's credit ratings in accordance with policy approved by the Board. Credit exposure in terms of estimated fair market value of and largest potential loss arising from these instruments based on the "value-at-risk" concept is measured, monitored and controlled against their respective counterparty limits. To further reduce counterparty risk exposure, the Group also applies set-off and netting arrangements across all derivative financial instruments and other financial transactions with the same counterparty.

All deposits are similarly subject to a separate maximum counterparty limit based on the respective counterparty's credit ratings and/or status as Hong Kong's note-issuing banks. There is also a limit on the length of time that the Group can maintain a deposit with a counterparty based upon the latter's credit ratings. Deposit outstanding and maturity profile are monitored on a frequent basis to ensure they are within the limits established for the counterparties. In addition, the Group actively monitors the credit default swap levels of counterparties and their daily change levels, and may on the basis of the observed levels and other considerations adjust its exposure and/or maximum counterparty limit to the relevant counterparty.

As at balance sheet date, the maximum exposure to credit risk of the Group with respect to derivative financial assets and bank deposits is represented respectively by carrying amount of the derivative financial assets and aggregate amount of deposit on its balance sheet. As at balance sheet date, there was no significant concentration risk to a single counterparty.

In addition, the Company also manages and controls its exposure to credit risks in respect of receivables and loan to a property developer as stated in notes 37 and 38 respectively.

36 Stores and Spares

	The Group		The Company	
in HK$ million	**2009**	2008	**2009**	2008
Stores and spares expected to be consumed:				
– within 1 year	**629**	490	**547**	477
– after 1 year	**417**	206	**333**	196
	1,046	696	**880**	673
Less: Provision for obsolete stock	**(6)**	(6)	**(6)**	(6)
	1,040	690	**874**	667

Stores and spares expected to be consumed after 1 year comprise mainly contingency spares and stocks kept to meet cyclical maintenance requirements.

37 Debtors, Deposits and Payments in Advance

	The Group		The Company	
in HK$ million	**2009**	2008	**2009**	2008
Debtors, deposits and payments in advance relate to:				
– Property development projects	**805**	5,818	**805**	5,818
– Railway operations and others	**1,623**	1,372	**1,134**	1,182
	2,428	7,190	**1,939**	7,000

37 Debtors, Deposits and Payments in Advance *(continued)*

The Group's credit policies in respect of receivables arising from its principal activities are as follows:

(i) The majority of Hong Kong fare revenue is collected either through Octopus Cards with daily settlement on the next working day or in cash for other ticket types. A small portion of Hong Kong fare revenue collected through pre-sale agents is due within 21 days.

(ii) Franchise revenue in Melbourne is collected either weekly or monthly depending on its nature. The majority of the franchise revenue in Stockholm is collected in the transaction month with the remainder being collected in the following month.

(iii) Rentals, advertising and telecommunications service fees are billed monthly with due dates ranging from immediately due to 50 days. Tenants of the Group's investment properties and station kiosks are required to pay three months' rental deposit upon the signing of lease agreements.

(iv) Amounts receivable under interest rate and currency swap agreements with financial institutions are due in accordance with the respective terms of the agreements.

(v) Consultancy service incomes are billed monthly, upon work completion or on other basis stipulated in the consultancy contracts and are due within 30 days.

(vi) Debtors in relation to contracts and capital works entrusted to the Group, subject to any agreed retentions, are due within 30 days upon the certification of work in progress.

The ageing analysis of debtors included above is as follows:

	The Group		The Company	
in HK$ million	**2009**	2008	**2009**	2008
Amounts not yet due	**1,414**	6,219	**1,117**	6,188
Overdue by 30 days	**209**	148	**200**	139
Overdue by 60 days	**11**	30	**9**	26
Overdue by 90 days	**3**	3	**1**	3
Overdue by more than 90 days	**13**	16	**7**	14
Total debtors	**1,650**	6,416	**1,334**	6,370
Deposits and payments in advance	**600**	557	**427**	413
Prepaid pension costs	**178**	217	**178**	217
	2,428	7,190	**1,939**	7,000

Amounts not yet due includes HK$805 million (2008: HK$5,801 million) in respect of property development which are due according to the terms of relevant development agreements or sale and purchase agreements, receivable from certain stakeholding funds (note 26C) awaiting finalisation of the respective development accounts as well as other receivable on miscellaneous recoverable expenses.

As at 31 December 2009, all debtors, deposits and payments in advance were expected to be recovered within one year except for HK$198 million (2008: HK$161 million) included in the amounts relating to deposits and receivables in respect of railway operations and others, which were expected to be recovered between one to three years. The nominal values less impairment losses for bad and doubtful debts are not discounted as it is considered that the effect of discounting would not be significant.

Included in debtors, deposits and payments in advance are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	The Group		The Company	
	2009	2008	**2009**	2008
Dirhams (in million)	**6**	6	**6**	6
New Taiwan dollars (in million)	**3**	8	**3**	8
Pound sterling (in million)	**1**	1	**1**	1
United States dollars (in million)	**11**	21	**10**	21

38 Loan to a Property Developer

The Group and The Company

in HK$ million	2009 Nominal amount	2009 Carrying amount	2008 Nominal amount	2008 Carrying amount
Interest-free loan to a property developer	**2,000**	**1,916**	4,000	3,720

The loan was provided to the developer of Package 2, Tseung Kwan O Area 86 (LOHAS Park) property development project under the terms of the development agreement. The loan is interest-free and guaranteed by the developer's ultimate holding company (the "Guarantor") and is repayable on completion of the respective phases of the project. During the year ended 31 December 2009, HK$2,000 million (2008: nil) was repaid. The Company monitors the exposure to credit risk in respect of the loan by regularly assessing the credit quality of the Guarantor, taking into account the Guarantor's current financial position, the Company's past experience on transactions with the Guarantor and other relevant factors.

39 Amounts Due from the Government and Other Related Parties

	The Group		The Company	
in HK$ million	**2009**	2008	**2009**	2008
Amounts due from:				
– the Government	**12,432**	187	**12,432**	187
– the Housing Authority	**–**	24	**–**	24
– KCRC	**165**	127	**165**	127
– non-controlled subsidiaries	**15**	16	**15**	16
– associates	**176**	72	**94**	82
– other subsidiaries of the Company (net of impairment losses)	**–**	–	**3,249**	1,692
	12,788	426	**15,955**	2,128

As at 31 December 2009, the amount due from the Government included HK$12,252 million (2008: nil) of funding support for the construction of the WIL Project, planning to be received in 2010 (note 25B). The remaining balance of the amount due from the Government relates to outstanding receivables and retention as well as provision for contract claims recoverable from the Government in connection with infrastructure works entrusted to the Company, reimbursable costs incurred by the Company for the West Rail property developments (note 26D) and outstanding receivables in respect of the costs recoverable from the Government for the Shatin to Central Link and Express Rail Link Projects (notes 25D and 25E).

The amount due from the Housing Authority at 31 December 2008 related to infrastructure works entrusted to the Company in respect of the LOHAS Park Station Project.

The amount due from KCRC relates to KCRC's cost sharing of the Rail Merger integration works, payments to the Company in respect of the Outsourcing Agreement and KSL Project Management Agreement, costs on certain capital works recoverable from KCRC in accordance with the Merger Framework Agreement as well as certain reimbursable expenditures of KCRC settled by the Company on KCRC's behalf.

The amount due from non-controlled subsidiaries relates to receivables from Octopus Cards Limited.

The amount due from associates as at 31 December 2009 includes the outstanding balances of loans to London Overground Rail Operations Ltd, amounting to HK$13 million (GBP1 million) (2008: HK$28 million or GBP2.5 million) (note 56H(i)) and to Tunnelbanan Teknik Stockholm AB, amounting to HK$71 million (SEK65 million) (2008: nil) (note 56H(ii)).

All contract retentions on the above entrusted works were due for release within one year. All other amounts due from the Government and other related parties were expected to be received within 12 months.

The nominal values of amounts due from the Government and other related parties are considered not significantly different from their fair values as the amounts due are expected to be substantially settled within 24 months.

40 Cash and Cash Equivalents

	The Group		The Company	
in HK$ million	**2009**	2008	**2009**	2008
Deposits with banks and other financial institutions	**5,493**	104	**5,455**	104
Cash at banks and on hand	**1,622**	689	**167**	158
Cash and cash equivalents in the balance sheet	**7,115**	793	**5,622**	262
Bank overdrafts (note 41A)	**(21)**	(59)	**(21)**	(59)
Cash and cash equivalents in the cash flow statement	**7,094**	734	**5,601**	203

During the year, the Group recognised deferred income and received properties in kind in respect of property development of HK$89 million (2008: HK$200 million), which did not involve movements of cash or cash equivalents.

Included in cash and cash equivalents in the balance sheet are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	The Group		The Company	
	2009	2008	**2009**	2008
Australian dollars (in million)	**–**	1	**–**	1
Euros (in million)	**4**	4	**4**	4
Japanese Yen (in million)	**369**	221	**369**	221
New Taiwan dollars (in million)	**12**	31	**12**	31
Pound sterling (in million)	**3**	3	**3**	3
United States dollars (in million)	**270**	9	**265**	–

41 Loans and Other Obligations

A By Type

The Group

	2009			2008		
in HK$ million	Carrying amount	Fair value	Repayable amount	Carrying amount	Fair value	Repayable amount
Capital market instruments						
Listed or publicly traded:						
US dollar Global notes due 2009	**–**	**–**	**–**	5,730	5,851	5,834
US dollar Global notes due 2010	**4,656**	**4,927**	**4,679**	4,670	5,165	4,679
Debt issuance programme (Eurobond due 2014)	**4,692**	**5,045**	**4,663**	4,744	5,232	4,663
	9,348	**9,972**	**9,342**	15,144	16,248	15,176
Unlisted:						
Debt issuance programme notes due 2010 to 2020	**7,719**	**8,178**	**7,547**	8,647	9,563	8,347
	7,719	**8,178**	**7,547**	8,647	9,563	8,347
Total capital market instruments	**17,067**	**18,150**	**16,889**	23,791	25,811	23,523
Bank loans	**6,443**	**6,438**	**6,428**	5,496	5,500	5,487
Others	**312**	**321**	**312**	297	337	297
Loans and others	**23,822**	**24,909**	**23,629**	29,584	31,648	29,307
Bank overdrafts	**21**	**21**	**21**	59	59	59
Short-term loans	**25**	**25**	**25**	1,646	1,646	1,646
Total	**23,868**	**24,955**	**23,675**	31,289	33,353	31,012

41 Loans and Other Obligations *(continued)*

A By Type *(continued)*

The Company

in HK$ million	2009 Carrying amount	2009 Fair value	2009 Repayable amount	2008 Carrying amount	2008 Fair value	2008 Repayable amount
Capital market instruments						
Listed or publicly traded:						
US dollar Global notes due 2009	**–**	**–**	**–**	5,730	5,851	5,834
US dollar Global notes due 2010	**4,656**	**4,927**	**4,679**	4,670	5,165	4,679
	4,656	**4,927**	**4,679**	10,400	11,016	10,513
Unlisted:						
Debt issuance programme notes due 2018	**447**	**628**	**479**	435	703	482
	447	**628**	**479**	435	703	482
Total capital market instruments	**5,103**	**5,555**	**5,158**	10,835	11,719	10,995
Bank loans	**4,966**	**4,961**	**4,951**	5,496	5,500	5,487
Others	**312**	**321**	**312**	297	337	297
Loans and others	**10,381**	**10,837**	**10,421**	16,628	17,556	16,779
Bank overdrafts	**21**	**21**	**21**	59	59	59
Short-term loans	**25**	**25**	**25**	624	624	624
Total	**10,427**	**10,883**	**10,467**	17,311	18,239	17,462

Others represent non-defeased obligations under lease out/lease back transaction (note 22E).

As at 31 December 2009, the Group had available undrawn committed bank loan facilities amounting to HK$10,513 million (2008: HK$10,400 million). In addition, the Group had a number of uncommitted facilities with undrawn amounts totalling HK$14,155 million (2008: HK$12,463 million), comprising a debt issuance programme and short-term bank loan facilities.

The fair values are based on the discounted cash flows method which discounts the future contractual cash flows at the current market interest and foreign exchange rates that is available to the Group for similar financial instruments.

The carrying amounts of short-term loans and overdrafts approximated their fair values.

The amounts of borrowings, denominated in a currency other than the functional currency of the entity to which they relate, before and after currency hedging activities are as follows:

The Group

	Before hedging activities		After hedging activities	
	2009	2008	**2009**	2008
Euros (in million)	**3**	6	**–**	–
Pound sterling (in million)	**2**	3	**2**	3
United States dollars (in million)	**1,363**	2,115	**3**	5

The Company

	Before hedging activities		After hedging activities	
	2009	2008	**2009**	2008
Euros (in million)	**3**	6	**–**	6
Pound sterling (in million)	**2**	3	**2**	3
United States dollars (in million)	**663**	2,115	**3**	5

41 Loans and Other Obligations *(continued)*

B By Repayment Terms

The Group

in HK$ million	2009 Capital market instruments	2009 Bank loans and overdrafts	2009 Others	2009 Total	2008 Capital market instruments	2008 Bank loans and overdrafts	2008 Others	2008 Total
Long-term loans and others								
Amounts repayable beyond 5 years	**3,215**	**1,155**	**312**	**4,682**	7,878	–	297	8,175
Amounts repayable within a period of between 2 and 5 years	**7,395**	**2,222**	**–**	**9,617**	2,732	2,417	–	5,149
Amounts repayable within a period of between 1 and 2 years	**500**	**16**	**–**	**516**	6,079	3,035	–	9,114
Amounts repayable within 1 year	**5,779**	**3,035**	**–**	**8,814**	6,834	35	–	6,869
	16,889	**6,428**	**312**	**23,629**	23,523	5,487	297	29,307
Bank overdrafts	**–**	**21**	**–**	**21**	–	59	–	59
Short-term loans	**–**	**25**	**–**	**25**	–	1,646	–	1,646
	16,889	**6,474**	**312**	**23,675**	23,523	7,192	297	31,012
Less: Unamortised discount/premium/ finance charges outstanding	**(57)**	**(1)**	**–**	**(58)**	(38)	(14)	–	(52)
Adjustment due to fair value change of financial instruments	**235**	**16**	**–**	**251**	306	23	–	329
Total carrying amount of debt	**17,067**	**6,489**	**312**	**23,868**	23,791	7,201	297	31,289

The Company

in HK$ million	2009 Capital market instruments	2009 Bank loans and overdrafts	2009 Others	2009 Total	2008 Capital market instruments	2008 Bank loans and overdrafts	2008 Others	2008 Total
Long-term loans and others								
Amounts repayable beyond 5 years	**465**	**132**	**312**	**909**	477	–	297	774
Amounts repayable within a period of between 2 and 5 years	**14**	**1,768**	**–**	**1,782**	5	2,417	–	2,422
Amounts repayable within a period of between 1 and 2 years	**–**	**16**	**–**	**16**	4,679	3,035	–	7,714
Amounts repayable within 1 year	**4,679**	**3,035**	**–**	**7,714**	5,834	35	–	5,869
	5,158	**4,951**	**312**	**10,421**	10,995	5,487	297	16,779
Bank overdrafts	**–**	**21**	**–**	**21**	–	59	–	59
Short-term loans	**–**	**25**	**–**	**25**	–	624	–	624
	5,158	**4,997**	**312**	**10,467**	10,995	6,170	297	17,462
Less: Unamortised discount/premium/ finance charges outstanding	**(13)**	**(1)**	**–**	**(14)**	(19)	(14)	–	(33)
Adjustment due to fair value change of financial instruments	**(42)**	**16**	**–**	**(26)**	(141)	23	–	(118)
Total carrying amount of debt	**5,103**	**5,012**	**312**	**10,427**	10,835	6,179	297	17,311

The amounts repayable within 1 year in respect of capital market instruments and bank loans are included in long-term loans as these amounts are intended to be refinanced on a long-term basis.

