
IMPORTANT

If you are in any doubt about this prospectus, you should consult your stockbroker, bank manager, solicitor, professional accountant or other professional adviser.



MTR Corporation Limited

(地鐵有限公司)

(Incorporated in Hong Kong with limited liability under the Companies Ordinance)

MTR Privatisation Share Offer

Global Offering by

The Financial Secretary Incorporated on behalf of the Government of the Hong Kong Special Administrative Region

Number of Offer Shares under the Global Offering:	1,000,000,000 (subject to reduction and Over-allotment Option)
Number of Hong Kong Offer Shares:	200,000,000 (subject to adjustment)
Maximum Offer Price:	HK\$9.38 per Offer Share payable in full on application in Hong Kong dollars, subject to refund
Nominal value:	HK\$1.00 per Share
Stock code:	66

Joint Global Coordinators, Joint Lead Managers and Joint Bookrunners



**Goldman Sachs (Asia)
L.L.C.**

**Goldman Sachs (Asia)
L.L.C.**



**HSBC Investment Bank
Asia Limited**

Joint Sponsors

**HSBC Investment Bank
Asia Limited**



UBS Warburg

UBS Warburg

**UBS Warburg
Asia Limited**

Financial Advisers to the Company

N M ROTHSCHILD & SONS

BOCI Asia Limited

Financial Adviser to the Government

Merrill Lynch (Asia Pacific) Limited

The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, together with the documents specified in the paragraph headed "Documents Delivered to the Registrar of Companies" in Appendix X, has been registered by the Registrar of Companies in Hong Kong as required by Section 38D of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission and the Registrar of Companies in Hong Kong take no responsibility as to the contents of this prospectus or any other document referred to above.

The Offer Price is expected to be fixed by agreement between the Joint Global Coordinators, on behalf of the Underwriters, and the Selling Shareholder, after consultation with MTR Corporation Limited, on the Price Determination Date. The Price Determination Date is expected to be on or around 1st October, 2000. Investors applying for Hong Kong Offer Shares must pay the maximum Offer Price of HK\$9.38 per Offer Share, together with brokerage of 1% and Stock Exchange transaction levy of 0.01%.

The Joint Global Coordinators, on behalf of the Underwriters, may, with the consent of the Selling Shareholder, reduce the number of Shares being offered in the Global Offering and/or the indicative Offer Price range below that stated in this prospectus (which is HK\$8.00 to HK\$9.38 per Offer Share) at any time prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, notices of the reduction in the number of Shares and/or the indicative Offer Price range will be published in the South China Morning Post and the Hong Kong Economic Times not later than the morning of the last day for lodging applications under the Hong Kong Public Offering. If applications for Hong Kong Offer Shares have been submitted prior to the day which is the last day for lodging applications under the Hong Kong Public Offering, then even if the number of Shares and/or the Offer Price is so reduced, such applications cannot be subsequently withdrawn.

If, for any reason, the Offer Price is not agreed between the Joint Global Coordinators, on behalf of the Underwriters, and the Selling Shareholder, after consultation with MTR Corporation Limited, the Global Offering will not proceed.

25th September, 2000

EXPECTED TIMETABLE⁽¹⁾⁽²⁾

Latest time to lodge PINK Application Forms and payment	4.00 pm, Wednesday, 27th September, 2000
Latest time for applicants to:	
• lodge WHITE, BLUE and YELLOW Application Forms and payment	12 noon, Thursday, 28th September, 2000
• give instructions to an ESP to apply for Hong Kong Offer Shares on your behalf and effect payment.....	12 noon, Thursday, 28th September, 2000
• give electronic application instructions to Hongkong Clearing.....	12 noon, Thursday, 28th September, 2000
Latest time for ESPs to submit Preliminary ESP Application ⁽³⁾	1.00 pm, Thursday, 28th September, 2000
Latest time for ESPs to submit Final ESP Application ⁽³⁾	3.00 pm, Thursday, 28th September, 2000
Expected Price Determination Date	Sunday, 1st October, 2000
Announcement of the Offer Price, the level of indications of interest in the International Offering, the level of applications in the Hong Kong Public Offering, the basis of allocations of the Hong Kong Offer Shares, the final number of Shares comprised in the Hong Kong Public Offering, Pool A and Pool B, respectively, to be published in the South China Morning Post and Hong Kong Economic Times on.....	Tuesday, 3rd October, 2000
Results of allocations of the Hong Kong Offer Shares to be available through a variety of channels (further details are contained in the section headed "Prospectus, Application Forms and Results of Allocations") available from.....	Wednesday, 4th October, 2000
Despatch of share certificates in respect of wholly or partially successful applications on ⁽⁴⁾	Wednesday, 4th October, 2000
Dealings in Shares on the Stock Exchange expected to commence on	Thursday, 5th October, 2000
Despatch of refund cheques in respect of surplus application monies, in respect of wholly or partially unsuccessful applications and in respect of the Retail Discount on or before ⁽⁵⁾	Monday, 9th October, 2000

Notes:

- (1) All times refer to Hong Kong local time, except as otherwise stated. Details of the structure of the Global Offering, including its conditions, are set out in the section headed "Structure of the Global Offering".
- (2) The application lists will be opened between 11.45 am and 12 noon on Thursday, 28th September, 2000. If there is a "black" rainstorm warning or a tropical cyclone warning signal number 8 or above in force in Hong Kong at any time between 9.00 am and 12 noon on 28th September, 2000, the application lists will not open on that day. Further details are contained in the paragraph headed "Effect of bad weather on the opening of the application lists" in the section headed "How to Apply for Hong Kong Offer Shares".
- (3) Submission of the Preliminary ESP Application is required only if the Final ESP Application is to be submitted after 1.00 pm. Further details are contained in the section headed "How to Apply for Hong Kong Offer Shares".
- (4) Applicants who apply for and are successfully allocated 200,000 or more Hong Kong Offer Shares can collect share certificates in person between 8.00 am and 2.00 pm on Wednesday, 4th October, 2000. Share certificates not collected during the time specified will be despatched by ordinary post on the same day, at the risk of the applicants.
- (5) Refund cheques cannot be collected.

Investors who trade Shares on the basis of publicly available allocation details prior to receipt of share certificates do so entirely at their own risk.

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You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision. No person has been authorised to provide you with information that is different from what is contained in this prospectus. Any information or representation not made in this prospectus must not be relied on by you as having been authorised by the Company, the Selling Shareholder, the Underwriters, any directors of any of them, or any other person involved in the Global Offering.

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SUMMARY

This summary aims to give you an overview of the information contained in this prospectus. Because this is a summary, it does not contain all the information that may be important to you. You should read the whole document before you decide to invest in the Offer Shares or ADSs.

THE COMPANY

The Company is a leading provider of public transport services in Hong Kong. Its core business is the ownership and operation of the Mass Transit Railway. In conjunction with the construction and operation of the Mass Transit Railway, the Company is also involved in the development and sale of residential and commercial properties with various third-party developers and manages, and in some cases owns, certain developed properties. The Company also leases commercial facilities and provides other services within the Mass Transit Railway, such as telecommunications facilities. The Company's subsidiary, Creative Star, operates the Octopus smart card system which the Company uses to collect the majority of its fare revenue.

The Company has a 50-year exclusive franchise which commenced on 30th June, 2000 (and which may be extended in accordance with the new MTR Ordinance and the Operating Agreement) to operate the Mass Transit Railway, which currently comprises the MTR Lines (consisting of the Kwun Tong, Tsuen Wan, Island and Tung Chung Lines) and the Airport Express Line, through an 82.2 route kilometre network of tracks with 44 stations. The Company estimates that approximately 2.5 million people live within 500 metres of an MTR Station, equivalent to approximately 36% of the total population of Hong Kong. In 1999, the MTR Lines carried an aggregate of approximately 779 million passengers, or a weekday average of 2.3 million passengers, while the Airport Express Line carried approximately 10 million passengers, or a daily average of 28,500 passengers.

In 1999, the Company generated total operating profit before interest, tax, depreciation and amortisation of HK\$5,523 million (1998: HK\$4,720 million), consisting of HK\$3,493 million (1998: HK\$3,301 million) from its railway and related operations and profit on property developments of HK\$2,030 million (1998: HK\$1,419 million). Depreciation in 1999 was HK\$2,039 million (1998: HK\$1,426 million), all of which was attributable to the Company's railway and related operations. After taking into account interest and finance charges, the Company's profit for 1999 was HK\$2,380 million (1998: HK\$2,819 million). In 1999, the Company made one-off staff separation payments amounting to HK\$264 million which reduced its profit for the year to HK\$2,116 million (1998: HK\$2,819 million). For the first six months of 2000, the Company generated total operating profit before interest, tax, depreciation and amortisation of HK\$2,703 million (1999: HK\$2,673 million), consisting of HK\$1,957 million (1999: HK\$1,647 million) from its railway and related operations and profit on property developments of HK\$746 million (1999: HK\$1,026 million). Depreciation for the first six months of 2000 was HK\$1,052 million (1999: HK\$995 million), all of which was attributable to the Company's railway and related operations. After taking into account interest and finance charges, the Company's profit for the first six months of 2000 was HK\$1,051 million (1999: HK\$1,148 million).

STRENGTHS

- The Company is well-positioned to benefit from Hong Kong's long-term economic and population growth.

SUMMARY

- The Company is a leading provider of public transport services in Hong Kong and operates one of the world's most profitable, cost efficient and safe urban railways.
- The Company is well positioned to benefit from the Government's transport planning strategy, expected demographic developments and the regulatory framework under which it operates, in addition to the supportive relationship it has with the Government.
- The Company has an established track record for property development associated with its railway projects.
- The Company has an experienced and motivated management team that has demonstrated a consistent operating performance based on prudent commercial principles.
- The Company's strong and well-disciplined financial management has led to the Company being recognised as a leading Asian borrower in the international capital markets.

FUTURE PLANS AND STRATEGIES

The Company's key objective is to continue to develop and manage a world class railway together with property and other related businesses, to maximise its inherent strengths and to enhance shareholder value. The Company has developed the following principal future plans and strategies to achieve this:

- **Existing railway and related operations**
 - To derive maximum value from its railway assets and related operations.
 - To plan and deliver a cost efficient, reliable, safe and environmentally friendly railway service to satisfy the Company's existing customers and attract new customers.
- **Extensions, improvement projects and future new projects**
 - To extend the railway system when the transport need and commercial viability has been demonstrated and to carry out such extensions in a timely and cost effective manner.
- **Property**
 - To leverage its competitive advantage in property development by obtaining development sites in conjunction with railway development.
 - To capitalise on the opportunities resulting from its proposed agreement with Superhome for the provision of a property portal.
- **Finance matters**
 - To plan, manage and control its finances in a prudent commercial manner and maintain its financing capabilities both in the local and international markets.

SUMMARY

- To minimise its cost of capital within a prudent capital structure through cost effective financing.
- **Management and employees**
 - To align management and employee interests through the implementation of the Pre-Global Offering Share Option Scheme and the Employee Share Grant.

RISK FACTORS

The Company and the Selling Shareholder consider that there are certain risks and considerations relating to the Company and its business, Hong Kong and the Shares and ADSs. These risk factors and considerations are contained in the section headed “Risk Factors” as follows:

- **Risks relating to the Company and its business**
 - Competition in Hong Kong from other transport providers may adversely affect the Company.
 - The growth of the Company’s railway and property businesses and increase in patronage depends, in part, on the award to the Company of new railway projects, the implementation of those projects and on factors that the Company may not be able to control.
 - If the Government were to award the proposed Shatin to Central Link railway project to KCRC or to another party, the Company expects that it would suffer a decrease in revenues, which may have a material adverse effect on the results of its operations, and that the benefits that it would otherwise derive from undertaking the project would not materialise.
 - The Company’s ability to raise fares to cover its operating costs could be limited by a number of factors.
 - The Government can exert significant influence on the Company and could cause it to make decisions, modify the scope of its activities or impose new obligations on it that may not necessarily be in the best interests of the Company or its other shareholders. The Government’s policies, intentions, preferences, views, expectations, projections, forecasts and opinions set out in this prospectus could be changed or modified in the future.
 - The Company requires significant capital for its business and is exposed to the impact of interest rate and foreign currency movements in respect of its borrowings. If the Company is unable to obtain additional capital on acceptable terms when needed, its growth prospects and future profitability may be adversely affected.
 - The Company’s property business is subject to fluctuations in the Hong Kong property market as well as to general risks incidental to the ownership and management of rental properties.
 - In certain circumstances, the Government has the power to suspend and revoke the Company’s franchise under the new MTR Ordinance.

SUMMARY

- Accidents and natural disasters could lead to decreased revenues and increased expenditure and reduce the Company's operating flexibility.
- **Risks relating to Hong Kong**
 - Economic, political and legal developments in Hong Kong could affect the Company's business.
 - A devaluation of the HK dollar may increase costs associated with the Company's capital expansion and will increase the HK dollar cost of repaying the Company's indebtedness.
- **Risks relating to the Shares, the ADSs and applications using an ESP**
 - Sales or issues of substantial numbers of Shares or other securities relating to the Shares or the transfer of Shares by the Selling Shareholder to eligible shareholders under the Loyalty Share Bonus, or the perception that such sales, issues or transfers may occur, could materially and adversely affect the prevailing market price of the Shares and the ADSs or the ability of the Company to raise capital through a public offering of additional equity or equity-linked securities.
 - If an active market for the Shares and the ADSs fails to develop or be sustained, the price of the Shares and the ADSs may fall.
 - The Company's future financial performance may vary materially from the estimated financial information provided in this prospectus, which may cause the market price of the Shares and the ADSs to be affected.
 - Applications using an ESP are available for the first time in Hong Kong and there can be no assurance that applications made using an ESP will result in all or any such applications for the Hong Kong Offer Shares being validly submitted.

THE GLOBAL OFFERING

The Global Offering comprises: (i) the Hong Kong Public Offering of an initial 200,000,000 Offer Shares; and (ii) the International Offering of an initial 800,000,000 Offer Shares, each of which initially represents 20% and 80%, respectively, of the total number of Shares initially available under the Global Offering. The Offer Price is expected to be fixed by agreement between the Joint Global Coordinators, on behalf of the Underwriters, and the Selling Shareholder, after consultation with the Company, on the Price Determination Date, when market demand for the Shares and ADSs will be determined. If, for any reason, such price is not agreed, the Global Offering will not proceed.

The Joint Global Coordinators, on behalf of the Underwriters, may, with the consent of the Selling Shareholder, reduce the number of Shares being offered in the Global Offering and/or the indicative Offer Price range below that stated in this prospectus (which is HK\$8.00 to HK\$9.38 per Offer Share) at any time prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, notices of the reduction in the number of Shares and/or the indicative Offer Price range will be published in the South China Morning Post and the Hong Kong Economic Times not later than the morning of the

SUMMARY

last day for lodging applications under the Hong Kong Public Offering. If applications for Hong Kong Offer Shares have been submitted prior to the day which is the last day for lodging applications under the Hong Kong Public Offering, then even if the number of Shares and/or the Offer Price is so reduced, such applications cannot be subsequently withdrawn.

Before submitting applications for Hong Kong Offer Shares, applicants should have regard to the possibility that any announcement of a reduction in the number of Shares being offered in the Global Offering and/or the indicative Offer Price range may not be made and published until the day which is the last day for lodging applications under the Hong Kong Public Offering.

Investors may apply for Hong Kong Offer Shares under the Hong Kong Public Offering or apply, or indicate an interest, for Offer Shares and/or ADSs under the International Offering, but may not do both.

The Hong Kong Public Offering is a fully underwritten public offer, subject to agreement as to pricing and the other conditions described in the paragraph headed “Conditions of the Global Offering” in the section headed “Structure of the Global Offering”. An initial amount of 200,000,000 Offer Shares is being offered under the Hong Kong Public Offering of which: (i) 20,000,000 Hong Kong Offer Shares (representing 10% of the total number of Hong Kong Offer Shares initially being offered under the Hong Kong Public Offering) will be available for purchase by the full time employees of the Company (other than Members of the Board, Members of the Executive Directorate and their respective associates (as defined in the Listing Rules)); and (ii) no less than 180,000,000 Hong Kong Offer Shares (representing 90% of the total number of Hong Kong Offer Shares initially being offered under the Hong Kong Public Offering) will be available for purchase by the public.

Paragraph 3 of Practice Note 18 of the Listing Rules, entitled “Initial Public Offer of Securities”, requires the total number of Hong Kong Offer Shares pursuant to (ii) above to be divided equally into pools: Pool A and Pool B. Each valid application (other than made pursuant to (i) above) that has been received for Hong Kong Offer Shares to a value (excluding brokerage and Stock Exchange transaction levy payable thereon) of HK\$5 million or less will fall into Pool A and each valid application (other than made pursuant to (i) above) that has been received for Hong Kong Offer Shares to a value (excluding brokerage and Stock Exchange transaction levy payable thereon) of more than HK\$5 million will fall into Pool B.

The Stock Exchange has granted a waiver from strict compliance with paragraph 3 of Practice Note 18 of the Listing Rules such that the Joint Global Coordinators and the Selling Shareholder, after consultation with the Company, shall have absolute discretion in determining the number of Hong Kong Offer Shares which shall comprise each of Pool A and Pool B. The number of Hong Kong Offer Shares comprised in each of Pool A and Pool B will initially be divided equally between the two pools. However, if demand for Hong Kong Offer Shares falling within Pool A is significant or otherwise justified, and irrespective of whether Pool B is undersubscribed or not, it is expected that the number of Hong Kong Offer Shares comprising Pool A will be increased in order to increase the allocation ratio of Pool A, with a view to allowing more Pool A applicants to receive allocations of Hong Kong Offer Shares.

SUMMARY

In accordance with Practice Note 18 of the Listing Rules, Hong Kong Offer Shares in each of Pool A and Pool B are available on an equitable basis to applicants falling within each pool.

Applicants should be aware that applications in Pool B are likely to receive different allocation ratios than applications in Pool A. Where either of the pools is undersubscribed, the surplus Hong Kong Offer Shares will be transferred to satisfy demand in the other pool and be allocated accordingly. Applicants can only receive an allocation of Hong Kong Offer Shares from Pool A or Pool B but not from both pools. Multiple or suspected multiple applications are liable to be rejected.

Applications for more than the total number of Hong Kong Offer Shares originally allocated to each pool may not be accepted. On the basis that the number of Hong Kong Offer Shares originally allocated to Pool B will not be more than 50% of the Offer Shares initially comprised in the Hong Kong Public Offering, excluding those offered pursuant to (i) above (that is, 90,000,000 Offer Shares), any application for over 90,000,000 Hong Kong Offer Shares is liable to be rejected.

In addition, the number of Hong Kong Offer Shares comprised in Pool A and Pool B will not be determined until after applications have been made. Following such determination, applications in excess of the number of Hong Kong Offer Shares finally determined to be comprised in Pool B (but not more than the initial maximum number) will be deemed to have been made at the number of Hong Kong Offer Shares finally determined to be in Pool B.

Paragraph 4.2 of Practice Note 18 of the Listing Rules, entitled “Initial Public Offer of Securities”, requires a clawback mechanism to be put in place which would have the effect of increasing the number of Hong Kong Offer Shares to certain percentages of the total number of Offer Shares offered in the Global Offering if certain prescribed total demand levels are reached. The Stock Exchange has granted a waiver from strict compliance with paragraph 4.2 of Practice Note 18 of the Listing Rules such that, in the event of over-applications, the Selling Shareholder and the Joint Global Coordinators, after consultation with the Company, shall apply a clawback mechanism following closing of the application lists on the basis of factors including, *inter alia*, total demand in the Hong Kong Public Offering, with a view to ensuring that applicants under the Hong Kong Public Offering are treated no less favourably than they would otherwise have been under the clawback requirements set out in Practice Note 18 of the Listing Rules.

The final number of Hong Kong Offer Shares comprised in the Hong Kong Public Offering, Pool A and Pool B, respectively, will, following the determination by the Selling Shareholder and the Joint Global Coordinators, after consultation with the Company, be published on Tuesday, 3rd October, 2000 with the announcement of the Offer Price, the level of indications of interest in the International Offering, the level of applications in the Hong Kong Public Offering and the basis of allocations of the Hong Kong Offer Shares.

The results of allocations of the Hong Kong Offer Shares will be available through a variety of channels from Wednesday, 4th October, 2000. Further details are contained in the section headed “Prospectus, Application Forms and Results of Allocations”.

SUMMARY

In the event that a clawback mechanism is applied, the number of Offer Shares allocated in the International Offering will be correspondingly reduced, in such manner as the Joint Global Coordinators deem appropriate, and such additional Offer Shares will be allocated to the Hong Kong Public Offering.

In addition, under the International Underwriting Agreement, the Selling Shareholder intends to grant to the International Underwriters the Over-allotment Option, exercisable by the Joint Global Coordinators, on behalf of the International Underwriters, within 30 days after the date on which dealings in the Shares commence on the Stock Exchange, to require the Selling Shareholder to sell up to an aggregate of 150,000,000 additional Shares at the Offer Price solely to cover over-allocations in the International Offering, if any. The Joint Global Coordinators may also cover over-allocations by stock borrowing in accordance with arrangements described in the paragraph headed “Stabilisation” in the section headed “Information about this Prospectus and the Global Offering.”

In the event that the number of Shares comprised in the Global Offering is reduced, the Over-allotment Option will be correspondingly reduced such that it shall be in respect of Offer Shares of an amount no more than 15% of such reduced number of Shares comprised in the Global Offering.

Full time employees of the Company (other than Members of the Board, Members of the Executive Directorate and their respective associates (as defined in the Listing Rules)) will be able to apply for Hong Kong Offer Shares using **PINK** Application Forms. Such employees of the Company will receive no preference as to entitlement of allocation in respect of applications for Hong Kong Offer Shares made using the Hong Kong Public Offering Methods. In addition, full time employees of the Company (including Members of the Board, Members of the Executive Directorate and their respective associates (as defined in the Listing Rules)) will be entitled to apply for Hong Kong Offer Shares using any of the Hong Kong Public Offering Methods. Any applications for Hong Kong Offer Shares made by the Members of the Board, Members of the Executive Directorate and their respective associates (as defined in the Listing Rules) are subject to the conditions contained in Rule 10.03 of the Listing Rules. Accordingly, no Hong Kong Offer Shares can be offered to them on a preferential basis and no preferential treatment can be given to them in the allocation of Hong Kong Offer Shares and the prescribed minimum percentage of public shareholders must be achieved. In relation to Rule 8.08(1) of the Listing Rules, the Company has applied to the Stock Exchange for confirmation, and the Stock Exchange has accepted, that the prescribed minimum percentage of Shares which must be in the hands of the public must not be less than 10% because the Company has an expected market capitalisation at the time of listing of over HK\$4,000 million and the number of Shares concerned is expected to be sufficient to ensure that there is an open market in the Shares.

Further details of the structure of the Global Offering are contained in the section headed “Structure of the Global Offering”.

RETAIL INCENTIVES

Certain individuals who satisfy the eligibility conditions in the paragraph headed “Eligibility Conditions” in the section headed “Retail Incentives” who apply for Hong Kong Offer Shares in the Hong Kong Public Offering will be eligible to receive the Retail Incentives.

SUMMARY

The Retail Incentives in the form of the Retail Discount and Bonus Shares are only available in respect of the first HK\$5 million (excluding brokerage and Stock Exchange transaction levy and before applying the Retail Discount) worth of Hong Kong Offer Shares allocated in a successful application, rounded down to the nearest board lot.

The Retail Discount will be available only in connection with Hong Kong Offer Shares purchased in the Hong Kong Public Offering. The Loyalty Share Bonus will be available only in connection with Hong Kong Offer Shares purchased in the Hong Kong Public Offering and continuously held for the relevant period(s) and not in connection with Shares purchased subsequently.

Further details of the Retail Incentives are contained in the section headed “Retail Incentives”.

SUMMARY

SUMMARY HISTORICAL FINANCIAL INFORMATION

The tables below show the Company's summary historical profit and loss account data, cash flow statement data and selected financial ratios for each of the five years ended 31st December, 1999 and the six months ended 30th June, 1999 and 2000 and the Company's summary historical balance sheet data as at 31st December, 1995, 1996, 1997, 1998 and 1999 and 30th June, 2000. The summary historical profit and loss account data, cash flow statement data and selected financial ratios for each of the three years ended 31st December, 1999 and the six months ended 30th June, 2000 and the summary historical balance sheet data as at 31st December, 1997, 1998 and 1999 and 30th June, 2000 are based on information included in the Accountants' Report contained in Appendix I. The summary historical profit and loss account data (except for basic earnings per Share data), cash flow statement data and selected financial ratios for each of the two years ended 31st December, 1996 and the summary historical balance sheet data as at 31st December, 1995 and 1996 have been derived from the audited financial statements included in the Company's 1995 and 1996 annual reports. Certain figures in the 1995 and 1996 audited financial statements have been reclassified to conform with the present presentation. These financial statements and information relate to historical results of operations and financial position of the Company. **Figures and data stated in this prospectus as at and for the six months ended 30th June, 1999 are derived from the unaudited management accounts of the Company and are included for the purposes of comparison.**

Group accounts of the Company and its subsidiaries are not prepared, in view of the Company having no effective control over the board of one of its subsidiaries, Creative Star and the relatively insignificant amounts involved in the other subsidiaries (see Note 1(a) to the financial statements in the Accountants' Report contained in Appendix I). Accordingly, the financial statements included in the Accountants' Report in Appendix I are the non-consolidated financial statements of the Company with appropriate disclosures of information relating to its subsidiaries. In this connection, each of the Securities and Futures Commission and the Stock Exchange have granted an appropriate exemption and waiver, respectively, further details of which are contained in the paragraph headed "Overview" in the section headed "Financial Information".

Profit and Loss Account Data:

	Year ended 31st December,					Six months ended 30th June,	
	1995	1996	1997	1998	1999	2000	1999
	(HK\$ million, except for basic earnings per Share)						
Turnover.....	5,737	6,253	6,574	6,981	7,252	3,655	3,471
Operating profit from railway and related operations before depreciation ⁽¹⁾	3,144	3,340	3,529	3,301	3,493	1,957	1,647
Profit/(costs) on property developments.....	(1)	2	276	1,419	2,030	746	1,026
Depreciation.....	(658)	(850)	(927)	(1,426)	(2,039)	(1,052)	(995)
Interest and finance charges.....	(1,289)	(957)	(95)	(475)	(1,104)	(600)	(528)
Profit for the period.....	1,196	1,535	2,783	2,819	2,116	1,051	1,148
Dividend.....	—	(647)	(1,252)	—	—	—	—
Retained profit for the period.....	1,196	888	1,531	2,819	2,116	1,051	1,148
Basic earnings per Share ⁽²⁾ (in HK\$).....	0.24	0.31	0.56	0.56	0.42	0.21	0.23

Notes:

- (1) Includes operating profit from railway operations, advertising, kiosk rental and miscellaneous businesses and property ownership and management income.
- (2) Basic earnings per Share is calculated based on the profit for the relevant period and assuming that the total number of 5,000,000,000 Shares in issue on 25th September, 2000 were in issue throughout the relevant period, taking no account of any Shares which may be issued or repurchased under the Issue Mandate or the Repurchase Mandate, as the case may be, referred to in the paragraph headed "Written resolutions of all the shareholders of the Company" in Appendix IX.

SUMMARY

Balance Sheet Data:

	At 31st December,					At
	1995	1996	1997	1998	1999	30th June, 2000
	(HK\$ million)					
Total assets.....	45,356	64,644	75,422	82,104	87,250	90,816
Loans, obligations under finance leases and bank overdrafts	14,736	12,696	10,875	16,897	23,177	25,591
Deferred income ⁽¹⁾	1,056	9,094	16,705	15,970	13,776	13,028
Shareholder funds.....	25,261	35,473	41,815	42,601	45,115	47,239

Note:

(1) Represents the balance of up-front payments received from developers in excess of the related costs incurred by the Company for property development projects, not yet recognised as profit by the Company.

Cash Flow Statement Data:

	Year ended 31st December,					Six months ended 30th June,	
	1995	1996	1997	1998	1999	2000	1999
	(HK\$ million)						
Net cash inflow from operating activities	3,259	3,488	3,377	3,915	3,311	1,926	1,741
Net cash outflow from servicing of finance and returns on investments	(1,145)	(883)	(877)	(2,107)	(1,387)	(947)	(660)
Investing activities							
— Capital expenditure							
— Airport Railway Project.....	(6,880)	(8,266)	(10,177)	(5,103)	(1,847)	(74)	(1,189)
— TKE Project	—	—	(272)	(885)	(2,816)	(1,560)	(1,024)
— Other capital projects	(1,562)	(2,828)	(3,272)	(3,710)	(3,415)	(1,263)	(1,674)
— Property development projects	(1,069)	(1,619)	(1,776)	(1,992)	(1,568)	(519)	(771)
— Receipts from property developers.....	910	10,119	9,440	—	613	120	613
— Other cash inflow/(outflow) from investing activities.....	1	(543)	(896)	(185)	96	(86)	5
Net cash inflow from financing	8,206	5,934	2,192	5,988	6,270	2,401	5,717

Selected Financial Ratios:

	Year ended 31st December,					Six months ended 30th June,	
	1995	1996	1997	1998	1999	2000	1999
Operating profit from railway and related operations before depreciation as a percentage of turnover (%).....	54.8	53.4	53.7	47.3	48.2	53.5	47.5
Net debt/equity ratio (net of cash and cash equivalents) (%)	51.5	15.6	14.4	37.8	51.2	54.0	43.5
Net debt/equity ratio (net of cash and cash equivalents) (excluding revaluation reserves) (%).....	64.8	19.2	17.3	42.9	58.3	62.7	49.3
Net interest cover (in times).....	2.9	4.0	15.7	5.1	3.7	2.9	4.0

SUMMARY

ADDITIONAL DATA

The tables below show certain additional data for each of the five years ended 31st December, 1999 and the six months ended 30th June, 1999 and 2000. The additional data are unaudited and included for information purposes. The additional data for each of the three years ended 31st December, 1999 and the six months ended 30th June, 2000 are based on financial information included in the Accountants' Report contained in Appendix I and operational data supplied by the Company. The additional data for each of the two years ended 31st December, 1995 and 1996 are based on financial information included in the Company's 1995 and 1996 annual reports and operational data supplied by the Company. The additional data for the six months ended 30th June, 1999 is based on the unaudited management accounts and operational data supplied by the Company.

Railway Operations:

	Year ended 31st December,					Six months ended 30th June,	
	1995	1996	1997	1998 ⁽¹⁾	1999 ⁽²⁾	2000	1999
Operating data:							
Route kilometres	43.2	43.2	43.2	82.2	82.2	82.2	82.2
Total number of passengers (thousands)							
— MTR Lines	812,519	816,572	811,897	793,602	779,309	375,561	385,522
— Airport Express Line	—	—	—	3,928	10,396	5,325	5,008
Average number of passengers (thousands)							
— MTR Lines — weekday average	2,377	2,379	2,382	2,326	2,284	2,218	2,291
— Airport Express Line — daily average	—	—	—	21.9	28.5	29.3	27.7
Market share ⁽³⁾ (%)							
— Average of all franchised movements	27.4	26.7	25.9	25.7	25.2	24.1	25.2
— Average of cross harbour movements	67.6	66.5	64.2	61.9	60.3	58.2	61.0
— To/from the Airport ⁽⁴⁾	—	—	—	24.8	31.9	32.4	30.4
Financial data:							
Fare revenue per passenger carried (HK\$)							
— MTR Lines	5.80	6.22	6.39	6.59	6.67	6.69	6.51
— Airport Express Line	—	—	—	53.97	42.80 ⁽⁵⁾	47.32	41.80
Railway operating cost (before depreciation) per passenger carried (HK\$)	2.97	3.32	3.45	4.24	4.37	4.12	4.34
Railway operating cost (before depreciation) per car km operated (HK\$)	29.3	32.4	33.2	32.8	30.3	28.4	29.2
Railway EBITDA ⁽⁶⁾ per car km operated (HK\$)	27.9	28.2	28.4	19.9	19.2	21.7	17.7
Railway EBITDA ⁽⁶⁾ per passenger carried (HK\$)	2.83	2.89	2.95	2.58	2.77	3.15	2.62

Notes:

- (1) The Tung Chung Line commenced operations on 22nd June, 1998 and the Airport Express Line commenced operations on 6th July, 1998.
- (2) The first full year of operations of the Airport Express and Tung Chung Lines was 1999.
- (3) Market share is calculated by the Company and represents the percentage of franchised public transportation boardings in Hong Kong, which comprises boardings on the Mass Transit Railway, KCR, franchised buses, trams, ferries and green PLBs (including in areas that the Mass Transit Railway does not serve), but excludes boardings on taxis, red PLBs, and non-franchised buses, for which no reliable data is available.
- (4) Based on surveys carried out by the Company of passengers twice per year travelling to or from the passenger terminal at the Airport by various modes of transport.
- (5) Fare revenue per passenger carried on the Airport Express Line in 1999 was less than the figure for 1998 due to the introduction in 1999 of discounted fares and various promotional arrangements.
- (6) Railway EBITDA means earnings from railway operations before interest, tax, depreciation and amortisation.

SUMMARY

Property Business:

	Year ended 31st December,					Six months ended 30th June,	
	1995	1996	1997	1998	1999	2000 ⁽¹⁾	1999
Investment properties:							
Lettable floor area (m ²)	69,250	88,862	88,862	117,984	117,984	131,203	117,984
Parking spaces (number)	2,351	2,487	2,487	2,843 ⁽²⁾	2,843 ⁽²⁾	2,843 ⁽²⁾	2,843 ⁽²⁾
Property rental income for the period (HK\$ million)	483	490	577	654	740	400	339
Managed properties:							
Gross floor area managed (m ²)							
— Office	126,490	153,125	153,125	153,125	153,125	153,125	153,125
— Retail	120,362	151,392	151,392	197,562	200,562	200,562	197,562
Managed residential flats (number)							
	28,729	28,729	28,729	28,729	34,387	36,701	28,729
Property management income for the period (HK\$ million)							
	36	37	39	43	50	28	24
Development properties⁽³⁾							
(Packages awarded):							
Gross floor area awarded during the period (m ²)							
— Residential	934,180	1,020,972	581,619	0	234,445	165,640	128,845
— Office	676,610	1,231,682	1,743,701	1,743,701	1,978,146	2,143,786	1,872,546
— Retail	126,000	380,190	380,190	380,190	380,190	380,190	380,190
— Hotel	109,570	219,030	226,630	226,630	226,630	226,630	226,630
— Hotel	22,000	124,250	186,250	186,250	186,250	186,250	186,250
Total since 1995 ⁽⁴⁾	934,180	1,955,152	2,536,771	2,536,771	2,771,216	2,936,856	2,665,616
— Parking spaces (number)	4,347	8,550	11,426	11,437 ⁽²⁾	11,838 ⁽²⁾	12,787-12,900 ⁽²⁾	11,838 ⁽²⁾
Profit/(costs) on property development for the period (HK\$ million)							
	(1)	2	276	1,419	2,030	746	1,026

Notes:

- (1) Changes that have occurred since 30th June, 2000 are discussed in the paragraph headed "Property" in the section headed "Business".
- (2) Excluding 50 motor cycle parking spaces at Tsing Yi station.
- (3) The areas of GIC Facilities are excluded from the figures contained in this section of the table.
- (4) On a cumulative basis as at the end of the relevant period.

SUMMARY

FORECASTS FOR THE YEAR ENDING 31ST DECEMBER, 2000

Forecast profit after taxation but before extraordinary items ⁽¹⁾	not less than HK\$3,600 million
Forecast earnings per Share	
— Basic ⁽²⁾	HK\$0.72
— Diluted ⁽³⁾	HK\$0.72

Notes:

- (1) The bases on which the above forecast profit after taxation but before extraordinary items has been prepared are set out in Appendix IV. The Members of the Board and Members of the Executive Directorate are not aware of any extraordinary items which have arisen up to the date of this prospectus.
- (2) The calculation of the basic forecast earnings per Share is based on the forecast profit after taxation but before extraordinary items for the year ending 31st December, 2000 assuming that the 5,000,000,000 Shares in issue prior to the Global Offering were in issue throughout the year ending 31st December, 2000. The calculation takes no account of any Shares which may be issued or repurchased under the Issue Mandate or the Repurchase Mandate, as the case may be, referred to in the paragraph headed "Written resolutions of all the shareholders of the Company" in Appendix IX.
- (3) The calculation of the forecast diluted earnings per Share is based on the forecast profit after taxation but before extraordinary items for the year ending 31st December, 2000 assuming that all the Shares in respect of which options may be granted under the Pre-Global Offering Share Option Scheme described in Appendix IX were granted on 20th September, 2000, that all options were exercised in respect of all such underlying Shares on the same day and that the fair value of the Shares for the year ending 31st December, 2000 was the Offer Price under the Hong Kong Public Offering. The total numbers of Shares in respect of which options may be granted on the basis of the minimum Offer Price of HK\$8.00 per Share and the maximum Offer Price of HK\$9.38 per Share are 56,762,500 Shares and 48,442,500 Shares, respectively. The forecast diluted earnings per Share calculated based on either the minimum or the maximum Offer Prices is approximately HK\$0.72 per Share. The calculation takes no account of any Shares which may be issued or repurchased under the Issue Mandate or the Repurchase Mandate, as the case may be, referred to in the paragraph headed "Written resolutions of all the shareholders of the Company" in Appendix IX.

SUMMARY

OFFER STATISTICS

	Based on an Offer Price of HK\$8.00 per Offer Share ⁽¹⁾	Based on an Offer Price of HK\$9.38 per Offer Share ⁽¹⁾
Market capitalisation ⁽²⁾	HK\$40.0 billion	HK\$46.9 billion
Prospective price earnings multiple on a diluted basis ⁽³⁾	11.1 times	13.0 times
Adjusted net tangible asset value per Share ⁽⁴⁾	HK\$15.88	HK\$15.88

Notes:

- (1) The Offer Price does not include 1% brokerage, and 0.01% Stock Exchange transaction levy.
- (2) The calculation of market capitalisation is based on 5,000,000,000 Shares being in issue immediately following completion of the Global Offering without taking into account any Shares which may be issued or repurchased under the Issue Mandate or the Repurchase Mandate, as the case may be, referred to in the paragraph headed "Written resolutions of all the shareholders of the Company" in Appendix IX.
- (3) The calculation of the prospective price earnings multiple on a diluted basis is based on the forecast diluted earnings per Share of HK\$0.72.
- (4) The adjusted net tangible asset value per Share has been arrived at after making the adjustments referred to in the paragraph headed "Adjusted net tangible assets" in the section headed "Financial Information", on the basis of 5,000,000,000 Shares being in issue immediately following completion of the Global Offering. The calculation does not take into account any Shares which may be issued or repurchased under the Issue Mandate or the Repurchase Mandate, as the case may be, referred to in the paragraph headed "Written resolutions of all the shareholders of the Company" in Appendix IX.

DIVIDENDS

In the absence of unforeseen circumstances, the Board of Directors intends to recommend a final dividend in respect of the year ending 31st December, 2000, payable in or around June 2001. The Board of Directors expects that such final dividend will represent a per annum dividend yield of approximately 4.5% (based on the final Offer Price) which, given that the Company will not have been listed for the whole of the year ending 31st December, 2000, will be pro-rated accordingly.

For subsequent financial years, the Board of Directors anticipates that, subject to the financial performance of the Company, the Company will pay two dividends in respect of each financial year with interim and final dividends payable in October and June, respectively, with the interim dividend representing approximately one third of the total dividends to be paid for the entire year.

The Company intends that a scrip dividend election will be offered to all shareholders and holders of ADSs (subject to applicable securities laws) in respect of future dividends for the financial year ending 31st December, 2000 and for each of the three financial years ending 31st December, 2003. The Selling Shareholder has agreed that, in respect of the final dividend for the financial year ending 31st December, 2000 and any dividends declared in respect of each of the three financial years ending 31st December, 2003, it will elect to receive all or part of its entitlement to dividends in the form of Shares 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 in the form of cash.

Further details relating to dividends are contained in the paragraph headed "Profit forecast and dividends" in the section headed "Financial Information".

SUMMARY

USE OF PROCEEDS

The Company will receive none of the net proceeds of the Global Offering. The Selling Shareholder will receive all of the net proceeds of the Global Offering (after deduction of commissions and estimated expenses in connection with the Global Offering, assuming the Over-allotment Option is not exercised and assuming an Offer Price of HK\$9.38 per Offer Share being the maximum Offer Price), which are estimated to be approximately HK\$8,982 million (or approximately HK\$10,361 million, if the Over-allotment Option is exercised in full).

There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares and the ADSs are set out in the section headed “Risk Factors.” You should read that section carefully before you decide to invest in the Offer Shares or the ADSs.

DEFINITIONS

In this prospectus, unless the context otherwise requires, the following terms shall have the meanings indicated:

“ADS”	an American depository share issued by the Depository representing ownership of 10 Shares
“Airport”	the Hong Kong International Airport located at Chek Lap Kok on Lantau Island, Hong Kong
“Airport Express Line”	the line known by that name, further details of which are contained in the paragraph headed “The Airport Express Line” in the section headed “Business”
“Airport Railway Agreement”	the “Agreement for the Design, Construction, Financing and Operation of the Airport Railway” dated 5th July, 1995 between the Secretary for the Treasury for and on behalf of the Government and the Company (as amended and restated with effect from the Appointed Day)
“Airport Railway Project”	the project relating to the Airport Express and Tung Chung Lines
“Application Forms”	WHITE, BLUE, YELLOW and PINK application forms and the ESP Application Form, or where the context so requires, any of them
“Appointed Day”	the day designated as the appointed day by the Secretary for Transport under the new MTR Ordinance, being 30th June, 2000
“Articles of Association” or “Articles”	the articles of association of the Company
“Board of Directors”	the board of directors of the Company
“Bonus Shares”	the Shares to be transferred by the Selling Shareholder under the Loyalty Share Bonus, further details of which are contained in the section headed “Retail Incentives”
“CCASS”	the Central Clearing and Settlement System established and operated by Hongkong Clearing
“CCASS Broker Participant”	a person admitted to participate in CCASS as a broker participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant

DEFINITIONS

“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant
“CCASS Participant”	a CCASS Broker Participant, a CCASS Custodian Participant or a CCASS Investor Participant, who may be an individual or joint individuals or a corporation
“Chief Executive”	the Chief Executive of Hong Kong (and a person for the time being assuming the duties of the Chief Executive according to the provisions of Article 53 of the Basic Law of Hong Kong)
“Chief Executive in Council”	the Chief Executive acting after consultation with the Executive Council of Hong Kong
“Citybus” or “CTB”	Citybus Limited
“CoMET”	the community of metros, an association of 10 metropolitan mass transit companies from around the world, further details of which are contained in the paragraph headed “International performance benchmarking” in the section headed “Business”
“Commissioner for Transport”	the Commissioner for Transport of Hong Kong
“Companies Ordinance”	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) (as amended)
“Company”	the Corporation and/or MTRC, as the context requires
“Corporation”	MTR Corporation Limited (地鐵有限公司), a company which was incorporated under the Companies Ordinance on 26th April, 2000 and whose registered number is 714016
“Creative Star”	Creative Star Limited, a subsidiary of the Company which it owns as to 67.8% and which was incorporated under the Companies Ordinance on 29th June, 1993
“Deposit Agreements”	the agreements relating to American Depositary Receipts evidencing the ADSs entered into among the Company, the Depositary and the holders from time to time of the American Depositary Receipts evidencing the ADSs
“Depositary”	Morgan Guaranty Trust Company of New York
“Director” and “Member of the Board”	a member of the Board of Directors

DEFINITIONS

“East Kowloon Line”	the proposed line known by that name, further details of which are contained in the paragraph headed “New railway projects” in the section headed “Industry Background”
“Eligibility Conditions”	the conditions which must be met by applicants in order to receive any of the Retail Incentives, further details of which are contained in the paragraph headed “Eligibility Conditions” in the section headed “Retail Incentives”
“Employee Share Grant”	the transfer of Shares to certain employees of the Company by the Selling Shareholder free of charge, the principal terms of which are summarised in the paragraph headed “Employee Share Grant” in Appendix IX
“ESP” or “eIPO Service Provider”	a registered dealer or an exempt dealer as defined under the Securities Ordinance or a recognised clearing house as defined under the Securities and Futures (Clearing Houses) Ordinance (Chapter 420 of the Laws of Hong Kong), who is providing a service to applicants to act as their agent to apply for Hong Kong Offer Shares using the ESP Application Form
“ ESP Application Form”	the form of application for use by ESPs in making a bulk share application for Hong Kong Offer Shares as agent on behalf of applicants
“Executive Directorate”	the body known by that name, further details of which are contained in the section headed “Members of the Board, Members of the Executive Directorate, Senior Management and Employees”
“Fasttrack Insurance”	Fasttrack Insurance Limited, a 100% owned subsidiary of the Company which was incorporated in Bermuda on 14th November, 1997
“Financial Secretary”	the Financial Secretary of Hong Kong and the Secretary for the Treasury of Hong Kong
“Fourth Rail Harbour Crossing”	the proposed extension of the East Kowloon Line from Hung Hom across Victoria Harbour which, in the Railway Development Strategy 2000, is proposed to form part of the Shatin to Central Link
“GIC Facilities”	Government, institution and community facilities required by the Government to be erected,

DEFINITIONS

	constructed and maintained upon or adjacent to a property development site pursuant to the relevant conditions of grant and master layout plan for that site
“Global Offering”	the Hong Kong Public Offering and the International Offering
“Government”	the government of Hong Kong
“Government Gazette”	the Government of the Hong Kong Special Administrative Region Gazette and any supplement thereto; the Gazette published by the Administration on or between 12th October, 1945 and 1st May, 1946; the Government of the Hong Kong Special Administrative Region Gazette Extraordinary; the Hong Kong Government Gazette and any supplement thereto published before 1st July, 1997; and any Special Gazette or Gazette Extraordinary published before 1st July, 1997
“HKMA”	Hong Kong Monetary Authority
“HKSCC Nominees”	HKSCC Nominees Limited, a 100% owned subsidiary of Hongkong Clearing
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Hongkong Clearing”	Hong Kong Securities Clearing Company Limited
“Hong Kong dollars” or “HK dollars” or “HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong GAAP”	generally accepted accounting principles in Hong Kong
“Hong Kong Offer Shares”	the 200,000,000 Offer Shares offered in the Hong Kong Public Offering
“Hong Kong Public Offering”	the offer for sale of the Hong Kong Offer Shares in Hong Kong at the Offer Price and on and subject to the terms and conditions described in this prospectus and the Application Forms, as further described in the section headed “Structure of the Global Offering”
“Hong Kong Public Offering Methods”	an application made for Hong Kong Offer Shares using WHITE , BLUE or YELLOW Application Forms or using an ESP or by electronically instructing Hongkong Clearing to cause HKSCC Nominees to

DEFINITIONS

apply on your behalf, details of which are contained in the section headed “How to Apply for Hong Kong Offer Shares”

“Hong Kong Underwriters”

Goldman Sachs (Asia) L.L.C., HSBC Investment Bank Asia Limited, UBS Warburg, a business group of UBS AG, BOCI Asia Limited, Jardine Fleming Securities Limited, Celestial Capital Limited, Corporate Brokers Ltd, Dao Heng Securities Limited, Get Nice Investment Limited, Hang Seng Securities Limited, Indosuez W.I. Carr Securities Limited, ING Barings Asia Limited, Ka Wah Capital Limited, Kim Eng Securities (Hong Kong) Limited, Kleinwort Benson Limited, Lippo Securities Limited, Morgan Stanley Dean Witter Asia Limited, Prudential-Bache Securities (Hong Kong) Limited, Roctec Securities Company Limited, Sanfull Securities Limited, SG Securities (HK) Limited, Shenyin Wanguo Capital (H.K.) Limited, South China Securities Limited, Sun Hung Kai International Limited, Tai Fook Securities Company Limited, The Bank of East Asia, Limited and Vickers Ballas Capital Limited

“Hong Kong Underwriting Agreement”

the underwriting agreement dated 22nd September, 2000 relating to the Hong Kong Public Offering entered into between the Selling Shareholder, the Company, the Joint Global Coordinators and the Hong Kong Underwriters

“International Offering”

the offer for sale of certain Offer Shares or (at the option of investors) ADSs to investors internationally, further details of which are contained in the section headed “Structure of the Global Offering”

“International Underwriters”

Goldman Sachs (Asia) L.L.C., HSBC Investment Bank Asia Limited, UBS Warburg, a business group of UBS AG, ABN AMRO Rothschild, Cazenove Asia Limited, Jardine Fleming Securities Limited, Salomon Smith Barney International Limited, BNP Paribas Peregrine Securities Limited, BOCI Asia Limited, CLSA Limited, Credit Suisse First Boston (Hong Kong) Limited, Lehman Brothers Securities Asia Ltd. and Nomura International (Hong Kong) Limited

“International Underwriting Agreement”

the underwriting agreement relating to the International Offering to be entered into between the Selling Shareholder, the Company, the Joint Global Coordinators and the International Underwriters

DEFINITIONS

“Island Line”	the line known by that name, further details of which are contained in the paragraph headed “Island Line” in the section headed “Business”
“Island Line Extensions”	the proposed North Hong Kong Island Line and the proposed West Hong Kong Island Line, further details of which are contained in the paragraph headed “New railway projects” in the section headed “Industry Background”
“Issue Mandate”	the general unconditional mandate granted to the Board of Directors by the Company’s shareholders, further details of which are contained in the paragraph headed “Written resolutions of all the shareholders of the Company” in Appendix IX
“Joint Global Coordinators”, “Joint Lead Managers” or “Joint Bookrunners”	Goldman Sachs (Asia) L.L.C., HSBC Investment Bank Asia Limited and UBS Warburg, a business group of UBS AG, in their capacities as Joint Global Coordinators, Joint Lead Managers and/or Joint Bookrunners, as the context may require
“Joint Sponsors”	Goldman Sachs (Asia) L.L.C., HSBC Investment Bank Asia Limited and UBS Warburg Asia Limited
“KCR”	the suburban railway owned and operated by the KCRC pursuant to the KCRC Ordinance
“KCRC”	the Kowloon-Canton Railway Corporation, a statutory corporation established under the KCRC Ordinance and wholly-owned by the Government
“KCRC Ordinance”	Kowloon-Canton Railway Corporation Ordinance (Chapter 372 of the Laws of Hong Kong) (as amended)
“km”	kilometre
“Kowloon Motor Bus” or “KMB”	The Kowloon Motor Bus Company (1933) Limited
“Kowloon Southern Link”	the proposed line known by that name, further details of which are contained in the paragraph headed “New railway projects” in the section headed “Industry Background”
“Kwun Tong Line”	the line known by that name, further details of which are contained in the paragraph headed “Kwun Tong Line” in the section headed “Business”

DEFINITIONS

“Legislative Council”	the Legislative Council of Hong Kong and the Provisional Legislative Council during its existence
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Long Win Bus” or “LWB”	Long Win Bus Company Limited
“Loyalty Share Bonus”	the scheme under which Bonus Shares are available to eligible applicants under the Hong Kong Public Offering, further details of which are set out in the section headed “Retail Incentives”
“Mass Transit Railway”	the railway system operated by the Company from time to time which, at the date of this prospectus, comprises the MTR Lines and the Airport Express Line, the scope of which is indicated on plans endorsed by the Secretary for Transport and deposited with the Land Registry from time to time and, where the context requires, any part of that system
“Member of the Executive Directorate”	a member of the Executive Directorate
“Memorandum of Association”	the memorandum of association of the Company
“MTRC”	Mass Transit Railway Corporation, a statutory corporation established under the MTRC Ordinance
“MTRC Ordinance”	Mass Transit Railway Corporation Ordinance (Chapter 270 of the Laws of Hong Kong) (as amended), which was repealed on 30th June, 2000
“MTR Engineering”	MTR Engineering Services Limited, a 100% owned subsidiary of the Company which was incorporated under the Companies Ordinance on 12th October, 1984
“MTR Lines”	the Kwun Tong Line, Tsuen Wan Line, Island Line and Tung Chung Line
“MTR Station”	a station on the Mass Transit Railway
“MTR Travel”	MTR Travel Limited, a 100% owned subsidiary of the Company which was incorporated under the Companies Ordinance on 15th March, 1983
“New Lantao Bus” or “NLB”	New Lantao Bus Company (1973) Limited

DEFINITIONS

“new MTR Ordinance”	the Mass Transit Railway Ordinance (Chapter 556 of the Laws of Hong Kong)
“New World First Bus” or “NWFB”	New World First Bus Services Limited
“North Hong Kong Island Line” or “NIL”	the proposed line known by that name, further details of which are contained in the paragraph headed “New railway projects” in the section headed “Industry Background” and in the paragraph headed “Island Line Extensions” in the section headed “Business”
“Northern Link”	the proposed line known by that name, further details of which are contained in the paragraph headed “New railway projects” in the section headed “Industry Background”
“Offer Price”	the final Hong Kong dollar price per Hong Kong Offer Share (exclusive of brokerage and Stock Exchange transaction levy) at which Offer Shares are to be sold under the Hong Kong Public Offering, to be determined as described in the section headed “Structure of the Global Offering”
“Offer Shares”	the Shares offered in the Global Offering
“Operating Agreement”	the agreement entered into by the Company and the Secretary for Transport for and on behalf of the Government on the Appointed Day for the operation of the Mass Transit Railway, a summary of which is contained in Appendix VII
“Over-allotment Option”	the option granted by the Selling Shareholder to the Joint Global Coordinators, on behalf of the International Underwriters, to require the Selling Shareholder to sell up to an aggregate of 150,000,000 additional Shares solely to cover over-allocations in the International Offering, if any, as described in the section headed “Structure of the Global Offering”
“Penny’s Bay Rail Link”	the proposed line known by that name, further details of which are contained in the paragraph headed “Penny’s Bay Rail Link” in the section headed “Business”
“PLB”	public light bus
“Port Rail Line” or “PRL”	the proposed line known by that name, further details of which are contained in the paragraph headed “New railway projects” in the section headed “Industry Background”

DEFINITIONS

“Pre-Global Offering Share Option Scheme”	the Pre-Global Offering Share Option Scheme conditionally approved and adopted by the Company on 12th September, 2000, the principal terms of which are summarised in the paragraph headed “Pre-Global Offering Share Option Scheme” in Appendix IX
“Price Determination Agreement”	an agreement to be entered into on the Price Determination Date between the Joint Global Coordinators (on behalf of the Underwriters) and the Selling Shareholder
“Price Determination Date”	the date on which the offer prices of the Offer Shares are to be fixed by the Joint Global Coordinators, on behalf of the Underwriters, and the Selling Shareholder, after consultation with the Company, for the purposes of the International Offering and the Hong Kong Public Offering, expected to be 1st October, 2000 and, in any event, not later than 2nd October, 2000
“QBR Project Agreement”	the letter agreement signed by the Secretary for Transport for and on behalf of the Government on 29th April, 1998 and acknowledged, accepted and agreed by MTRC on 7th May, 1998 in relation to the construction of the QBR Works (as amended and restated with effect from the Appointed Day)
“QBR Works”	the Quarry Bay congestion relief works, as further described in the paragraph headed “Quarry Bay congestion relief works” in the section headed “Business”
“Railway Development Strategy 2000”	the Railway Development Strategy 2000 formulated by the Government, as further described in the paragraph headed “Railway Development Strategy 2000” in the section headed “Industry Background”
“RDS-2”	the Second Railway Development Study commissioned by the Government, as further described in the paragraph headed “RDS-2” in the section headed “Industry Background”
“Regional Express Line” or “REL”	the proposed line known by that name, further details of which are contained in the paragraph headed “New railway projects” in the section headed “Industry Background” and in the paragraph headed “Regional Express Line” in the section headed “Business”

DEFINITIONS

“Repurchase Mandate”	the general unconditional mandate granted to the Board of Directors by the Company’s shareholders, further details of which are contained in the paragraph headed “Written resolutions of all the shareholders of the Company” in Appendix IX
“Retail Discount”	the retail discount available to eligible applicants under the Hong Kong Public Offering, further details of which are contained in the section headed “Retail Incentives”
“Retail Incentives”	the incentives available to eligible applicants under the Hong Kong Public Offering, further details of which are contained in the section headed “Retail Incentives”
“route kilometre” or “route km”	a one kilometre length of railway track, excluding track in depots and sidings and counting multiple tracks and duplicated sections of track once only
“SDI Ordinance”	the Securities (Disclosure of Interests) Ordinance (Chapter 396 of the Laws of Hong Kong) (as amended)
“Secretary for Transport”	the Secretary for Transport of Hong Kong
“Securities and Exchange Commission”	the United States Securities and Exchange Commission
“Securities Ordinance”	the Securities Ordinance (Chapter 333 of the Laws of Hong Kong) (as amended)
“Selling Shareholder”	The Financial Secretary Incorporated, a corporation sole established under the Financial Secretary Incorporation Ordinance (Chapter 1015 of the Laws of Hong Kong)
“Share Registrar”	Central Registration Hong Kong Limited
“Shares”	ordinary shares of HK\$1.00 each in the capital of the Company
“Shatin to Central Link”	the proposed line known by that name, further details of which are contained in the paragraph headed “New railway projects” in the section headed “Industry Background” and in the paragraph headed “Shatin to Central Link” in the section headed “Business”
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

DEFINITIONS

“TKE”	the diversion of the Kwun Tong Line and the new line forming the Tseung Kwan O Line that will result from the implementation of the TKE Project
“TKE Project Agreement”	the Project Agreement for the Design, Construction, Financing and Operation of the Tseung Kwan O Extension dated 4th November, 1998 between the Secretary for Transport, for and on behalf of the Government, and MTRC (as amended and restated with effect from the Appointed Day)
“Tseung Kwan O Extension Project” or “TKE Project”	the project known by that name, further details of which are contained in the paragraph headed “Tseung Kwan O Extension Project” in the section headed “Business”
“Tseung Kwan O Line”	the proposed line known by that name, further details of which are contained in the paragraph headed “Tseung Kwan O Extension Project” in the section headed “Business”
“Tsuen Wan Line”	the line known by that name, further details of which are contained in the paragraph headed “Tsuen Wan Line” in the section headed “Business”
“Tung Chung Line”	the line known by that name, further details of which are contained in the paragraph headed “Tung Chung Line” in the section headed “Business”
“Underwriters”	the Hong Kong Underwriters and the International Underwriters
“United States” or “US”	the United States of America, its territories and possessions, any state of the United States of America and the District of Columbia
“US dollars” or “US\$”	United States dollars, the lawful currency of the United States
“US GAAP”	generally accepted accounting principles in the United States
“US Securities Act”	the United States Securities Act of 1933 (as amended)
“West Hong Kong Island Line” or “WIL”	the proposed line known by that name, further details of which are contained in the paragraph headed “New railway projects” in the section headed “Industry Background” and in the paragraph headed “Island Line Extensions” in the section headed “Business”

DEFINITIONS

“West Rail” the railway project which is being constructed by KCRC which is intended to link western Kowloon with Tuen Mun in the north-west New Territories

Any discrepancies in any table or elsewhere in this prospectus between totals and sums of amounts listed therein are due to rounding.