41 Loans and Other Obligations *(continued)*

C Bonds and Notes Issued and Redeemed

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

The Group

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

The above notes were issued by a subsidiary, MTR Corporation (C.I.) Limited. The notes issued are unconditionally and irrevocably guaranteed by the Company; and are direct, unsecured, unconditional and unsubordinated to other unsecured and unsubordinated obligations of MTR Corporation (C.I.) Limited. The obligations of the Company under the guarantee are direct, unsecured, unconditional, and unsubordinated to other unsecured and unsubordinated obligations of the Company. The net proceeds received from the issues were on lent to the Company for general working capital, refinancing or other corporate purposes.

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

During the year ended 31 December 2009, the Group redeemed US$750 million (2008: nil) of its listed debt securities.

D Guarantees and Pledges

(i) There were no guarantees given by the Government in respect of loan facilities as at 31 December 2009 and 2008.

(ii) As at 31 December 2009, certain assets held by MTR Corporation (Shenzhen) Limited, an indirect wholly owned subsidiary of the Company in the Mainland of China, were pledged as security for a RMB4,000 million (2008: RMB900 million) bank loan facility granted to it.

Apart from the above, none of the other assets of the Group was charged or subject to any encumbrance as at 31 December 2009.

42 Creditors and Accrued Charges

	The Group		The Company	
in HK$ million	**2009**	2008	**2009**	2008
Creditors and accrued charges				
– Airport Railway Project	**63**	68	**63**	68
– Tseung Kwan O Extension Project	**10**	16	**10**	16
– LOHAS Park Station Project	**19**	31	**19**	31
– WIL Project	**303**	89	**303**	89
– Property projects and management	**4,849**	1,728	**4,760**	1,631
– Hong Kong Railway operations and others	**2,797**	3,118	**2,444**	2,775
– Shenzhen Metro Line 4 Project	**715**	228	**–**	–
– Railway franchises outside of Hong Kong	**759**	–	**–**	–
Gross amount due to customers for contract work	**15**	56	**15**	56
Government funding support on WIL Project un-utilised	**10,967**	–	**10,967**	–
	20,497	5,334	**18,581**	4,666

As at 31 December 2009, creditors and accrued charges mainly related to capital projects to be settled upon certification of work in progress and swap interest payable as well as advanced receipt of deposits from property purchasers before issuance of occupation permit. The Group has no significant balances of trade creditors resulting from its provision of transportation services.

As at 31 December 2009, the aggregate amount of costs incurred plus recognised profits less recognised losses included in the gross amount due to customers for contract works was HK$290 million (2008: HK$273 million).

The gross amount due to customers for contract work as at 31 December 2009 that is expected to be settled after more than one year is HK$15 million (2008: HK$56 million).

42 Creditors and Accrued Charges *(continued)*

The analysis of creditors included above by due dates is as follows:

	The Group		The Company	
in HK$ million	**2009**	2008	**2009**	2008
Due within 30 days or on demand	**5,005**	1,188	**3,692**	800
Due after 30 days but within 60 days	**1,082**	927	**771**	864
Due after 60 days but within 90 days	**280**	234	**268**	224
Due after 90 days	**1,439**	1,392	**1,302**	1,249
	7,806	3,741	**6,033**	3,137
Rental and other refundable deposits	**1,437**	1,353	**1,323**	1,291
Accrued employee benefits	**287**	240	**258**	238
Government funding support	**10,967**	–	**10,967**	–
Total	**20,497**	5,334	**18,581**	4,666

Creditors and accrued charges in respect of the capital projects and other construction works include provisions for claims on completed contracts, which were capitalised as part of the related assets. Most of these claims have been resolved and it is anticipated that, subject to unforeseen circumstances, the remaining amount required to be paid will be sufficiently covered by the above mentioned provisions of the respective projects. The carrying amounts of such claim provisions and their movements are not separately disclosed in view of their commercial sensitivity.

Creditors and accrued charges were expected to be settled within one year except for HK$828 million (2008: HK$857 million) included in amounts relating to railway operations and others, which were expected to be settled after one year. The amounts due after one year are mainly rental deposits received from shop and station kiosk tenants and advance income received from telecommunication services operators, majority of which are due to be repaid within three years. The Group considers the effect of discounting these deposits would be immaterial.

The nominal values of creditors and accrued charges are not significantly different from their fair values.

Included in creditors and accrued charges are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	The Group		The Company	
	2009	2008	**2009**	2008
Australian dollars (in million)	**1**	2	**1**	2
Euros (in million)	**4**	5	**4**	5
Japanese Yen (in million)	**80**	100	**80**	100
Pound sterling (in million)	**1**	2	**1**	2
Swedish krona (in million)	**–**	1	**–**	1
Swiss franc (in thousand)	**470**	368	**470**	368
United States dollars (in million)	**23**	65	**8**	51

43 Contract Retentions

The Group

in HK$ million	Due for release within 12 months	Due for release after 12 months	Total
2009			
Railway extension projects	**18**	**216**	**234**
Railway operations	**69**	**51**	**120**
	87	**267**	**354**
2008			
Railway extension projects	29	80	109
Railway operations	100	15	115
	129	95	224

The Company

in HK$ million	Due for release within 12 months	Due for release after 12 months	Total
2009			
Railway extension projects	**18**	**66**	**84**
Railway operations	**69**	**51**	**120**
	87	**117**	**204**
2008			
Railway extension projects	24	27	51
Railway operations	100	15	115
	124	42	166

The effect of discounting these contract retentions is considered immaterial as these amounts are substantially due to be released within 24 months.

Included in contract retentions are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	The Group		The Company	
	2009	2008	**2009**	2008
Australian dollars (in thousand)	**522**	2	**522**	2
Euros (in thousand)	**460**	484	**460**	484
Japanese Yen (in million)	**4**	–	**4**	–
Pound sterling (in thousand)	**–**	39	**–**	39
United States dollars (in million)	**–**	2	**–**	2

44 Amounts Due to the Government and Other Related Parties

	The Group		The Company	
in HK$ million	**2009**	2008	**2009**	2008
Amounts due to:				
– the Government	**19**	–	**19**	–
– KCRC	**904**	882	**904**	882
– subsidiaries	**–**	–	**12,236**	13,239
	923	882	**13,159**	14,121

The amount due to KCRC relates to mandatory payments and interest payable to KCRC in respect of the East Rail Line/Light Rail/Kowloon Southern Link property development sites as well as the accrued portion of the fixed annual payment for the service concession.

The amount due to subsidiaries as at 31 December 2009 of HK$10,851 million (2008: HK$11,956 million) is expected to be settled after one year.

The amount due to the Company's subsidiaries includes HK$12,156 million (2008: HK$13,156 million) due to MTR Corporation (C.I.) Limited in respect of proceeds from bonds and notes issued by the subsidiary, which were on-lent to the Company for its general corporate purposes with specified repayment dates and interest rates (note 41C), and accrued interest. These amounts are stated at their fair values. The remaining balances due to subsidiaries are non-interest bearing and have not been discounted as they do not have any fixed repayment terms and the amount is not material.

45 Obligations under Service Concession

Obligations under service concession are the corresponding liabilities recognised in respect of the total fixed annual payments capitalised as a service concession asset in respect of the Rail Merger (notes 3 and 23). As at 31 December 2009 and 2008, the Group and the Company had the following obligations under service concession:

in HK$ million	**2009**	2008
Balance as at 1 January	**10,656**	10,685
Less: Amount repaid/payable during the year	**(31)**	(29)
Balance as at 31 December	**10,625**	10,656

The outstanding balances as at 31 December 2009 and 2008 are repayable as follows:

	2009			2008		
in HK$ million	Present value of fixed annual payments	Interest expense relating to future periods	Total fixed annual payments	Present value of fixed annual payments	Interest expense relating to future periods	Total fixed annual payments
Amounts repayable beyond 5 years	**10,437**	**21,750**	**32,187**	10,480	22,457	32,937
Amounts repayable within a period of between 2 and 5 years	**120**	**2,130**	**2,250**	112	2,138	2,250
Amounts repayable within a period of between 1 and 2 years	**35**	**715**	**750**	33	717	750
Amounts repayable within 1 year	**33**	**717**	**750**	31	719	750
	10,625	**25,312**	**35,937**	10,656	26,031	36,687

46 Loan from Minority Shareholders of a Subsidiary

During the year ended 31 December 2009, Metro Trains Melbourne Pty. Ltd. ("MTM"), which was established for the operation and maintenance of the Melbourne metropolitan train network (note 56H(iii)), was granted a shareholder loan of AUD48.75 million (HK$339 million) with each shareholder contributing the portion based on its percentage of shareholding in MTM. The loan carries interest at 7.5% per annum and is repayable at the discretion of MTM or on the expiry of the operation and maintenance franchise on 29 November 2017, whichever is earlier. As at 31 December 2009, a total of AUD19.5 million (HK$136 million) of the shareholder loan was drawn down by MTM from its minority shareholders, United Group Rail Services Limited and John Holland Melbourne Rail Franchise Pty. Ltd..

47 Deferred Income

	The Group		The Company	
in HK$ million	**2009**	2008	**2009**	2008
Deferred income on property development (note 26B)	**124**	156	**124**	156
Deferred income on transfer of assets from customers	**45**	–	**–**	–
Less: Amount recognised as income	**(2)**	–	**–**	–
	43	–	**–**	–
	167	156	**124**	156

On first time adoption of HK(IFRIC) 18 which applies prospectively to transfers of assets from customers on or after 1 July 2009, HK$45 million of such assets were acquired and recognised as deferred income for amortisation as income over the useful lives of these assets.

48 Income Tax in the Balance Sheet

A Current taxation in the consolidated balance sheet comprised provision for Hong Kong Profits Tax for the Company and certain subsidiaries for the year ended 31 December 2009, chargeable at Hong Kong Profits Tax Rate at 16.5% (2008: 16.5%) and after netting off provisional tax paid, and overseas tax chargeable at the appropriate current tax rates of taxation ruling in the relevant countries.

	The Group		The Company	
in HK$ million	**2009**	2008	**2009**	2008
Provision for Hong Kong Profits Tax for the year (note 15)	**1,347**	1,021	**1,340**	1,014
Overseas tax for the year (note 15)	**4**	3	**–**	1
Hong Kong Provisional Profits Tax paid	**(921)**	(575)	**(915)**	(574)
	430	449	**425**	441
Balance of Profits Tax provision relating to prior years	**–**	1	**–**	–
	430	450	**425**	441

B Deferred Tax Assets and Liabilities Recognised

The components of deferred tax assets and liabilities recognised in the balance sheet and the movements during the year are as follows:

The Group

	Deferred tax arising from					
in HK$ million	Depreciation allowances in excess of related depreciation	Revaluation of properties	Provision and other temporary differences	Cash flow hedges	Tax losses	Total
2009						
At 1 January 2009	**8,323**	**3,822**	**105**	**(30)**	**(11)**	**12,209**
Charged/(credited) to consolidated profit and loss account	**59**	**460**	**16**	**–**	**(6)**	**529**
Charged to reserves	**–**	**34**	**–**	**20**	**–**	**54**
At 31 December 2009	**8,382**	**4,316**	**121**	**(10)**	**(17)**	**12,792**
2008						
At 1 January 2008	8,809	4,126	215	(5)	(575)	12,570
Effect on deferred tax balances resulting from a change in tax rate	(503)	(235)	(12)	–	32	(718)
Charged/(credited) to consolidated profit and loss account	17	(24)	(98)	–	532	427
Credited to reserves	–	(45)	–	(25)	–	(70)
At 31 December 2008	8,323	3,822	105	(30)	(11)	12,209

48 Income Tax in the Balance Sheet *(continued)*

B Deferred Tax Assets and Liabilities Recognised *(continued)*

The Company

in HK$ million	Deferred tax arising from: Depreciation allowances in excess of related depreciation	Revaluation of properties	Provision and other temporary differences	Cash flow hedges	Tax losses	Total
2009						
At 1 January 2009	**8,315**	**3,829**	**105**	**(30)**	**–**	**12,219**
Charged to profit and loss account	**47**	**462**	**16**	**–**	**–**	**525**
Charged to reserves	**–**	**34**	**–**	**20**	**–**	**54**
At 31 December 2009	**8,362**	**4,325**	**121**	**(10)**	**–**	**12,798**
2008						
At 1 January 2008	8,802	4,126	215	(5)	(564)	12,574
Effect on deferred tax balances resulting from a change in tax rate	(503)	(235)	(12)	–	32	(718)
Charged/(credited) to profit and loss account	16	(17)	(98)	–	532	433
Credited to reserves	–	(45)	–	(25)	–	(70)
At 31 December 2008	8,315	3,829	105	(30)	–	12,219

in HK$ million	The Group **2009**	The Group 2008	The Company **2009**	The Company 2008
Net deferred tax assets recognised in the balance sheet	**(12)**	(11)	**–**	–
Net deferred tax liabilities recognised in the balance sheet	**12,804**	12,220	**12,798**	12,219
	12,792	12,209	**12,798**	12,219

C The Group has not recognised deferred tax assets in respect of some of its subsidiaries' cumulative tax losses of HK$283 million (2008: HK$227 million) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdictions and entities.

49 Share Capital and Capital Management

A Share Capital, Share Premium and Capital Reserve

in HK$ million	**2009**	2008
Authorised:		
6,500,000,000 shares of HK$1.00 each	**6,500**	6,500
Issued and fully paid:		
5,727,833,692 shares (2008: 5,661,143,113 shares) of HK$1.00 each	**5,728**	5,661
Share premium	**9,581**	8,270
Capital reserve	**27,188**	27,188
	42,497	41,119

Pursuant to the Articles of Association of the Company, the capital reserve can only be applied in paying up in full unissued shares to be allotted and distributed as fully paid bonus shares to the shareholders of the Company.

Share premium represents the amount by which the issue price of shares exceeds the par value of those shares. The application of the share premium account is governed by section 48B of the Hong Kong Companies Ordinance.