RISK FACTORS

In evaluating an investment in the Offer Shares or the ADSs, potential investors should consider carefully all the information in this prospectus, including the risk factors set out below.

RISKS RELATING TO THE COMPANY AND ITS BUSINESS

Competition in Hong Kong from other transport providers may adversely affect the Company.

The Company competes with other transport providers, principally franchised bus and PLB operators, as well as non-franchised bus, tram and ferry operators and taxis. The Company's competitive strengths of speed, reliability and comfort have been eroded in recent years with the general improvement in bus services, including wider use of air-conditioning on buses, the opening of the Western Harbour Tunnel, the expanding bus network and more direct road access to, and improved road traffic conditions in, urban areas. The Company is also facing competitive pressure as a result of the opening of new highways and expressways and from the entry into the market of New World First Bus which acquired a bus franchise following the expiry of the bus franchise held by China Motor Bus Company Limited. The lower capital costs of the Company's competitors and their greater inherent structural flexibility may enable them to respond to changing passenger demand more quickly than the Company. In its Railway Development Strategy 2000, the Government confirmed that railways are essential to Hong Kong's continued economic, social and land development and will be given priority in the Government's plans for infrastructure development. Within this framework, the Government also recognised that franchised buses would continue to play an essential role in the public transport system in Hong Kong. As a result, the Company does not expect the Government to take any particular, direct measures which, in the short-term, would have the effect of reducing or containing patronage on franchised buses or PLBs for the purpose of increasing the Company's patronage.

The growth of the Company's railway and property businesses and increase in patronage depends, in part, on the award to the Company of new railway projects, the implementation of those projects and on factors that the Company may not be able to control.

The growth of the Company's railway and property businesses depends, in part, on whether new railway projects are awarded to the Company and whether it can implement them in a timely and effective manner in order to expand capacity and, thereby, accommodate more passengers, and develop more properties. The Company's plans for new railway projects are subject to a number of uncertainties, including:

- whether, and on what terms, including the grant of property development rights, certain new railway projects will be awarded to the Company and, in particular, whether such terms will enable the Company to earn a commercial rate of return on its investment in new railway projects;
- whether there will be a sufficient population in the catchment area for a new railway project and whether that catchment area is encouraged to use the Mass Transit Railway as a result of Government planning of highways and bus routes; and

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- whether the Company will be able to obtain adequate financing on acceptable terms to fund the required capital expenditure.

Although the Government has agreed under the Operating Agreement that it will ensure there is a level playing field and a clear framework for the award of new railway projects, there can be no assurance that new railway projects will be awarded to the Company. In addition, although the Company has significant experience in the design and construction of railway projects with a track record in financing and completing projects on time and within budget spanning over 20 years, there can be no assurance that new railway projects undertaken by the Company will be completed on time and within budget.

In addition, there can be no certainty that any of the new railway projects proposed by the Government in its Railway Development Strategy 2000 will be implemented in the timeframe indicated in the Railway Development Strategy 2000. The Railway Development Strategy 2000 stated that the actual sequence and timing of the six new railway projects would be subject to more detailed engineering feasibility studies, having regard to the building up of transport demand, the pace of development of the strategic growth areas, project interfaces and consultation with the Company and KCRC. The implementation of the new railway projects could be phased to meet demand or to integrate with the pace of development of different areas.

Increase in patronage will also be affected by macro-economic factors, such as population and employment growth and distribution and changes in demographics and economic conditions. It will also be affected by the amount of road congestion. In addition, because of certain inherent capacity limitations and structural inflexibilities of the Mass Transit Railway, the Company may not be able to respond quickly to increases in demand. For example, the Company cannot quickly change its routes to cater for new passenger demand in areas which it does not serve.

If the Government were to award the proposed Shatin to Central Link railway project to KCRC or to another party, the Company expects that it would suffer a decrease in revenues, which may have a material adverse effect on the results of its operations, and that the benefits that it would otherwise derive from undertaking the project would not materialise.

One of the new railway projects announced by the Government in the Railway Development Strategy 2000 is the Shatin to Central Link, which is intended to be a new strategic rail corridor in the rail network formed by the East Kowloon Line, the Fourth Rail Harbour Crossing and the Tai Wai to Diamond Hill Link (further details of which are contained in the paragraph headed "New railway projects" in the section headed "Industry Background" and in the paragraph headed "Shatin to Central Link" in the section headed "Business"). The Government has stated that the Shatin to Central Link is not a natural extension of any existing line and that it would invite both the Company and KCRC to bid for the project. Subsequently, the Government has confirmed that it would also welcome proposals from other parties to bid for the project.

The Company recognises the benefits that are likely to accrue to the Company if it is awarded the project, including an increase in its catchment area which could lead to

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increased patronage, relief of expected capacity constraints caused by the anticipated congestion on the Nathan Road corridor, and assistance in increasing the Company's market share of cross-harbour transport. The Company has completed a feasibility study on the alignment, cost and expected patronage for the East Kowloon Line and the Fourth Rail Harbour Crossing and has undertaken planning studies for the Tai Wai to Diamond Hill Link, each of which forms part of the Shatin to Central Link. The alignment of the Fourth Rail Harbour Crossing from Hung Hom to Central via Exhibition/Admiralty proposed in the Railway Development Strategy 2000 is based on the alignment proposed by the Company following its feasibility study and is recognised by the Government as being cheaper to build than the alternative alignment, via Victoria Park, Leighton Hill and Wanchai South, proposed in the Railway Development Strategy 2000. However, the Government recognised that this alternative alignment would be able to accommodate a more diversified nature of trips as it connects to Causeway Bay and may help facilitate a shift of the development focus from Central towards Causeway Bay. The Company currently proposes to submit a competitive proposal for the Shatin to Central Link based on the alignment from Hung Hom to Central via Exhibition/Admiralty.

If the Government were to award the project to KCRC, the Company estimates that it will suffer a decrease in revenues, which may have a material adverse effect on the Company's results of operations, and the benefits that would otherwise accrue to the Company if it were to undertake the project, would not materialise. In addition, the KCR system will, as a result, further extend into the urban areas of Hong Kong and KCRC will become a direct competitor of the Company. This would be likely to have a material adverse impact on the Company's long-term prospects.

The Company's ability to raise fares to cover its operating costs could be limited by a number of factors.

There can be no assurance that patronage on the Mass Transit Railway will increase sufficiently or that the Company could charge a higher level of fares to defray any increase in operating costs. Although the Company has the power to determine its own fares (subject to its compliance with a specified procedure contained in the Operating Agreement), its ability to do so may be constrained by factors such as elasticity of demand, competition, political sensitivities and its traditional policy of increasing its fares roughly in line with inflation. The Company has not increased its fares since 1997 because of general economic conditions and competitive pressures.

The Government can exert significant influence on the Company and could cause it to make decisions, modify the scope of its activities or impose new obligations on it that may not necessarily be in the best interests of the Company or its other shareholders. The Government's policies, intentions, preferences, views, expectations, projections, forecasts and opinions set out in this prospectus could be changed or modified in the future.

Upon completion of the Global Offering, the Government will own beneficially an aggregate of 80% (77% if the International Underwriters exercise their Over-allotment Option in full) of the Company's share capital. Accordingly, the Government will be able to appoint the entire Board of Directors without the concurrence of any of the Company's other

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shareholders and will be in a position to influence significantly the Company's major business decisions and strategies, including the scope of its activities and investment decisions and its dividend policy, by its control of the Company's voting share capital and of the Board of Directors. In addition, the Company competes, to a limited extent, with KCRC which is 100% beneficially owned by the Government and all of the members of the board of KCRC are appointed by the Government. The Company also competes with Kowloon Motor Bus, New World First Bus and Citybus, each of which has two board members who are appointed by the Government. Each of KCRC, Kowloon Motor Bus, New World First Bus, Citybus and other transport providers such as taxi operators and tram operators are regulated by the Government (see the paragraph headed "Regulation" in Appendix VII). The Government may use its ability to influence the Company's business and/or the businesses of the Company's competitors (whether through its shareholding interest, board representation or through regulation) in a manner that may not be in the best interests of the Company or of its other shareholders.

Statements in this prospectus, in substance or in form, as to the policies, intentions, preferences, views, expectations and opinions of the Government reflect the prevailing policies or the present intentions, preferences, views, expectations, projections, forecasts and opinions of the Government. In addition, a number of provisions in the Operating Agreement are related to prevailing Government policies, including the provisions relating to the amount of land premium payable by the Company for the grant of land. The Government may change its policies, intentions, preferences, views, expectations, projections, forecasts and opinions, including as a result of changes in the economic, political and social environment or its projections of population and employment growth. The Government does not undertake to update any statement of policy, intention, preference, view, expectation, projection, forecast or opinion or publicly announce any revision to any such statement to reflect future developments, events or circumstances. In addition, the new MTR Ordinance and its subsidiary legislation, like other Ordinances and subsidiary legislation, may be amended, modified or repealed in accordance with the Hong Kong legislative process. Any amendment, modification or repeal could modify the existing regulatory regime and, thereby, adversely affect the Company's financial condition and results of operations. The Government has agreed with the Company under the Operating Agreement that it will not make any new regulations under the new MTR Ordinance without first having consulted the Company and having taken account of all reasonable representations made by the Company.

The Government may also adopt new policies and enact new laws, including in relation to environmental matters, which may result in increased operating costs for the Company or otherwise have an adverse impact on the Company's business.

The Company requires significant capital for its business and is exposed to the impact of interest rate and foreign currency movements in respect of its borrowings. If the Company is unable to obtain additional capital on acceptable terms when needed, its growth prospects and future profitability may be adversely affected.

The Company incurs substantial capital expenditure each year to maintain, renew and replace its operating assets and infrastructure. It also incurs substantial capital expenditure when it undertakes new railway projects.

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Substantial portions of the Company's operating cash flows are used to pay for these capital expenditures. If the Company is unable to fund capital expenditures from operating cash flows and external sources, it will be required to reduce its capital expenditures. This would restrict the Company's ability to grow and, over time, could reduce the quality and reliability of the service it provides.

In addition, the Company has borrowed, and expects to continue to borrow, significant amounts at floating rates and in foreign currencies. In order to reduce its exposure to movements in interest rates, the Company has typically hedged a portion of such exposure. However, this helps to reduce, but does not eliminate, the impact of interest rate and foreign currency movements.

The Company's property business is subject to fluctuations in the Hong Kong property market as well as to general risks incidental to the ownership and management of rental properties.

The Company's property business has in recent years accounted for, and is expected to continue to account for, a substantial portion of the Company's net profit. All of the Company's completed investment properties and investment properties under development are located in Hong Kong. Historically, the Hong Kong property market has been cyclical with property values affected by the amount of new land made available by the Government, the rate of economic growth in Hong Kong and political and economic developments in Hong Kong and the mainland of China.

To an extent, the Company is exposed to the general risks inherent in relation to property development, including that construction may not be completed on schedule or within budget, that development may be affected by governmental regulations, that developed properties may not be leased or sold on profitable terms and the risk of purchaser defaults. The terms on which property developers are prepared to bid for the Company's development packages will also be affected by the state of the property market at the time of tender.

In relation to properties held by the Company as investments, since leases of Hong Kong properties are often for a short duration (typically two to six years, depending on the type of property) or contain provisions requiring periodic adjustments of rent within a short period of time (typically three years), the Company's income from these properties may be subject to more frequent adjustments than would be the case in other real estate markets. The Company is also subject to the general risks incidental to the ownership of properties including, amongst other things, competition for tenants, changes in market rental levels, inability to collect rent from tenants, and the need to renovate, repair and relet space periodically.

In certain circumstances, the Government has the power to suspend and revoke the Company's franchise under the new MTR Ordinance.

Although the power of the Chief Executive in Council under the new MTR Ordinance to suspend or revoke the Company's franchise is exercisable only in certain circumstances, there can be no assurance that such power will not be exercised. If the Company's franchise were to be suspended or revoked, it would not be able to operate its railway business and, accordingly, could not generate revenues from that business.

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Accidents and natural disasters could lead to decreased revenues and increased expenditure and reduce the Company's operating flexibility.

The Company's operations could be affected by accidents, including major equipment and power failures, collisions, derailments and natural disasters. Accidents and natural disasters could interrupt or prevent the operation of the Mass Transit Railway and lead to decreased revenues, increased expenditure, prolonged interruptions in, or reductions of, railway operations, a reduction in the Company's operating flexibility, increased liabilities for the Company and bring about pressure for greater regulation. Although the Company believes that the insurance it has put in place is adequate and consistent with industry practice, there is no assurance that it will be sufficient to cover the Company's losses or that such insurance will continue to be available to the Company on the same terms.

RISKS RELATING TO HONG KONG

Economic, political and legal developments in Hong Kong could affect the Company's business.

Substantially all of the Company's assets are located in Hong Kong and substantially all of the Company's revenue is derived from Hong Kong. Accordingly, the Company's results of operations, financial position and prospects are subject to a significant degree to the economic, political and legal developments in Hong Kong. From 1st July, 1997, Hong Kong became a Special Administrative Region of the People's Republic of China when the People's Republic of China resumed the exercise of sovereignty over Hong Kong. The basic policies of the People's Republic of China regarding Hong Kong are embodied in the Basic Law of Hong Kong, which was adopted by the National People's Congress of the People's Republic of China on 4th April, 1990 and came into effect on 1st July, 1997. The Basic Law provides that Hong Kong will have a high degree of autonomy and enjoy executive, legislative and independent judicial power, including that of final adjudication, in accordance with the provisions of the Basic Law. Under the principle of "one country, two systems", the socialist system and policies will not be practised in Hong Kong, and the previous capitalist system and way of life shall remain unchanged for 50 years. There can be no assurance that economic, political and legal developments in Hong Kong will not adversely affect the Company's operations.

A devaluation of the HK dollar may increase costs associated with the Company's capital expansion and will increase the HK dollar cost of repaying the Company's indebtedness.

The HK dollar has been linked to the US dollar at the rate of approximately HK\$7.80 to US\$1.00 since 17th October, 1983. The Government has repeatedly reaffirmed its commitment to this linked exchange rate system. However, in the event this policy were to be changed and there were to be a devaluation of the HK dollar, this would increase the HK dollar cost of the Company's foreign currency capital expenditures. In addition, the HK dollar cost of the Company's current and future liabilities denominated in foreign currencies would increase. Since substantially all of the Company's revenues are denominated in HK dollars, a devaluation of the HK dollar may increase capital costs and the related depreciation costs to the Company and increase the Company's HK dollar interest expense on US dollar

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denominated indebtedness, reducing the Company's operating and net income, and making it more difficult for the Company to repay its US dollar-denominated debt obligations in a timely manner.

RISKS RELATING TO THE SHARES, THE ADSs AND APPLICATIONS USING AN ESP

Sales or issues of substantial numbers of Shares or other securities relating to the Shares or the transfer of Shares by the Selling Shareholder to eligible shareholders under the Loyalty Share Bonus, or the perception that such sales, issues or transfers may occur, could materially and adversely affect the prevailing market price of the Shares and the ADSs or the ability of the Company to raise capital through a public offering of additional equity or equity-linked securities.

Upon completion of the Global Offering, the Company will have outstanding 5,000,000,000 Shares, including 4,000,000,000 Shares beneficially owned by the Government (assuming the Over-allotment Option is not exercised). For fiscal planning purposes, the Government has assumed proceeds from the sale of Shares of HK\$30 billion during the financial years 2000-02 and it is the Government's intention to dispose of all or part of its remaining shareholding above the minimum shareholding of 50%, subject to market conditions, budgetary considerations and the state of the economy, in the financial year 2001/2002. In addition, the Selling Shareholder intends to transfer the Bonus Shares to eligible shareholders under the Loyalty Share Bonus (further details of which are contained in the paragraph headed "Loyalty Share Bonus" in the section headed "Retail Incentives"). All of the Shares and the ADSs held by shareholders of the Company will be eligible for sale after the Global Offering, subject to certain lock-up undertakings given by the Selling Shareholder (further details of which are contained in the section headed "Underwriting"). Sales or issues of substantial numbers of Shares, including any possible further sales by the Selling Shareholder, or other securities relating to the Shares in the public market, the transfer of Bonus Shares by the Selling Shareholder to eligible shareholders under the Loyalty Share Bonus, or the issue of new shares by way of a scrip dividend or the perception that such sales, issues or transfers may occur, could materially and adversely affect the prevailing market price of the Shares and the ADSs or the ability of the Company to raise capital through a public offering of additional equity or equity-linked securities. Further details are contained in the paragraph headed "Government Assurances" in the section headed "Relationship with the Government".

If an active market for the Shares and the ADSs fails to develop or be sustained, the price of the Shares and the ADSs may fall.

Prior to the Global Offering, there has been no market for the Shares and the ADSs. Following the Global Offering, the Stock Exchange will be the only market for the Shares while the ADSs will be traded on the over-the-counter market in the United States. There can be no assurance that an active trading market will develop for the Shares and the ADSs or that the Shares and the ADSs will trade in the public market subsequent to the Global Offering at or above the Offer Price. The Offer Price for the Shares and the ADSs was determined through negotiations between the Joint Global Coordinators on behalf of the Underwriters and the Selling Shareholder, after consultation with the Company, and may not be indicative of the market price of the Shares and the ADSs after the Global Offering.

RISK FACTORS

The Company's future financial performance may vary materially from the estimated financial information provided in this prospectus, which may cause the market price of the Shares and the ADSs to be affected.

The estimated financial information included in this prospectus reflects the current judgment of the Company's management regarding expected conditions and the Company's expected course of action. The actual results may vary from these estimates, and these variations may be material and may affect the market price of the Shares and the ADSs. Prospective investors in the Shares and the ADSs are cautioned not to place undue reliance on these estimates. The Company does not intend to update or otherwise revise these estimates. The Company has prepared the estimates in accordance with customary practices in securities offerings in Hong Kong.

Applications using an ESP are available for the first time in Hong Kong and there can be no assurance that applications made using an ESP will result in all or any such applications for the Hong Kong Offer Shares being validly submitted.

Applications using an ESP are available for the first time in Hong Kong. None of the Selling Shareholder, the Company, the Underwriters nor any of their respective directors, officers, employees, partners, agents or advisers has verified the effectiveness or soundness of such method of application. There can be no assurance that applications using an ESP will result in all or any such applications for the Hong Kong Offer Shares being validly submitted on behalf of the persons using this application method. Persons applying for Hong Kong Offer Shares using an ESP which offers Internet-based share applications bear the risks associated with conducting transactions through the Internet including: (i) interruption, transmission blackout or delayed transmission due to Internet traffic; (ii) incorrect data transmission due to the public nature of the Internet; (iii) that information downloaded from the Internet may be incomplete, altered or tampered with and may not present complete and accurate information; and (iv) that there may be damage caused to the computer software or hardware of users or visitors to ESPs' websites caused by virus transmission from, or technical defects of, these websites. If applications using an ESP do not result in application(s) for the Hong Kong Offer Shares being validly submitted on behalf of the persons using this application method, the Hong Kong Public Offering could be materially affected.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus contains particulars given in compliance with the Companies Ordinance, the Securities (Stock Exchange Listing) Rules 1989 (as amended) and the Listing Rules for the purpose of giving information to the public with regard to the Company. The Members of the Board and the Members of the Executive Directorate collectively and individually accept responsibility for the accuracy of the information contained in this prospectus except for the information for which the Selling Shareholder accepts sole responsibility. The information for which the Selling Shareholder accepts responsibility, either solely or jointly with the Members of the Board and the Members of the Executive Directorate, is specified in the paragraph headed "Responsibility" in Appendix IX. The Members of the Board, the Members of the Executive Directorate and the Selling Shareholder confirm, having made all reasonable enquiries that, in relation to any statement contained in this prospectus for which they or it (as the case may be) accept responsibility, to the best of their or its (as the case may be) knowledge and belief, there are no other facts the omission of which would make any statement herein misleading.

UNDERWRITING

This prospectus is published solely in connection with the Hong Kong Public Offering. For applicants under the Hong Kong Public Offering, this prospectus and the Application Forms contain the terms and conditions of the Hong Kong Public Offering.

The Global Offering comprises the Hong Kong Public Offering of initially 200,000,000 Hong Kong Offer Shares at the Offer Price; and an offering of Offer Shares which may, at the option of investors, be delivered in the form of ADSs, in the International Offering of initially 800,000,000 Offer Shares (subject, in each case, to reallocation on the basis described in the section headed "Structure of the Global Offering").

The listing of the Shares on the Stock Exchange is sponsored by the Joint Sponsors. Pursuant to the Hong Kong Underwriting Agreement, the 200,000,000 Hong Kong Offer Shares initially comprised in the Hong Kong Public Offering will be offered through the Hong Kong Underwriters. The Global Offering is managed by the Joint Global Coordinators. The International Underwriting Agreement relating to the International Offering is expected to be entered into on or about 1st October, 2000, subject to agreement on pricing of the Offer Shares between the Joint Global Coordinators, on behalf of the Underwriters, and the Selling Shareholder, after consultation with the Company. If, for any reason, the Offer Price is not agreed, the Global Offering will not proceed. Further details regarding the Underwriters and the underwriting arrangements are contained in the section headed "Underwriting".

RESTRICTIONS ON SALE OF SHARES

Each person acquiring Hong Kong Offer Shares will be required to confirm, or by his acquisition of Offer Shares be deemed to confirm, that he is aware of the restrictions on offers of the Offer Shares described in this prospectus. No action has been taken to permit a public offering of the Offer Shares or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation.

The Offer Shares have not been and will not be registered under the US Securities Act and, subject to certain exceptions, may not be offered, sold, pledged or transferred within the United States, except to qualified institutional buyers in accordance with Rule 144A under the US Securities Act (“**Rule 144A**”) or outside the United States in accordance with Rule 903 or Rule 904 of Regulation S. The Offer Shares are being offered and sold outside the United States in reliance on Regulation S and within the United States to qualified institutional buyers in reliance on Rule 144A. In addition, until 40 days after the later of the commencement of the Global Offering and the completion of the distribution of the Offer Shares, an offer or sale of Offer Shares within the United States by any dealer (whether or not participating in the Global Offering) may violate the registration requirements of the US Securities Act if such offer or sale is made otherwise than in accordance with an exemption from, or in a transaction not subject to, such requirements or in accordance with Rule 144A.

The Offer Shares have not been approved or disapproved by the Securities and Exchange Commission, any state securities commission in the United States or any other United States regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the Global Offering or the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offence in the United States.

This prospectus has not been approved by an authorised person in the United Kingdom and has not been registered with the Registrar of Companies in the United Kingdom. The Offer Shares may not be offered or sold in the United Kingdom prior to the expiration of a period of six months from the date on which dealings in the Shares commence on the Stock Exchange except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purpose of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995. In addition, no person may issue or pass on to any person in the United Kingdom any document received by it in connection with the offer of the Offer Shares unless that person is of a kind described in Article 11(3) of the Financial Services Act 1986 (Investment Advertisements) (Exemptions) Order 1996 or is a person to whom such document may otherwise lawfully be issued or passed on.

The Offer Shares have not been and will not be registered under the Securities and Exchange Law of Japan (the “Securities and Exchange Law”) and are not being offered or sold, directly or indirectly and may not be offered or sold, directly or indirectly, in Japan or to or for the benefit of any resident of Japan except pursuant to an exemption from the registration requirements of and otherwise in compliance with, the Securities and Exchange Law and other relevant laws and regulations of Japan. As used in this paragraph, “resident of Japan” means any person resident in Japan, including any corporation or other entity organized under the laws of Japan.

The Offer Shares may not be offered or sold, directly or indirectly, in any province or territory of Canada in contravention of the securities laws thereof and, without limiting the

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

generality of the foregoing, any offer or sale of Offer Shares in any province or territory of Canada will be made only pursuant to an exemption from the requirement to file a prospectus in the province or territory of Canada in which such offer or sale is made.

This prospectus has not been and will not be registered as a prospectus with the Registrar of Companies and Businesses in Singapore, and accordingly, the Offer Shares may not be offered or sold nor may this prospectus or any document or other material in connection with the Global Offering be issued, circulated or distributed, either directly or indirectly, to the public or any member of the public in Singapore other than (i) to an institutional investor or other person specified in section 106C of the Companies Act, Chapter 50 of Singapore, (ii) to a sophisticated investor, and in accordance with the conditions, specified in section 106D of the Singapore Companies Act, Chapter 50 of Singapore or (iii) otherwise pursuant to, and in accordance with the conditions of, any applicable provisions of the Singapore Companies Act, Chapter 50 of Singapore.

The Offer Shares may not be offered, sold, transferred or delivered in or from The Netherlands, as part of their initial distribution or as part of any re-offering, and neither this prospectus nor any other document in respect of the Global Offering may be distributed or circulated in The Netherlands, other than to individuals or legal entities which include, but are not limited to, banks, brokers, dealers, institutional investors and undertakings with a treasury department, who or which trade or invest in securities in the conduct of a business or profession.

This prospectus does not constitute a public offer of the Offer Shares whether by way of sale or subscription, in the mainland of China. The Offer Shares or ADSs are not being offered or sold within the mainland of China, by means of this prospectus or any other document. Each person acquiring the Offer Shares will be required to, or deemed by this acquisition of Offer Shares to confirm that, he/she is aware of the restrictions on offers of the Offer Shares described in this prospectus.

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

The Company has applied to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Shares. Except as disclosed in this prospectus, no part of the Company's share or loan capital is listed on or dealt in on any other stock exchange and no such listing or permission to list is being, or proposed to be, sought in the near future.

STAMP DUTY

All Offer Shares sold by the Selling Shareholder pursuant to applications made in the Hong Kong Public Offering will be subject to stamp duty at the rate of 0.225%. However, pursuant to section 41 of the Stamp Duty Ordinance (Chapter 117 of the Laws of Hong Kong), the Selling Shareholder is not liable to pay its part of the stamp duty (amounting to 0.1125%). The stamp duty which applicants under the Hong Kong Public Offering are otherwise liable to pay (amounting to 0.1125% of the Offer Price) will be met by the Selling Shareholder. Accordingly, no stamp duty is payable by applicants under the Hong Kong Public Offering.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

The Offer Shares will be registered on the Company's register of members to be maintained in Hong Kong. Dealings in the Shares will be subject to Hong Kong stamp duty.

PROFESSIONAL TAX ADVICE RECOMMENDED

Potential shareholders are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of purchasing, holding or disposal of, and dealing in the Shares or ADSs. It is emphasised that none of the Company, the Selling Shareholder, the Joint Global Coordinators, the Underwriters, any of their respective directors, or any other person involved in the Global Offering accepts responsibility for any tax effects on, or liabilities of holders of Shares or ADSs resulting from the purchase, holding or disposal of, and dealing in the Shares or ADSs.

STABILISATION

In connection with the Global Offering, the Joint Global Coordinators may, on behalf of the Underwriters, over-allocate and cover such over-allocations by exercising the Over-allotment Option, stock borrowing or by making purchases in the secondary market. Any such purchase will be made in compliance with all applicable laws and regulatory requirements. The number of Shares which can be over-allocated will not exceed the number of Shares which may be sold by the Selling Shareholder under the Over-allotment Option which is 15% of the Shares initially available under the Global Offering.

In particular, for the purpose of covering any such over-allocations, the Joint Global Coordinators and/or their respective affiliates may borrow up to 150,000,000 Shares from the Selling Shareholder, equivalent to the maximum number of Shares to be sold on a full exercise of the Over-allotment Option, under stock borrowing arrangements to be entered into between the Selling Shareholder and any of the Joint Global Coordinator(s). The Stock Exchange has granted a waiver to the Selling Shareholder from strict compliance with Rule 10.07(1) of the Listing Rules which restricts the disposal of shares by controlling shareholders following a new listing, in order to allow the Selling Shareholder to enter into such stock borrowing arrangements and the Over-allotment Option, on the following conditions:

- the Selling Shareholder will not receive any payment or other benefit in respect of such stock borrowing arrangements and that the stock borrowing arrangements will be conducted in accordance with applicable laws and regulations; and
- any Shares which may be made available to the relevant Joint Global Coordinator(s) and/or its/their respective affiliate(s) under the stock borrowing arrangements will be made available on terms that the same number of Shares so borrowed must be returned to the Selling Shareholder within five business days of the exercise in full of the Over-allotment Option or the expiry of the Over-allotment Option, whichever is earlier.

In connection with the Global Offering, the Joint Global Coordinators and/or their respective affiliates may also, on behalf of the Underwriters, effect transactions which stabilise or maintain the market price of the Shares or the ADSs at levels above those which might otherwise prevail in the open market. Such transactions may be effected in all jurisdictions where it is permissible to do so, in each case in compliance with all applicable

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

laws and regulatory requirements. Such transactions, if commenced, may be discontinued at any time. Should stabilising transactions be effected in connection with the Global Offering, they will be done at the absolute discretion of the Joint Global Coordinators.

Stabilisation is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilise, the underwriters may bid for, or purchase, the securities in the secondary market, during a specified period of time, to retard and, if possible, prevent a decline in the initial public offer prices of the securities. In Hong Kong and other jurisdictions, the stabilisation price will not exceed the Offer Price.

Stabilisation is not a practice commonly associated with the distribution of securities in Hong Kong. In Hong Kong, such stabilisation activities on the Stock Exchange are restricted to cases where underwriters genuinely purchase securities on the secondary market solely for the purpose of covering over-allocations in an offering. The relevant provisions of the Securities Ordinance prohibit market manipulation in the form of pegging or stabilising the price of securities in certain circumstances.

PROCEDURE FOR APPLICATION FOR HONG KONG OFFER SHARES

The procedure for applying for Hong Kong Offer Shares is set out in the section headed “How to Apply for Hong Kong Offer Shares” and on the relevant Application Forms.

TERMS AND CONDITIONS OF THE HONG KONG PUBLIC OFFERING

The terms and conditions of the Hong Kong Public Offering are set out in the section headed “Terms and Conditions of the Hong Kong Public Offering” and the relevant Application Forms and elsewhere in this prospectus.