49 Share Capital and Capital Management *(continued)*

A Share Capital, Share Premium and Capital Reserve *(continued)*

New shares issued and fully paid up during the year comprise:

	Number of shares	Option/ scrip price	Proceeds received/Transfer from employee share-based capital reserve: Share capital account	Share premium account	Total
		HK$	HK$ million	HK$ million	HK$ million
Employee share options exercised					
– Pre-Global Offering Share Option Scheme	**657,500**	**8.440**	**1**	**5**	**6**
– New Joiners Share Option Scheme	**688,500**	**9.750**	**1**	**6**	**7**
	49,000	**15.970**	**–**	**1**	**1**
	91,000	**20.660**	**–**	**2**	**2**
– 2007 Share Option Scheme	**56,500**	**18.300**	**–**	**1**	**1**
Issued as 2008 final scrip dividends	**50,160,754**	**19.170**	**50**	**912**	**962**
Issued as 2009 interim scrip dividends	**14,987,325**	**26.600**	**15**	**384**	**399**
	66,690,579		**67**	**1,311**	**1,378**

An analysis of the Company's outstanding share options as at 31 December 2009 are disclosed in note 51.

B Capital Management

The Group's primary objectives in managing capital are to safeguard its ability to continue as a going concern, and to generate sufficient profit to maintain growth and provide an adequate return to its shareholders.

The Group manages the amount of capital in proportion to risk, and makes adjustments to its capital structure through the amount of dividend payment to shareholders, issuance of scrip and new shares, and managing its debt portfolio in conjunction with projected financing requirement. The Financial Secretary Incorporated of the Government of the Hong Kong SAR is the majority shareholder of the Company holding 4,400,715,809 shares as at 31 December 2009, representing 76.8% of total equity interest in the Company.

The Group monitors capital on the basis of the net debt-to-equity ratio, which is calculated on net borrowings as a percentage of the total equity attributable to shareholders of the Company where net borrowings are represented by the aggregate of loans, obligations under finance leases, bank overdrafts, obligations under service concession and loan from minority shareholders of a subsidiary net of cash and cash equivalents. The Group's net debt-to-equity ratios over the past years have been trending downward in general, from approximately 60% at 31 December 2002 to 36% at 31 December 2006. Owing to the increase in borrowings to finance payments for the Rail Merger and the incorporation of the obligations under service concession as a component of debt, the ratio rose to 49% at 31 December 2007 and reverted to a downward trend to 42% at 31 December 2008 and 26% at 31 December 2009.

Octopus Cards Limited is subject to a prescribed ratio of total capital to total risk-weighted assets as required by the Hong Kong Monetary Authority. MTR Corporation (Shenzhen) Limited is subject to minimum capital requirement at 40% of the total investment for the Shenzhen Metro Line 4 project in accordance with the concession agreement. Metro Trains Melbourne Pty. Ltd. is required to maintain total shareholders' funds at a specified amount in accordance with the franchise agreement. As at 31 December 2009, these capital requirements were met. Apart from these, neither the Company nor any of its other subsidiaries are subject to externally imposed capital requirements.

50 Other Reserves

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

in HK$ million	Fixed assets revaluation reserve	Hedging reserve	Employee share-based capital reserve	Retained profits	Total other reserves
2009					
Balance as at 1 January 2009	**960**	**(154)**	**25**	**54,979**	**55,810**
2008 final dividend	**–**	**–**	**–**	**(1,925)**	**(1,925)**
2009 interim dividend	**–**	**–**	**–**	**(800)**	**(800)**
Employee share-based payments	**–**	**–**	**32**	**–**	**32**
Employee share options exercised	**–**	**–**	**(2)**	**–**	**(2)**
Employee share options lapsed	**–**	**–**	**(3)**	**3**	**–**
Total comprehensive income for the year (note 20B)	**172**	**102**	**–**	**9,663**	**9,937**
Balance as at 31 December 2009	**1,132**	**(52)**	**52**	**61,920**	**63,052**
2008					
Balance as at 1 January 2008	1,170	(25)	7	49,349	50,501
2007 final dividend	–	–	–	(1,740)	(1,740)
2008 interim dividend	–	–	–	(790)	(790)
Employee share-based payments	–	–	20	–	20
Employee share options exercised	–	–	(2)	–	(2)
Total comprehensive income for the year (note 20B)	(210)	(129)	–	8,160	7,821
Balance as at 31 December 2008	960	(154)	25	54,979	55,810

The fixed assets revaluation reserve was set up to deal with the surpluses or deficits arising from the revaluation of self-occupied land and buildings (note 2F(ii)).

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges pending subsequent recognition of the hedged cash flow in accordance with the accounting policy adopted for cash flow hedges as explained in note 2U(ii).

The employee share-based capital reserve comprises the fair value of share options granted which are yet to be exercised, as explained in accounting policy under note 2V(iv). The amount will either be transferred to the share premium account when the option is exercised, or be released directly to retained profits if the option is expired or forfeited.

The exchange reserve comprises all foreign exchange differences arising from the translation of the accounts of foreign enterprises. The reserve is dealt with in accordance with the accounting policy set out in note 2DD.

Apart from retained profits, the other reserves are not available for distribution to shareholders because they do not constitute realised profits. In addition, the Company considers the cumulative surpluses on revaluation of investment properties, net of tax of HK$20,755 million (2008: HK$18,417 million) included in retained profits are non-distributable as they also do not constitute realised profits. As at 31 December 2009, the Company considers that the total amount of reserves available for distribution to equity shareholders amounted to HK$41,165 million (2008: HK$36,562 million).

Included in the Group's retained profits as at 31 December 2009 is an amount of HK$448 million (2008: HK$328 million), being the retained profits attributable to the non-controlled subsidiaries and associates.

51 Share-based Payments

A Equity-settled Share-based Payments

The Group granted equity-settled share options to its Members of the Executive Directorate and certain employees under three share option schemes namely, the Pre-Global Offering Share Option Scheme, the New Joiners Share Option Scheme and the 2007 Share Option Scheme. Details of the schemes are as follows:

(i) Pre-Global Offering Share Option Scheme

In connection with the Initial Public Offering ("IPO") and Stock Exchange listing of the Company's shares in October 2000, a Pre-Global Offering Share Option Scheme ("Pre-IPO Option Scheme") was established. Under the Pre-IPO Option Scheme, a total of 769 employees including all the Members of the Executive Directorate, except C K Chow, Lincoln K K Leong, Francois K K Lung and T C Chew who joined the Company on 1 December 2003, 1 February 2002, 26 September 2005 and 11 May 2009 respectively, were granted on 20 September 2000 options to purchase an aggregate of 48,338,000 shares, representing 0.8% of the issued share capital of the Company as at 31 December 2009. The options carry an exercise price of HK$8.44 per share, which was equivalent to 90% of the IPO offer price of HK$9.38 per share. The options may be exercised prior to 11 September 2010, subject to the vesting provisions under the Scheme. As at 31 December 2009, all options granted under the Pre-IPO Option Scheme have vested.

In 2009, a total of 657,500 previously vested share options have been exercised. The weighted average closing price in respect of the share options exercised during the year was HK$23.149 per share. In addition, nil share option lapsed as a result of resignation of option holders during the year. As at 31 December 2009, total options to subscribe for 2,948,000 (2008: 3,605,500) shares remained outstanding.

(ii) New Joiners Share Option Scheme

In May 2002, the New Joiners Share Option Scheme (the "New Option Scheme") was adopted at the 2002 Annual General Meeting to provide share options to new members of the top and senior management of the Company who did not participate in the Pre-IPO Option Scheme. Under the Rules of the New Option Scheme, a maximum of 5,056,431 shares, which represent 0.1% of the issued share capital of the Company as at 31 December 2009, may be issued pursuant to the exercise of options granted under the New Option Scheme. Options granted will be evenly vested in respect of their underlying shares over a period of three years from the date on which the relevant option is offered. The exercise price of any option granted under the New Option Scheme is to be determined by the Company upon the offer of grant of the option and which should not be less than the greatest of (i) the average closing price of an MTR share for the five business days immediately preceding the day of offer of such option; (ii) the closing price of an MTR share on the day of offer of such option, which must be a business day; and (iii) the nominal value of an MTR share. The New Option Scheme expired on 16 May 2007 and no option can be granted under this Scheme on or after that date.

The following table summarises the outstanding share options granted under the New Option Scheme since inception:

Date of grant	Number of share options	Exercise price HK$	Exercisable period
1 August 2003	556,700	9.75	on or prior to 14 July 2013
23 September 2005	213,000	15.97	on or prior to 9 September 2015
31 March 2006	94,000	18.05	on or prior to 20 March 2016
12 May 2006	266,500	20.66	on or prior to 25 April 2016
15 May 2006	92,000	20.66	on or prior to 25 April 2016
5 October 2006	94,000	19.732	on or prior to 29 September 2016

Movements in the number of share options outstanding and their related weighted average exercise prices were as follows:

	2009		2008	
	Number of share options	**Weighted average exercise price HK$**	Number of share options	Weighted average exercise price HK$
Outstanding at 1 January	**2,500,200**	**14.426**	3,717,700	16.017
Granted during the year	**–**	**–**	–	–
Exercised during the year	**(828,500)**	**11.316**	(635,500)	19.326
Lapsed during the year	**(355,500)**	**19.404**	(582,000)	19.237
Outstanding at 31 December	**1,316,200**	**15.038**	2,500,200	14.426
Exercisable at 31 December	**1,316,200**	**15.034**	2,278,700	13.865

The weighted average closing price in respect of the share options exercised during the year was HK$26.964 (2008: HK$27.985).

51 Share-based Payments *(continued)*

A Equity-settled Share-based Payments *(continued)*

Share options outstanding at 31 December 2009 had the following exercise prices and remaining contractual lives:

	2009		2008	
Exercise price	Number of share options	Remaining contractual life years	Number of share options	Remaining contractual life years
HK$9.75	**556,700**	**3.54**	1,245,200	4.54
HK$15.97	**213,000**	**5.69**	262,000	6.69
HK$18.05	**94,000**	**6.22**	94,000	7.22
HK$20.66	**358,500**	**6.32**	449,500	7.32
HK$19.732	**94,000**	**6.75**	94,000	7.75
HK$19.404	**–**	**–**	355,500	8.22
	1,316,200		2,500,200	

(iii) 2007 Share Option Scheme

Following the expiry of the New Option Scheme in May 2007, the 2007 Share Option Scheme (the "2007 Option Scheme") was submitted and approved at the 2007 Annual General Meeting to enhance the Company's ability to attract the best available personnel, to retain and motivate critical and key employees, to align their interest to the long-term success of the Company and to provide them with fair and market competitive remuneration. Under the Rules of the 2007 Option Scheme, a maximum of 277,461,072 shares, which represent 4.8% of the issued share capital of the Company as at 31 December 2009, may be issued pursuant to the exercise of options granted after 7 June 2007 under all share option schemes of the Company including the 2007 Option Scheme. Options granted will be vested in respect of their underlying shares not less than 1 year from the date on which the relevant option is offered. The exercise price of any option granted under the 2007 Option Scheme is to be determined by the Company upon the offer of grant of the option and which should not be less than the greatest of (i) the average closing price of an MTR share for the five business days immediately preceding the day of offer of such option; (ii) the closing price of an MTR share on the day of offer of such option, which must be a business day; and (iii) the nominal value of an MTR share.

Subject to the rules of the 2007 Option Scheme, the Company may from time to time during the scheme period, at its absolute discretion, offer to grant share options to any eligible employees. Under the 2007 Option Scheme, the date of grant is defined as the date of acceptance of the offer to grant the option. On 10 December 2007, share options in respect of 8,273,000 shares were offered to Members of the Executive Directorate and selected employees of the Company as the first tranche of the share option awards for 2008 (the "First 2008 Award"). For the First 2008 Award, share options in respect of 7,968,000 shares were accepted by the grantees during the period from 11 December 2007 to 31 December 2007 and share options in respect of 305,000 shares were accepted by the grantees during the period from 2 January 2008 to 7 January 2008. On 26 March 2008, share options in respect of 2,749,000 shares were offered to selected employees of the Company and were accepted by the grantees during the period from 28 March 2008 to 23 April 2008, as the second tranche of the share option awards for 2008. This award, together with the First 2008 Award, forms the "2008 Award". On 8 December 2008, share options in respect of 12,712,000 shares were offered to Members of the Executive Directorate and other selected employees of the Company as the first tranche of the share option awards for 2009 (the "First 2009 Award"). Share options of the First 2009 Award were accepted by the grantees during the period from 8 December 2008 to 30 December 2008. On 12 June 2009, share options in respect of 345,000 shares were offered to selected employees of the Company and were accepted by the grantees during the period from 18 June 2009 to 9 July 2009, as the second tranche of the share option awards for 2009. This award, together with the First 2009 Award, forms the "2009 Award". On 8 December 2009, share options in respect of 15,718,000 shares were offered to Members of the Executive Directorate and other selected employees of the Company and were accepted by the grantees during the period from 9 December 2009 to 22 December 2009, as share options award for 2010 (the "2010 Award").

51 Share-based Payments *(continued)*

A Equity-settled Share-based Payments *(continued)*

The following table summarises the outstanding share options granted under the 2007 Option Scheme since inception.

Date of grant	Number of share options	Exercise price HK$	Exercisable period
2008 Award			
11 December 2007	45,000	27.60	on or prior to 10 December 2014
12 December 2007	2,642,000	27.60	on or prior to 10 December 2014
13 December 2007	1,805,000	27.60	on or prior to 10 December 2014
14 December 2007	1,005,000	27.60	on or prior to 10 December 2014
15 December 2007	370,000	27.60	on or prior to 10 December 2014
17 December 2007	835,000	27.60	on or prior to 10 December 2014
18 December 2007	380,000	27.60	on or prior to 10 December 2014
19 December 2007	115,000	27.60	on or prior to 10 December 2014
20 December 2007	190,000	27.60	on or prior to 10 December 2014
21 December 2007	45,000	27.60	on or prior to 10 December 2014
22 December 2007	35,000	27.60	on or prior to 10 December 2014
24 December 2007	118,000	27.60	on or prior to 10 December 2014
28 December 2007	35,000	27.60	on or prior to 10 December 2014
31 December 2007	130,000	27.60	on or prior to 10 December 2014
2 January 2008	75,000	27.60	on or prior to 10 December 2014
3 January 2008	40,000	27.60	on or prior to 10 December 2014
4 January 2008	65,000	27.60	on or prior to 10 December 2014
7 January 2008	125,000	27.60	on or prior to 10 December 2014
28 March 2008	255,000	26.52	on or prior to 26 March 2015
31 March 2008	379,000	26.52	on or prior to 26 March 2015
1 April 2008	261,000	26.52	on or prior to 26 March 2015
2 April 2008	296,000	26.52	on or prior to 26 March 2015
3 April 2008	171,000	26.52	on or prior to 26 March 2015
4 April 2008	23,000	26.52	on or prior to 26 March 2015
5 April 2008	17,000	26.52	on or prior to 26 March 2015
7 April 2008	358,000	26.52	on or prior to 26 March 2015
8 April 2008	155,000	26.52	on or prior to 26 March 2015
9 April 2008	85,000	26.52	on or prior to 26 March 2015
10 April 2008	58,000	26.52	on or prior to 26 March 2015
11 April 2008	117,000	26.52	on or prior to 26 March 2015
12 April 2008	48,000	26.52	on or prior to 26 March 2015
14 April 2008	40,000	26.52	on or prior to 26 March 2015
15 April 2008	34,000	26.52	on or prior to 26 March 2015
16 April 2008	40,000	26.52	on or prior to 26 March 2015
17 April 2008	124,000	26.52	on or prior to 26 March 2015
18 April 2008	32,000	26.52	on or prior to 26 March 2015
19 April 2008	25,000	26.52	on or prior to 26 March 2015
20 April 2008	23,000	26.52	on or prior to 26 March 2015
21 April 2008	66,000	26.52	on or prior to 26 March 2015
23 April 2008	19,000	26.52	on or prior to 26 March 2015
2009 Award			
8 December 2008	155,000	18.30	on or prior to 8 December 2015
9 December 2008	1,463,000	18.30	on or prior to 8 December 2015
10 December 2008	2,176,400	18.30	on or prior to 8 December 2015
11 December 2008	2,464,200	18.30	on or prior to 8 December 2015
12 December 2008	1,481,500	18.30	on or prior to 8 December 2015
13 December 2008	84,500	18.30	on or prior to 8 December 2015
14 December 2008	88,200	18.30	on or prior to 8 December 2015
15 December 2008	1,084,700	18.30	on or prior to 8 December 2015
16 December 2008	581,500	18.30	on or prior to 8 December 2015
17 December 2008	513,500	18.30	on or prior to 8 December 2015
18 December 2008	611,500	18.30	on or prior to 8 December 2015
19 December 2008	198,000	18.30	on or prior to 8 December 2015
20 December 2008	19,000	18.30	on or prior to 8 December 2015
22 December 2008	772,500	18.30	on or prior to 8 December 2015
23 December 2008	306,000	18.30	on or prior to 8 December 2015
24 December 2008	500,500	18.30	on or prior to 8 December 2015
25 December 2008	45,000	18.30	on or prior to 8 December 2015
29 December 2008	148,000	18.30	on or prior to 8 December 2015
30 December 2008	19,000	18.30	on or prior to 8 December 2015
18 June 2009	255,000	24.50	on or prior to 12 June 2016
6 July 2009	45,000	24.50	on or prior to 12 June 2016
9 July 2009	45,000	24.50	on or prior to 12 June 2016

51 Share-based Payments *(continued)*

A Equity-settled Share-based Payments *(continued)*

Date of grant	Number of share options	Exercise price HK$	Exercisable period
2010 Award			
9 December 2009	670,000	26.85	on or prior to 8 December 2016
10 December 2009	2,851,000	26.85	on or prior to 8 December 2016
11 December 2009	2,362,000	26.85	on or prior to 8 December 2016
12 December 2009	610,000	26.85	on or prior to 8 December 2016
13 December 2009	19,000	26.85	on or prior to 8 December 2016
14 December 2009	2,508,000	26.85	on or prior to 8 December 2016
15 December 2009	2,838,000	26.85	on or prior to 8 December 2016
16 December 2009	1,550,000	26.85	on or prior to 8 December 2016
17 December 2009	1,000,000	26.85	on or prior to 8 December 2016
18 December 2009	389,000	26.85	on or prior to 8 December 2016
19 December 2009	70,000	26.85	on or prior to 8 December 2016
20 December 2009	75,000	26.85	on or prior to 8 December 2016
21 December 2009	520,000	26.85	on or prior to 8 December 2016
22 December 2009	256,000	26.85	on or prior to 8 December 2016

Movements in the number of share options outstanding and their related weighted average exercise prices were as follows:

	2009		2008	
	Number of share options	Weighted average exercise price HK$	Number of share options	Weighted average exercise price HK$
Outstanding at 1 January	**23,393,000**	**22.425**	7,968,000	27.600
Granted during the year	**16,063,000**	**26.800**	15,766,000	19.913
Exercised during the year	**(56,500)**	**18.300**	–	–
Lapsed during the year	**(470,000)**	**26.618**	(341,000)	27.210
Outstanding at 31 December	**38,929,500**	**24.185**	23,393,000	22.425
Exercisable at 31 December	**10,253,500**	**23.684**	2,811,000	27.600

Share options outstanding at 31 December 2009 had the following exercise prices and remaining contractual lives:

	2009		2008	
Exercise price	Number of share options	Remaining contractual life years	Number of share options	Remaining contractual life years
HK$27.60	**7,670,000**	**5**	8,055,000	6
HK$26.52	**2,586,000**	**5**	2,626,000	6
HK$18.30	**12,610,500**	**6**	12,712,000	7
HK$24.50	**345,000**	**6**	–	–
HK$26.85	**15,718,000**	**7**	–	–
	38,929,500		23,393,000	

51 Share-based Payments *(continued)*

A Equity-settled Share-based Payments *(continued)*

According to the Black-Scholes pricing model, the fair values of options granted during the year ended 31 December 2009 were as follows:

		Inputs into the Black-Scholes pricing model					
Date of grant	Fair value of options granted	Share price immediately before grant date	Exercise price	Expected volatility	Expected life	Risk-free interest rate	Expected dividend per share
	HK$	HK$	HK$		years	%	HK$
18 June 2009	**5.27**	**23.65**	**24.50**	**0.31**	**3.5**	**1.56**	**0.45**
6 July 2009	**4.52**	**23.55**	**24.50**	**0.31**	**3.5**	**1.44**	**0.48**
9 July 2009	**4.41**	**23.45**	**24.50**	**0.31**	**3.5**	**1.29**	**0.48**
9 December 2009	**5.47**	**26.85**	**26.85**	**0.31**	**3.5**	**0.98**	**0.48**
10 December 2009	**5.17**	**26.35**	**26.85**	**0.31**	**3.5**	**0.98**	**0.48**
11 December 2009	**5.23**	**26.45**	**26.85**	**0.31**	**3.5**	**0.98**	**0.48**
12 December 2009	**5.25**	**26.50**	**26.85**	**0.31**	**3.5**	**0.98**	**0.48**
13 December 2009	**5.25**	**26.50**	**26.85**	**0.31**	**3.5**	**0.98**	**0.48**
14 December 2009	**5.25**	**26.50**	**26.85**	**0.31**	**3.5**	**0.99**	**0.48**
15 December 2009	**5.36**	**26.65**	**26.85**	**0.31**	**3.5**	**1.04**	**0.48**
16 December 2009	**5.14**	**26.25**	**26.85**	**0.31**	**3.5**	**1.11**	**0.48**
17 December 2009	**5.17**	**26.30**	**26.85**	**0.31**	**3.5**	**1.13**	**0.48**
18 December 2009	**5.05**	**26.10**	**26.85**	**0.31**	**3.5**	**1.10**	**0.48**
19 December 2009	**5.18**	**26.35**	**26.85**	**0.31**	**3.5**	**1.10**	**0.48**
20 December 2009	**5.18**	**26.35**	**26.85**	**0.31**	**3.5**	**1.10**	**0.48**
21 December 2009	**5.18**	**26.35**	**26.85**	**0.31**	**3.5**	**1.08**	**0.48**
22 December 2009	**5.08**	**26.15**	**26.85**	**0.31**	**3.5**	**1.15**	**0.48**

When computing fair values of the options granted, expected volatility was determined by calculating the historical volatility of the Group's share price over the previous 3.5 years and the expected life adopted was assumed to be 3.5 years after granting of the options, with expected dividends based on historical dividends. In addition, vesting terms under the grants have been taken into account whilst no market conditions associated with the share option grants have been considered. Changes in the subjective input assumptions could materially affect the fair value estimate.

(iv) During the year, the equity-settled share-based payments recognised in respect of the above share option schemes were as follows:

in HK$ million	**2009**	2008
Equity-settled share-based payments in respect of:		
– New Option Scheme	**1**	3
– 2007 Option Scheme	**31**	17
	32	20

51 Share-based Payments *(continued)*

B Cash-settled Share-based Payments

(i) C K Chow did not participate in the Company's Pre-Global Offering Share Option Scheme and New Joiners Share Option Scheme. He was entitled to receive an equivalent value in cash of 418,017 shares in the Company on completion of his three-year contract expiring on 30 November 2009. Pursuant to this contract and following the completion of the contract period, HK$11.3 million was paid to C K Chow on 1 December 2009 (at a price of HK$27.0075 per share derived in accordance with the terms of the grant by reference to the average closing price of the Company's shares on the 20 business days immediately preceding 30 November 2009).

Following renewal of C K Chow's contract with effect from 1 December 2009, he is entitled to receive an equivalent value in cash of 222,161 shares in the Company on completion of this contract on 31 December 2011. As at 31 December 2009, an amount of HK$6.3 million (2008: HK$0.9 million) has been recorded as share-based payment expense for the year. Fair value of the outstanding entitlement is calculated based on the closing price of the Company's shares at year-end date. As at 31 December 2009, the fair value of these shares was HK$26.80 per share (2008: HK$17.96).

(ii) Lincoln K K Leong has a derivative interest in the Company's shares, which entitled him to receive an equivalent value in cash of 160,000 shares in the Company on 9 April 2010. As at 31 December 2009, an amount of HK$2.2 million (2008: HK$0.5 million) has been recorded as share-based payment expense for the year, measured at the same basis as described in note 51B(i) above.

52 Retirement Schemes

The Group operates a number of retirement schemes in Hong Kong, Mainland of China, United Kingdom, Sweden and Australia. The assets of these schemes are held under the terms of separate trust arrangements so that the assets are kept separate from those of the Group. The majority of the Group's employees are covered by the retirement schemes operated by the Company.

A Retirement Schemes Operated by the Company in Hong Kong

The Company operates three occupational retirement schemes, the MTR Corporation Limited Retirement Scheme (the "MTR Retirement Scheme"), the MTR Corporation Limited Retention Bonus Scheme (the "MTR RBS") and the MTR Corporation Limited Provident Fund Scheme (the "MTR Provident Fund Scheme") and two Mandatory Provident Fund ("MPF") Schemes, the "MTR MPF Scheme" and the "KCRC MPF Scheme", in Hong Kong.

Currently, new eligible employees can choose between the MTR Provident Fund Scheme and the MTR MPF Scheme while the MTR MPF Scheme covers employees who did not opt for and who are not eligible to join the MTR Provident Fund Scheme.

(i) MTR Retirement Scheme

The MTR Retirement Scheme was established under trust at the beginning of 1977 containing both defined benefit and defined contribution elements. The MTR Retirement Scheme was registered under the Occupational Retirement Schemes Ordinance (Chapter 426 of the Laws of Hong Kong) ("ORSO") with effect from 31 October 1994. On 3 July 2000, exemption was granted by the MPF Authority to maintain the MTR Retirement Scheme and offer it as an alternative to the MTR MPF Scheme.

The MTR Retirement Scheme offers benefits on retirement, permanent disability, death and leaving service to its members. It originally contained both a hybrid benefit section and a defined contribution section. The hybrid benefit section provides benefits based on the greater of a multiple of final salary and accumulated contributions with investment returns and has been closed to new entrants since 31 March 1999. The defined contribution section provides benefits based on accumulated contributions and investment returns only. Employees who were hired after the closure of the hybrid benefit section would be eligible to join the defined contribution section of the MTR Retirement Scheme or, commencing on 1 December 2000, the MTR MPF Scheme.

Following the Rail Merger and with the approval of the scheme's trustees, effective on 1 March 2008, the defined contribution section of the MTR Retirement Scheme was transferred to the MTR Provident Fund Scheme. Since then, the MTR Retirement Scheme only contains a hybrid section. Given the transfer, commencing on 1 March 2008 (note 52A(iii)), employees who are eligible to join the MTR Provident Fund Scheme, can choose between the MTR Provident Fund Scheme and the MTR MPF Scheme, except where they were previously members of the KCRC MPF Scheme where upon they may choose between the MTR Provident Fund Scheme and the KCRC MPF Scheme.

Members' contributions to the hybrid benefit section are based on a fixed percentage of basic salary. The Company's contributions are determined by the Executive Directorate with reference to an actuarial valuation. As at 31 December 2009, the total membership was 5,282 (2008: 5,406). In 2009, members contributed HK$70 million (2008: HK$68 million) and the Company contributed HK$198 million (2008: HK$152 million) to the hybrid benefit section. The net asset value of the hybrid benefit section as at 31 December 2009 was HK$7,542 million (2008: HK$6,162 million).

According to the terms of the trust deed, forfeitures were transferred to the reserve account to be utilised at the discretion of the Company.

Actuarial valuations are carried out annually by an independent firm of consulting actuaries using the Projected Unit Credit Method to determine the accounting obligations in accordance with HKAS 19, *Employee Benefits*. The valuation as at 31 December 2009 was carried out by Towers Watson Co. (2008: Towers, Perrin, Forster & Crosby, Inc.) and the results are shown in note 53. Since the actuarial valuation carried out as at 31 December 2008, the economic environment as indicated by the yields of government bonds and inflation, and the asset value of the MTR Retirement Scheme had significantly changed. Accordingly, the Company decided to re-measure the scheme's financial position and a re-measurement was conducted as at 31 May 2009 by Towers, Perrin, Forster & Crosby, Inc.. The principal actuarial assumptions used in the re-measurement were the same as those used in the valuation as at 31 December 2008 except for the discount rate, which was 2.9% (31 December 2008: 1.2%). The present value of funded obligations as at 31 May 2009 reduced to HK$7,961 million from HK$9,064 million as at 31 December 2008. The unrecognised actuarial losses as at 31 May 2009 decreased to HK$1,543 million from HK$3,112 million as at 31 December 2008.

52 Retirement Schemes *(continued)*

A Retirement Schemes Operated by the Company in Hong Kong *(continued)*

Another full actuarial valuation of the MTR Retirement Scheme was also carried out as at 31 December 2009 by Towers Watson Co. (2008: Towers, Perrin, Forster & Crosby, Inc.) using the Attained Age Method to determine the cash funding requirements. The principal actuarial assumptions used included a long-term rate of investment return net of salary increases of 2.4% (2008: 2.5%) per annum, together with appropriate allowances for expected rates of mortality, turnover, redundancy and retirement and an adjustment for salary increases expected over the short term. The actuary confirmed that, as at the valuation date:

(a) the MTR Retirement Scheme was solvent, with assets more than adequate to cover the aggregate value of members' vested benefits had all members left the MTR Retirement Scheme; and

(b) on the assumption that the MTR Retirement Scheme continued in force, the value of assets was more than sufficient to cover the aggregate past service liability with a funding level of 110.4%.

(ii) MTR RBS

The MTR RBS was established under trust as of 1 January 1995. It is a defined benefit scheme and applies to all employees classified by the Company as staff working on designated projects and who are not on gratuity terms. The MTR RBS provides for benefits to be payable only in the event of redundancy for accrued service accrued up to 31 December 2002. The MTR RBS was registered under the ORSO with effect from 1 December 1995. As at 31 December 2009, there were 318 members (2008: 327).

The MTR RBS is non-contributory for members. The Company's contributions are determined by the Executive Directorate with reference to an actuarial valuation and are charged as part of the staff costs to various projects on the basis of the amount contributed. During 2008 and 2009, the Company was not required to make any contribution to the MTR RBS. The net asset value of the MTR RBS as at 31 December 2009 was HK$12 million (2008: HK$12 million).