STRUCTURE OF THE GLOBAL OFFERING

Details of the structure of the Global Offering, including its conditions, are contained in the section headed “Structure of the Global Offering”.

PARTIES INVOLVED IN THE GLOBAL OFFERING

SELLING SHAREHOLDER

The Financial Secretary Incorporated (a corporation sole established under the Financial Secretary Incorporation Ordinance (Chapter 1015 of the Laws of Hong Kong))	Central Government Offices Lower Albert Road Hong Kong
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MEMBERS OF THE BOARD OF DIRECTORS

Name	Address	Nationality
Jack So Chak Kwong (Chairman)	Flat 22C Tower 5 The Regalia No. 33 King's Park Rise Kowloon Hong Kong	British
Professor Cheung Yau Kai	16/F Hoover Court 7-9 McDonnell Road Hong Kong	Chinese
Dr. The Honourable Raymond Ch'ien Kuo Fung	11A Braga Circuit Kowloon Hong Kong	Chinese
David Gordon Eldon	19 Middle Gap Road Hong Kong	British
David Wylie Gairns	35D Shouson Hill Road Hong Kong	British
Edward Ho Sing Tin	23 Moorsom Road Jardine's Lookout Hong Kong	Chinese
Lo Chung Hing	1901 Block J Kornhill Quarry Bay Hong Kong	Chinese
Denise Yue Chung Yee (Secretary for the Treasury)	Flat J 11/F Skyline Mansion 51 Conduit Road Hong Kong	Chinese
Secretary for Transport, Nicholas Ng Wing Fui	1/F Amber Lodge 40 Mt. Butler Drive Jardine's Lookout Hong Kong	Chinese
Commissioner for Transport, Robert Charles Law Footman	House 58 Manderly Garden 48 Deep Water Bay Road Hong Kong	British

PARTIES INVOLVED IN THE GLOBAL OFFERING

MEMBERS OF THE EXECUTIVE DIRECTORATE

Name	Address	Nationality
Jack So Chak Kwong (Chairman)	Flat 22C Tower 5 The Regalia No. 33 King's Park Rise Kowloon Hong Kong	British
Russell John Black	Flat D8 South Bay Villas 4 South Bay Close Repulse Bay Hong Kong	New Zealand
William Chan Fu Keung	Flat 29 3/F Block B Bellevue Court 41 Stubbs Road Hong Kong	British
Philip Gaffney	A3 G/F Jade Beach Villa 3-7 Horizon Drive Chung Hom Kok Hong Kong	British
Thomas Ho Hang Kwong	16/F Sunrise Court 54 Tai Hang Road Hong Kong	Chinese
Clement Kwok King Man	A3 Pinecrest 65 Repulse Bay Road Hong Kong	British
Leonard Bryan Turk	House B Gold Chalet 1 Serenity Path Silverstrand Clearwater Bay Kowloon Hong Kong	British

PARTIES INVOLVED IN THE GLOBAL OFFERING

PARTIES INVOLVED IN THE GLOBAL OFFERING

**Joint Global Coordinators,
Joint Lead Managers and
Joint Bookrunners**

Goldman Sachs (Asia) L.L.C.
68th Floor
Cheung Kong Center
2 Queen's Road Central
Hong Kong

HSBC Investment Bank Asia Limited
Level 15
1 Queen's Road Central
Hong Kong

UBS Warburg, a business group of UBS AG
25th Floor
One Exchange Square
Central
Hong Kong

Joint Sponsors

Goldman Sachs (Asia) L.L.C.
68th Floor
Cheung Kong Center
2 Queen's Road Central
Hong Kong

HSBC Investment Bank Asia Limited
Level 15
1 Queen's Road Central
Hong Kong

UBS Warburg Asia Limited
25th Floor
One Exchange Square
Central
Hong Kong

**Co-Lead Managers in the
International Offering**

ABN AMRO Rothschild
41st Floor
Cheung Kong Center
2 Queen's Road Central
Hong Kong

Cazenove Asia Limited
5001 One Exchange Square
8 Connaught Place
Central
Hong Kong

Jardine Fleming Securities Limited
46th Floor Jardine House
One Connaught Place
Central
Hong Kong

PARTIES INVOLVED IN THE GLOBAL OFFERING

	Salomon Smith Barney International Limited 20th Floor Three Exchange Square Central Hong Kong
Senior Co-Lead Managers in the Hong Kong Public Offering	BOCI Asia Limited 35th Floor Bank of China Tower 1 Garden Road Hong Kong
	Jardine Fleming Securities Limited 46th Floor Jardine House One Connaught Place Central Hong Kong
Financial Advisers to the Company	N M Rothschild & Sons (Hong Kong) Limited 16th Floor Alexandra House 16-20 Chater Road Central Hong Kong
	BOCI Asia Limited 35th Floor Bank of China Tower 1 Garden Road Hong Kong
Financial Adviser to the Government	Merrill Lynch (Asia Pacific) Limited 17th Floor Asia Pacific Finance Tower 3 Garden Road Central Hong Kong
Legal Advisers to the Company	<i>as to Hong Kong law and English law:</i> Slaughter and May 27th Floor Two Exchange Square Central Hong Kong

PARTIES INVOLVED IN THE GLOBAL OFFERING

	<i>as to United States law:</i> Sullivan & Cromwell 28th Floor Nine Queen's Road Central Hong Kong
Legal Adviser to the Joint Sponsors and the Underwriters	<i>as to Hong Kong law, English law and United States law:</i> Freshfields Bruckhaus Deringer 11th Floor Two Exchange Square Central Hong Kong
Legal Adviser to the Government	Department of Justice Queensway Government Offices 66 Queensway Hong Kong
	<i>with international legal support from:</i> Baker & McKenzie 14th Floor Hutchison House 10 Harcourt Road Central Hong Kong
Auditors and Reporting Accountants	KPMG Certified Public Accountants 8th Floor Prince's Building 10 Chater Road Central Hong Kong
Property Valuer	Brooke International (China) Limited 8th Floor Sun Hung Kai Centre 30 Harbour Road Hong Kong
Traffic Consultant	MVA Hong Kong Limited 3rd Floor East Town Building 41 Lockhart Road Hong Kong

PARTIES INVOLVED IN THE GLOBAL OFFERING

Receiving Bankers

Bank of China, Hong Kong Branch
1 Garden Road
Central
Hong Kong

Bank of Communications, Hong Kong Branch
20 Pedder Street
Central
Hong Kong

Hang Seng Bank Limited
83 Des Voeux Road Central
Hong Kong

The Hongkong and Shanghai Banking Corporation
Limited
1 Queen's Road Central
Hong Kong

Standard Chartered Bank
8th Floor
Edinburgh Tower
The Landmark
Hong Kong

CORPORATE INFORMATION

Registered Office of the Company	MTR Tower Telford Plaza Kowloon Bay Kowloon
Company Secretary	Leonard Bryan Turk (solicitor of the Supreme Court of England and Wales and of the High Court of Hong Kong)
Authorised Representatives	Clement Kwok King Man Leonard Bryan Turk
Audit Committee	David Wylie Gairns (chairman) Professor Cheung Yau Kai Commissioner for Transport, Robert Charles Law Footman
Remuneration Committee	Dr. The Honourable Raymond Ch'ien Kuo Fung (chairman) Denise Yue Chung Yee Edward Ho Sing Tin
Nominations Committee	David Gordon Eldon (chairman) Secretary for Transport, Nicholas Ng Wing Fui Lo Chung Hing
Share Registrar and Transfer Office	Central Registration Hong Kong Limited Shops 1712-1716 17th Floor Hopewell Centre 183 Queen's Road East Hong Kong
Principal Bankers	Bank of China, Hong Kong Branch 1 Garden Road Central Hong Kong Chase Manhattan Bank 36th Floor One Exchange Square 8 Connaught Place Central Hong Kong Citibank, N.A. 47th Floor Citibank Tower Citibank Plaza 3 Garden Road Central Hong Kong Dah Sing Bank Limited 36th Floor Dah Sing Financial Centre 108 Gloucester Road Hong Kong

CORPORATE INFORMATION

Hang Seng Bank Limited
83 Des Voeux Road Central
Hong Kong

The Hongkong and Shanghai Banking Corporation Limited
1 Queen's Road Central
Hong Kong

Standard Chartered Bank
14th Floor
Standard Chartered Building
4-4A Des Voeux Road
Central
Hong Kong

INDUSTRY BACKGROUND

The information set out in this section and elsewhere in this prospectus with respect to public transportation in Hong Kong and the property market in Hong Kong has been obtained from publicly available documents or from sources specified herein which have not been prepared or independently verified in connection with the Global Offering. In particular, statements regarding Government policy may be subject to change. No information set out herein will be updated.

PUBLIC TRANSPORTATION IN HONG KONG

Overview

Hong Kong, with a land area of only 1,097 km² of which approximately 16% is built up, has a population of approximately 6.8 million. Every day, over 10 million passenger journeys are made on a public transport system which includes two high capacity railways, franchised and non-franchised buses, PLBs, trams, ferries and taxis.

The Mass Transit Railway, which commenced operations in 1979, is Hong Kong's metropolitan railway and comprises the MTR Lines (serving parts of the Hong Kong Island, Kowloon and the New Territories) and the Airport Express Line. It operates through an 82.2 route kilometre network with 44 stations. The KCR (also known as the “**East Rail**”), which commenced operations in 1910, is operated by the KCRC and provides services from Hung Hom, through the New Territories to the Lo Wu boundary crossing to the mainland of China. It has a track length of 34 kms with 13 stations, including one on a loop line at the Shatin Racecourse which mainly caters for race-day traffic. The Light Rail Transit (“**LRT**”) is a localised transport system owned and operated by the KCRC. It commenced operations in 1988 and operates in the northwest New Territories new towns of Tuen Mun and Yuen Long. It has a total length of 31.75 kms with 57 stops.

In addition, there are two tramway systems, Hongkong Tramways and the Peak Tram, which operate on the northern shore of Hong Kong Island and between Central and the Peak, respectively.

Public road passenger transport is provided by franchised and non-franchised buses, PLBs and taxis, which accounts for two-thirds of all public transport journeys in Hong Kong. In 1999, more than half of public transport journeys made by road were on franchised buses. Franchised buses are operated by Kowloon Motor Bus, New World First Bus, Citybus, New Lantao Bus and Long Win Bus. In addition, at the end of 1999, there were about 18,000 taxis, carrying an estimated daily average of approximately 1.3 million passengers. Their fares are charged according to the approved fare scales.

Ferries are essential for travelling to and from certain outlying islands. In addition, they are a supplementary mode of transport to buses and the Mass Transit Railway for journeys involving the crossing of Victoria Harbour. Franchised services are provided by the “**Star**” Ferry Company, Limited (the “**Star Ferry**”). The Star Ferry operated 13 vessels across the harbour and carried approximately 78,570 passengers daily on its three routes in 1999. A further 29 ferry services are operated by 13 licensed operators, including the services to Mui Wo and Discovery Bay on Lantau Island and to Peng Chau, Cheung Chau and Lamma Islands.

INDUSTRY BACKGROUND

The following table shows the total number of boardings made by passengers within Hong Kong on different kinds of public transport operators in each of the three calendar years ended 31st December, 1999:

	Year ended 31st December,		
	1997	1998	1999
	(million passenger boardings per year)		
Railways and tramways			
Mass Transit Railway	812	798	790
KCR	262	269	276
LRT	126	114	115
Hong Kong Tramways and Peak Tramways	106	96	91
Sub-total	<u>1,306</u>	<u>1,277</u>	<u>1,272</u>
Franchised buses	1,384	1,390	1,446
Residential coach services	41	40	41
KCR feeder buses	39	38	22
PLBs⁽¹⁾	581	579	573
Taxis⁽²⁾	474	477	478
Ferries	72	63	57
Total	<u><u>3,896</u></u>	<u><u>3,864</u></u>	<u><u>3,888</u></u>

Source: Monthly Traffic and Transport Digest published by the Government.

Notes:

(1) Includes green and red PLBs.

(2) Estimated figures by the Transport Department.

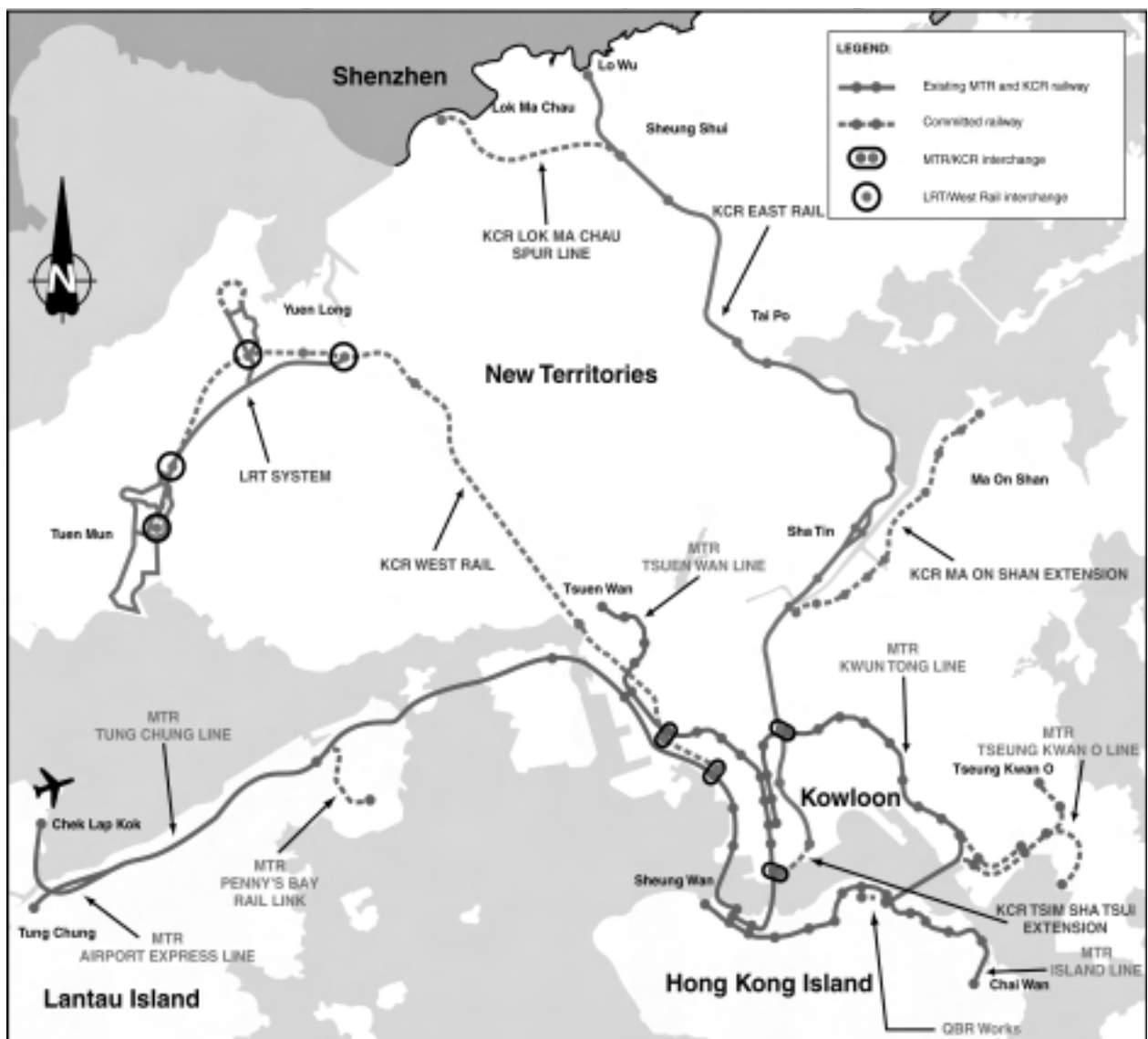
INDUSTRY BACKGROUND

Railways

Railways play a vital role in serving the transport needs of Hong Kong. The existing railway network in Hong Kong has a total length of approximately 143 kms and comprises the Mass Transit Railway, the KCR and the LRT.

The diagram below shows the existing networks of the Mass Transit Railway, the KCR and the LRT, and includes the six new railway lines which are scheduled for completion between 2002 and 2005. Further details are contained in the paragraph headed “Current Government Transport Strategy” in this section.

Existing and Committed Railway Network in Hong Kong



Source: Hong Kong Government Highways Department: Railway Development Strategy 2000.

INDUSTRY BACKGROUND

The Mass Transit Railway

The Mass Transit Railway comprises the MTR Lines and the Airport Express Line and operates through an 82.2 route kilometre network with 44 stations. In 1999, the MTR Lines carried an aggregate of approximately 779 million passengers or a weekday average of approximately 2.3 million passengers and the Airport Express Line carried approximately 10 million passengers or a daily average of 28,500 passengers. Further details are contained in the section headed "Business".

The KCR and the LRT

The KCR commenced operations in 1910 and is a mass transit commuter rail line linking suburban areas along the north eastern corridor of the New Territories to the Kowloon urban area. It also provides cross-boundary passenger services to Shenzhen in the mainland of China, and through train services to and from three major Chinese cities, Guangzhou, Shanghai and Beijing. The East Rail has a track length of 34 kms with 13 stations. The East Rail was completely electrified and became double-tracked in July 1983.

The KCRC also provides freight services which operate on the same track as the East Rail passenger services and convey cargo by rail between Hong Kong and the mainland of China. The KCR carries three main types of cargo, namely, livestock, breakbulk (which comprises mainly textile fibres, foodstuffs, metals, paper and chemicals) and containers.

In October 1999, KCRC commenced construction of the West Rail, Phase I, which is a 30.5 km, railway project comprising of nine stations, a 32.5 hectare depot, 13.4 kms of viaduct and 11.6 kms of tunnel. In addition, the KCRC will undertake three new extensions to East Rail, comprising of the Ma On Shan Rail from Ma On Shan to Tai Wai, the Tsim Sha Tsui Extension from Hung Hom Station to East Tsim Sha Tsui, and the Sheung Shui to Lok Ma Chau Spur Line to provide a new boundary rail crossing to the mainland of China.

The LRT commenced operations in September 1988 and comprises 31.75 kms of double track with 57 stops. It is a localised transport system utilising trains which are similar to trams on track which runs parallel to public roads. The system operates within the area of Tuen Mun, Yuen Long and Tin Shui Wai in northwest New Territories, providing an integrated transport system with eight LRT routes, six feeder bus routes, four auxiliary routes and two special bus routes linking various districts.

Buses and PLBs

There are five franchised bus operators in Hong Kong. KMB is the largest franchised bus operator and mainly operates in Kowloon and the New Territories. Bus services on Hong Kong Island underwent a major change in 1998 when the franchised services provided by China Motor Bus Company Limited ended on 31st August, 1998 after 65 years of operation. Local bus services on Hong Kong Island are currently provided by NWFB, a new entrant to the market, and Citybus. Cross-harbour services are provided by all three operators. NLB provides bus services on Lantau Island, while LWB operates routes between the New Territories and Tung Chung and the Airport. Non-franchised bus services mainly provide

INDUSTRY BACKGROUND

residents' service and employees' service, and serve groups of tourists and students on a group-hire basis. They perform a supplementary role in the public transport system by providing services primarily during peak hours.

PLBs are licensed to carry a maximum of 16 seated passengers. There are two types of PLBs: "green" and "red" PLBs. Green PLBs provide scheduled services, and their fares, vehicle allocation and timetables are stipulated by the Transport Department. Red PLBs operate without specified schedules. They are not required to operate on fixed routes or timetables and are free to set fares, but they are subject to a number of road traffic restrictions.

The following table shows certain operating data for franchised and non-franchised buses and PLBs for the year ended 31st December, 1999:

Year ended 31st December, 1999						
Franchise expiry	Number of vehicles	Number of cross harbour routes	Total travelled kilometres (million)	Total passenger boardings (million)	Number of average daily passengers (thousand)	
Franchised Buses						
KMB ⁽¹⁾	31st July, 2007	4,064	61 ⁽¹⁾	344	1,060	2,904
NWFB.....	31st July, 2003	730	32 ⁽²⁾	50	160	439
Citybus.....	30th June, 2006 and 31st May, 2003 ⁽³⁾	959	26 ⁽⁴⁾	84	203	556
NLB.....	31st March, 2007	86	N/A	5	5	15
LWB.....	31st May, 2003	159	N/A	25	17	46
PLBs						
Green PLBs.....	N/A	2,304	4	N/A	366 ⁽⁵⁾	1,002
Red PLBs.....	N/A	2,041	N/A	N/A	207	568
Total	N/A	10,343	508	2,018	5,530	

Source: Monthly Traffic and Transport Digest published by the Government.

Notes:

- (1) 10 cross-harbour routes are operated by KMB solely and 21 and 30 cross-harbour routes are operated jointly with Citybus and NWFB, respectively.
- (2) NWFB operates 30 of its cross-harbour routes jointly with KMB.
- (3) Citybus has two franchises. The first comprises 66 routes on Hong Kong Island and 26 cross-harbour routes. The second comprises 16 routes linking major districts in Hong Kong with Tung Chung and the Airport.
- (4) Five cross-harbour routes are operated by Citybus on its own and 21 cross-harbour routes are operated jointly with KMB.
- (5) Provisional figures.

Population

The population of Hong Kong was estimated at 6,782,100 as at mid-2000, representing an increase of 0.9% from mid-1999. The annual population growth rate from mid-1996 to mid-2000 averaged at 1.1%. The land population density per km² was 6,280 in 1999.

INDUSTRY BACKGROUND

In 1997, the Government published population projections using the then current population by-census results and set out its population projections from 1997 to 2016, extracts of which are set out below:

	2001E	2006E	2011E	2016E
Population	6,951,000	7,382,600	7,797,100	8,205,900
Average growth rate per annum over five years (%)..	2.0	1.2	1.1	1.0

Source: Hong Kong Population Projections 1997-2016 (1997).

In August 2000, the Census and Statistics Department of the Government made a technical revision to the method of compiling population figures of Hong Kong with the effect that the “resident population” method is used instead of the previous “extended de facto” method. The provisional population projections resulting from the use of the new “resident population” method have not been finalised prior to the date of this prospectus. They are as follows:

	2001E	2006E	2011E	2016E
Population	6,878,500	7,242,600	7,610,000	8,023,200
Average growth rate per annum over five years (%)..	1.2	1.0	1.0	1.1

Source: Census and Statistics Department (provisional population projections).

The population growth assumption used for the Letter from the Traffic Consultant contained in Appendix VI was based on the “extended de facto” method (further details of which are contained in paragraph 6.3 of the Letter from the Traffic Consultant contained in Appendix VI).

In February 1998, the Chief Executive in Council approved the Territorial Development Strategy Review (“TDSR”) which was first initiated in 1990. One of the objectives adopted in the TDSR was to produce a land use, transport and environmental framework so as to support the economic growth of Hong Kong and the development of strategic growth areas.

The Government has stated that it projects a total population of approximately 480,000 in the Tseung Kwan O new town by 2011, compared with a population of 235,000 in 1999. In addition, the Government has stated that it projects a total population of approximately 400,000 on Lantau Island by 2011 (with approximately 335,000 on North Lantau new town), compared with a population of about 45,000, in 1999. Other development areas selected by the Government are Kwu Tung North and Fanling North in Northeast New Territories (with a projected population of 180,000 by 2011), and Hung Shui Kiu in Northwest New Territories (with a projected population of 160,000 by 2011).

CURRENT GOVERNMENT TRANSPORT STRATEGY

The Government formulated the first Railway Development Strategy for Hong Kong in 1994. It sets out a railway development programme, according priority to the implementation of three new railway projects, namely, the West Rail, the Tseung Kwan O Extension, and the Ma On Shan to Tai Wai Rail Link, which is to be coupled with an extension of the East Rail from Hung Hom to Tsim Sha Tsui. Further to the first Railway Development Strategy, the Government decided in 1999 to implement the Sheung Shui to Lok Ma Chau Spur Line to

INDUSTRY BACKGROUND

provide additional rail passenger crossing facilities between Hong Kong and Shenzhen, and to build the Penny's Bay Rail Link for the proposed Disney Theme Park.

Thus, a total of six new railway lines, which it is estimated will cost over HK\$100 billion, are scheduled for completion between 2002 and 2005.

In order to update and refine Hong Kong's transport infrastructure and policy framework, the Transport Department commissioned the Third Comprehensive Transport Study ("CTS-3") which started in August 1997. The objective of CTS-3 is to provide a framework on which the Government could develop a balanced transport strategy to facilitate the mobility of people and goods of Hong Kong in an environmentally sustainable manner up to 2016. Based on CTS-3's findings, "Hong Kong Moving Ahead — A Transport Strategy for the Future", was published in October 1999 and sets out the Government's current transport strategy. It focuses on:

- **Better integration of transport and land use planning.** With an objective to provide a transport infrastructure in a timely and cost-effective manner, with due regard for the environment, the Government has stated the importance of providing new systems, and improving existing infrastructure, which would entail giving priority to railway development;
- **Better use of railways as the back-bone of passenger transport system.** The Government has stated that locating future strategic developments along rail alignments will reduce reliance on road-based transport, enhance the efficiency of the rail network, and ensure affordable fare levels. Railways will be supplemented by "feeder" services using other public transport modes;
- **Better public transport services and facilities.** The Government has recognised the need to upgrade the public transport system by rationalising and improving public transport services to better match demand, minimising wasteful competition and duplication of effort and curtailing, in some cases, low demand services. In addition, convenient and comfortable interchange facilities at transport hubs, especially railway stations, will be included in plans for new and major land-use or transport developments. The Government has also stated that franchised buses will play a more prominent role in feeding passengers to the railways. Unnecessary duplication generated by point-to-point services will be reduced through the use of conveniently located interchange facilities. The Government has also stated that healthy competition among service providers will be maintained to ensure commuters' choice;
- **Better use of advanced technologies in transport management.** The Government's objective is that the use of new technologies will be encouraged to increase the efficiency of traffic management, improve the overall capacity of the road system, and enhance road safety; and
- **Better environmental protection.** The Government's objective is that transport infrastructure and services will be provided in an environmentally acceptable manner to ensure the sustainable development of Hong Kong. On the transport front, this will include giving priority to efficient, environmentally friendly transport modes such as railways.

INDUSTRY BACKGROUND

Thus, one of the focal points of the Government's current transport strategy is to accord priority to railways which will form the backbone of the future passenger transport network.

RDS-2

In order to cater for Hong Kong's continued population growth and the increasing cross boundary social and economic activities, the Government commissioned the RDS-2 in March 1998 to examine how best to further expand the rail network to the year 2016. The executive summary of the RDS-2 report was published in May 2000 and examined the needs of the future railway network to fulfil the following objectives:

- to relieve bottlenecks in the existing railway systems;
- to provide rail service to strategic growth areas for housing and economic development;
- to meet cross-boundary passenger and freight demands; and
- to increase the share of rail in the overall transport system to reduce reliance on road-based transport.

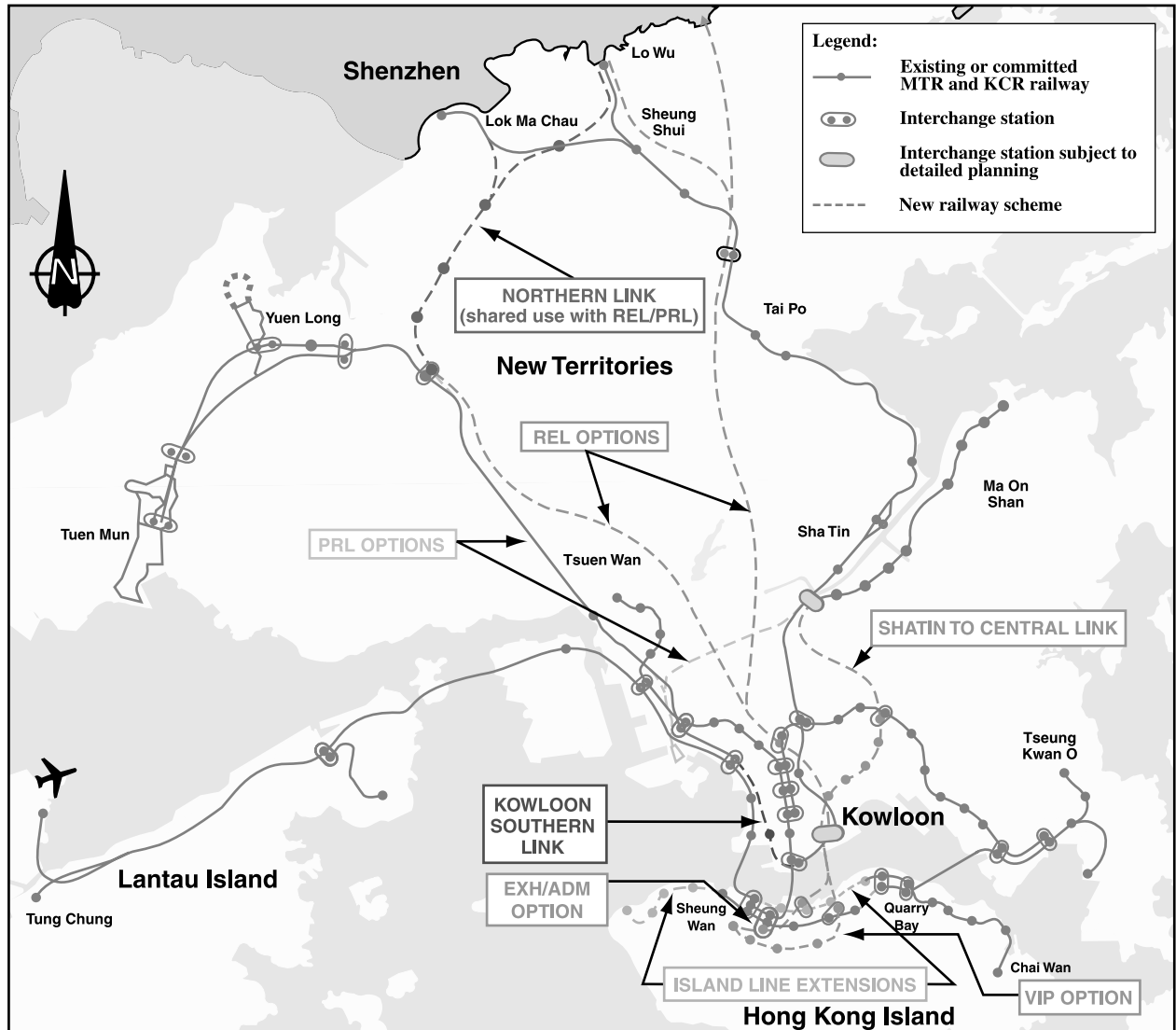
Railway Development Strategy 2000

Based on the key findings of RDS-2, the Government formulated the Railway Development Strategy 2000, which was published in May 2000. On completion of the railway network expansion plan as set out in the Railway Development Strategy 2000, it is estimated that the share of railways in Hong Kong's public transport is expected to increase from 31% in 1998 to 43% by 2016.