Actuarial valuations are carried out annually by an independent firm of consulting actuaries using the Projected Unit Credit Method to determine the accounting obligations in accordance with HKAS 19, *Employee Benefits*. The valuation as at 31 December 2009 was carried out by Towers Watson Co. (2008: Towers, Perrin, Forster & Crosby, Inc.) and the results are shown in note 53.

Another full actuarial valuation of the MTR RBS was also carried out as at 31 December 2009 by Towers Watson Co. (2008: Towers, Perrin, Forster & Crosby, Inc.) using the Attained Age Method to determine the cash funding requirements. The principal actuarial assumptions used included an expected weighted rate of investment return net of salary increases, of approximately -1.6% (2008: -1.7%) per annum, together with appropriate allowance for expected rates of redundancy. The actuary confirmed that, as at the valuation date:

(a) due to the nature of the MTR RBS which provides for benefits only on redundancy, there was no aggregate vested liability, and thus the MTR RBS was technically solvent; and

(b) on the assumption that the MTR RBS continued in force, the value of assets was more than sufficient to cover the aggregate past service liability.

(iii) MTR Provident Fund Scheme

The MTR Provident Fund Scheme was renamed from the KCRC Retirement Benefit Scheme following its incorporation of the defined contribution section of the MTR Retirement Scheme on 1 March 2008. It was established on 1 February 1983 under trust and was registered under the ORSO with effect from 16 November 1994. It contains three sections, all of which are defined contribution schemes. One section consists of the members of the KCRC Retirement Benefit Scheme prior to 1 March 2008, one section consists of the members of the defined contribution section of the MTR Retirement Scheme prior to 1 March 2008 and the final section consists of those appointees eligible to join the MTR Provident Fund Scheme on or after 1 March 2008.

All benefits payable under the MTR Provident Fund Scheme are calculated by reference to the employer's contributions and members' own contributions, based on fixed percentages of members' basic salaries, together with investment returns on these contributions.

As at 31 December 2009, the total number of employees participating in the MTR Provident Fund Scheme was 5,954 (2008: 5,575). In 2009, total members' contributions were HK$52 million (2008: HK$42 million) and total contribution from the Company was HK$152 million (2008: HK$139 million). The net asset value as at 31 December 2009 was HK$3,160 million (2008: HK$2,522 million).

(iv) MTR MPF Scheme

Effective from the MPF commencement date of 1 December 2000, the Company joined The Bank Consortium MPF Plan which has been registered with the Mandatory Provident Fund Schemes Authority and authorised by the Securities and Futures Commission. The MTR MPF Scheme covers those employees who did not opt for or who are not eligible to join the MTR Retirement Scheme or the MTR Provident Fund Scheme. Both members and the Company each contribute to the MTR MPF Scheme at the mandatory levels as required by the MPF Ordinance.

As at 31 December 2009, the total number of employees of the Company participating in the MTR MPF Scheme was 1,875 (2008: 1,337). In 2009, total members' contributions were HK$9 million (2008: HK$5 million) and total contribution from the Company was HK$10 million (2008: HK$6 million).

52 Retirement Schemes *(continued)*

A Retirement Schemes Operated by the Company in Hong Kong *(continued)*

(v) KCRC MPF Scheme

The KCRC MPF Scheme was introduced on 1 April 2000 and registered with the Hong Kong Mandatory Provident Fund Schemes Authority. It covers those former KCRC employees who did not opt for or who were not eligible to join the former KCRC Retirement Benefit Scheme, now known as MTR Provident Fund Scheme, and those employees who, on or after 1 March 2008, were previously members of the KCRC MPF Scheme and are eligible to join the MTR Provident Fund Scheme but opt to re-join the KCRC MPF Scheme. It is a defined contribution retirement plan administered by independent trustees with both members and the Company each contributing to the KCRC MPF Scheme at the mandatory levels as required by the MPF Ordinance.

As at 31 December 2009, the total number of employees of the Company participating in the KCRC MPF Scheme was 953 (2008: 1,029). In 2009, total members' contributions were HK$7 million (2008: HK$10 million) and total contribution from the Company was HK$7 million (2008: HK$11 million).

B Retirement Schemes for Employees of Overseas Offices and Subsidiaries

Employees not eligible for joining the retirement schemes operated by the Company in Hong Kong are covered by the retirement schemes established by their respective subsidiary companies or in accordance with respective applicable labour regulations.

(i) Defined Benefit Plan

Certain number of employees of the Group's Australian subsidiary are entitled to receive retirement benefits from the Emergency Services Superannuation Scheme operated in Australia. The benefit amounts are calculated based on the member's years of service and final average salary. The Group does not recognise any defined benefit liability in respect of this scheme because the Group has no legal or constructive obligation to pay future benefits relating to its employees; its only obligation is to pay contributions as they fall due. As at 31 December 2009, total number of the Group's employees participating in this scheme was 1,029 (2008: nil). In 2009, total members' contributions were HK$3 million (2008: nil) and total contribution from the Group was HK$5 million (2008: nil).

(ii) Defined Contribution Plans

Except for the defined benefit plan stated in note 52B(i), all other retirement schemes to cover employees in overseas offices or in subsidiaries in Hong Kong, Mainland of China or overseas are defined contribution schemes. For Hong Kong employees, these schemes are registered under the MPF Ordinance in Hong Kong. For the Mainland of China or overseas employees, these schemes are operated in accordance with the respective local laws and regulations. As at 31 December 2009, the total number of employees of the Group participating in these schemes was 6,081 (2008: nil). In 2009, total members' contributions were HK$9 million (2008: nil) and total contribution from the Group was HK$22 million (2008: nil).

53 Defined Benefit Retirement Plan Obligations

The Company makes contributions to and recognises defined benefit liabilities in respect of two defined benefit plans that provide benefits for employees upon retirement or termination of services for other reasons (note 52). The movements in respect of these defined benefit plans during the year are summarised as follows.

A The amounts recognised in the balance sheets are as follows:

The Group and The Company

	2009			2008		
in HK$ million	MTR Retirement Scheme	MTR RBS	Total	MTR Retirement Scheme	MTR RBS	Total
Present value of funded obligations	**(8,959)**	**–**	**(8,959)**	(9,064)	(1)	(9,065)
Fair value of plan assets	**7,542**	**12**	**7,554**	6,162	12	6,174
Net unrecognised actuarial losses/(gains)	**1,587**	**(4)**	**1,583**	3,112	(4)	3,108
Net asset	**170**	**8**	**178**	210	7	217

A portion of the above asset is expected to be recovered after more than one year. However, it is not practicable to segregate this amount from the amounts receivable in the next twelve months, as future contributions will also relate to future services rendered and future changes in actuarial assumptions and market conditions. The Company expects to pay HK$120 million in contribution to the Retirement Scheme in 2010.

53 Defined Benefit Retirement Plan Obligations *(continued)*

B Plan assets consist of the following:

The Group and The Company

	2009			2008		
in HK$ million	MTR Retirement Scheme	MTR RBS	Total	MTR Retirement Scheme	MTR RBS	Total
Equity securities	**3,871**	**–**	**3,871**	2,675	–	2,675
Bonds	**3,681**	**–**	**3,681**	3,364	–	3,364
Cash	**53**	**12**	**65**	168	12	180
	7,605	**12**	**7,617**	6,207	12	6,219
Voluntary units	**(63)**	**–**	**(63)**	(45)	–	(45)
	7,542	**12**	**7,554**	6,162	12	6,174

The plan assets include no investment in the Company's ordinary shares in 2008 and 2009 and no investment (2008: HK$16 million) in the Company's debt securities in 2009.

C Movements in the Present Value of the Defined Benefit Obligations

The Group and The Company

	2009			2008		
in HK$ million	MTR Retirement Scheme	MTR RBS	Total	MTR Retirement Scheme	MTR RBS	Total
At 1 January	**9,064**	**1**	**9,065**	8,577	1	8,578
Members' contributions paid to the Schemes	**70**	**–**	**70**	68	–	68
Benefits paid by the Schemes	**(212)**	**–**	**(212)**	(468)	–	(468)
Current service cost	**337**	**–**	**337**	273	–	273
Interest cost	**174**	**–**	**174**	297	–	297
Actuarial (gains)/losses	**(474)**	**(1)**	**(475)**	317	–	317
At 31 December	**8,959**	**–**	**8,959**	9,064	1	9,065

D Movements in Plan Assets

The Group and The Company

	2009			2008		
in HK$ million	MTR Retirement Scheme	MTR RBS	Total	MTR Retirement Scheme	MTR RBS	Total
At 1 January	**6,162**	**12**	**6,174**	7,929	12	7,941
Group's contributions paid to the Schemes	**198**	**–**	**198**	152	–	152
Members' contributions paid to the Schemes	**70**	**–**	**70**	68	–	68
Benefits paid by the Schemes	**(212)**	**–**	**(212)**	(468)	–	(468)
Expected return on plan assets	**383**	**–**	**383**	477	–	477
Actuarial gains/(losses)	**941**	**–**	**941**	(1,996)	–	(1,996)
At 31 December	**7,542**	**12**	**7,554**	6,162	12	6,174

53 Defined Benefit Retirement Plan Obligations *(continued)*

E Expense recognised in the consolidated profit and loss account is as follows:

	2009			2008		
in HK$ million	**MTR Retirement Scheme**	**MTR RBS**	**Total**	MTR Retirement Scheme	MTR RBS	Total
Current service cost	**337**	**–**	**337**	273	–	273
Interest cost	**174**	**–**	**174**	297	–	297
Expected return on plan assets	**(383)**	**–**	**(383)**	(477)	–	(477)
Net actuarial losses/(gains) recognised	**109**	**(1)**	**108**	–	(1)	(1)
Expense recognised	**237**	**(1)**	**236**	93	(1)	92
Less: Amount capitalised	**(27)**	**–**	**(27)**	(12)	–	(12)
	210	**(1)**	**209**	81	(1)	80

The retirement expense is recognised under staff costs and related expenses in the consolidated profit and loss account.

F Actual Return on Plan Assets

in HK$ million	**2009**	2008
MTR Corporation Limited Retirement Scheme	**1,324**	(1,519)
MTR Corporation Limited Retention Bonus Scheme	**–**	–

G The principal actuarial assumptions used as at 31 December 2009 (expressed as weighted average) are as follows:

	2009		2008	
	MTR Retirement Scheme	**MTR RBS**	MTR Retirement Scheme	MTR RBS
Discount rate at 31 December	**2.6%**	**2.0%**	1.2%	0.8%
Expected rate of return on plan assets	**6.0%**	**1.5%**	6.0%	1.5%
Future salary increases	**3.6%**	**3.1%**	3.5%	3.2%

The expected long-term rate of return on plan assets have been determined after taking into account actual experience, expected investment volatility and inflation in the long-term. Furthermore, it is based on the portfolio as a whole and not on the sum of the returns on individual asset categories. The amount is based exclusively on historical returns, without adjustments.

53 Defined Benefit Retirement Plan Obligations *(continued)*

H Historical Information

The Group and The Company

	MTR Retirement Scheme				
in HK$ million	**2009**	2008	2007	2006	2005
Present value of funded obligations	**(8,959)**	(9,064)	(8,577)	(7,311)	(5,974)
Fair value of plan assets	**7,542**	6,162	7,929	6,906	5,899
Deficit in the Scheme	**(1,417)**	(2,902)	(648)	(405)	(75)
Experience adjustments arising on plan liabilities – (loss)/gain	**(557)**	1,391	(556)	(464)	(98)
Experience adjustments arising on plan assets – gain/(loss)	**718**	(1,997)	514	510	119

	MTR RBS				
in HK$ million	**2009**	2008	2007	2006	2005
Present value of funded obligations	**–**	(1)	(1)	(3)	(7)
Fair value of plan assets	**12**	12	12	12	13
Surplus in the Scheme	**12**	11	11	9	6
Experience adjustments arising on plan liabilities – gain/(loss)	**1**	–	1	3	(2)
Experience adjustments arising on plan assets – gain/(loss)	**–**	–	–	–	–

54 Interests in Jointly Controlled Operations

The Group has the following jointly controlled operations in respect of its awarded property development projects as at 31 December 2009:

Location/Development Package	Land Use	Total Gross Floor Area (sq.m.)	Actual or Expected Date of Completion of Construction Works *
Hong Kong Station	Office/Retail/Hotel	415,894	Completed by phases from 1998–2005
Kowloon Station			
Package One	Residential	147,547	Completed in 2000
Package Two	Residential	210,319	Completed by phases from 2002–2003
Package Three	Residential/Cross Border Bus Terminus	105,113	Completed in 2005
Package Four	Residential	128,845	Completed in 2003
Package Five, Six and Seven	Residential/Office/Retail/Hotel/Service Apartment/Kindergarten	504,345	By phases from 2006–2010
Olympic Station			
Package One	Residential/Office/Retail/Indoor Sports Hall	309,069	Completed in 2000
Package Two	Residential/Retail/Market	268,650	Completed in 2001
Package Three	Residential/Kindergarten	104,452	Completed in 2006
Tsing Yi Station	Residential/Retail/Kindergarten	292,795	Completed in 1999
Tung Chung Station			
Package One	Residential/Office/Retail/Hotel/Kindergarten	361,531	Completed by phases from 1999–2005
Package Two	Residential/Retail/Kindergarten	255,949	Completed by phases from 2002–2008
Package Three	Residential/Retail/Wet Market/Kindergarten	413,154	Completed by phases from 2002–2008
Hang Hau Station	Residential/Retail	142,152	Completed in 2004
Tiu Keng Leng Station	Residential/Retail	253,765	Completed by phases from 2006–2007
Tseung Kwan O Station			
Area 55b	Residential/Retail	96,797	Completed in 2006
Area 57a	Residential/Retail	29,642	Completed in 2005
Area 56	Residential/Hotel/Retail/Office	163,130	2011
Tseung Kwan O Area 86			
Package One	Residential/Retail/Residential Care Home for the Elderly	139,840	Completed in 2008
Package Two	Residential/Kindergarten	310,496	By phases from 2010–2011
Package Three	Residential/Kindergarten	129,544	2012
Choi Hung Park-and-Ride	Residential/Retail	21,538	Completed in 2005
Che Kung Temple Station	Residential/Retail/Kindergarten	90,655	2012

* Completion based on issuance of occupation permit

The Group's assets held in relation to these joint venture operations include various site foundation works and related staff and overhead costs, land costs, acquisition cost of development rights and interest expense. These are set off against any upfront payments received from developers in relation to that development package, and the balance is shown on the balance sheet either as property development in progress or deferred income (note 26) as the case may be. As at 31 December 2009, total property development in progress in respect of these jointly controlled operations was HK$3,094 million (2008: HK$3,036 million) and total deferred income was HK$124 million (2008: HK$156 million).

During the year ended 31 December 2009, profits of HK$3,554 million (2008: HK$4,670 million) were recognised (note 10).

54 Interests in Jointly Controlled Operations *(continued)*

In connection with the Rail Merger, the Company entered into agreements with KCRC relating to the property development projects on the following three awarded sites:

Location/Development Package	Land Use	Total Gross Floor Area (sq.m.)	Actual or Expected Date of Completion of Construction Works *
Fo Tan Station			
Ho Tung Lau	Residential/Retail	122,900	Completed in 2008
Wu Kai Sha Station	Residential/Retail/Kindergarten	172,650	Completed in 2009
Tai Wai Maintenance Centre	Residential	313,955	By phases from 2009–2011

Under these agreements, the Company was appointed as KCRC's agent to exercise the rights and to perform the obligations of KCRC as stipulated in the agreements. The Company received a right to share the net surplus from the sale of these property development projects.

55 Material Related Party Transactions

The Financial Secretary Incorporated, which holds approximately 76.8% of the Company's issued share capital on trust for the Government of the Hong Kong SAR, is the majority shareholder of the Company. Transactions between the Group and Government departments, agencies or Government controlled entities, other than those transactions such as the payment of fees, taxes, leases and rates, etc. that arise in the normal dealings between the Government and the Group, are considered to be related party transactions pursuant to HKAS 24, *Related party disclosures* and are identified separately in these accounts.

Members of the Board and Members of the Executive Directorate, and parties related to them including their close family members, are also considered to be related parties of the Group. Transactions with these parties, except for those involving a Member of the Board or his related parties where the relevant Member abstains from voting, are separately disclosed in the accounts.

Major related party transactions entered into by the Group in prior years which are still relevant for the current year include:

A The Company entered into the Airport Railway Agreement with the Government on 5 July 1995 for the construction of the Airport Railway. In addition to specifying the parameters for the design, construction and operation of the Tung Chung and Airport Express Lines, the Agreement also included provisions for the granting of land to the Company for property development (note 26).

B The Company entered into the TKE Project Agreement with the Government on 4 November 1998 for the design, construction, financing and operation of the Tseung Kwan O Extension and the granting of land for commercial and residential property developments along the railway extension.

C On 30 June 2000, the Appointed Day for the purposes of the Mass Transit Railway Ordinance, the Company was granted a franchise, for an initial period of 50 years, to operate the existing mass transit railway, and to operate and construct any extension to the railway. On the same day, the Company entered into an Operating Agreement ("OA") with the Government which detailed provisions for the design, construction, maintenance and operation of the railway under the franchise. Pursuant to the terms of the OA, the Company's franchise will be extended for further periods of 50 years upon satisfying certain capital expenditure requirements at no payment and without any change in the terms of the franchise. The OA also provides that upon extension of the franchise and subject to the Government's prevailing land policy on the date on which the franchise is extended, certain consequential amendments will be made to agreements between the Government and the Company in relation to the mass transit railway, including the renewal of various railway running line leases and land leases at nominal cost. With effect from 2 December 2007, the OA was replaced by a new operating agreement, details of which are set out in note 55J below.

D On 14 July 2000, the Company received a comfort letter from the Government pursuant to which the Government agreed to extend the period of certain of the Company's land interests so that they are coterminous with the Company's franchise period. In addition, on 3 August 2007, the Government wrote to KCRC confirming that, subject to all necessary approvals being obtained, the period of certain of KCRC's land interests (which are the subject of the service concession) will be extended so that they are coterminous with the Concession Period.

E On 24 July 2002, the Company entered into an agreement with the Government specifying the parameters for the design, construction, financing and operation of the Disneyland Resort Line ("DRL"). In connection with the financing of the DRL Project, the Government agreed to provide financial support through the Government waivers of its entitlement to cash dividends in respect of its shareholding. Such committed financial support has been met in 2004. The DRL was completed in June 2005 and commenced operation on 1 August 2005.

F On 19 November 2003, the Company entered into a formal project agreement with the Government to develop, on a build, operate and transfer basis, the Tung Chung Cable Car System together with a Theme Village at Ngong Ping on the Lantau Island under a franchise granted by the Government for a period of 30 years commencing on 24 December 2003. The project was completed with operation commenced on 18 September 2006.

G On 24 January 2005, the Company accepted an offer from the Government to allow the Company to proceed with the proposed development on Site F of Tseung Kwan O Town Lot No. 70, Area 86, at an assessed land premium of HK$2,319 million together with other ancillary terms and conditions as specified in the modification letter to be entered into between the Company and the Government. Upon award of the development package on 8 February 2005, the agreed land premium, of which one-half or HK$1,160 million was paid by the Company, was settled.

55 Material Related Party Transactions *(continued)*

H On 18 July 2005, the Company entered into a project agreement with the Airport Authority for the procurement of MTR station extension works and related railway facilities to serve the SkyPlaza at the Hong Kong International Airport. The project was completed with the facilities opened on 28 February 2007.

I On 8 June 2007, the Legislative Council approved the Rail Merger Ordinance which came into effect on the Appointed Day. Amongst other things, the Rail Merger Ordinance amends the KCRC Ordinance and the MTR Ordinance to provide the necessary legislative framework for the Rail Merger and the operation by the Company of the MTRC railway, KCRC railway and certain other railways under one franchise, and enables KCRC to enter into the Service Concession Agreement referred to in note 55K(ii) below with the Company.

J In connection with the Rail Merger, on 9 August 2007, the Company entered into a new operating agreement with the Government ("new OA"), which is based on the existing OA referred to in note 55C above. On the Appointed Day, the Company's existing franchise under the Mass Transit Railway Ordinance was expanded to cover railways other than the existing MTR railway for an initial period of 50 years from the Appointed Day ("expanded franchise"). The new OA detailed the design, construction, maintenance and operation of the railways under the expanded franchise. Pursuant to the terms of the new OA (and the MTR Ordinance), the Company's franchise may be extended for further periods of 50 years (from the date of the extension) upon satisfying certain capital expenditure requirements at no payment and without any change in the terms of the franchise. The new OA includes terms relating to the Company's obligations in relation to electrical power supply, control centres, the monitoring of environmental conditions, the provision of accommodation for the Hong Kong Police Force, the notification of certain events to the Commissioner for Transport, hours of operation and service capacity, performance requirements, customer service pledges and safety management. The new OA also sets out a framework for the award of new railway projects in Hong Kong and introduces a fare adjustment mechanism. A detailed description of the new OA is contained in the circular to shareholders in respect of the Extraordinary General Meeting convened to approve the Rail Merger.

K Other than the new OA described in note 55J above, the Company also entered into the following principal agreements with KCRC and the Government in connection with the Rail Merger on 9 August 2007:

(i) Merger Framework Agreement, which contains provisions for the overall structure and certain specific aspects of the rail merger, including the seamless interchange programme, corporate governance, certain employee arrangements, implementation of certain fare reductions, the payments for property package, arrangements relating to flat production and land premium, the treatment of KCRC's cross border leases, Shatin to Central Link arrangements and the allocation of liabilities for certain pre and post merger claims by third parties;

(ii) Service Concession Agreement, which contains provisions in relation to the grant of the right to access, use and operate the concession property and a licence to access and use certain KCRC land; the term of the service concession; the arrangements for the redelivery of the KCRC system upon concession expiry; the provision of ex-KCRC services by the Company to specified standards; the obligation to pay upfront and annual payments; the legal and beneficial ownership of future concession property (Additional Concession Property); and the regime for compensation payable by KCRC upon return of the Additional Concession Property;

(iii) Sale and Purchase Agreement, which sets out the terms pursuant to which the Company acquired certain assets and contracts from KCRC;

(iv) Kowloon Southern Link ("KSL") Project Management Agreement, which sets out the terms on which the Company was appointed by KCRC to project manage the design and construction of the KSL in return for a management fee of approximately HK$710.8 million and an incentive payment of up to HK$110 million if the construction of the KSL is completed ahead of time and under budget. The Company itself will not construct, nor be responsible for the costs of the KSL works. Upon commencement of service on 16 August 2009, the KSL formed part of the service concession;

(v) West Rail Agency Agreement, which sets out the terms on which the Company was appointed to act as KCRC's agent and to exercise certain rights and perform certain obligations relating to specified development sites along the West Rail;

(vi) Outsourcing Agreement, which sets out the terms on which the Company is to provide certain financial and administrative services to KCRC after the Rail Merger for two years, in return for an annual fee of HK$19.8 million; and

(vii) Property Package Agreements, which set out the arrangements in respect of the acquisition of the property package. These arrangements include the assignment of certain properties by KCRC to the Company, the acquisition of certain properties by the Company through its acquisition of certain KCRC subsidiaries under the Sale and Purchase Agreement, the granting of leases on certain properties by the Government to the Company and the relating interim arrangements before such granting is effective, the management of certain development sites by the Company in return for a fee substantially equal to the profits from the developments, and the granting of certain potential development sites to the Company.

A detailed description of each of these documents is contained under the paragraph "Connected Transactions" of the Report of the Members of the Board.

L Also in connection with the Rail Merger, the Company entered into US Cross Border Lease ("CBL") Assumption Agreements with KCRC on 30 November 2007 and US CBL Allocation Agreement with KCRC and KCRC's subsidiaries on 2 December 2007. The agreements set out the terms on which the Company has undertaken to perform, on a joint and several basis with KCRC, the obligations of KCRC under the respective CBLs, and delineate and allocate the obligations and responsibility for risks relating to the CBLs. Details of the commitment of the Company in connection with these agreements are specified in note 56E and a detailed description of these agreements are contained under the paragraph "Connected Transactions" of the Report of the Members of the Board.

55 Material Related Party Transactions *(continued)*

M On 6 February 2008, the Company entered into a preliminary project agreement with the Government for the undertaking of the pre-authorisation activities of the West Island Line. Pursuant to the agreement, the Company received HK$400 million from the Government to undertake the detailed design of the railway works, carry out all necessary ground investigations, invite and assess tenders for the railway works construction contracts, and carry out ancillary and other support services.

N On 22 July 2008, the Government granted Sha Tin Town Lot No. 519 to the Company for the development at Che Kung Temple Station with a total consideration of HK$3,662 million. The Company shared half of the consideration or HK$1,831 million, which was settled in 2008.

O On 21 August 2008, the Company entered into a maintenance agreement with the Hong Kong Airport Authority for the renewal of an expired maintenance agreement for the automatic people mover system serving the Hong Kong International Airport including the SkyPlaza and SkyPier terminal buildings. The renewed agreement has a duration of five years effective from 6 July 2008 and widens the scope to cover the operation and maintenance of eight new vehicles and one new line, both of which were ready for passenger service starting from the fourth quarter of 2009. During 2009, HK$34 million (2008: HK$32 million) was recognised as consultancy income in respect of the maintenance agreements.

P On 30 September 2008, the Company entered into a management agency agreement with KCRC in relation to 7th, 8th, 9th and 10th floors of Citylink Plaza, No. 1 Sha Tin Station Circuit, Shatin, New Territories. Pursuant to the agreement, the Company acts as KCRC's agent in the management and lease administration of the relating premises with effect from the Appointed Day to the end of the Concession Period. During 2009, HK$2 million (2008: HK$1 million) was recognised as property management income in respect of the property agency agreement.

Q On 24 November 2008, the Company entered into an Entrustment Agreement with the Government for the design of and site investigation and procurement activities in relation to the Shatin to Central Link. Pursuant to the Entrustment Agreement, the Company shall carry out or procure the carrying out of the design, site investigation and procurement activities and the Government shall fund directly the total cost of such activities and pay to the Company a maximum amount of HK$1.5 billion in respect of certain costs incurred by the Company, including the Company's in-house design costs and certain on-costs and preliminary costs. During 2009, expenditure of HK$267 million (2008: HK$76 million) was incurred relating to these activities.

R On 24 November 2008, the Company entered into an Entrustment Agreement with the Government for the design of and site investigation and procurement activities in relation to the Express Rail Link. Pursuant to the Entrustment Agreement, the Company shall carry out or procure the carrying out of the design, site investigation and procurement activities and the Government shall fund directly the total cost of such activities and pay to the Company a maximum amount of HK$1.5 billion in respect of certain costs incurred by the Company, including the Company's in-house design costs and certain on-costs and preliminary costs. During 2009, expenditure of HK$280 million (2008: HK$240 million) was incurred relating to these activities.

During the year, the Group had the following material related party transactions:

S On 13 July 2009, the Company entered into a Project Agreement with the Government for the financing, design, construction and operation of the West Island Line. Pursuant to the agreement, the Government will provide funding support of HK$12,252 million (having already made HK$400 million available in February 2008 under the preliminary project agreement referred to in note 55M). This funding support is subject to a repayment mechanism whereby, within 24 months of commercial operations commencing on the WIL, the Company will pay to the Government amounts to reflect the excess of original estimation over actual costs incurred in certain capital expenditure, price escalation costs, land costs and the amount of contingency in relation to the railway and related works (together with interest).

T On 6 November 2009, the Company renewed the Outsourcing Agreement referred to in note 55K(vi) with KCRC for a period of two years effective from 2 December 2009. The annual fee payable to KCRC under the agreement has been revised to HK$16.5 million.

U In connection with the construction of various railway projects, certain essential project works are embedded within the infrastructure works to be undertaken by the Government or certain of its related parties. These works have been entrusted to the Government and its related parties and are payable on an actual cost basis according to architectural certifications. The Government and certain of its related parties, on the other hand, have entered into entrustment agreements with the Company for the construction of various other infrastructure works that are also reimbursable according to actual costs certified. Details of the amounts paid and the amounts receivable and payable as at 31 December 2009 are provided in notes 25, 39 and 44 respectively.

V The Company has business transactions with its non-controlled subsidiaries in the normal course of operations, details of which are disclosed in note 29.

W The Company has business transactions with its associates in the normal course of operations, details of which are disclosed in note 31.

55 Material Related Party Transactions *(continued)*

X The Group has paid remuneration to the Members of the Board and Members of the Executive Directorate. Details of these transactions are described in note 9A. In addition, the Members of the Executive Directorate were granted share options under the Company's Pre-Global Offering Share Option Scheme, New Joiners Share Option Scheme and 2007 Share Option Scheme. Details of the terms of these directors' options are disclosed in note 9B and under the paragraph "Board Members' and Executive Directorate's Interests in Shares" of the Report of the Members of the Board. Their gross remuneration charged to the profit and loss account is summarised as follows:

in HK$ million	**2009**	2008
Short-term employee benefits	**56.2**	67.0
Post-employment benefits	**5.4**	2.2
Equity compensation benefits	**13.1**	6.4
	74.7	75.6

The above remuneration is included in staff costs and related expenses.