INDUSTRY BACKGROUND

The diagram below shows the preferred railway network of the Government as set out in the Railway Development Strategy 2000:

Future Railway Network in Hong Kong



Source: Railway Development Strategy 2000.

The recommended network in the Railway Development Strategy 2000 will feature six new rail corridors and a potential Port Rail Line (“PRL”). The six new rail corridors are as follows:

- an east-west corridor from Chai Wan to Tung Chung formed by the Island Line, the proposed North Hong Kong Island Line and the Tung Chung Line;
- a second east-west corridor from Tseung Kwan O to Kennedy Town formed by the Tseung Kwan O Extension, the Island Line, and the proposed West Hong Kong Island Line;

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- a north-south corridor which, depending on the operator, could run direct from either Tai Wai or Ma On Shan to Hong Kong Island via southeast Kowloon. This will be a new strategic rail corridor of which the Fourth Rail Harbour Crossing is a component;
- a Kowloon Southern Link (“**KSL**”) that would provide convenient connection between the East Rail and West Rail via the Kowloon peninsula;
- a Northern Link (“**NOL**”) that would connect the East Rail and West Rail at the northern part of the New Territories; and
- a Regional Express Line (“**REL**”) that would provide rapid rail transport between the boundary with the mainland of China and the metropolitan areas.

New railway projects

The Government has grouped the new railway schemes identified above into the following projects for implementation:

- **Island Line Extensions.** The Island Line Extensions comprise a new North Hong Kong Island Line and a West Hong Kong Island Line. The Railway Development Strategy 2000 stated that as both NIL and WIL are natural extensions of the Island Line, they should be implemented as a package by the Company;
- **Shatin to Central Link.** The Shatin to Central Link will be a new strategic rail corridor in the rail network formed by East Kowloon Line, the Fourth Rail Harbour Crossing and the Tai Wai to Diamond Hill Link.

The Fourth Rail Harbour Crossing will form part of the Shatin to Central Link and will start from Hung Hom and could route directly to Central via Exhibition/Admiralty (the “**EXH/ADM Option**”) or via Victoria Park, Leighton Hill and Wanchai South (the “**VIP Option**”). The Railway Development Strategy 2000 stated that the EXH/ADM Option is cheaper to build and provides a direct route from Hung Hom to Central. On the other hand, the VIP Option will be able to accommodate a more diversified nature of trips as it connects to the busy commercial and retail Causeway Bay district. The Railway Development Strategy 2000 also stated that the existing KCR terminal at Hung Hom will be Hong Kong’s mass transportation centre and that Hung Hom will be the preferred landing point of the Fourth Rail Harbour Crossing on Kowloon side;

- **Kowloon Southern Link.** The KSL is an extension of West Rail from its Nam Cheong station to connect with the Tsim Sha Tsui extension. The Railway Development Strategy 2000 stated that the KSL could help relieve the cross harbour section of the Tung Chung Line by attracting some of the cross-harbour trips originated from northwest New Territories to the Fourth Rail Harbour Crossing;
- **Northern Link.** The NOL will connect West Rail at Kam Sheung Road to East Rail at Kwu Tung and to the boundary crossing point at Lok Ma Chau. It will provide domestic passenger service for the strategic growth areas in north New Territories and cross-boundary passenger service for the western part of Hong Kong;

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- **Regional Express Line.** The REL will be an express rail service which is anticipated to link the urban area with the boundary with the mainland of China. In addition to providing fast domestic service with limited stops, through trains may also run on the REL. The preliminary alignment of the REL will link Hung Hom to the boundary via Shek Kip Mei; and
- **Port Rail Line.** The PRL is a new freight rail connection from Lo Wu to a new port rail terminal at Kwai Chung.

Benefits of the expanded railway network

The Railway Development Strategy 2000 stated that railways will be vital in supporting the economic, social and population growth of Hong Kong in the next 15 years. It also stated that investing in the new railway network will yield the following benefits to the community:

- **Improving accessibility.** Implementing the network will place about 70% of the population and about 80% of job opportunities within one kilometre of a railway station;
- **Realisation of integrated transport planning.** The comprehensive network coverage will facilitate co-ordination with other public transport services at key interchange stations. This will enable the realisation of integrated transport planning in which railways will form the backbone of Hong Kong's transport system;
- **High level of transport service.** The comprehensive network will offer fast and reliable travel throughout Hong Kong. The journey time from Lo Wu to Admiralty and from Tseung Kwan O to Central are estimated to be 50 and 21 minutes, respectively;
- **Meeting cross-boundary demand.** The network will be able to meet the growing cross-boundary demand, which is forecast to increase by over three times by 2016;
- **Economic return.** The investments in the network will yield an economic internal rate of return of more than 15%; and
- **Environmental benefits.** The new railway network will, on completion, increase the rail share in the public transport system from 31% in 1998 to 43% by 2016, or in terms of the distance travelled by passengers, from 34% to almost 60%. This is expected to reduce the reliance on road-based transport and translate into environmental benefits.

Implementation of the strategy

In terms of implementation, the Railway Development Strategy 2000 stated that the actual sequence and timing of the six new rail projects would be subject to more detailed engineering feasibility studies, having regard to the building up of transport demand, the pace of development of the strategic growth areas, project interfaces and consultation with the Company and KCRC. The Government may change the implementation timetable in the future. The implementation of some of the projects could be phased to meet demand or to integrate with the pace of development in different areas.

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With respect to the implementation arrangement, the NIL and the WIL, being formed from extensions of the MTR Lines, would have to be built and operated by the Company. The anticipated completion window for these projects is between 2008 and 2012. On the other hand, the KSL and the NOL would have to be undertaken by KCRC in order to facilitate their proper integration with the East Rail and the West Rail. These projects are likely to be completed between 2008 and 2013, and between 2011 and 2016, respectively.

In awarding other new railway projects which are not natural extensions of any existing line, the Government would adopt an open and fair approach by inviting the Company and KCRC to bid for the projects. The Government stated that it would specify the terms on which the two corporations could bid on a level playing field basis. In considering the proposals, the Railway Development Strategy 2000 stated that the Government would take into account all relevant factors including technical, financial and other alternative suggestions by the Company and KCRC which would enhance the cost-effectiveness of the projects.

The Railway Development Strategy 2000 also stated that, as the Shatin to Central Link is not a natural extension of an existing line and connects to both the Company and the KCRC networks, it may be undertaken by either railway operator and that both the Company and KCRC will be invited to put forward proposals on its implementation. Subsequently, the Government indicated to the Legislative Council that it will also welcome proposals from other parties to take part in the bidding. In order to better time the provision of the Shatin to Central Link to serve planned developments, the Government has stated that it will begin the bidding process as soon as practicable and that the preliminary programme is to complete the bidding process and the selection of the operator around the end of 2001 so that the project can be completed in 2008. The REL is also a potential candidate for bidding by the two companies, if it is planned on the basis of a third rail passenger crossing, in addition to Lo Wu and Lok Ma Chau. Subsequently, the Government indicated that it will also welcome proposals from other parties to take part in the bidding. The potential PRL is considered a natural KCRC project.

THE PROPERTY MARKET IN HONG KONG

General

All land within Hong Kong is State property and the Government is responsible for its management, use and development and for its lease or grant.

Property in Hong Kong is almost entirely held under long term leases granted by the Government in return for lump sum capital payments borne by lessees. A person who holds a piece of land under a long-term lease from the Government is usually referred to as the owner of the relevant property. Such leases are called Government leases and, since 1st July, 1997, are granted normally for a term of 50 years for most types of property from the date of the grant at a premium and, subject to an annual rent equivalent to 3% of the rateable value of the property at the relevant date, adjusted in step with any changes in the rateable value thereafter.

There are usually various restrictive covenants in Government leases, including land use and development restrictions. Additional land use restrictions are also imposed by local

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town planning legislation. If a lessee wishes to modify the use restrictions or to remove development restrictions in a Government lease, the lessee must apply to the Government for modification of the original terms of the Government lease, subject to payment of a premium as consideration for the modification.

The Hong Kong property market can generally be classified into four sectors, namely, residential, office, commercial/retail and industrial. Traditionally, most residential developments are built for sale. Properties in the Hong Kong leasing market are usually leased to tenants under agreements with terms of two to three years, or with rights to renew for terms of a similar duration with reviewed rents. These terms enable landlords in Hong Kong to benefit from improving market conditions by way of rental revisions more frequently than in some other jurisdictions. However, the frequent expiry of leases also exposes Hong Kong landlords to any decline in rental values and increasing vacancy rates from time to time.

The following table shows the number of property sales transactions in each year for the period 1990 to 1999:

<u>Year</u>	<u>Number of sales transactions⁽¹⁾</u>
1990.....	130,109
1991.....	180,964
1992.....	139,927
1993.....	136,915
1994.....	118,481
1995.....	100,171
1996.....	150,715
1997.....	210,594
1998.....	113,569
1999.....	100,144

Source: Land Registry.

Note:

(1) The figures relate to all types of property. However, approximately 90% of the annual transactions relate to residential properties.

Residential property

The residential property market in Hong Kong comprises three sectors: private housing, public housing rental flats and Government-subsidised sale flats. The private residential market comprised over 997,630 units as at the end of 1999, of which approximately 93% were units of less than 100 m². Approximately 60% of all private housing is located on Hong Kong Island and in Kowloon, and the remaining 40% in the New Territories. The proportion of units in the New Territories has increased substantially over the last 10 years as a result of the Government's new town development strategy, which aims to eliminate overcrowding in the existing urban areas of the Hong Kong Island and Kowloon.

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The following table shows the residential price index and average price for the fourth quarter in each of the years between 1990 and 1999, together with price per square foot data:

Residential⁽¹⁾ Price Index⁽²⁾ and Average Price (Index: 1st January, 1990 = 100)

Year	Index	Average price HK\$/sq ft
1990	117	2,009
1991	181	3,107
1992	219	3,760
1993	271	4,652
1994	306	5,253
1995	254	4,361
1996	344	5,906
1997	443	7,605
1998	223	3,828
1999	233	4,000

Source: Brooke International (China) Limited.

Notes:

- (1) Private domestic units are defined as independent dwellings with separate cooking facilities and bathroom. Properties are categorised according to the use for which the occupation permit was originally issued, unless known to have been subsequently structurally altered.
- (2) The indices measure value changes by reference to gross floor area.

Approximately 35,320 units were completed in 1999, 59% more than in 1998. The New Territories accounted for about 82% of the total. Vacancy at the end of 1999 was approximately 59,139 units, representing 5.9% of stock, up from 4.5% in 1998. The following table shows supply and vacancy trends for the private domestic sector for the period 1995 to 1999:

Private Domestic⁽¹⁾ — Overall Supply and Vacancy Trends

	In buildings completed during the year			In all other buildings			Overall vacancy	
	Total no. of units	No. vacant	% vacant	Total no. of units	No. vacant	% vacant	No. vacant	% of total stock
1995	22,621	14,470	64.0	863,056	21,732	2.5	36,202	4.1
1996	19,875	12,496	62.9	891,365	21,553	2.4	34,049	3.7
1997	18,202	13,271	72.9	921,926	22,712	2.5	35,983	3.8
1998	22,278	14,289	64.1	940,978	29,539	3.1	43,828	4.5
1999	35,322	26,863	76.1	962,311	32,276	3.4	59,139	5.9

Source: Hong Kong Property Review 2000 (Rating and Valuation Department, HKSAR).

Notes:

- (1) See Note (1) to the table on Residential Price Index and Average Price above.
- (2) All figures represent year-end position.

Office property

Office space in Hong Kong is diversely located in a number of core business districts including Sheung Wan, Central, Wanchai, Causeway Bay and Tsim Sha Tsui, as well as a number of other areas such as North Point, Quarry Bay, Yau Ma Tei, Mong Kok, Kwun Tong and Tsuen Wan. Office space in the core business districts accounted for 68% of the total

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stock at the end of 1999. Rental rates and capital values are affected by supply of new space, market demand for take-up of available space and the resultant vacancy rates.

The following table shows the annual rental and price indices for the private office sector for the period 1989 to 1999:

**Private Offices⁽¹⁾ — Rental and Price Indices⁽²⁾
(1989 = 100)**

Year	Rentals	Prices
1989.....	100	100
1990.....	101	96
1991.....	95	97
1992.....	101	133
1993.....	110	159
1994.....	134	222
1995.....	132	188
1996.....	112	184
1997.....	115	206
1998.....	100	130
1999.....	74	97

Source: Hong Kong Property Review 2000 (Rating and Valuation Department, HKSAR).

Notes:

(1) Properties comprise premises situated in buildings designed for commercial/business purposes. Non-domestic floors in composite buildings are, however, excluded. Properties are categorised according to the use for which the occupation permit was originally issued, unless known to have been subsequently structurally altered.

(2) The indices measure value changes by reference to rateable value and not to floor area.

The following table shows supply and vacancy trends for the private office sector for the period 1995 to 1999:

Private Offices⁽¹⁾ — Overall Supply and Vacancy Trends

	In buildings completed during the year			In all other buildings			Overall vacancy	
	Total floor space ⁽²⁾ (m ²)	Amount vacant (m ²)	% vacant	Total floor space ⁽²⁾ (m ²)	Amount vacant (m ²)	% vacant	Amount vacant (m ²)	% of total stock
1995.....	354,500	231,600	65.3	6,834,100	445,200	6.5	676,800	9.4
1996.....	268,700	228,100	84.9	7,118,900	595,900	8.4	824,000	11.2
1997.....	456,100	264,200	57.9	7,426,000	640,900	8.6	905,100	11.5
1998.....	736,700	541,600	73.5	7,897,400	831,600	10.5	1,373,200	15.9
1999.....	427,000	283,800	66.5	8,561,200	973,400	11.4	1,257,200	14.0

Source: Hong Kong Property Review 2000 (Rating and Valuation Department, HKSAR).

Notes:

(1) See Note (1) to the table on Private Offices—Rental and Price Indices above.

(2) All areas are internal floor areas.

(3) All figures represent year-end position.

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Commercial/retail property

The private commercial/retail property market in Hong Kong comprises approximately nine million m² of shopping plazas, restaurants, retail outlets and other commercial/retail space as at the end of 1999. The market is geographically diverse. Both luxury retail and mass retail premises are found throughout the major population centres of Hong Kong Island, Kowloon and the New Territories. There are particularly high concentrations of commercial space in the traditional shopping areas of Causeway Bay, Central, Tsim Sha Tsui and Mong Kok.

The following table shows the annual rental and price indices for the private retail sector for the period 1989 to 1999:

**Private Retail Premises⁽¹⁾ — Rental and Price Indices⁽²⁾
(1989 = 100)**

<u>Year</u>	<u>Rentals</u>	<u>Prices</u>
1989.....	100	100
1990.....	112	112
1991.....	126	143
1992.....	149	200
1993.....	167	244
1994.....	192	285
1995.....	192	277
1996.....	192	287
1997.....	203	382
1998.....	186	275
1999.....	166	214

Source: Hong Kong Property Review 2000 (Rating and Valuation Department, HKSAR).

Notes:

- (1) Includes retail premises and other premises designed or adapted for commercial use, with the exception of purpose-built offices. Carparking space is excluded. Properties are categorised according to the use for which the occupation permit was originally issued, unless known to have been subsequently structurally altered.
- (2) The indices measure value changes by reference to rateable value and not to floor area.

Completions of commercial/retail space in 1999 were 205,400 m², similar to previous years. Take-up increased by 55% to 188,800 m², equivalent to 92% of the year's completions. Overall vacancy at the year end fell marginally to 823,500 m², being 9.2% of stock.

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The following table shows supply and vacancy trends for the private commercial sector for the period 1995 to 1999:

Private Retail/Commercial Premises⁽¹⁾ — Overall Supply and Vacancy Trends

	In buildings completed during the year			In all other buildings			Overall vacancy	
	Total floor space ⁽²⁾ (m ²)	Amount vacant (m ²)	% vacant	Total floor space ⁽²⁾ (m ²)	Amount vacant (m ²)	% vacant	Amount vacant (m ²)	% of total stock
1995.....	206,700	176,000	85.1	7,965,200	457,400	5.7	633,400	7.8
1996.....	120,700	91,600	75.9	8,203,100	662,500	8.1	754,100	9.1
1997.....	248,800	74,100	29.8	8,282,000	689,000	8.3	763,100	8.9
1998.....	207,500	124,200	59.9	8,543,200	702,600	8.2	826,800	9.4
1999.....	205,400	170,800	83.2	8,788,500	652,700	7.4	823,500	9.2

Source: Hong Kong Property Review 2000 (Rating and Valuation Department, HKSAR).

Notes:

- (1) Refers to retail premises only and does not include premises for other commercial use. Properties are categorised according to the use for which the occupation permit was originally issued, unless known to have been subsequently structurally altered.
- (2) The indices measure value changes by reference to rateable value and net floor area.
- (3) All figures represent year-end position.

Completions in 2000 are expected to fall significantly to 58,900 m², most of which will be located in Kowloon and the New Territories.

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INTRODUCTION

The Company is a leading provider of public transport services in Hong Kong. Its core business is the ownership and operation of the Mass Transit Railway. In conjunction with the construction and operation of the Mass Transit Railway, the Company is also involved in the development and sale of residential and commercial properties with various third-party developers and manages, and in some cases owns, certain developed properties. The Company also leases commercial facilities and provides other services within the Mass Transit Railway, such as telecommunications facilities. The Company's subsidiary, Creative Star, operates the Octopus smart card system which the Company uses to collect the majority of its fare revenue.

The Company has a 50-year exclusive franchise which commenced on 30th June, 2000 (and which may be extended in accordance with the new MTR Ordinance and the Operating Agreement) to operate the Mass Transit Railway, which currently comprises the MTR Lines (consisting of the Kwun Tong, Tsuen Wan, Island and Tung Chung Lines) and the Airport Express Line, through an 82.2 route kilometre network of tracks with 44 stations. The Company estimates that approximately 2.5 million people live within 500 metres of an MTR Station, equivalent to approximately 36% of the total population of Hong Kong. In 1999, the MTR Lines carried an aggregate of approximately 779 million passengers, or a weekday average of 2.3 million passengers, while the Airport Express Line carried approximately 10 million passengers, or a daily average of 28,500 passengers.

In 1999, the Company generated total operating profit before interest, tax, depreciation and amortisation of HK\$5,523 million (1998: HK\$4,720 million), consisting of HK\$3,493 million (1998: HK\$3,301 million) from its railway and related operations (including operating profit from advertising, kiosk rental, provision of telecommunications facilities and other business activities within the Company's premises, and from property ownership and management) and profit on property developments of HK\$2,030 million (1998: HK\$1,419 million). Depreciation in 1999 was HK\$2,039 million (1998: HK\$1,426 million), all of which was attributable to the Company's railway and related operations. After taking into account interest and finance charges, the Company's profit for 1999 was HK\$2,380 million (1998: HK\$2,819 million). In 1999, the Company made one-off staff separation payments amounting to HK\$264 million which reduced its profit for the year to HK\$2,116 million (1998: HK\$2,819 million). For the first six months of 2000, the Company generated total operating profit before interest, tax, depreciation and amortisation of HK\$2,703 million (1999: HK\$2,673 million), consisting of HK\$1,957 million (1999: HK\$1,647 million) from its railway and related operations and profit on property developments of HK\$746 million (1999: HK\$1,026 million). Depreciation for the first six months of 2000 was HK\$1,052 million (1999: HK\$995 million), all of which was attributable to the Company's railway and related operations. After taking into account interest and finance charges, the Company's profit for the first six months of 2000 was HK\$1,051 million (1999: HK\$1,148 million).

STRENGTHS

- **The Company is well-positioned to benefit from Hong Kong's long-term economic and population growth.** All of the Company's railway operations and all of its property investment and development activities are located in Hong Kong. Accordingly, the Company stands to benefit from Hong Kong's long-term growth prospects. These include

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economic, population and employment growth. Given that the scope of the Mass Transit Railway covers Hong Kong's main business areas, the Company anticipates that if these long-term growth prospects materialise, they would lead to increased patronage on the Mass Transit Railway.

- **The Company is a leading provider of public transport services in Hong Kong and operates one of the world's most profitable, cost efficient and safe urban railways.** The Mass Transit Railway carried over 789 million passengers in 1999 and the Company estimates that in 1999 it achieved a market share of 60.3% of the important cross-harbour traffic linking the business districts of Hong Kong Island and Kowloon. Since its establishment, the Company has operated under prudent commercial principles and has enjoyed autonomy to determine the fares it charges. This has allowed the Company to plan and manage its revenue growth. For the five years ended 31st December, 1999, the Company generated an average operating margin (before depreciation) from its railway and related operations of 51.5% of turnover. Average fares for the MTR Lines have increased to HK\$6.67 in 1999 from HK\$5.80 in 1995 at a compound annual growth rate of 3.7%. Within CoMET, a benchmarking association of metropolitan passenger railway operators from around the world, the Company is the leader in terms of cost efficiency. The Company operates a railway system which it believes is of a world class standard and which achieves high levels of safety and reliability. The Company continually seeks to raise these standards, for example, by introducing new signalling and train control systems and the programme to install platform screen doors in all underground MTR Stations in its existing railway network. According to the Gallup Organisation Telebus Survey conducted in 1999, the Company ranked first amongst all transport providers in Hong Kong in terms of customer satisfaction.
- **The Company is well positioned to benefit from the Government's transport planning strategy, expected demographic developments and the regulatory framework under which it operates, in addition to the supportive relationship it has with the Government.** The Railway Development Strategy 2000 released by the Government in May 2000 reaffirmed the need to rely on railways as the backbone of Hong Kong's transport system and that railways are essential to Hong Kong's continued economic, social and land development and will be given priority in the Government's plans for infrastructure development. It also states that railways will be vital in supporting the economic, social and population growth of Hong Kong in the next 15 years and that the implementation of the Government's planned railway network expansion would place approximately 70% of Hong Kong's population and 80% of job opportunities within one kilometre of a railway system. It estimates that, on completion of the Government's planned railway network expansion by 2016, Hong Kong's railway network would support approximately 43% of total public transport patronage in Hong Kong from approximately 31% in 1998. In addition, as stated in the Railway Development Strategy 2000, Hong Kong's population is projected to reach 8.9 million in 2016 from approximately 6.8 million currently. The Company believes that, as a leading provider of public transport services in Hong Kong, it is well positioned to benefit from these expansion opportunities and expected demographic developments. The Company operates under a regulatory framework which confers upon the Company an initial 50-year franchise (which commenced on 30th June, 2000 and which may be extended in accordance with the new

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MTR Ordinance and the Operating Agreement) and autonomy in determining its fares (subject to compliance with a procedure specified in the Operating Agreement) and which requires the Company to satisfy performance standards which the Company is confident it can meet. In addition, the Company expects that it will continue to benefit from a supportive relationship with the Government.

- **The Company has an established track record for property development associated with its railway projects.** In connection with railway construction, the Company receives land grants from the Government that enable residential and commercial properties to be developed above and adjacent to new MTR Stations and depots, in conjunction with property developers. Profits from these development activities have, in the past, contributed to providing an improved rate of return on the investment cost of constructing new railway projects. As at 30th June, 2000, 23 property developments comprising 39,338 units and approximately 824,500 m² of commercial gross floor area had been developed under these land grants using the Company's successful formula for property development. This is based on minimising direct risk in the development of the properties by having property developers fund the costs of the development, including the land premium. Profit on property developments was HK\$2,030 million in 1999. In its Railway Development Strategy 2000, the Government confirmed that the present practice of allowing, where appropriate, the Company to develop property on its MTR Stations and depots has worked well and should be retained.
- **The Company has an experienced and motivated management team that has demonstrated a consistent operating performance based on prudent commercial principles.** The Company is managed by a motivated team with extensive experience in railway construction and operations as well as in finance and property. This is reflected in the Company's consistently good railway operating performance, the completion of its railway projects within budget and on schedule and the maximising of business opportunities arising from the Company's assets and inherent advantages. The interests of the Company's management team are now further aligned with the interests of the Company by virtue of the newly introduced Pre-Global Offering Share Option Scheme. The Company is recognised as amongst the best managed companies in Hong Kong, having received a number of awards, including the award as best company in Hong Kong in 1997 and 1998, the runner's-up award in 1999 in the "Review 200: Asia's Leading Companies" Award by the Far Eastern Economic Review and the Quality Award by the Hong Kong Management Association.
- **The Company's strong and well-disciplined financial management has led to it being recognised as a leading Asian borrower in the international capital markets.** Although the Government had injected equity into the Company over the years, the bulk of the Company's financing has been accessed through borrowings in the local and international capital markets. The need to arrange, manage and repay these borrowings has instilled strong and well-disciplined financial management processes within the Company. It has pursued a policy of high standards of financial reporting and disclosure and has put in place a clear structure for debt management through the preferred financing model. A number of the Company's annual reports have won awards from the Hong Kong Management Association, including the Best Annual Report Award for six years, and the Company is recognised as a leading Asian credit and borrower.

BACKGROUND AND OVERVIEW OF THE MASS TRANSIT RAILWAY

History

MTRC was established in 1975 under the MTRC Ordinance to construct and operate a mass transit railway system in Hong Kong as a statutory corporation, wholly-owned by the Selling Shareholder in trust on behalf of the Government. In 1979, the first section of the Mass Transit Railway was opened for passenger service and in 1998 the Airport Express Line, a purpose-built railway serving the Airport, was opened for passenger service. During 1980, MTRC carried its 100 millionth passenger and by 1999, MTRC had carried a total number of passengers equivalent to twice the world's population.

Privatisation

In his budget speech on 3rd March, 1999, the Financial Secretary announced the Government's intention partially to privatise the Company through the sale of a minority interest of its shares and a listing of its shares on the Stock Exchange. A key element in the privatisation process was the enactment in March 2000 of the new MTR Ordinance which came into effect on 30th June, 2000. On the same day, the entire property, rights and liabilities of MTRC were vested in the Corporation, which was incorporated on 26th April, 2000, with the effect that the Corporation became the successor to MTRC and is to be treated as if it were the same entity in law as MTRC. In addition, the new MTR Ordinance provides for the granting of a franchise, for an initial period of 50 years (which commenced on 30th June, 2000 and which may be extended in accordance with the new MTR Ordinance and the Operating Agreement), to the Corporation to operate and develop the Mass Transit Railway, as well as for the regulation and operation of the Mass Transit Railway under the Operating Agreement. A summary of the new MTR Ordinance and the Operating Agreement is contained in Appendix VII.

Overview

The Mass Transit Railway comprises the MTR Lines and the Airport Express Line and operates through a 82.2 route kilometre network with 44 stations. In 1999, the MTR Lines carried approximately 779 million passengers or an average of approximately 2.3 million passengers per weekday and the Airport Express Line carried approximately 10 million passengers or an average of approximately 28,500 passengers per day.

MTR LINES

The MTR Lines comprise the Kwun Tong Line, the Tsuen Wan Line, the Island Line and the Tung Chung Line and include 74.9 route kilometres of double track, 43 stations and three cross-harbour tunnels (including the rail element in the Eastern Harbour Crossing). There are four depots for train stabling and maintenance (one of which is shared with the Airport Express Line) and one operations control centre, further details of which are contained in the paragraph headed "Mass Transit Railway operations" in this section.

Kwun Tong Line

The Kwun Tong Line, which commenced operations in 1979, runs from Yau Ma Tei in Kowloon, through east Kowloon and the Eastern Harbour Crossing to Quarry Bay on Hong

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Kong Island. There are interchange facilities with the Tsuen Wan Line at Yau Ma Tei, Mong Kok and Prince Edward and with the Island Line at Quarry Bay. There are also interchange facilities at Kowloon Tong with the KCR. The Kwun Tong Line is 16.3 route kilometres in length, of which 12.7 route kilometres are underground. It has 14 stations, including the interchange stations, and a depot at Kowloon Bay.

Tsuen Wan Line

The Tsuen Wan Line, which commenced operations in 1982, runs from Central to Tsim Sha Tsui in Kowloon and along the major commercial and residential Nathan Road corridor to Tsuen Wan in the New Territories. There are interchange facilities with the Kwun Tong Line at Yau Ma Tei, Mong Kok and Prince Edward, with the Island Line at Admiralty and Central and with the Tung Chung Line at Lai King. It is 16.9 route kilometres in length, of which 13.8 route kilometres are underground. It has 16 stations, including the interchange stations, and a depot at Tsuen Wan.

Island Line

The Island Line, which commenced operations in 1985, runs from Sheung Wan in western Hong Kong Island through Central to the commercial and residential areas of eastern Hong Kong Island ending at Chai Wan. There are interchange facilities with the Tsuen Wan Line at Central and Admiralty, with the Kwun Tong Line at Quarry Bay and with the Tung Chung and Airport Express Lines at Hong Kong station. The Island Line is 13.3 route kilometres in length, of which 11.2 route kilometres are underground. It has 14 stations, including the interchange stations, and a depot at Chai Wan.

Tung Chung Line

The Tung Chung Line, which commenced operations in 1998, runs from Central to Tung Chung on Lantau Island via the Lantau Link, further details of which are contained in the paragraph headed "The Lantau Link" in this section. The Tung Chung Line is 31.1 route kilometres in length, of which 9.1 route kilometres are underground. There are interchange facilities with the Tsuen Wan Line at Lai King. It has six stations, including the interchange station, and a depot at Siu Ho Wan (which is shared with the Airport Express Line). It was constructed in conjunction with the infrastructure projects associated with the Airport and, for most of its length it either shares its track with, or runs parallel to, the Airport Express Line. In order to facilitate the growth of new communities on northern Lantau Island and west Kowloon, the Tung Chung Line is also designed to permit interchange with future railway lines to the northwest New Territories and other parts of Kowloon.

Patronage on the MTR Lines

From its first full year of operation in 1980 up to and including 1996, there was continuous growth in the number of passengers using the Tsuen Wan, Kwun Tong and Island Lines. However, there has been a decrease in the number of passengers carried on the Tsuen Wan, Kwun Tong and Island Lines since 1997.

The MTR Lines carried more than 779 million passengers in 1999, or a weekday average of approximately 2.3 million. This represents a decrease of approximately 2% in

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each case from the levels achieved in 1998. Since January 1997, the Company has experienced a significant decline in cross-harbour patronage due principally to the opening of the Western Harbour Tunnel in May 1997, the resulting increase in competition from franchised buses (due to quicker cross-harbour journeys arising from the relief of congestion in cross-harbour tunnels) and the economic downturn. For journeys within Hong Kong Island, the Company has experienced a decline in patronage of between 5% and 15%, principally due to increased use of franchised buses and PLBs (as a result of a general improvement in bus services and more direct road access to, and improved road traffic conditions in, the urban areas) as well as the economic downturn. For journeys within Kowloon, patronage on the Mass Transit Railway has increased by 4% since January 1997. During the first six months of 2000, patronage on the MTR Lines decreased by approximately 2.6% from the level for the first six months of 1999 principally due to the continued increase of bus usage.

Further details in relation to patronage on the MTR Lines are contained in the paragraph headed "Competition" in this section.

The table below shows information on patronage and other related operating data on the MTR Lines for the periods shown:

	Year ended 31st December,					Six months ended 30th June,	
	1995	1996	1997	1998 ⁽²⁾	1999 ⁽³⁾	2000	1999 ⁽³⁾
Total number of passengers (in thousands).....	812,519	816,572	811,897	793,602	779,309	375,561	385,522
Average number of passengers per weekday (in thousands)	2,377	2,379	2,382	2,326	2,284	2,218	2,291
Average passenger km travelled (per journey).....	7.5	7.5	7.4	7.4	7.4	7.3	7.5
Average car occupancy	74	73	71	62	61	60	60

Notes:

- (1) Passengers may interchange amongst the Kwun Tong, Tsuen Wan, Island and Tung Chung Lines and, as a result, patronage on these lines is reported on the basis that these lines are a single operating unit. No meaningful information relating to the individual patronage figures for each of these lines is available.
- (2) The Tung Chung Line was opened for operations on 22nd June, 1998.
- (3) The first full year of operations on the Tung Chung Line.

THE AIRPORT EXPRESS LINE

The Airport Express Line commenced operations in 1998 as a purpose-built railway serving the Airport. It provides a fast passenger link to and from the Airport, enabling passengers to travel between Hong Kong station and the Airport in approximately 23 minutes at a maximum speed of 135 kms per hour. It connects the Airport with Tsing Yi, Kowloon and Hong Kong stations and is 35.3 route kms in length, part of which runs in tunnels, part on the Lantau Link and elevated structures and the rest at ground level. It has four stations and a depot at Siu Ho Wan (which is shared with the Tung Chung Line). There are interchange facilities with the Tung Chung Line at Hong Kong station, Kowloon station and Tsing Yi station. At each of the Hong Kong and Kowloon stations there are in-town check-in facilities, serving most major airlines that operate from the Airport, enabling passengers who travel on the Airport Express Line to check-in for flights, receive their seat allocation and boarding passes and check-in baggage at those stations up to 90 minutes before their scheduled flight departure time. This service is provided by nine airlines and baggage handling agents under

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agreements with the Company. In addition, the Company provides free shuttle bus services for Airport Express Line passengers between designated MTR Stations and designated hotels and employs a “train ambassador” service on Airport Express Line trains in order to assist passengers.

Patronage on the Airport Express Line

The Airport Express Line carried nearly four million passengers, or a daily average of approximately 21,900 passengers, during its six months of operation in 1998. In 1999, the Airport Express Line carried more than 10 million passengers, or a daily average of approximately 28,500 passengers. This increase was due mainly to the Airport Express Line being operated for a full year in 1999.

Patronage on the Airport Express Line depends, in part, on the number of tourists arriving in Hong Kong which has been lower than expected, the level of competition from other modes of transport and prevailing macro-economic factors. Approximately one-quarter of all passengers using the Airport Express Line work at the Airport or for airlines using the Airport. Patronage on the Airport Express Line has been lower than the Company had initially forecast at the planning stage and, combined with more extensive fare discounts than originally anticipated, revenues generated from the Airport Express Line have been below those which the Company had expected. However, during 1999, the average daily patronage on the Airport Express Line rose by approximately 30% to approximately 28,500, mainly as a result of increased tourist arrivals during the year and the introduction of a 60% fare discount for people who work at or from the Airport and who use Octopus cards. The Company expects that the reduction in the fare discount for journeys on the Airport Express Line, which was implemented on 3rd July, 2000, may lead to a modest decline in patronage on the Airport Express Line but to an increase in revenues. The Company continues to expect patronage of the Airport Express Line to be affected by competition from franchised Airport buses, taxis, hotel shuttle buses, hotel guest cars and private cars. Patronage on the Airport Express Line increased by approximately 6.3% in the first six months of 2000 compared with patronage during the first six months of 1999. This increase resulted principally from an increase of approximately 1,000 trips daily by people who work at or from the Airport and a promotion implemented by the Company in April 2000.

Further details in relation to patronage on the Airport Express Line are contained in the paragraph headed “Competition” in this section.

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The table below shows information on patronage and other operating data on the Airport Express Line since 1998:

	Year ended 31st December,		Six months ended 30th June,	
	1998 ⁽¹⁾	1999	2000	1999
Total number of passengers (in thousands)	3,928	10,396	5,325	5,008
Average daily number of passengers (in thousands)	21.9	28.5	29.3	27.7
Average car occupancy ⁽²⁾	13.6	16.0	16.2	15.5

Notes:

(1) Includes results from the operation of the Airport Express Line which commenced operations on 6th July, 1998.

(2) The carrying capacity of passenger cars operating on the Airport Express Line is 64 per passenger train car.

FARES

The Company has autonomy to determine its own fares without any requirement to obtain the approval of the Government or any other body. Historically, the Company has voluntarily given the Government prior notice of changes to its fares other than for promotional and temporary fare reductions, and has consulted with both the Legislative Council Panel on Transport and the Transport Advisory Committee and with passengers in order to obtain views as to the likely public reaction to a proposed fare revision. Under the Operating Agreement, the Company has to comply with a specified procedure before changing the level of any fare, which requires the Company to consider the level of public acceptance of any proposed change (based on passenger surveys), to consult the Transport Advisory Committee and the Legislative Council Panel on Transport, to notify them within a reasonable period prior to the implementation of a new fare and to make a public announcement of a new fare. Further details relating to these requirements are contained in Appendix VII.

From the time the Company began operating railway services in 1979 until the end of 1999, the Company's average annual fare increase, without taking account of promotional fares, has been 6.9%, which is lower than the average annual increase in the Consumer Price Index (A) of 7.3% for the same period. In the light of the unfavourable economic conditions prevailing in Hong Kong during 1998, the Company decided to forego a fare increase on the MTR Lines during that year. In addition, with inflation remaining negative in Hong Kong throughout 1999, the Company maintained the same fares throughout the year. For 2000, the Company announced that fares would remain unchanged. However, an additional HK\$0.10 per journey levy on passengers using an Octopus card was added to fares on the MTR Lines with effect from 3rd July, 2000 as a contribution towards the costs of installing platform screen doors (further details of which are contained in the paragraph headed "Platform screen doors" in this section). The 30% discount on Airport Express Line fares, which was implemented as an introductory promotion when the Airport Express Line commenced operations, has also been reviewed and adjusted to a 10% discount starting on 3rd July, 2000.

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The table below shows information relating to the average fares charged by the Company on the MTR Lines for the years shown:

	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>
Average fare (HK\$)	5.80	6.22	6.39	6.59	6.67
Percentage increase in average fare.....	8.00%	7.24%	2.73%	3.13%	1.21%

Historically, the Company has reviewed its fares annually with the objective of making regular increases roughly in line with inflation so that revenues are sufficient to cover operating costs, debt servicing and depreciation of capital expenditure, and to provide an appropriate shareholder return. Prior to increasing its fares, the Company first studies the prevailing competitive position of the Mass Transit Railway and other public transportation alternatives and identifies the segments of the public transportation market in which it is relatively more or less competitive. The Company then evaluates possible fare increases for different market segments, taking into account various factors, including inflation, the projected growth of the Hong Kong economy and assumptions as to consumer price sensitivity. The effects of alternative fare increases on patronage and fare revenue are then assessed.

The basic fare structure consists of 13 different fare zones for the Kwun Tong, Tsuen Wan and Island Lines and three different fare zones for the Tung Chung and Airport Express Lines. The fare for any station-to-station movement depends on a number of factors, including the distance between the zones containing such stations and whether the journey involves crossing Victoria Harbour. In addition to the basic fare structure, the Company offers concessionary fares to senior citizens, students and children under the age of 12, each of whom pay about half fares for all journeys on the MTR Lines at all times. In relation to the Airport Express Line, half fares for children, free same-day return, free in-town check-in service, free connection for journeys on the Mass Transit Railway if Octopus cards are used, free hotel shuttle buses, round trip discounts and low carparking rates are available. Employees of the Company, their spouses and children enjoy free travel on the Kwun Tong, Tsuen Wan, Island and Tung Chung Lines and, in addition, employees are allowed unlimited free travel on the Airport Express Line.

OPERATING PERFORMANCE

General

The Mass Transit Railway operates from approximately 6.00 am to 1.00 am, seven days a week, 365 days a year. Trains on the Kwun Tong, Tsuen Wan and Island Lines run approximately two minutes apart during peak hours and approximately five minutes apart during off-peak hours. Trains on the Tung Chung and Airport Express Lines run approximately 10 minutes apart during non-peak hours and approximately five minutes apart during peak hours between the Hong Kong and Tsing Yi stations on the Tung Chung Line. Trains run at an average speed of approximately 33 kms per hour for the Kwun Tong, Tsuen Wan and Island Lines and approximately 84 kms per hour for the Tung Chung and Airport Express Lines. The duration of each stop at a station is approximately 30 seconds for trains on the MTR Lines and approximately 90 seconds for trains on the Airport Express Line. Scheduled travel time for the Kwun Tong Line from Quarry Bay to Yau Ma Tei is approximately 25 minutes, for the Tsuen

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Wan Line from Tsuen Wan to Central is approximately 28 minutes, and for the Island Line from Sheung Wan to Chai Wan is approximately 23 minutes. Scheduled travel time for the Tung Chung Line from Tung Chung to Central, and for the Airport Express Line from the Airport to Central, is approximately 23 minutes.

Performance requirements

Under the Operating Agreement, the Company is required to meet certain performance thresholds relating to the railway-related services it provides (“**Performance Requirements**”). These are based on the performance achievements of the Company during 1998 and 1999, as adjusted to take account of a number of factors, such as variations in operating performance, disruptions caused by members of the public, loss or diminution of power supply and other events beyond the control of the Company. The Operating Agreement contains provisions which allow for the modification of the Performance Requirements. Recognition is given to the possible difficulties in meeting existing Performance Requirements where new railway projects or new technology are introduced and, in those circumstances, the Operating Agreement requires different Performance Requirements to be established. Failure to satisfy the Performance Requirements could constitute a breach of the Operating Agreement and could lead to the imposition of sanctions as described in Appendix VII.

Customer service pledges

Under the Operating Agreement, the Company is also required to establish certain customer service pledges (“**Customer Service Pledges**”) relating to each of the matters covered by the Performance Requirements as well as in relation to train reliability, ticket reliability, temperature and ventilation levels, and railway cleanliness. Unlike the Performance Requirements, the Customer Service Pledges are voluntary targets established by the Company itself and not contractual obligations relating to performance.

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The table below shows information in relation to the Performance Requirements and the Customer Service Pledges. The actual percentages achieved by the Company in 1998 and 1999 would have met or exceeded both the Performance Requirements and the Customer Service Pledges had they been in place in those years.

<u>Performance Requirement/Customer Service Pledge⁽¹⁾</u>	<u>Percentage required under the Operating Agreement</u>	<u>Percentage established as a Customer Service Pledge</u>
Train service delivery ⁽²⁾	98.5	99.5
Passenger journeys on time ⁽³⁾		
— MTR Lines	98.5	99.5
— Airport Express Line	98.0	99.0
Train punctuality ⁽⁴⁾		
— MTR Lines	98.0	99.0
— Airport Express Line	98.0	99.0
Add value machine reliability ⁽⁵⁾	95.5	97.0
Ticket issuing machine reliability ⁽⁵⁾	93.0	95.0
Ticket gate reliability ⁽⁵⁾	97.0	98.0
Escalator reliability ⁽⁵⁾	98.0	99.0
Passenger lift reliability ⁽⁵⁾	98.5	99.0

Notes:

- (1) This table does not contain details in relation to the Customer Service Pledges of train reliability, ticket reliability, temperature and ventilation and railway cleanliness as there are no Performance Requirements that are applicable for these.
- (2) Train service delivery is a measure of the actual trips run by the Company against the train trips scheduled to run by the Company.
- (3) Passenger journeys on time is a measure of passengers journeys which are delayed by less than five minutes.
- (4) Train punctuality is a measure of train trips which are not delayed by at least five minutes in the case of the Airport Express Line and by at least two minutes in the case of the MTR Lines.
- (5) Add value machine reliability, ticket issuing machine reliability, ticket gate reliability, escalator reliability and passenger lift reliability is, in each case, a measure of the total operating hours of the relevant facility.

Further details on the Performance Requirements and the Customer Service Pledges are contained in Appendix VII.

International performance benchmarking

Compared to other metropolitan railways around the world, the Mass Transit Railway is considered to be one of the world's leading metropolitan railways for reliability, customer service and cost efficiency. The Company has used international performance benchmarking as a means of seeking ways to improve its own operating performance. This resulted from a proposal made by the Company in 1994 at a meeting of the International Union of Public Transport that a group of major metropolitan railway operators from around the world, with comparable high passenger loading figures, exchange key operational data to benchmark their performance. In 1995, the Company, in conjunction with four other metropolitan railway operators, established the Community of Metros ("**CoMET**") which now comprises 10 operators: Berliner Verkehrs Betriebe (Berlin); London Underground Limited (London); New York City Transport Authority (New York); Mass Transit Railway (Hong Kong); Sistema de Transporte Colectivo (Mexico City); CityRegie Autonome des Transports Parisiens (Paris); Regie Autonome des Transports Parisiens (Paris); Metropolitano de Sao Paolo (Sao Paolo); Teito Rapid Transit-Authority (Tokyo); and Moscow Metro (Moscow).

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The objectives of CoMET are to:

- build a system of measures to indicate international best practice standards;
- provide information for senior management of mass transit metro operators and government bodies;
- use the system of measures in railway management; and
- identify and prioritise areas for improvement.

CoMET appointed the Railway Technology Strategy Centre at the University of London's Centre for Transport Studies as an independent third party to co-ordinate and facilitate its benchmarking studies. These involve the collection and analyses of data provided by CoMET members in conjunction with performance measures covering areas such as financial performance, efficiency, asset utilisation, reliability and service quality. In addition, specific case studies are undertaken which, in the past, have covered issues such as line capacity, investment maintenance, staffing, safety, reliability and incident management. Where the Company considers it appropriate, it adopts recommendations from these studies which it anticipates will contribute to the long-term reduction of the cost of its railway operations.

The table below shows data relating to the Company's operating performance relative to the other members of CoMET for the periods indicated:

<u>Year</u>	<u>Service reliability⁽¹⁾</u>	<u>Punctuality⁽²⁾</u>	<u>Cost efficiency⁽³⁾</u> (%)	<u>Passenger costs⁽⁴⁾</u>
1997	100 ⁽⁵⁾	100 ⁽⁵⁾	100 ⁽⁵⁾	100 ⁽⁵⁾
1998	100 ⁽⁵⁾	99	100 ⁽⁵⁾	100 ⁽⁵⁾

Source: CoMET.

Notes:

- (1) Service reliability is a measure of passenger journeys on time.
- (2) Punctuality is a measure of the percentage of trains on time. It is not measured in the same way as the Performance Requirement, "train punctuality".
- (3) Cost efficiency is a measure of fare revenue per unit operating cost.
- (4) Passenger costs is a measure of operating cost per passenger.
- (5) 100% denotes best performance.
- (6) Figures for 1999 are expected to be available in early 2001.

Safety

The provision of a safe and reliable service is at the core of the Company's operations and it strives for the highest standards of safety for its customers, staff, contractors and the general public. Since the Company began operations, not one passenger fatality has occurred due to its operations and, so far as the Company is aware, less than one passenger per 10 million journeys has suffered any injury that requires hospitalisation. Based on an excellent track record, the Company believes that the Mass Transit Railway ranks amongst the world's safest and most reliable urban mass transit systems. The Company has in place a safety management system whose objective is to achieve a culture of safety awareness, continual improvement in safety and to reduce railway safety risks to levels which are as low as reasonably practicable. The safety management system also requires a comprehensive audit system which includes periodical reviews of the Company's safety management

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practices by international experts. Regular exercises are conducted in simulated emergency situations to develop a close coordination between the Company's staff and the emergency services and to ensure the efficient recovery of railway operations in the event that an emergency occurs.

The design of the Mass Transit Railway has built-in safety features such as:

- a signalling system which is designed to prevent collisions between trains, further details of which are contained in the paragraph headed "Signalling system" in this section;
- automatic switch-over of power supply sources in order to ensure the continuous traction power for trains, further details of which are contained in the paragraph headed "Power" in this section;
- the central control of the railway system with communications facilities which are designed to enable the effective control of emergencies, further details of which are contained in the paragraph headed "Operations Control Centre" in this section; and
- fire detection, ventilation and smoke control systems which are designed to detect and/or control fire hazards.

The Company also seeks to achieve its safety-related strategy through comprehensive training that is provided to operations staff as well as through passenger-oriented initiatives, such as safety campaigns and promotions.

MASS TRANSIT RAILWAY OPERATIONS

MTR Stations

There are 44 stations which serve the Mass Transit Railway, each of which may be accessed through a number of entrances and exits. There are escalator facilities at all MTR Stations and passenger lifts at 24 MTR Stations. Other facilities at MTR Stations include passenger information facilities, such as illuminated signs, ticket offices, ticket-issuing machines, add value machines, police facilities, station control rooms, retail outlets, vending machines, banking automatic teller machines, telecommunication facilities and facilities for the disabled. In addition, all underground MTR Stations are air-conditioned. The Company has initiated a rolling programme of station improvements, details of which are contained in the paragraph headed "MTR Station improvement programmes" in this section.

Operations control centre

In March 2000, the Company consolidated the control and monitoring of railway operations for the entire Mass Transit Railway into a single control centre at Tsing Yi. This operations control centre is operated continuously, and is the nerve centre of the entire Mass Transit Railway. The Company believes that the operation control centre also has sufficient capacity to control operations on projects described in the paragraph headed "Committed extension projects" in this section and the proposed Penny's Bay Rail Link (further details of which are contained in the paragraph headed "Penny's Bay Rail Link" in this section). The

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principal control functions that can be carried out from the operations control centre include the centralised control of train movements and major equipment systems, such as the signalling, communications, power and environmental systems. In the event of an incident or emergency, the coordination of recovery action to restore railway operations and the dissemination of relevant information can be carried out from the operations control centre. Back-up arrangements are in place to deal with the failure of central control operations.

Fare collection and tickets

Fares on all lines are collected by an automatic fare collection system. Two types of tickets may be used on the MTR Lines, single journey magnetic tickets and Octopus cards. Single journey tickets are of two main types, adult tickets and concessionary tickets (comprising child tickets, elder tickets and student tickets). Four principal types of tickets may be used on the Airport Express Line, single journey tickets, same day return tickets, round-trip tickets and Octopus cards. Concessionary tickets are also available.

Cash collection

The Company collects cash of approximately HK\$20 million each day through the sale of single ride tickets and through the addition of value to Octopus cards. A cash-in-transit contractor is employed to collect and count the cash during the nighttime non-traffic hours of the Mass Transit Railway. The total amount of cash that is collected each night by the contractor is reconciled the next morning by comparing the contractor's count figures with the Company's computer readings. The discrepancy between the contractor's figures and those calculated by the Company is generally zero for banknotes and negligible for coins.

Octopus smart cards

In September 1997, the Company introduced the "Octopus" smart card system for use on the Mass Transit Railway, and common stored value tickets were phased out completely as of 2nd January, 1999. The Octopus system enables holders of Octopus cards to pay for a variety of goods and services by placing their Octopus cards adjacent to specially designed Octopus "readers". Payment is then automatically deducted from their Octopus cards. Holders are also able to add value to their Octopus cards using cash at customer service centres at MTR Stations, through cash or electronic funds transfer at add value machines located in all MTR Stations or through autopay banking services. Another innovation in relation to the Octopus system was the launch of Octopus watches in December 1999. Octopus watches enable wearers to pay for their journeys by exposing their Octopus watches to Octopus readers. More recently, the Octopus technology has been introduced into day-to-day estate management functions for property developments completed along the Airport Express and Tung Chung Lines. In particular, residents can use the Octopus card in respect of various facilities, including electronic access to their estate or tower, payment for management services, booking and payment for clubhouse facilities, enquiries and payment of management fees. The Octopus system is operated by Creative Star, further details of which are contained in the paragraph headed "Creative Star" in this section.

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The Octopus system is recognised as an innovative leader in transport fare collection systems and in 1998 it won the Award for Innovation from the Hong Kong Coalition of Service Industries. The Company believes that the benefits of the Octopus system include:

- increased reliability;
- convenience for passengers;
- reduced risk of fraud;
- reduced fare collection costs for the Company;
- improved customer information from recording data on the origin and destination of a journey; and
- additional opportunities for the Company for revenue generation.

Holders of Octopus cards can use their Octopus cards to pay fares on most other public transportation services in Hong Kong, including certain buses and ferries and the KCR. Octopus cards can also be used for certain non-transport related services, such as for photograph machines, vending machines, telephones and certain fast food outlets. Further expansion of the use of Octopus technology for other modes of transportation and non-transport services in Hong Kong is being explored. Octopus cards can be purchased from customer service centres at MTR Stations and KCR stations and at other designated places.

The Octopus cards have become widely accepted and, as at 30th June, 2000, over 6.34 million Octopus cards (including approximately 100,000 Octopus watches) had been issued since their introduction. Passengers using Octopus cards or watches accounted for approximately 86% and 55% of average daily patronage on the MTR Lines and the Airport Express Line, respectively. Following the recent authorisation of Creative Star as a deposit-taking company (further details of which are contained in the paragraph headed “Creative Star” in this section), the range of possible applications has expanded to include payments at fast food outlets, convenience stores and vending machines.

Passenger trains

As at 30th June, 2000, the Company owned 946 passenger train cars. The table below shows summary information regarding the Company’s passenger train cars as at that date:

	<u>Number of units</u>	<u>Average</u>	
		<u>Useful life</u>	<u>Age</u>
		(in years)	
Passenger train cars for the Tsuen Wan, Kwun Tong and Island Lines.....	762	40 ⁽²⁾	17
Passenger train cars for the Airport Express and Tung Chung Lines.....	184 ⁽¹⁾	35	2
Total rolling stock	<u>946</u>		

Notes:

(1) Includes 23 passenger train cars for the Airport Express and Tung Chung Lines held in stock for future expansion.

(2) The useful life figure was revised from 25 years in 1997 to 40 years in 1998, due to the asset condition, usage experience and rolling stock modernisation programme.

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To address increased passenger demand, the Company has expanded its fleet of passenger train cars from 152 in 1979 to 946 in 2000, approximately 81% of which are in service to meet the daily morning peak demand. The Company purchases passenger train cars from a number of manufacturers and has recently ordered 104 passenger train cars for use on the new Tseung Kwan O Line at a cost of approximately HK\$1.0 billion. These trains will also be capable of being operated on the MTR Lines. They are expected to be delivered for testing in late 2001 and to be available for operation in 2002.

The train utilisation rate is a measure of the number of trains actually in service against the total number of trains in the fleet. Currently, the train utilisation rate is approximately 83% for the MTR Lines and approximately 64% for the Airport Express Line. By 2003, the train utilisation rate is expected to increase to approximately 87% for the MTR Lines and approximately 73% for the Airport Express Line.

Trains on the Kwun Tong, Tsuen Wan and Island Lines consist of eight-car passenger trains, and each car has a capacity of 48 seated and approximately 265 standing passengers which, together with the signalling and train control systems, enable the operation of up to 34 trains per hour and a maximum one-direction loading capacity of approximately 85,000 passengers per hour. Tung Chung Line trains currently consist of seven-car passenger trains, and each car has a capacity of 48 seated and approximately 265 standing passengers. The Company plans to introduce eight-car passenger trains for the Tung Chung Line in the future. Airport Express Line trains currently consist of six-car passenger trains, each with a capacity of 64 seated passengers, and a luggage car. The passenger train cars operated on the Airport Express Line were specially designed for comfortable travel with business-class style seating, dedicated baggage space and seat-back television monitors which provide passengers with entertainment, news, flight information and advertising. All trains are air-conditioned.

The Company has commissioned a modernisation programme for its trains on the Tsuen Wan, Island and Kwun Tong Lines, which is described in the paragraph headed "Train modernisation" in this section.

Signalling system

In the interests of safety and reliability, trains are operated by a computerised signalling system which the Company believes is one of the most advanced signalling systems used by rail operators around the world and which regulates the distance between trains and determines their rates of acceleration and braking as well as their coasting speeds. The signalling system comprises three systems:

- a signalling interlocking system which operates in such a way that functions must succeed each other in proper sequence, permitting train movements over controlled routes only if safe conditions exist;
- an automatic train control system which automatically controls the speed of trains and the safe distance between them and directs train operations; and
- an automatic train supervision system which monitors and controls the operation of trains in order to maintain intended train service patterns. It minimises the

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effects of train delays on scheduled services and assists in the recovery of scheduled services subsequent to timetable disruptions.

Given this automation, the role of train drivers on the Mass Transit Railway is generally restricted to opening and closing train doors at MTR Stations and responding to failures and emergency situations. The possibility for human error is thereby reduced significantly.

The Company proposes to commence driverless train operation at terminal stations on the Island Line in early 2001 and at the other terminal stations when the TKE becomes operational. Further details are contained in the paragraph headed "Driverless train operation" in this section.

The Lantau Link

The Tung Chung and Airport Express Lines run across the Lantau Link which connects Lantau Island and Kowloon and consists of the Kap Shui Mun bridge, the Ma Wan Viaduct and the Tsing Ma bridge. The Lantau Link and the connecting road network, collectively called the "Tsing Ma Control Area" ("TMCA"), are operated by Tsing Ma Management Limited ("TMML"). TMML is owned by a number of third-party shareholders and the Company has no shareholding interest in TMML. The Government and TMML have entered into an agreement covering the management, operation and maintenance of the TMCA and TMML and the Company have entered into a separate agreement in order to establish procedures to facilitate co-operation in the management, operation and maintenance of shared or adjoining infrastructure and equipment, to facilitate the safe and efficient passage of traffic and to afford the parties access to operate and maintain such infrastructure and equipment.

Depots

The Company has four depots for the stabling, maintenance and cleaning of trains. These are located at Tsuen Wan, Kowloon Bay, Chai Wan and Siu Ho Wan.

Interchange and subway facilities

There are interchange facilities on the MTR Lines which enable passengers to change between lines at Yau Ma Tei, Mong Kok, Prince Edward, Quarry Bay, Admiralty, Central and Lai King stations. There are also interchange facilities at Kowloon and Tsing Yi stations which enable passengers to interchange between the MTR Lines and the Airport Express Line as well as walkway facilities connecting Central station on the Island Line and Hong Kong station on the Tung Chung and Airport Express Lines which enable passengers to walk between those two stations. In addition, there are interchange facilities at Kowloon Tong station that enable passengers to interchange between the Kwun Tong Line and the KCR. At certain MTR Stations, there are off-street interchange facilities which enable passengers to interchange between the Mass Transit Railway and franchised buses and PLBs and there are other facilities at all MTR Stations which enable passengers to interchange between the Mass Transit Railway and other modes of transport, such as taxis.

Feeder services and parking facilities

Independent operators currently provide franchised bus and PLB feeder service routes to 33 MTR Stations (excluding the Airport station) and the Company estimates that nearly

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40% of all passengers using the Mass Transit Railway rely on some form of feeder service to or from MTR Stations, such as buses and KCR, and that approximately 26% of all passengers rely on feeder buses, including green PLBs and residential coach services. A further discussion on feeder services is contained in the paragraph headed “Competition” in this section. The Company provides free shuttle bus services for Airport Express Line passengers between designated MTR Stations and designated hotels. In addition, at Hong Kong, Kowloon and Tsing Yi stations there are carparking facilities and concessionary charges are available to certain users of the Mass Transit Railway. There are 198 franchised bus and PLB feeder services which stop near or at MTR Stations, of which 124 are dedicated “M-routes” that terminate at MTR Stations.