Y During the year, the following dividends were paid to the Government:

in HK$ million	**2009**	2008
Cash dividends paid	**920**	806
Shares allotted in respect of scrip dividends	**1,171**	1,134
	2,091	1,940

56 Commitments

A Capital Commitments

(i) Outstanding capital commitments as at 31 December 2009 not provided for in the accounts were as follows:

The Group

in HK$ million	Hong Kong railway operations	Hong Kong railway extension projects	Hong Kong property rental and development	Mainland of China and overseas projects	Total
2009					
Authorised but not yet contracted for	**1,116**	**–**	**192**	**–**	**1,308**
Authorised and contracted for	**1,506**	**3,784**	**108**	**2,177**	**7,575**
	2,622	**3,784**	**300**	**2,177**	**8,883**
2008					
Authorised but not yet contracted for	846	–	57	–	903
Authorised and contracted for	1,832	180	264	859	3,135
	2,678	180	321	859	4,038

56 Commitments *(continued)*

A Capital Commitments *(continued)*

The Company

in HK$ million	Hong Kong railway operations	Hong Kong railway extension projects	Hong Kong property rental and development	Total
2009				
Authorised but not yet contracted for	**1,109**	**–**	**179**	**1,288**
Authorised and contracted for	**1,505**	**3,784**	**105**	**5,394**
	2,614	**3,784**	**284**	**6,682**
2008				
Authorised but not yet contracted for	841	–	57	898
Authorised and contracted for	1,832	180	260	2,272
	2,673	180	317	3,170

Excluded from the above tables are estimated future project costs relating to WIL and SZL4 of HK$12,171 million and HK$1,323 million respectively as at 31 December 2009.

(ii) The commitments under Hong Kong railway operations comprise the following:

The Group and The Company

in HK$ million	Improvement and enhancement works	Acquisition of property, plant and equipment	Additional concession property	Total
2009				
Authorised but not yet contracted for	**632**	**34**	**450**	**1,116**
Authorised and contracted for	**385**	**930**	**191**	**1,506**
	1,017	**964**	**641**	**2,622**
2008				
Authorised but not yet contracted for	661	12	173	846
Authorised and contracted for	491	1,105	236	1,832
	1,152	1,117	409	2,678

B Operating Lease Commitments

The Group had operating leases on office buildings, staff quarters, bus depot and a shopping centre in Beijing as at 31 December 2009. The total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group		The Company	
in HK$ million	**2009**	2008	**2009**	2008
Payable within one year	**77**	73	**23**	21
Payable after one but within five years	**131**	187	**4**	9
	208	260	**27**	30

The above includes HK$20 million (2008: HK$21 million) in respect of the office accommodation and quarters for construction project staff, majority of which are subject to rent reviews.

56 Commitments *(continued)*

B Operating Lease Commitments *(continued)*

In respect of the operating lease on the shopping centre in Beijing, the Group has the right to acquire the shopping centre in Beijing at a pre-determined price during the first five years of the lease term, which commenced from April 2006, or release its obligation as a tenant by making a compensation to the landlord upon expiry of the fifth year. The Group obtained a bank guarantee of RMB12.5 million in respect of the quarterly rental payment arrangement with the landlord. In addition, the Company provides guarantees amounting to RMB102.5 million to the landlord for the rental payments for the first five years of the lease, which was entered into by the Company's subsidiary, MTR (Beijing) Commercial Facilities Management Co. Ltd..

In addition to the above, there are future operating lease commitments of HK$10,113 million (2008: nil) in respect of railway franchises outside of Hong Kong over the franchise periods, of which HK$1,305 million is payable within one year, HK$5,144 million is payable after one but within five years and HK$3,664 million is payable over five years. These railway franchises will generate franchise revenue receivables to the Group.

C Liabilities and Commitments in respect of Property Management Contracts

The Group has, over the years, jointly developed with outside property developers certain properties above or adjacent to railway depots and stations. Under most of the development agreements, the Group retained the right to manage these properties after their completion. The Group, as manager of these properties, enters into service contracts with outside contractors for the provision of security, cleaning, maintenance and other services on behalf of the managed properties. The Group is primarily responsible for these contracts, but any contract costs incurred will be reimbursed by the owners and tenants of the managed properties from the management funds as soon as they are paid.

As at 31 December 2009, the Group had total outstanding liabilities and contractual commitments of HK$1,179 million (2008: HK$875 million) in respect of these works and services. Cash funds totalling HK$1,201 million (2008: HK$1,072 million) obtained through monthly payments of management service charges from the managed properties are held by the Group on behalf of those properties for settlement of works and services provided.

D Material Financial Guarantee Contracts

The Company provides guarantees to investors of debt securities issued by one of its subsidiaries, MTR Corporation (C.I.) Limited (note 41C), which amounted to approximately HK$11,731 million (in notional amount) as at 31 December 2009. Proceeds from such debts issued have been on lent to the Company. As such, the primary liabilities have already been recorded in the Company's balance sheet.

The Group provides standby letters of credit ("standby LC's") to the Investors to the lease out/lease back transaction ("Lease Transaction") (note 22E) to cover additional amounts payable by the Group in the event the transactions are terminated prior to the expiry of the lease terms, and such standby LC's amounted to US$106 million (HK$822 million) as at 31 December 2009. The Group also provides standby LC's to certain of the Investors under the Lease Transaction (note 22E) to replace some of the Defeasance Securities previously used to support the corresponding long-term lease payments as a result of credit rating downgrades of these securities, and such standby LC's amounted to US$34 million (HK$264 million) as at 31 December 2009.

E US Cross Border Lease ("CBL") Agreements

In connection with the Rail Merger in December 2007, the Company entered into a number of agreements ("US CBL Assumption Agreements") with respect to the CBLs that KCRC had entered into with its CBL counterparties in relation to certain of its property and equipment ("CBL Property") between 1998 and 2003. Pursuant to the US CBL Assumption Agreements, the Company has undertaken to perform, on a joint and several basis with KCRC, the obligations of KCRC under the respective CBLs.

In addition, the Company has entered into a US CBL Allocation Agreement with KCRC, whereby the rights, obligations and responsibility for risks relating to the CBLs are delineated and allocated between the Company and KCRC. Generally, the Company is responsible for operational matters, such as repair, maintenance and insurance of the CBL Property, and KCRC is responsible for all other obligations, including payment of periodic rents and collateral related obligations. Despite this allocation of obligations, the Company is prima facie jointly and severally liable to the CBL counterparties for any failure of KCRC to perform its obligations under the CBLs.

KCRC and the Government have agreed to indemnify the Company for its reasonable costs incurred as a result of the due and proper performance by the Company of its obligations under the CBLs (unless such costs would have been incurred in any event). In addition, KCRC has agreed to indemnify the Company for losses and reasonable costs incurred arising from KCRC not complying with its obligations under the CBLs or from any breach of KCRC's representations, covenants and agreements provided for in relation to the CBLs.

The Company has agreed to indemnify each of the Government and KCRC for losses and reasonable costs incurred arising from any breach of the Company's representations, covenants and agreements provided for in relation to the CBLs.

F Service Concession in respect of the Rail Merger

Pursuant to the Rail Merger, the Company is obliged under the Service Concession Agreement ("SCA") to pay an annual fixed payment of HK$750 million to KCRC over the period of the service concession. Additionally, commencing after three years from the Appointed Day, the Company is obliged to pay an annual variable fee to KCRC based on the revenue generated from the KCRC system above certain thresholds. Furthermore, under the SCA, the Company is obliged to maintain, repair, replace and/or upgrade the KCRC system over the period of the service concession which is to be returned at the expiry of the service concession.

56 Commitments *(continued)*

G Investments in Mainland of China

(i) Investment in Line 4 of Shenzhen Metro System ("Shenzhen Line 4")

In May 2005, the Group and the Shenzhen Municipal People's Government initialled the Project Concession Agreement to build Phase 2 of Shenzhen Line 4 and to operate both Phases 1 and 2 of Shenzhen Line 4 for a period of 30 years. On 18 March 2009, the Project Concession Agreement was signed.

Shenzhen Line 4 is a 21-kilometre urban railway running from Huanggang to Longhua New Town in Shenzhen, forming the major north-south railway corridor of the Shenzhen Special Economic Zone. Upon completion of Phase 2 of Shenzhen Line 4, both Phases 1 and 2 will be operated by the Company's wholly owned subsidiary established in Shenzhen. Total investment of the project is estimated at RMB6.0 billion (HK$6.8 billion), which is to be financed by equity capital contributed by the Group of RMB2.4 billion (HK$2.7 billion) and the balance by bank loans in Renminbi. On 15 May 2009, a financing agreement with a bank in Mainland of China was signed for the provision of a financing package in the aggregate amount of RMB4.0 billion to the project. The financing package comprises a RMB3.6 billion 20-year loan and other credit facilities, and is secured by certain future revenues from and interest in insurance policies covering the project.

Civil construction as well as electrical and mechanical works are in progress as scheduled. As at 31 December 2009, the Group had outstanding contract commitments totalling RMB1.9 billion (HK$2.2 billion) (2008: HK$0.9 billion) related to the project (Note 56A). In respect of the construction contracts, payment guarantees and performance guarantees given to the counterparties by a bank on the Group's behalf as at 31 December 2009 amounted to RMB90 million (HK$102 million) and RMB47 million (HK$53 million) respectively.

(ii) Investment in Beijing Metro Line 4 Project ("Beijing Line 4")

In December 2004, the Group and two subsidiaries of the Beijng Municipal People's Government, Beijing Infrastructure Investment Co. Ltd. ("BIIC") and Beijing Capital Group Ltd. ("BCG"), formed the public-private-partnership company, Beijing MTR Corporation Limited ("Beijing MTR"), for the investment, construction and operation of the Beijing Line 4 for a term of 30 years. In September 2005, Beijing MTR completed all the registration requirements and in January 2006, obtained its business licence. In April 2006, the Concession Agreement with the Beijing Municipal People's Government was signed.

Beijing Line 4 is a 29-kilometre underground metro line running from Majialou Station to Longbeicun Station, forming a main north-south traffic artery of Beijing. The total investment for the Beijing Line 4 project is estimated at RMB15.3 billion (HK$17.4 billion), of which 70% is to be borne by the Beijing Municipal People's Government to finance mainly land acquisition and civil construction. Total investment by Beijing MTR is RMB4.6 billion (HK$5.2 billion), contributing to 30% of the total investment in the project to finance mainly the electrical and mechanical systems and rolling stock. The Group and BCG each owns 49% interests of Beijing MTR whilst BIIC owns the remaining 2% interest. Beijing MTR is to operate and be responsible for the maintenance of Beijing Line 4 for a term of 30 years. Beijing MTR has a registered capital of approximately RMB1.4 billion (HK$1.6 billion) with the Company's contribution amounting to RMB676 million. On 28 September 2009, Beijing Line 4 was opened for trial operation.

Apart from Beijing Line 4, on 30 December 2009, Beijing MTR was granted an operation and maintenance concession for Beijing Daxing Line for a period of 10 years, renewable for further terms of 10 years until the expiry of the concession of Beijng Line 4. Beijing Daxing Line is a 22-kilometre and 11-station extension of Beijing Line 4 from Gongyixiqiao Station extending to Tiangongyuan Station. Construction of Beijing Daxing Line commenced in December 2007 and completion is expected by 2010.

(iii) Investment in Shenyang Metro Lines Project

On 7 May 2009, the Group signed the Operation and Maintenance Concession Agreement with Shenyang Municipal Government and its wholly-owned subsidiary, Shenyang Metro Group Company Limited, for the operation and maintenance of Shenyang Metro Lines 1 and 2 for a term of 30 years. A joint venture company ("JVC") was formed by the Group and Shenyang Metro Group Company Limited, with equity interest of 49% and 51% respectively, to operate and maintain these two metro lines for a franchise fee. Shenyang Metro Lines 1 and 2, with a total route length of 50 kilometres, are the first two metro lines among the eleven planned lines of Shenyang city. Civil construction works for the two lines commenced in 2005 and these two lines are expected to commence service by 2010 and 2012 respectively. The concession covers pre-operation readiness, train and station operations as well as maintenance. Total investment of the JVC is RMB400 million (HK$454 million) in which RMB200 million (HK$227 million) is registered capital. As at 31 December 2009, the Group injected an equity of RMB49 million (HK$56 million) into the JVC and provided a parent company guarantee of RMB151 million (HK$172 million) to Shenyang Municipal Government for the JVC's obligations in the Concession Agreement.

(iv) Investment in Hangzhou Metro Line 1 Project ("Hangzhou Line 1")

On 16 January 2009, the Company entered into a Principle Agreement for a public-private partnership project with Hangzhou Municipal Government and Hangzhou Metro Group Company Limited for further discussion on the investment, construction and operation of Hangzhou Line 1 for a term of 25 years. Hangzhou Line 1 is a 48-kilometre and 31-station railway line running from south to north of Hangzhou city to other cities, namely Xiasha, Linping and Jiangnan. This line is expected to commence service in 2012.

The project works will be divided into Part A and Part B, representing approximately 63% and 37% respectively of the total investment of RMB22 billion. Part A, which covers civil construction of the metro system, is being undertaken by Hangzhou Metro Group Company Limited. Part B, which mainly covers the electrical and mechanical systems, rolling stock and testing and commissioning of the metro system, will be undertaken by a joint venture company owned by the Company and Hangzhou Metro Group Company Limited with equity interest of 49% and 51% respectively. The joint venture company will be funded by a combination of debt and equity with the Company's equity investment being approximately RMB2.2 billion (HK$2.5 billion).

On 16 January 2009, the Company also entered into a Strategic Agreement with the same parties to explore property development opportunities along the Hangzhou Metro lines.

56 Commitments *(continued)*

H Investments in Europe and Australia

(i) Investment in London Overground Franchise

On 2 July 2007, London Overground Rail Operations Ltd ("LOROL"), the 50/50 partnership between the Group and DB Regio (UK) Limited, was awarded the concession to operate the new London Overground service in Greater London for seven years from 11 November 2007 with an option for a two years extension. London Overground is a semi-orbital route of five rail lines serving West, North and East London and will act as a crucial link for the 2012 Olympic Games. The total London Overground route network measures 107.2 kilometres.

Under the terms of the concession agreement between LOROL and Transport for London ("TfL"), LOROL has provided a performance bond of GBP15 million to TfL, which is jointly and severally indemnified by the parent companies, that is the Company and DB Regio (UK) Limited, through parent company guarantees. The bond may be called by TfL if the concession is terminated early as a result of default.

As at 31 December 2009, an unsecured debt of GBP2 million with interest rate at 2.5% per annum above the published Bank of England base rate from time to time was provided equally by the Group and DB Regio (UK) Limited to LOROL (GBP1 million each). The final repayment date of this debt is on the date of expiry or the earlier termination of the term of the London Rail Concession under the concession agreement.

(ii) Investment in Stockholm Metro Franchise

On 20 January 2009, the board of the Stockholm transport authority ("SL") announced the Group as the winner of the tender for the Stockholm Metro operations concession in Sweden for a period of eight years, starting from 2 November 2009, with a possible extension for an additional period of six years.

The concession, which is operated by MTR Stockholm AB, the Group's wholly owned subsidiary in Sweden, includes train and station operations as well as rolling stock maintenance. For servicing, maintenance and cleaning of trains, the Group has teamed up with Mantena AS, a leading maintainer of rolling stock in Norway, to form a joint venture company, Tunnelbanan Teknik Stockholm AB, with equal equity interest to provide these services. In accordance with the franchise agreement, MTR Stockholm AB leases the rolling stock, stations, office buildings, depots, depot equipment and other minor assets from SL. On a back to back contract basis, MTR Stockholm AB leases the depots and depot equipment to Tunnelbanan Teknik Stockholm AB.