Management of railway assets

In order to extend the useful lives of railway assets, the Company has put in place a comprehensive management system for such assets. The principal objective of this system is to ensure that the railway assets are kept in a condition which enables the railway to operate safely, reliably and efficiently so that service standards are achieved at the lowest practicable cost. The Company uses a range of techniques for the repair and maintenance of its railway related infrastructure, plant and equipment. These include scheduled inspections, overhauls and preventative and corrective works. The Company has a workshop at its Kowloon Bay depot which is equipped to overhaul the Company’s rolling stock and other equipment. It also has a workshop at its Tsuen Wan depot which has facilities to inspect, test, repair and calibrate an extensive range of electronic equipment. At present, many areas of the Company’s repair and maintenance programmes are primarily undertaken by employees of the Company although some activities are outsourced, such as maintenance of tunnel linings, lifts and escalators and certain station cleaning. The Company is considering the possibility of outsourcing further activities in the future. In addition, long-term asset replacement programmes have been prepared by the Company to assist in the Company’s long-term financial planning and to provide the Company with a long-term view of its asset replacement requirements.

Maintenance logistics system

The Company implemented a fully integrated maintenance logistics system in 1999 to manage its maintenance operations, its supply of materials and its human resources. This system is designed to improve operational efficiency within the Company. It currently has 2,000 registered users within the Company and can serve up to 700 of such users concurrently.

Supplies

The Company stores approximately 58,000 items at a consistent stock availability level of not less than approximately 98%. Such items include components for the Company’s railway operations, including for its rail and track, signalling system and lifts and escalators. Inventory and warehouse operations are controlled by a newly installed logistics computer system which facilitates on-line data analysis on stock levels, parts movement and tracks consumption versus forecast, enabling supplies to be requisitioned automatically and automatic stock replenishment for low-end materials. Related “e-procurement” strategies are being considered in order to

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improve transactional efficiency, streamline the procurement process and enhance the control of stock inventories and the value of procurement transactions.

Contracts with the Company's five largest suppliers combined by value which are not of a capital nature, contributed to less than 30% in value of supplies purchased during the year ended 31st December, 1999 and the six months ended 30th June, 2000. The Company's five largest customers combined by value contributed to less than 30% in value of the turnover during the year ended 31st December, 1999 and the six months ended 30th June, 2000.

Power

The Company has electrical supply arrangements in place with the two electricity supply companies in Hong Kong. The Company uses electricity in many areas of its business, including for the operation of trains, signalling and communications systems, air-conditioning, lighting, repairs and maintenance, passenger information and for general administrative purposes. The Company continually monitors the availability of incoming electricity supplies as well as the distribution of power to all parts of its railway system. In the event that the electricity supplied by one of the electricity companies is interrupted, the Company's systems can be automatically switched to the electricity supply of the other electricity supply company. This is intended to achieve an uninterrupted railway service and is a requirement of the Operating Agreement. In addition, the Company has its own back-up power supply for the safety critical systems relating to its railway operations.

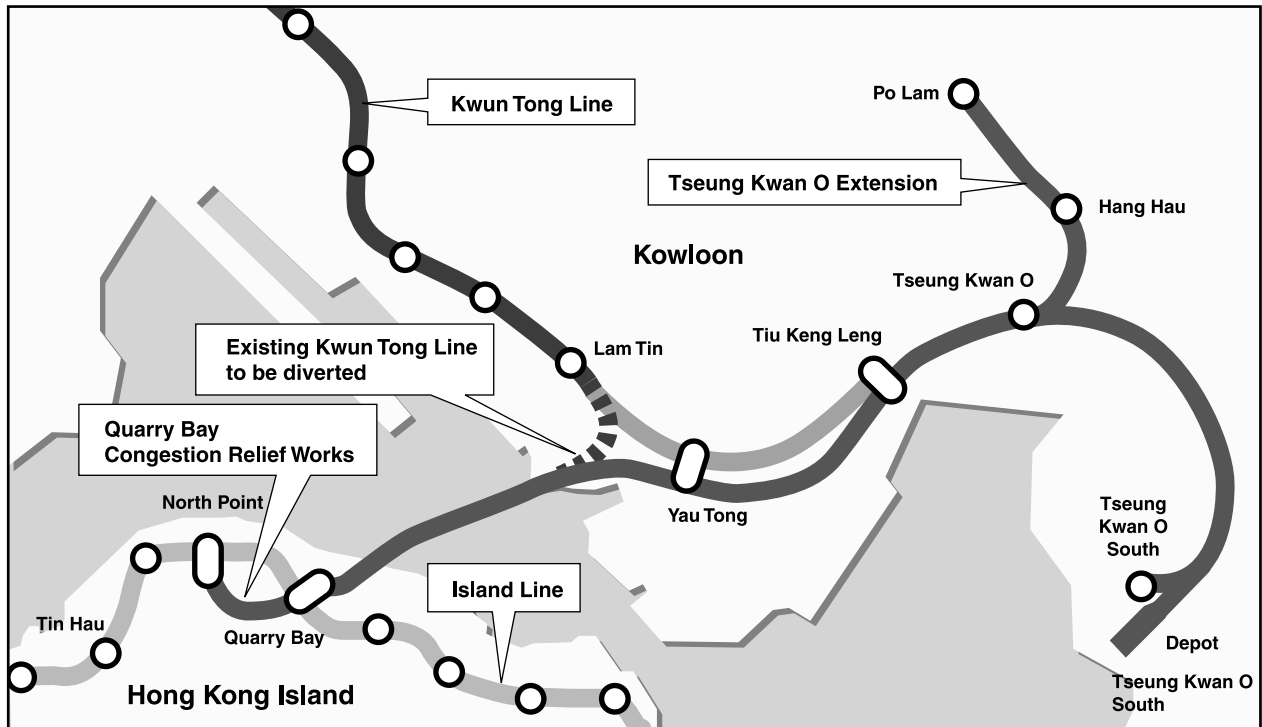
EXTENSION PROJECTS

Committed extension projects

The Company is currently undertaking two extension projects, namely the TKE Project and the QBR Works. Both of these projects are extensions of the Company's railway network which were set out in the first Railway Development Strategy announced by the Government in December 1994 and subsequently approved by the Government in December 1996.

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The diagram below shows details of the alignment of the TKE Project and the QBR Works:



Tseung Kwan O Extension Project

The TKE Project involves the construction of a new line from Po Lam through the Eastern Harbour Crossing to connect with the existing Quarry Bay section of the Island Line with a branch to the new Tseung Kwan O South station and depot, which will be known as the Tseung Kwan O Line. In addition, the Kwun Tong Line will be diverted to provide an interchange with the Tseung Kwan O Line at two new stations in Yau Tong and Tiu Keng Leng. The new line will support the development of the Tseung Kwan O new town and of the Yau Tong area in the southeast region of the New Territories. The Tseung Kwan O Line will provide railway access from Tseung Kwan O and Yau Tong to the commercial districts on Hong Kong Island and in Kowloon. In addition to the interchanges with the Kwun Tong Line, the Tseung Kwan O Line will connect to the Island Line at two interchange stations at North Point and Quarry Bay. The Tseung Kwan O Line will be 12.5 route kilometres in length and will have five stations, including the interchange stations, and one depot. Four of these stations will be located in the Tseung Kwan O area and the fifth station at Yau Tong. In addition, a sixth station, to be located adjacent to the proposed Tseung Kwan O depot, is currently under design.

The TKE Project is expected to be completed and operational around late 2002. The estimated cost to the Company of this project, which had been revised from the original estimate of HK\$30.5 billion to HK\$24.0 billion in 1999, has been revised further to HK\$21.0 billion. This is approximately HK\$9.5 billion less than the original estimate of HK\$30.5 billion. This has been achieved as a result of the economic downturn and the efficiencies achieved

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by the Company's project management team in the design development process. The target out-turn cost, based on the risk assessment, is less than HK\$21.0 billion and every effort is being made to manage the contracts within the targets set and to achieve early overall completion of the entire TKE Project. The proposed Tseung Kwan O South station is expected to be opened for service in late 2004/2005, by which time the related property development which will be undertaken is expected to have a sufficient resident population. It is expected that the additional cost to the Company of bringing this station into operation will be approximately HK\$0.8 billion.

Under the TKE Project Agreement, the Company was granted property development rights which, at the time of entering into the TKE Project Agreement, were expected to make the returns on the TKE Project in line with the cost of debt incurred for the TKE Project. Since that time the expected returns from the TKE Project have been revised, reflecting lower than expected fare revenue, principally due to adjustments to assumptions relating to inflation, the level of initial fares and patronage. As a result, despite the reduction in the cost of the TKE Project, the TKE Project is currently not anticipated to produce the rate of return that was originally expected. Further details of the property developments are contained in the paragraph headed "Property developments related to the TKE Project" in this section.

Prior to the commencement of construction, the Company placed significant emphasis on completing detailed designs to ensure that contractors were given as much information as possible at the outset. This has enabled contractors to plan their work and has also reduced the opportunities for contractors to make contractual claims as a consequence of changes in design. A detailed pre-qualification exercise was also undertaken before consultants and contractors were selected to tender for the many packages of work. This exercise was structured so that only suitably qualified and capable consultants and contractors were selected to tender for the packages of work.

At an early stage of the construction, a partnering initiative was introduced progressively to each of the individual contracts which had been awarded. This initiative required the site teams, comprising representatives from the Company and representatives from the relevant contractors, to work co-operatively with the emphasis on delivering the project to expected standards, within programme allowances and at best cost. This approach is being promoted for all ongoing contracts where several significant stages of work have been financially concluded through supplemental agreements.

A number of other initiatives have also been introduced during the course of the works. A system has been established and key performance indicators have been identified for all contracts and are reviewed on a monthly basis. This is intended not only to ensure that adequate attention is paid to the effective project and design management of each contract but also benchmarks the performances of individual contractors, with the emphasis on continuous improvement. A detailed risk assessment has also been undertaken for each contract to identify future potential risks and to ensure that these are managed effectively at the lowest potential cost. As an extension of this exercise, the prospective end cost of each contract has been ascertained and targets set for the financial completion which are reviewed on a quarterly basis. This is currently being extended by seeking the involvement of contractors on selected contracts in the risk management process through an incentivisation arrangement which also includes a requirement for settling all outstanding commercial and contractual matters and the early delivery of key completion obligations.

Quarry Bay congestion relief works

In December 1996, the Government approved the QBR Works which are designed to relieve congestion at Quarry Bay through the creation of a second interchange station with the Island Line at North Point. The QBR Works involve the extension of the Kwun Tong Line from Quarry Bay to North Point. Construction work, including extensive rock tunnelling, the building of two further station platforms, existing station expansion and laying new track, is well underway. It is expected that railway services on the Island and Kwun Tong Lines will not be disrupted by the QBR Works and that the QBR Works will be completed and become operational in late 2001. The estimated cost to the Company of the QBR Works is HK\$3.1 billion.

WEST RAIL INTERFACE WORKS

The West Rail and Ma On Shan extension projects currently being undertaken by the KCRC are expected, together with the completed TKE Project, substantially to increase the overall railway network catchment area in Hong Kong and to increase patronage for the Mass Transit Railway. To accommodate the expected interchange flows from the West Rail, Nam Cheong station, a combined Mass Transit Railway/KCR station, is under construction jointly by the Company and the KCRC. Nam Cheong station will be a new station on the Tung Chung Line and will, when completed, be the first of its type in Hong Kong because, unlike the existing interchange with KCR at Kowloon Tong station, Nam Cheong station will combine both the Mass Transit Railway and KCR facilities in a single hall, allowing passengers to interchange easily between the two railway systems.

This is expected to be completed in 2003 at a cost to the Company of approximately HK\$0.7 billion. In addition, the Company is undertaking the expansion of the Tung Chung and Airport Express Lines from two to four tracks over a four kilometre length near Nam Cheong to facilitate service to Nam Cheong at an estimated cost to the Company of approximately HK\$0.8 billion. The Company is also modifying the existing Mei Foo station and constructing an underground walkway link between the proposed West Rail Mei Foo station and the existing MTR Station at Mei Foo to facilitate the interchange of passengers between West Rail and the Tsuen Wan Line at an estimated cost to the Company of approximately HK\$0.9 billion.

IMPROVEMENT PROJECTS

The Company has launched a number of significant projects intended to enhance the service it provides. These are described below.

MTR Station improvement programmes

The Company has initiated a rolling programme of station improvements up to 2006 to improve the service it provides to passengers, the environment of MTR Stations, the Company's corporate image, operational efficiency and safety and access for the disabled. Work commenced with the refurbishment of Kwun Tong station which was completed in 1999 and work is currently in progress at MTR Stations in North Point, Wan Chai, Admiralty, Central, Jordan, Yau Ma Tei, Kowloon Bay, Mong Kok, Prince Edward, Shek Kip Mei, Choi Hung and Mei Foo.

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The programme involves:

- the upgrading of MTR Station control rooms;
- the refurbishment of concourse and platform areas in eight MTR Stations and to include new retail kiosks;
- the improvement of entrances at 12 MTR Stations;
- increasing the number of escalators, travelators and passenger lifts in MTR Stations;
- improving air-conditioning in underground MTR Stations;
- enhancing the automatic fare collection system, public address system and closed circuit television; and
- maximising the commercial value of space within MTR Stations.

The estimated cost to the Company in aggregate for these improvements is HK\$1.5 billion.

MTR Station modifications

In addition, to address the future possibility of passenger numbers at Tsim Sha Tsui and Mong Kok stations exceeding their capacity, the Company is planning to implement modifications at those stations. The proposed modifications at Tsim Sha Tsui and Mong Kok stations are expected to be completed in early 2004 and late 2002, respectively, at a cost to the Company of approximately HK\$0.3 billion. To accommodate an increase in interchange pedestrian traffic that is expected to arise from the Ma On Shan extension, an additional underground walkway connecting each of the KCR and the MTR Stations at Kowloon Tong is being designed. This is expected to be completed in 2004 at a cost to the Company of approximately HK\$0.2 billion.

Station management system

With the aim of improving the safety and efficiency of station operations, the Company is currently installing an integrated station management system in a new station control room to replace life-expired standalone control and monitoring equipment. The station management system will integrate all of the station control and monitoring functions into an ergonomic control environment with the addition of decision support facilities to assist in the timely handling of incidents and emergencies. The works are expected to be completed for all stations along Kwun Tong, Tsuen Wan and Island Lines in July 2003 at an estimated cost to the Company of approximately HK\$320 million.

Second Airport Express Line platform

Under the terms of the development agreement for the associated property development at Hong Kong station, the developer has commenced construction of the civil works for the platform and related concourse for the northern part of Hong Kong station. When completed, there will be a second Airport Express Line platform at Hong Kong station. These facilities will assist in accommodating additional passenger traffic on the Airport

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Express and Tung Chung Lines expected from the anticipated future growth in Airport throughput and from West Rail, respectively. It is expected that the cost to the Company of this project will be approximately HK\$3.4 billion. The timing of the opening of the platform is dependent on the Government's construction of the final phase of the Central reclamation project, which will provide the land on which the railway overrun tunnels to service the new platform will be constructed.

Platform screen doors

The most significant project launched during 1999 was the installation of platform screen doors at all underground MTR Stations on the Tsuen Wan, Kwun Tong and Island Lines. This project, at an estimated cost of HK\$2.1 billion, is a pioneer for railways worldwide as it will be the first to fit platform screen doors for an already operating railway system. The installation of these doors is expected to improve passenger comfort and reduce energy consumption costs within the relevant stations, as a result of enhanced air-conditioning efficiency, and is intended to improve passenger safety on platforms. A pilot of the scheme will be operational at Choi Hung station in mid-2001 and completion of the first phase of this project (at Tsim Sha Tsui, Jordan, Yau Ma Tei, Mong Kok, Prince Edward and Admiralty stations) is expected during 2003. The Airport Express and Tung Chung Lines were constructed with platform screen doors at all stations. By the end of 2006, it is expected that platform screen doors will have been fitted at all underground MTR Stations.

Train modernisation

In October 1997, the Company awarded a contract valued at approximately HK\$1.2 billion for the modernisation of the trains operated on the Kwun Tong, Tsuen Wan and Island Lines. Under that contract, trains will be equipped with improved air-conditioning and ventilation, enhanced lighting, new flooring, new interior finishes, electronic information displays and better facilities for wheelchair passengers. Existing seats, signs, strap hangers, grab-poles and cab fronts will also be improved. Infopanel are also being fitted in the refurbished trains. Work on the train modernisation programme commenced in 1998 and the first refurbished train commenced operations on the Tsuen Wan Line in December 1998. As of 30th June, 2000, 44 of the Company's 95 trains, comprising a total of 352 passenger train cars, had been refurbished. The Company expects the train modernisation programme to be completed at the end of 2001.

In March 1998, the Company awarded a contract valued at approximately HK\$47.3 million for the installation of an advanced in-cab closed circuit television system. The new system will give train operators a full view of the platform whilst remaining in the train car. It is expected that all operators' cabs and MTR Station platforms will be equipped with the system by December 2001.

Power remote control system and environmental control system

In July 1997, the Company entered into a contract to renew the power remote control system ("**PR System**") and the environmental control system ("**EC System**") at a cost of approximately HK\$0.3 billion. The PR System is used to control and monitor the high voltage and traction transmission networks. The renewal of the PR System involves the replacement of the central control system and 55 station-based control systems. The EC System is used

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to control and monitor the environment in MTR Stations, by providing smoke extraction facilities, air-conditioning and tunnel ventilation during periods of train congestion. The renewal of the EC System involves the replacement of the central control system and 59 station and ancillary building based control systems. The first phase of the project is scheduled for completion in December 2000, with final completion scheduled for mid-2002.

Driverless train operation

In 1997, a review of rolling stock and the train control facilities was undertaken which demonstrated that driverless train operation at terminal stations, using the signalling system to control trains, would improve train turnaround efficiency and enable a reduction of the number of train operators. Following the completion of the necessary modification works, driverless train operation will commence at terminal stations on the Island Line in early 2001 and at the other terminal stations when the TKE becomes operational.

Management of improvement projects

These improvement projects are included in the Company's capital works programme. Prior to being included in this programme, each proposed improvement project is subject to a value assessment process which quantifies the benefits accruing from the proposed project and compares them to the estimated costs. For each project that is approved, the Company's project management team has to report on a regular basis on cost and programme performance as well as on other performance indicators.

FUTURE NEW PROJECTS

General

As described in the section headed "Future Plans and Strategies", the Company aims to extend the existing Mass Transit Railway where there is a transport need and where it is commercially viable to do so, and to carry out these extensions in a cost-effective and timely manner. Under the Operating Agreement, the Government has agreed to ensure that there is a level playing field for the award of future railway projects and a clear framework for those awards. In addition, the Government has acknowledged in the Operating Agreement that the Company will require an appropriate commercial rate of return on its investment in any new railway project and that, in order for particular railway projects to earn a commercial rate of return for the Company and in order for the Company to maintain its financial standing and profile, financial and other support for those new railway projects from the Government may be required. Historically, the financial returns achieved by the Company in relation to its railway projects have been enhanced by the associated property developments carried out by the Company. In the future, in order to compensate the Company for the risks inherent in the relevant railway project, the Company will require these returns to be at a suitable commercial margin over its cost of capital. In this connection, the Government has recognised that this would ordinarily be between 1% and 3% above the estimated weighted average cost of capital of the Company. The Government has also agreed that it will not require the Company to construct and operate any future railway project without the Company's agreement (subject to its ability to give directions under the new MTR Ordinance in respect of which it must pay compensation to the Company). Further details are contained in Appendix VII.

Penny's Bay Rail Link

The Penny's Bay Rail Link is a project that has been committed by the Government and will be an extension of the Mass Transit Railway. It will connect the Tung Chung Line to the proposed new Disney theme park at a new station at Yam O on Lantau Island. On 21st July, 2000, the Secretary for Transport published in the Government Gazette a notice under the Railways Ordinance (Chapter 519 of the Laws of Hong Kong) of the proposal to construct the Penny's Bay Rail Link. The Company submitted a proposal for the project to the Government on 7th March, 2000 and is in discussions with the Government on the terms on which the project would be undertaken by the Company.

The Government has recognised, in connection with the Penny's Bay Rail Link, that the Company needs to ensure a commercially meaningful rate of return for the project and the Government intends to identify ways of filling any funding gap between the estimated revenue from the project and the capital costs. The Company is currently discussing with the Government the extent of property development rights to be granted to the Company in respect of the project in order to produce a suitable rate of return.

When completed, the Penny's Bay Rail Link will provide a rail-shuttle service connecting the Tung Chung Line to the proposed Disney theme park. It is expected that the project will involve approximately 3.5 new route kilometres and two new stations. Initially, trains are expected to comprise three or four passenger cars and to run at a headway of between approximately four and 10 minutes. It is proposed that arrangements will be implemented to enable eight passenger train cars to be used in order to satisfy passenger demand and growth. It is expected that the project will be completed around mid-2005 at a cost to the Company of approximately HK\$2.6 billion.

Projects requiring approval***Island Line Extensions***

In its Railway Development Strategy 2000, the Government confirmed that the Island Line Extensions are natural extensions of the Island Line, which have to be built and operated by the Company. These comprise two separate projects, the North Hong Kong Island Line project and the West Hong Kong Island Line project. The NIL is an extension of the Tung Chung Line along the north shore of Hong Kong Island and is planned to run through to the eastern part of the Island Line at Fortress Hill station. In conjunction with the NIL, the Tseung Kwan O Line will be extended from North Point station to run into the western part of the Island Line at Tin Hau station. The WIL is an extension of the Island Line from Sheung Wan to Kennedy Town.

The Company has already undertaken feasibility studies for each of the Island Line Extensions. The Company believes the Government's predictions regarding the completion of these projects between 2008 and 2012 are achievable, subject to policy support being forthcoming in 2000 and the timely grant of other relevant consents and permits. The Company's current estimates of costs (at January 1998 prices and excluding capitalised interest) are approximately HK\$8.4 billion for the NIL and HK\$9.0 billion for the WIL.

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The Company anticipates that these projects would not be commercially viable unless property development is carried out in conjunction with the projects and expects that the Government will continue its existing policy of granting property development rights in connection with the construction of railway projects.

Expected benefits to the Company from these projects include:

- an increase in patronage on the Tung Chung Line;
- potential new property development opportunities; and
- the relief of congestion on the Tsuen Wan and Island Lines (which is expected to see a significant increase in patronage when the Tseung Kwan O Line becomes operational).

Potential projects

The Railway Development Strategy 2000 identified two railway projects which are not regarded as natural extensions of any existing line. These projects are the Shatin to Central Link and, depending on its alignment, the Regional Express Line. Further details are contained in the paragraph headed “Railway Development Strategy 2000” in the section headed “Industry Background”.

Shatin to Central Link

The Company has completed a feasibility study for the East Kowloon Line and the Fourth Rail Harbour Crossing, which form part of the Shatin to Central Link and has also undertaken planning studies for the Tai Wai to Diamond Hill Link which also forms part of the Shatin to Central Link. The Company currently intends to submit a proposal to the Government based on an alignment from Hung Hom to Central via Exhibition/Admiralty. The Company is confident that its proposal will be highly competitive. As discussed in the section headed “Risk Factors”, the alignment of the Fourth Rail Harbour Crossing from Hung Hom to Central via Exhibition/Admiralty, proposed in the Railway Development Strategy 2000, is based on the alignment proposed by the Company following its feasibility study. This alignment is recognised by the Government as being cheaper to build, provides a direct route from Hung Hom to Central and caters well for daily commuter traffic. The Government also acknowledged that the alternative alignment, via Victoria Park, Leighton Hill and Wanchai South, would be able to accommodate a more diversified nature of trips as it connects to Causeway Bay and may help facilitate a shift of the development focus from Central towards Causeway Bay.

The Company expects to derive the following benefits if it implements the project:

- the catchment area for the Mass Transit Railway will be significantly increased. In turn, this is expected to lead to an increase in patronage for the Mass Transit Railway; and
- it will help the Company increase its market share of cross-harbour transport boardings.

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The Government has confirmed that, given the importance of the Shatin to Central Link to Hong Kong's railway development network and the travelling public, comprehensive bidding proposals will be vital. It also confirmed that it will invite tenders for the project in early 2001 and will decide to whom the project will be awarded around the end of 2001. The Company believes that the Government's prediction of the likely completion of this project between 2008 and 2011 could be achieved, subject to the award of the project in 2001 and the timely grant of all other relevant consents and permits. If the project is implemented by the Company, it estimates that it will cost approximately HK\$25 billion (at January 1998 prices, excluding capitalised interest) to complete.

If, despite the competitive nature of the Company's proposal, the Government decides to award the project to KCRC or to another party, the Company expects that it would suffer a decrease in revenues which may have a material adverse effect on its results of operations and the benefits that would otherwise accrue to the Company, if it were to undertake the project, would not materialise. In addition, if the Government were to award the project to KCRC, the KCR system will, as a result, extend into the urban areas of Hong Kong and KCRC will become a direct competitor of the Company. The Company believes that it is of significant importance that this project is awarded to the Company both because of the benefits the Company would derive from this project and because of the substantial adverse impact on the Company's financial position that would arise if the project is awarded to KCRC or to another party. Further details are contained in the paragraph headed "Risks relating to the Company and its business" in the section headed "Risk Factors".

Regional Express Line

The Government has confirmed that the Regional Express Line is a potential candidate for bidding by both the Company and KCRC and other parties. The decision on how best to take this project forward will be subject to a more detailed feasibility study on its possible alignment. Whilst the implementation of this project is not expected to affect the Company's existing rail operations, it could offer new opportunities for the Company. The Company will consider whether to submit a proposal for this project.

Lantau Island cable car

At the Government's request, the Company prepared a feasibility study for the construction of a cable car system running from Tung Chung to Ngong Ping on Lantau Island. It has already submitted to the Government an expression of its interest in undertaking this project and expects the Government to invite competitive proposals for the project. The Company proposes to submit a competitive proposal for the project which it intends to undertake in conjunction with joint-venture partners with whom it has already been in discussions.

Tung Chung west station

The Company, in conjunction with the Government, has commenced planning for an extension of the Tung Chung Line beyond the existing Tung Chung MTR Station to a new station to be located at west Tung Chung. This is intended to service the new town. Specific details, including alignment and cost estimates, have yet to be determined, and the timing of the extension is dependent on the Government's land reclamation programme for the area.

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COMPETITION

The Company competes with other transport providers, principally franchised bus and PLB operators as well as non-franchised bus, tram and ferry operators and taxis. Franchised bus companies operate routes throughout the areas served by the Mass Transit Railway, trams operate in parts of the area served by the Island Line and ferries operate across Victoria Harbour.

The table below contains certain market share information for the Mass Transit Railway:

	Year ended 31st December,					Six months ended 30th June,	
	1995	1996	1997	1998	1999	1999	2000
Proportion of franchised public transport boardings (%)							
All movements ⁽¹⁾	27.4	26.7	25.9	25.7	25.2	25.2	24.1
Cross-harbour movements.....	67.6	66.5	64.2	61.9	60.3	61.0	58.2
Proportion of total transport boardings (%)							
To/from the Airport ⁽²⁾	—	—	—	24.8	31.9	30.4	32.4

Notes:

- (1) Represents the percentage of franchised public transportation boardings in Hong Kong, which comprises boardings on the Mass Transit Railway, KCR, franchised buses, trams, ferries and green PLBs (including in areas that the Mass Transit Railway does not serve), but excludes boardings on taxis, red PLBs and private cars, for which no reliable data is available, based on passenger surveys carried out by the Company.
- (2) Based on surveys carried out by the Company twice per year of passengers travelling to or from the passenger terminal at the Airport by various modes of transport.

The Company believes that its competitive strengths include speed, reliability and comfort but recognises that these strengths have been eroded in recent years with the general improvement in bus services, including wider use of air-conditioning on buses, the opening of the Western Harbour Tunnel and its related highway routes (which has enabled bus operators to provide quick cross-harbour journeys through the Western Harbour Tunnel and quicker cross-harbour journeys through the other tunnels, as a result of the relief of congestion in those tunnels due to the opening of the Western Harbour Tunnel), the expanding bus network and more direct road access to, and improved conditions in, urban areas.

The Company has faced competitive pressure as a result of newly introduced bus routes which operate in the Mass Transit Railway's catchment areas. 32 of such new bus routes were authorised in 1997, 16 in 1998, eight in 1999 and two in the first half of 2000. In addition, over the same period, eight special Airport bus routes and 10 external Tung Chung/Airport bus routes were introduced. The Government is monitoring the operation of franchised cross harbour bus routes to better match demand. Increased competitive pressure has resulted from the opening of new highways and expressways and as a result of the entry into the market of a new franchised bus operator, New World First Bus, which acquired a bus franchise following the expiry of the bus franchise held by China Motor Bus Company Limited. Although fares on franchised buses are generally lower than the fares charged by the Company, in recent years, fares on franchised buses have generally increased at a higher rate than the fares charged by the Company.

The Company estimates that, since May 1997, the number of bus-kms across Victoria Harbour has increased significantly, principally as a result of the opening of the Western

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Harbour Tunnel. During 1997 and early 1998, bus-kms on Hong Kong Island grew at a rate of approximately 10% per annum and grew to over 15% after New World First Bus commenced operations, before declining to approximately 5% per annum for early 2000. Since January 1997, bus-kms within urban-New Territories grew at a rate of between 3% and 10% per annum whilst bus-kms within urban-Kowloon varied.