The Stockholm Metro consists of three dedicated lines with 108 kilometres in total track length and 100 surface and underground stations.

As at 31 December 2009, the Group injected an equity of SEK40 million (HK$44 million) into MTR Stockholm AB and provided an unsecured debt of SEK170 million (HK$185 million) at an interest of 3% above the 3-month Stockholm Inter Bank Offer Rate ("STIBOR") published by the Riksbank from time to time and with repayment due by 31 December 2011. In addition, MTR Stockholm AB and Mantena AS provided, based on their respective equity interest, senior debt of SEK100 million and subordinated debt of SEK30 million to Tunnelbanan Teknik Stockholm AB at an interest rate of 3% and 4% per annum respectively above the 3-month STIBOR.

Under the concession, the Group provides to SL a guarantee of SEK1,000 million (HK$1,089 million), which can be called if the concession is terminated early as a result of default by MTR Stockholm AB.

(iii) Investment in Melbourne Metropolitan Train Franchise

On 31 August 2009, Metro Trains Melbourne Pty. Ltd. ("MTM"), the Group's 60% owned subsidiary, signed the franchise agreement with the State of Victoria Government in Australia to operate and maintain the Melbourne metropolitan train network for an initial period of eight years beginning on 30 November 2009, with a renewal option of three years that is further extendable to seven years. The remaining 40% interests of MTM are owned by two Australian rail industry organisations, United Group Rail Services Limited ("UGL") and John Holland Melbourne Rail Franchise Pty. Ltd. ("JHL"), with equal sharing.

The franchise, which constitutes a service concession arrangement, includes train and station operations as well as infrastructure and rolling stock maintenance of the Melbourne metropolitan train network, which has 15 routes radiating from the city centre of Melbourne with a total route length of 372 kilometres and 213 surface and underground stations.

Total investment in MTM from its shareholders is AUD65 million (HK$452 million) through a mixture of equity and shareholder loans, with each shareholder's contribution basing on its percentage of shareholdings in MTM. As at 31 December 2009, the Group's share of investment in MTM was AUD39 million (HK$271 million), which comprised an equity investment of AUD10 million (HK$69 million) and a subordinated loan of AUD29.25 million (HK$203 million) at an interest of 7.5% per annum with final repayment at the date of expiry or the earlier termination of the concession.

Under the franchise agreement, the Group, UGL and JHL together have provided to the State of Victoria Government a parent company guarantee of AUD125 million (HK$870 million) and a performance bond of AUD75 million (HK$522 million) for MTM's performance and other obligations under the franchise agreement, each bearing its share of liability based on its shareholdings in MTM.

57 Post Balance Sheet Events

On 16 January 2010, the Legislative Council approved the funding of HK$66.9 billion for the construction of the XRL. On 26 January 2010, the Government and the Company entered into an Entrustment Agreement for the construction and commissioning of the XRL. Pursuant to the Entrustment Agreement, the Company shall be responsible for the construction and commissioning of the XRL and the Government shall fund directly the total cost of such activities and pay to the Company HK$4,590 million in respect of the Company's management of the project. Such sum may be varied in accordance with the terms of the Entrustment Agreement but is subject to a maximum annual limit of HK$2,000 million and a total limit of HK$10 billion. In addition, the Government has agreed that the Company will be invited to undertake the operation of the XRL under the service concession approach.

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

On 4 March 2010, the Company's subsidiary, MTR Hangzhou Line 1 Investment Company Limited, together with a subsidiary of Hangzhou Metro Group Company Limited, entered into a Concession Agreement with Hangzhou Municipal Government for the Hangzhou Metro Line 1 project (note 56G(iv)). The Concession Agreement is subject to approval by relevant authorities in the Mainland of China.

58 Accounting Estimates and Judgements

A Key sources of accounting estimates and estimation uncertainty include the following:

(i) Estimated Useful Life and Depreciation of Property, Plant and Equipment

The Group estimates the useful lives of the various categories of property, plant and equipment on the basis of their design lives, planned asset maintenance programme and actual usage experience. Depreciation is calculated using the straight-line method at rates sufficient to write off their cost or valuation over their estimated useful lives (note 2I).

(ii) Impairment of Long-lived Assets

The Group reviews its long-lived assets for indications of impairment at each balance sheet date according to accounting polices set out in note 2H(ii). In analysing potential impairments identified, the Group uses projections of future cash flows from the assets based on management's assignment of a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

(iii) Pension Costs

The Group employs independent valuation professionals to conduct annual assessment of the actuarial position of the Group's retirement plans. The determination of the Group's obligation and expense for the defined benefit element of these plans is dependent on certain assumptions and factors provided by the Company, which are disclosed in notes 52A(i) and 52A(ii).

(iv) Revenue Recognition on Property Development

Recognition of property development profits requires management's estimation of the final project costs upon completion, assessment of outstanding transactions and market values of unsold units and, in the case of property distribution-in-kind, the properties' fair value upon recognition. The Group takes into account independent qualified surveyors report, past experience on sales and marketing costs when estimating final project costs on completion; and makes reference to professionally qualified valuers' reports in determining the estimated fair value of property distribution-in-kind.

(v) Properties Held for Sale

The Group values unsold properties at the lower of their costs and net realisable values (note 34) at the balance sheet date. In ascertaining the properties' net realisable values, which are represented by the estimated selling prices less costs to be incurred in relation to the sales, the Group employs independent valuation professionals to assess the properties' estimated selling prices, and makes estimations on further selling and property holding costs to be incurred based on past experience and with reference to general market practice.

(vi) Interest-free Loan to a Property Developer

The Group estimated the fair value of the interest-free loan to a developer at its present value discounted at the prevailing market rates of interest at inception.

(vii) Valuation of Investment Properties

The valuation of investment properties requires management's input of various assumptions and factors relevant to the valuation. The Group conducts annual revaluation of its investment properties by independent professionally qualified valuers based on these assumptions agreed with the valuers prior to adoption.

(viii) Franchise in Hong Kong

The current franchise under which the Group is operating in Hong Kong allows it to run the mass transit railway system in Hong Kong until 1 December 2057. Pursuant to the terms stipulated in the new Operating Agreement with the Government, the Company considers that it has the legal right to extend the franchise for further periods of 50 years upon expiry of each franchise term (note 55J). The Group's depreciation policies (note 2I) in respect of certain assets' lives which extend beyond 2057 are on this basis.

58 Accounting Estimates and Judgements *(continued)*

A Key sources of accounting estimates and estimation uncertainty include the following: *(continued)*

(ix) Income Tax

Certain treatments adopted by the Group in its tax returns in the past years are yet to be finalised with the Hong Kong Inland Revenue Department. In assessing the Group's income tax and deferred taxation in the 2009 accounts, the Company has followed the tax treatments it has adopted in those tax returns, which may be different from the final outcome in due course.

(x) Project Provisions

The Group establishes project provisions for the settlement of estimated claims that may arise due to time delays, additional costs or other unforeseen circumstances common to major construction contracts. The claims provisions are estimated based on an assessment of the Group's liabilities under each contract by professionally qualified personnel, which may differ from the actual claims settlement.

(xi) Deferred Expenditure

As disclosed in note 2J(i), the Group capitalises proposed railway project costs in deferred expenditure when the projects are at a detailed study stage and having been approved in principle by the Members of the Board. Such decision involves the Board's judgement on the outcome of the proposed project.

(xii) Fair Value of Derivatives and Other Financial Instruments

In determining the fair value of financial instruments, the Group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at each balance sheet date. For financial instruments that are not traded in active markets, the fair values were based on the discounted cash flows method which discounts the future contractual cash flows at the current market interest or foreign exchange rates, as applicable, for similar financial instruments that were available to the Group at the time.

(xiii) Obligations under Service Concession

In determining the present value of the obligations under service concession, the discount rate adopted was the relevant Group company's estimated long-term incremental cost of borrowing at inception after due consideration of the relevant Group company's existing fixed rate borrowing cost, future interest rate and inflation trends.

B Critical Accounting Judgements in Applying the Group's Accounting Policies

(i) Provisions and Contingent Liabilities

The Group recognises provisions for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as contingent liability. As at 31 December 2009, the Group considered that it had no disclosable contingent liabilities as there were neither pending litigations nor events with potential obligation which were probable to result in material outflow of economic benefits to the Group.

(ii) Non-controlled Subsidiaries

The Group regards Octopus Holdings Limited and its subsidiaries (the "OHL Group") as non-controlled subsidiaries. In determining whether the Group has control over these subsidiaries, the Group has taken into account its voting right conferred to it under the Shareholder's Agreement of OHL and the effective influence it may exercise over the decision of OHL's Board. Throughout the year ended 31 December 2009, the Group considered that its voting right in the OHL Group has been maintained at 49% despite an equity interest of 57.4%. As such, the OHL Group of companies were accounted for as non-controlled subsidiaries in the Group's accounts.

59 Possible Impact of Amendments, New Standards and Interpretations Issued but Not Yet Effective for the Annual Accounting Period Ended 31 December 2009

Up to the date of issue of these accounts, the HKICPA has issued the following amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2009 and which have not been adopted in these accounts.

	Effective for accounting periods beginning on or after
HKFRS 3 (Revised), *Business combinations*	1 July 2009
Amendments to HKAS 27, *Consolidated and separate financial statements*	1 July 2009
Amendments to HKAS 39, *Financial instruments: Recognition and measurement – Eligible hedged items*	1 July 2009
HK(IFRIC) 17, *Distribution of non-cash assets to owners*	1 July 2009
Improvements to HKFRSs 2009	1 July 2009 or 1 January 2010
Amendments to HKFRS 2, *Share-based payment – Group cash-settled share-based payment transactions*	1 January 2010
Amendments to HKFRS 1, *First-time adoption of Hong Kong Financial Reporting Standards – Additional exemptions for first-time adoptions*	1 January 2010
HK(IFRIC) 19, *Extinguishing financial liabilities with equity instruments*	1 July 2010
Amendments to HKAS 32, *Financial instruments: Presentation – Classification of rights issues*	1 February 2010
HKAS 24 (Revised), *Related party disclosures*	1 January 2011
Amendment to HK(IFRIC) 14, *HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction*	1 January 2011
HKFRS 9, *Financial instruments*	1 January 2013

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. The amendments to HKAS 17 removes specific requirement on classifying land as an operating lease with effect from 1 January 2010. HKFRS 9 simplifies the measurement model on financial instruments into two categories. The adoption of both amendments to HKAS 17 and HKFRS 9 is expected to have impact on the Group's results of operations and financial position. HKAS 24 (Revised) amends the disclosure requirements applicable to government-related entities and the adoption of it is expected to result in amended disclosures. Other than these three amendments, it has concluded so far that the adoption of other amendments is unlikely to have a material impact on the Group's results of operations and financial position.

60 Approval of Accounts

The accounts were approved by the Board on 9 March 2010.

Airport Express	Train Service provided between AsiaWorld-Expo Station and Hong Kong Station
Appointed Day or Day One or Merger Date	2 December 2007 when the Rail Merger was completed
Articles of Association	The articles of association of the Company
Board	The board of directors of the Company
Bus	Feeder bus services operated in support of West Rail Line, East Rail Line and Light Rail
Company or MTR Corporation	MTR Corporation Limited 香港鐵路有限公司, a company which was incorporated under the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) on 26 April 2000
Computershare	Computershare Hong Kong Investor Services Limited
Cross-boundary Service or Cross-boundary	Journeys with the destination to/commencing from Lo Wu and Lok Ma Chau stations
Customer Service Pledge	Annually published performance targets in accordance with the Operating Agreement
Director and Member of the Board	A member of the Board
Domestic Service	Collective name for Kwun Tong, Tsuen Wan, Island, Tung Chung, Tseung Kwan O, Disneyland Resort, East Rail (excluding Cross-boundary Service), West Rail and Ma On Shan lines
FSI	The Financial Secretary Incorporated, a corporation solely established under the Financial Secretary Incorporation Ordinance (Chapter 1015 of the Laws of Hong Kong)
Government	The Government of the Hong Kong SAR
Group	The Company and its subsidiaries
HKSE or Stock Exchange	The Stock Exchange of Hong Kong Limited
Hong Kong or Hong Kong SAR or HKSAR	The Hong Kong Special Administrative Region of the People's Republic of China
Intercity	Intercity passenger services operated between Hong Kong and certain major cities in the Mainland of China such as Guangzhou, Beijing and Shanghai
Interest Cover	Operating profit before depreciation and amortisation divided by gross interest and finance charges before capitalisation and accreted interest on loan to a property developer
KCRC	Kowloon-Canton Railway Corporation
Light Rail	Light rail system serving North West New Territories
Listing Rules	The Rules Governing the Listing of Securities on the Stock Exchange
Mainland or Mainland China or Mainland of China	The People's Republic of China excluding Hong Kong SAR
MTR Ordinance	The Mass Transit Railway Ordinance (Chapter 556 of the Laws of Hong Kong)
Net Debt-to-equity Ratio	Loans, obligations under finance leases, bank overdrafts, obligations under service concession and loan from minority shareholders of a subsidiary net of cash and cash equivalents in the balance sheet as a percentage of the total equity
Operating Agreement	The agreement entered into by the Company and the Government on 30 June, 2000 for the operation of our rail services before the Rail Merger and a new agreement entered on 9 August 2007 for the operation of all of our rail and bus passenger services after the Rail Merger
Operating Margin	Operating profit from railway and related businesses before depreciation and amortisation as a percentage of turnover
Ordinary Shares	Ordinary shares of HK$1.00 each in the capital of the Company
Rail Merger or Merger	The merger of the rail operations of MTR Corporation and KCRC and the acquisition of certain property interests by MTR Corporation from KCRC, full details of which are set out in the Rail Merger Circular. The Rail Merger was completed on 2 December 2007
Rail Merger Bill or Rail Merger Ordinance	The Rail Merger Bill refers to the draft legislation on the Rail Merger which was passed by the Legislative Council of Hong Kong on 8 June 2007 and became the Rail Merger Ordinance (Ordinance No.11 of 2007)
Rail Merger Circular	Refers to the circular dated 3 September 2007 despatched to the Company's shareholders in connection with the Rail Merger
Return on Average Equity Attributable to Equity Shareholders	Profit attributable to equity shareholders of the Company as a percentage of the average of the beginning and closing total equity attributable to equity shareholders of the Company of the period
Service Concession	A contract to provide services for a particular period which is awarded by a public sector entity to an operator; in the context of concession projects in Hong Kong, service concession refers to the concession granted or to be granted by KCRC and/or Government to the Company to operate, maintain and renew certain railway lines under the Service Concession Agreement or a Supplemental Service Concession Agreement, as more particularly described in the Rail Merger Circular; in the context of concession projects in the Mainland and Overseas, service concession refers to the concession granted by the government or relevant public sector entity to a subsidiary or associate of the Company to provide certain specified services for a specified period under a negotiated concession agreement.
Service Quality Index	A measure of customer satisfaction for the services provided by Domestic/Cross-boundary services and Airport Express based on the service attributes (excluding fares) weighted by the corresponding importance rating from the customer research

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