The lower capital costs of the Company's competitors and their greater inherent structural flexibility may enable them to respond to changing passenger demand more quickly than the Company.

In its Railway Development Strategy 2000, the Government confirmed that railways are essential to Hong Kong's continued economic, social and land development and will be given priority in the Government's plans for infrastructure development. Within this framework, the Government also recognised that franchised buses would continue to play an essential role in the public transport system in Hong Kong. As a result, the Company does not expect the Government to take any particular, direct measures which, in the short term, would have the effect of reducing or containing patronage on franchised buses or PLBs for the purpose of increasing the Company's patronage.

The Company is considering a number of initiatives to address these competitive pressures, including:

- **increasing the range of feeder services.** The Company estimates that nearly 40% of all passengers using the Mass Transit Railway rely on some form of feeder service to or from MTR Stations, such as buses and the KCR, and that approximately 26% of all passengers rely on feeder buses, including green PLBs. Given the importance of feeder buses to the patronage of the Mass Transit Railway, the Company is consistently engaged in discussions with the Government on new feeder services. As a result, 17 such routes were introduced from the beginning of 1997 to the end of 1999. The Company has also considered operating its own feeder routes but has concluded that it would not be economically viable to do so at present unless it could obtain a bus franchise, thereby enabling it to charge fares. The Company is in discussions with franchised bus companies, green PLB operators and residential coach service providers with a view to enhancing the feeder service frequencies together with the introduction of inter-modal fare discounts and possible route rationalisation;
- **inter-modal fare discounts.** Certain journeys may be completed using buses only or by combining a bus journey and a journey on the Mass Transit Railway. By combining a bus journey with a journey on the Mass Transit Railway, the aggregate fare would generally be higher than the fare that would be charged if the bus were to be used without the Mass Transit Railway. To address this and to compensate for the inconvenience of interchanging between a bus and the Mass Transit Railway, the Company is pursuing the possibility of offering discounted fares, or free feeder bus travel, to passengers who use both franchised buses, green PLBs or residential coach services and the Mass Transit Railway to complete a single journey. This could be achieved in conjunction with the Octopus card;

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- **specific MTR Station related initiatives.** In 1999, the Company established a task force to study patronage at certain MTR Stations. As a result, a number of initiatives were recommended, including reducing fares for passengers travelling between particular MTR Stations;
- **promotional initiatives.** Periodically, the Company also implements promotional initiatives with a view to stimulating additional patronage. The “ride 10 get 1 free” promotion which was implemented in April 2000 was estimated to have generated an additional 1% in patronage;
- **other long-term initiatives.** The Company is also examining alternative feeder arrangements, such as escalator and travelator links and footbridge networks, in order to enhance accessibility to particular MTR Stations and improve passenger accessibility at certain stations; and
- **joint initiatives with KCRC.** In the light of increased competition from bus and residential coach service operators and the recommendations of the Third Comprehensive Transport Study (further details of which are contained in the paragraph headed “Current Government transport strategy” in the section headed “Industry Background”), the Company and KCRC established a joint committee to consider ways in which the Company and KCRC can address the competitive pressures from bus and residential coach service operators. Strategies being considered include improving interchanges, joint promotions, joint feeder bus services, inter-modal discounts and joint approaches to the Government. It is expected that initial recommendations will be made later in 2000. In addition, the Company and KCRC have jointly written to the Government, in response to the Third Comprehensive Transport Study, recommending a number of initiatives for adoption by the Government to ease the competitive pressures faced by the Company and KCRC. These include a recommendation that the need and timing for the construction of future highways should take account of their adverse effect on railways, a reduction in the number of bus routes which run parallel to railway lines, the provision of additional bus feeder routes and a commitment to the development of an integrated public transport system.

The Government’s planning of the provision of passenger transport services to new development areas, including Tseung Kwan O, will reflect its stated preference for railways to be the backbone of the passenger transport system. The Company expects that patronage on the Mass Transit Railway will increase following the commencement of operations on the TKE. The completion of the West Rail project by KCRC in 2004 and future new extensions such as the line to Ma On Shan, which forms part of the north-south corridor recommended in the Railway Development Strategy 2000, are also expected to result in additional patronage on the Mass Transit Railway.

MARKETING

In formulating the marketing strategies for its railway services, the Company monitors passenger needs, changes in the operating environment and market competition. Market research and customer surveys are regularly conducted to gauge customers’ views of the Company’s service standards and image. Marketing campaigns are implemented to promote

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patronage on the railway, new services and the Company's brand. Information on passenger travel that is collected from the Octopus card system is used to develop promotions that are customised for different passenger groups. In 2000, the Company launched a number of promotions, including the "ride 10 get 1 free" and Pokemon promotions. In addition, to provide value added services for its customers, the Company has enhanced its website with new features such as the "MTR Club". Leveraging on its passenger flow, brand image and customer loyalty, from time to time, the Company sells souvenir tickets and other products which also generate additional revenue for the Company.

Since 1979, the Company has carried out an annual survey of its passengers with a view to obtaining information on passengers' demographic and travel characteristics and their attitudes towards the railway related services provided by the Company. In addition, the Company carries out many ad hoc surveys on customer satisfaction, on customers' needs and expectations and on their likes and dislikes on various aspects of the Company's services. The Company also organises events for the purposes of liaising and exchanging views with its passengers. These are supplemented by regular live radio phone-in programmes which are intended to gauge passengers' opinions on the Company's services.

RAILWAY RELATED BUSINESSES

Advertising, kiosk rental and miscellaneous business revenue

The Company derives revenue from advertising space in its stations, from the provision of telecommunications facilities on its railway network, the leasing of retail space in its stations and from carparking facilities close to certain MTR Stations.

Poster advertising has been carried out on the railway system for approximately 20 years and there are now approximately 15,000 poster panels within the railway system. The Company has entered into an exclusive agreement with Pearl & Dean, pursuant to which, Pearl & Dean procures advertising in return for a share of the resulting revenues. In order to attract more advertisers and to provide advertisers with a greater choice of advertising media, the Company has introduced new forms of advertising, including advertising on train bodies, trackside television and station pillars. In addition, in 1999 wall and electronic infopanel, which are LED based advertising panels, were introduced in refurbished trains and MTR Stations. These provide updated news, weather and financial information as well as advertising.

The Company has entered into agreements with mobile telephone operators and paging operators, who provide telephone and paging coverage of the Mass Transit Railway. Currently, there are 11 mobile telephone networks operated by six operators and 69 paging channels operated by 16 operators providing coverage on the Mass Transit Railway. The terms of the agreements with these operators entitle the Company to a share of call and paging revenues received by these service operators. In 1999, there was an average of approximately 880,296 telephone call minutes made each day on the Mass Transit Railway. Revenue in 1999 from the provision of telecommunication services within the Mass Transit Railway system amounted to approximately HK\$168 million.

The Company has approximately 15,000 m² of retail space on the Mass Transit Railway, comprising approximately 317 kiosks and shops which provide a wide range of

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goods and services, 54 mini-banks and the new 6,500 m² DicksonCyber Express at Kowloon station which is the first cybermall in Hong Kong. There are also self-service concessions and vending machines which provide a range of goods and services. As at 30th June, 2000, the occupancy rate for the Company's shops and kiosks was over 90%.

The Company also operates a travel service centre located at Hong Kong station which operates as a travel agent, selling local and overseas tours and tickets for Macau Jetfoil and to the mainland of China. It also acts as a customer service outlet, providing information on the Mass Transit Railway and selling souvenirs.

Consultancy services

In 1998, the Company established a small group within its Operations division to seek opportunities to provide consultancy services. One of the aims of the initiative was to provide opportunities for staff development. The Company has provided consultancy services to a wide range of clients, such as routing planners, operators, manufacturers, contractors and consultants as well as to clients involved in the promotion and management of major capital works projects. Assignments have been undertaken in Australia, the mainland of China, Hong Kong, India, Taiwan, Thailand, Philippines, Singapore and United Kingdom. During the first half of 2000, the Company decided to extend its consultancy services to include railway specific project management and technical services.

PROPERTY

Property development

General

Property is a significant part of the Company's business, providing an important source of income to support the cost of construction of railway projects as well as contributing to future rail patronage from the immediate catchment areas created by property developments.

The Company recognises that, with the attractiveness in Hong Kong of living near to convenient transport, its railway could stimulate property development opportunities, enhance land values along its routes and thereby assist the Company in achieving and improving financial returns from the implementation of its railway projects. In conjunction with its railway construction activities, the Company has been involved in the development of residential and commercial properties above and adjacent to MTR Stations and depots under agreements with various property developers. Profits that the Company has received from these development ventures have been used by the Company to supplement associated railway returns, thereby contributing to an improved rate of return on the investment cost of constructing new railway lines.

The Company has an established track record for the planning, designing and project management of railway property developments. The Company's formula for property development is based on minimising direct risk in the development of the properties, thereby reducing the Company's exposure to the property market and its related risks.

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In conjunction with railway development, the Company plays an important role in the establishment of new property complexes in Hong Kong as an integral part of new stations. It is the Company's practice to obtain the Government's consent to develop airspace above or adjacent to the selected railway sites and thereafter to enter into an agreement with property developers to build, at the developers' cost, property developments to the Company's standards. The costs payable by the developers include the payment of the Government land premium, which is based on the market valuation of the relevant site, as well as construction, finance and other professional costs. The Company derives benefit from property developments through the sharing of profits with the developers in agreed proportions of any cash profits from the sale or lease of the properties, the sharing of assets in kind, or through up-front payments from developers.

In the case of the developments at Hong Kong station, Kowloon station (Package Two) and Tsing Yi station, the arrangements agreed with the developers allow the Company to receive units in the completed developments as a "share in kind" and at no cost to the Company. The Company is entitled to occupy, sell or lease these units. The developers are entitled to the revenues from the sale and leasing of the remaining parts of the completed developments.

Further details on the treatment of profits arising from property development undertaken in conjunction with property developers are contained in Note 1(f) to the financial statements in the Accountants' Report contained in Appendix I.

Property development process

Typically, when planning a new railway line, the Company first plans the alignment with the Government and assesses the cost of constructing the new line. The Company then discusses with the Government the property development opportunities associated with any new stations that will enable the rate of return to the Company on the overall investment to be enhanced. The project agreement between the Company and the Government for the construction of a new line typically contains undertakings from the Government to grant land for property development at identified sites associated with the new line. The Company then prepares a master layout plan, in conjunction with the Government, for the property development site which provides for a suitable mix of residential and commercial development and includes the main infrastructure for the site.

The Company applies for and obtains all necessary statutory planning approvals for the developments and negotiates the terms of the land grants with the Government. If the development is of a large scale, the Company seeks to agree a phased land premium payment schedule with the Government in order to enable the development to be divided into development packages that are likely to be more manageable, in terms of cost, to developers. Typically, the amount of the land premium paid to the Government accounts for a significant proportion of the total cost of a residential or commercial development.

In the case of large development sites, having agreed the master layout plan with the Government, the Company divides the development sites into development packages which are then offered to developers by public tender. The timing of such tenders depends on market conditions. The amount of the land premium payable for the development package is

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usually disclosed to tenderers prior to the final tender offer and the award of the tender triggers the acceptance and payment of the land premium. Tender packages contain a design scheme prepared by the Company to assist developers to respond to the tender and, if awarded, to implement the development. The Company's design schemes aim to incorporate a development design that has flexibility and maximises the potential investment return that can be achieved by developers. Typically, there are four broad stages in the development award process:

Shortlisting Stage	Interested parties are invited to submit, for evaluation, an expression of interest together with details of their corporate structure, development experience, marketing and management abilities. A short-list of developers is then drawn up.
Consultation Stage	Short-listed developers are briefed on the details of design and any interface between the railway and property development works.
Tender Invitation	The financial and technical capabilities of the developers are evaluated and short-listed developers are invited to submit tender proposals for the development package(s). The selected tenderers are then invited to submit offers.
Award	Following the completion of the tender process, the terms and conditions of the development agreement are finalised and a property development contract is entered into between the Company and the successful developer.

In circumstances where the Company considers it is beneficial to the Company, such as where a proposed development is adjacent to a development already undertaken by a developer and where economies can be realised, the Company may identify a particular developer for a development and may invite only that developer to submit a proposal.

Development is typically carried out under development agreements. The detailed design of an awarded development package is the responsibility of the developer. The Company sets and enforces the technical control standards and requirements for interfacing both with its railway premises and with any other development phases. In the majority of circumstances, the Company is responsible for carrying out enabling works prior to the commencement of the property development. The scope of these works may include the civil and structural works for the property development podium, comprising carparks, public transport interchanges and railway interface and support works. The costs of any enabling works carried out by the Company are paid for by the Company and usually reimbursed to the Company by the developer as a mandatory payment. In certain circumstances, the up-front payments received by the Company are in excess of the enabling work costs incurred by the Company. Such excess is recorded as deferred income of the Company. Further details on the treatment of deferred income are contained in Note 16 to the financial statements in the Accountants' Report contained in Appendix I.

Under a typical development agreement, the relevant developer is responsible for all development costs. In addition to the land premium, these costs generally include construction costs, finance costs, professional fees, marketing costs and expenses relating

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to the selling and leasing of the completed properties. Typically, the developer is entitled to recover these costs and the up-front payment (which includes, and in certain circumstances consists only of, a mandatory payment for enabling works carried out by the Company) to the Company from the proceeds arising from the sale of the units located within the development, any rental income from such units and any monies received from the Government in respect of any GIC Facilities which the Government may have required to be constructed. The balance of any disposal proceeds remaining after deducting such costs are typically shared between the Company and the developer in agreed proportions. These proportions are agreed between the Company and the relevant developer and may vary from development to development. Certain development agreements contain a mechanism allowing units which remain unsold for a specified period to be distributed in agreed proportions between the Company and the relevant developer. For certain property developments, the Company is entitled to a share of a portion of the developed property upon its completion. The amount of such portion is negotiated between the Company and the relevant developer. Further details are contained in the Property Valuation Report in Appendix V.

It is customary for the Government to require Government facilities, such as schools, health care centres or transport interchanges to be constructed and maintained upon or adjacent to a property development site.

The Company, being the grantee of the land, remains primarily responsible for the fulfilment of all the conditions and obligations under the land grant for the development. Such conditions and obligations include the type and quality of the development that must be built, the Government facilities to be provided, the completion date of the project and the payment of land premium (for which developers are responsible under the terms of a typical development agreement, as described above).

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Property developments related to the Tsuen Wan, Kwun Tong and Island Lines

As set out in the table below, a total of 18 property developments associated with the construction of the Tsuen Wan, Kwun Tong and Island Lines have been developed in conjunction with developers. All residential units and offices in these developments have been sold. Almost all of the retail space has either been sold or leased.

Location	Completion (Year)	Residential (No. of units)	Office (GFA m²)	Retail (GFA m²)	GIC Facilities (GFA m²)
Telford Gardens/Telford Plaza I and II	1980/1996	4,992	52,482	83,201	909
Admiralty Centre	1980	—	72,290	18,114	—
Worldwide House	1981	—	33,314	7,141	—
Fairmont House	1982	—	20,886	—	—
Argyle Centre	1983	—	26,308	—	—
Luk Yeung Sun Chuen	1983	4,000	—	15,548	13,562
New Kwai Fong Gardens	1983	1,264	—	4,484	540
Sun Kwai Hing Gardens	1983	600	—	7,317	10,321
Fortress Metro Towers	1986	757	—	6,791	—
Kornhill/Kornhill Gardens	1987	8,828	—	104,170 ⁽¹⁾	9,640
Hongway Garden	1987	412	—	2,544	—
Vicwood Plaza	1988	—	29,618	7,239	—
Perfect Mount Gardens	1988	760	—	1,119	19,830
New Jade Gardens	1988	1,488	—	11,100	5,400
Southorn Garden	1988	480	—	2,646	40,918
Heng Fa Chuen/Heng Fa Villa	1989	6,560	—	26,742	20,120
Park Towers	1989	493	—	1,207	18,897
Felicity Garden	1990	732	—	—	13,386
Total		31,366	234,898	299,363	153,523

Note:

(1) Commercial GFA of 104,170 m² comprises retail, office and hotel areas.

Property developments related to the Airport Railway Project

Under the terms of the Airport Railway Agreement, the Company was granted the preferential right to undertake residential and commercial developments on approximately 62.37 hectares of land at sites above or around the five MTR Stations along the Tung Chung and Airport Express Lines, namely, Hong Kong, Kowloon, Olympic, Tsing Yi and Tung Chung stations. These developments, as currently planned, comprise 15 development packages totalling approximately 26,620 residential units and approximately 1.3 million m² of office, hotel and retail space. As of the date of this prospectus, the Company had awarded all of these packages to various developers following competitive tendering processes.

Several property developments associated with the construction of the Airport Railway Project have been completed. These comprise an aggregate of approximately 170,900 m² of commercial office space, 7,972 residential units and approximately 119,250 m² of retail space (of which 1,900 m² have been sold and approximately 117,350 m² are for leasing). As of 30th June 2000, approximately 75% of the retail space has been leased.

The Government is replanning the land use adjacent to Kowloon station to create a major cultural and tourist zone. It is expected that Kowloon station will be a key entry point to this new zone. Package Seven at Kowloon station is currently planned to include a 102-storey tower, incorporating office and retail space, a hotel and restaurants, which will be one of the tallest buildings in Asia. Town Planning Board approval for Package Seven was granted in October 1999. On the other side of the harbour, the laying of the foundations of an 88-storey tower adjacent to Hong Kong station commenced in February 2000. Occupying

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two prime sites, these two tall towers are planned to complete the “gateway” vision of landmark commercial towers above the Hong Kong and Kowloon Airport Express Line stations on each side of Victoria Harbour.

Despite volatile property market conditions in Hong Kong during 1998, the first sales of development properties relating to the Airport Railway Project, including an office building complex at Olympic station and residential units at the Tsing Yi station were concluded in 1998. Sales from the first property development package at Olympic station commenced in November 1998. Pre-sales of residential units at Tung Chung, Kowloon and Olympic stations property developments are continuing.

In 1998, the Company took possession of Maritime Square, a new retail shopping complex adjacent to Tsing Yi station as sharing in kind under the relevant development agreement. The shopping complex has attracted significant business and a substantial number of people have visited it since its opening in April 1999. The concept, design, marketing and management of Maritime Square are under the Company’s direct control. The Company believes that the success of Maritime Square has been a significant achievement in view of the generally weak retail market conditions which have prevailed in Hong Kong since the opening of the complex.

The awarded development packages include the developments associated with the Hong Kong, Kowloon, Tsing Yi, Tung Chung and Olympic stations. In 1997, the Town Planning Board gave its approval to increase the residential gross floor areas to be allocated to development packages for development at Tung Chung station. The additional land premium for the additional residential development area for Package Two and Package Three has been paid by the developers and the Company is in discussion with the developer of Package One on the possible expansion of that package. The Town Planning Board has also approved a change of use for Olympic Station Package Three from hotel to residential and the Company is now holding discussions with the Government on this change of use. These changes to the developments at Tung Chung and Olympic stations will increase the total number of residential units by 3,666. The Company awarded Kowloon Station Development Packages One, Two, Three and Four in 1996, 1997, 2000 and 1999, respectively. Kowloon Station Development Packages Five, Six and Seven were awarded as a single package on 6th September, 2000 and, in accordance with the terms of the relevant tender conditions, a development agreement will be entered into between the Company, the developer and its parent company, Sun Hung Kai Properties Limited, within 21 days of the award, substantially on the terms specified in the paragraph headed “Proposed development agreement for Kowloon Station Development Packages Five, Six and Seven” in Appendix IX.

The awarded property development packages have been, or are expected to be, completed (as the case may be) between 1999 and 2007. The amount of actual profit realised by the Company will depend on the development costs, the ability to sell or lease the completed properties, the timing of completion of competing development projects and general economic conditions.

As of 30th June, 2000 the balance of up-front payments received from participating developers in connection with property developments related to the Airport Railway Project in excess of related expenditures on foundations and enabling works incurred by the Company, net of amounts already recognised in the Company’s profit and loss account, was HK\$13,028 million.

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The tables below contain information relating to Airport Railway Project property developments:

Location	Development consortium members	Type	Permitted maximum gross floor area (m ²)	Parking spaces (No.)	Actual or Expected completion date
Hong Kong Station	Sun Hung Kai Properties Limited	Office	254,190	—	By phases from 1998-2004
	Henderson Land Development Co. Limited	Retail	59,460	—	
	The Hong Kong & China Gas Co. Limited	Hotel	102,250	—	
	Bank of China Group Investment Limited	Carpark	—	1,344	
Kowloon Station					
Package One	Wing Tai Holdings Limited	Residential	147,562	—	2000
	Temasek Holdings (Pte) Limited	Carpark	—	1,332	
	Singapore Land Limited				
	Keppel Land Limited				
	Lai Sun Development Co. Limited				
Package Two	World-wide Investment Co. (Bermuda) Limited				
	The Wharf (Holdings) Limited	Residential	210,319	—	By phases from 2002-2003
	Wheelock and Company Limited	Carpark	—	1,313	
	New Asia Realty and Trust Company, Limited				
	Realty Development Corporation Limited				
Harbour Centre Development Limited					
Package Three	Sun Hung Kai Properties Limited	Residential	100,000	—	2004
		Carpark	—	684	
Package Four	Amoy Properties Limited	Residential	128,845	—	2003
		Carpark	—	864	
Package Five ⁽¹⁾	Sun Hung Kai Properties Limited	Retail	70,000	—	2003-2004
		Residential	21,300	—	
		Hotel	30,750	—	
		Carpark	—	767	
Package Six ⁽¹⁾	Sun Hung Kai Properties Limited	Service apartment	68,472 – 72,472	—	2003-2004
		Office	79,778 – 83,778	—	
		Carpark	—	467	
Package Seven ⁽¹⁾	Sun Hung Kai Properties Limited	Retail	12,750	—	2005-2007
		Office	152,000	—	
		Hotel	64,250	—	
		Carpark	—	740	
Olympic Station					
Package One	Sino Land Co. Limited	Office	111,000	—	By phases from 1998-2000
	Bank of China Group Investment Limited	Retail	14,900	—	
	Kerry Properties Limited	Residential	169,950	—	
	China Overseas Land and Investment Limited	Carpark	—	1,380	
	DBS Land Limited				
Package Two	Sino Land Co. Limited	Retail	47,500	—	By phases from 2001-2002
	Kerry Properties Limited	Residential	220,050	—	
	Bank of China Group Investment Limited	Carpark	—	932	
	China Overseas Land and Investment Limited				
Package Three ⁽²⁾	Sun Hung Kai Properties Limited	Retail	2,600	—	2001
		Hotel	62,000	—	
		Carpark	—	169	

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Location	Development consortium members	Type	Permitted Maximum Gross floor area (m ²)	Parking spaces (No.)	Actual or Expected completion date
Tsing Yi Station	Cheung Kong (Holdings) Limited	Retail	46,170	—	By phases from
	Hutchison Whampoa Limited	Residential	245,700	—	1998-1999
	CITIC Pacific Limited	Carpark	—	920	
Tung Chung Station					
Package One	Hang Lung Development Co. Limited	Office	15,000	—	By phases from
	Henderson Land Development Co. Limited	Retail	48,500	—	1999-2003
	New World Development Co. Limited	Hotel	22,000	—	
	Sun Hung Kai Properties Limited	Residential	260,960	—	
	Swire Properties Limited	Carpark	—	2,002	
Package Two	HKR International Limited	Retail	2,500	—	By phases from
	Hong Leong Holdings Limited	Residential	253,100	—	2001-2004
	Recosia Pte Limited	Carpark	—	632-745	
	Lippo China Resources Limited				
Package Three	Cheung Kong (Holdings) Limited	Retail	5,000	—	By phases from
	Hutchison Whampoa Limited	Residential	407,300	—	2002-2004
		Carpark	—	1,215	

Notes:

- (1) Kowloon Station Development Packages Five, Six and Seven were awarded to a subsidiary of Sun Hung Kai Properties Limited as a single package.
- (2) The Town Planning Board has approved the change of land use from hotel to residential development of 103,152 m² and 252 carparking spaces for Package Three. Discussions are currently being held with the Government on the lease modification for this proposed change of use. Subject to agreement being reached with the Government, the Company currently plans for the development of Package Three to be completed by 2004.
- (3) The areas of GIC Facilities are excluded from the figures contained in this table.

Property developments related to the TKE Project

Tseung Kwan O is one of Hong Kong's major strategic growth areas with a target population of about 520,000 people by the year 2011. The Tseung Kwan O Line will link the new town of Tseung Kwan O to other parts of Hong Kong. Construction of the new railway line has resulted in property development opportunities at four stations and accessibility to the main urban areas via the Tseung Kwan O Line is expected to be a key attraction of the future station property complexes. As with the property developments related to the Airport Railway Project, the Company intends to build integrated communities above or adjacent to the stations which will become major transport, commercial and residential hubs of Tseung Kwan O new town.

The TKE Project Agreement provides that the Company shall have the right to undertake development at four locations within the project. Three developments will be located at Tiu Keng Leng, Tseung Kwan O and Hang Hau stations. The fourth development, being the largest, will be situated at Area 86, where the railway depot and future Tseung Kwan O South station that is planned to be constructed when the population catchment builds up will be located. Collectively, these four development projects will occupy a total site area of approximately 42.64 hectares and will comprise a gross floor area of approximately 2,335,000 m². This is expected to include approximately 28,800 residential units and 103,100 m² of offices and 132,000 m² of local and district-scale shopping facilities.

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The Company plans to divide these four developments into 23 development packages to be offered for tender, completion of which is anticipated over 10 years. The size of individual tender packages is expected to encourage participation from medium-sized developers and to allow for greater flexibility in the Company's tender strategy in response to property market uncertainties. The expected total investment cost, the bulk of which is planned to be borne by developers, is approximately HK\$70 billion based on 2000 prices.

On 7th July, 2000 the Company entered into a development agreement with a developer consortium in relation to the development of Area 57a at Tseung Kwan O station. The development consists of a three-level podium including carparks and retail space and 46 residential floors above the podium on a site area of approximately 3,600 m² which is expected to be completed in 2003. Area 57a is adjacent to two other sites which are being developed by substantially the same consortium and therefore the Company did not offer the development to other developers by public tender. Under the terms of the development agreement the Company received a mandatory payment to cover the cost of enabling works and has the right to share in the profits of the completed development. The developer has an option to purchase the retail element at a price calculated by reference to the open market value.

All development projects are planned and designed to create a user-friendly and pleasant living and working environment. They include areas of open space, recreational facilities, community and infrastructural provisions to ensure that each development produces a fully integrated and quality environment.

The proposed property development at Area 86 represents one of the largest single planned development schemes in Hong Kong covering approximately 32.21 hectares. It represents a new model for high density community living with segregated areas for automotive and pedestrian movement and large open space for leisure activities. A detailed plan for this large scale project, called the "Dream City", was introduced to the public in late 1999. As a "garden city and smokeless zone" located on the Clearwater Bay Peninsula, Area 86 is planned as a community containing 50 residential towers with up to 21,500 units accommodating approximately 58,000 people, schools, shops, recreation and neighbourhood facilities. The future Tseung Kwan O South station will be used as a key point for planning the pattern of community activities and movement within the entire development.

Property development related to Choi Hung station

The Company has received planning permission from the Town Planning Board to develop property above and near Choi Hung station on the Kwun Tong Line. This is expected to include a public transport interchange, commercial space, residential units and "park and ride" facilities for commuters from the southeast part of the New Territories. At present, the Government is processing the formal grant of land to the Company.

The timing of this development project depends on the finalisation of the formal land grant and the Company is considering how to progress the development. Its current intention is to identify a joint venture property developer and then enter into a joint venture arrangement with that property developer once the terms of the land grant are available.

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Property development related to the Penny's Bay Rail Link

As mentioned in the paragraph headed "Penny's Bay Rail Link" in this section, the Company expects to be granted the right to undertake property development in connection with the construction of the Penny's Bay Rail Link.

Other property developments

The Company expects to undertake future property developments, using its usual formula of open tender of development packages and awards to developers and approach to risks, in conjunction with its construction of future railway lines.

Arrangements under the Operating Agreement in relation to land for property development

Under the Operating Agreement, the Government has agreed that for any new railway project to be implemented by the Company, the Government and the Company shall agree the detailed terms upon which the land required for the construction and operation of the relevant railway project will be provided to the Company at a premium in accordance with the Government's land policy at the relevant time and the Government and the Company shall agree the detailed terms relating to the scope of its property development rights, if any, and the way in which such property development rights should be granted to the Company.

The Government has acknowledged that property development by the Company has been, and is expected to continue to be, important for the commercial viability of new railway projects as well as for operational and technical reasons.

The Government has also agreed that, for so long as its current land policy is maintained:

- the amount of land premium payable by the Company will be assessed on a "full market value" basis, ignoring the presence of the railway for the first land grants made by the Government to the Company for property development rights in relation to each new railway project granted to the Company and, if applicable, for the first premium amount payable for property development rights in relation to each development phase of such a new railway project (in each case, other than for depot sites);
- the amount of land premium payable by the Company for railway depot use at depot sites will be assessed on an "industrial use" basis with a minimum plot ratio of one; and
- the amount of land premium payable by the Company for the sites of running lines and stations will be assessed at a nominal premium in accordance with current policy.

Property ownership and management

In addition to undertaking property developments, the Company continues to own or manage certain developed properties above or adjacent to railway structures and facilities.

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This helps to ensure that the quality and reputation of these properties can be maintained at a high standard and also provides another source of income for the Company. Property management by the Company itself also helps to preserve the relevant railway structures and facilities.

The Company is one of the largest estate managers in Hong Kong. It owns four shopping centres located above four of its stations, namely Telford Plaza I in Kowloon Bay (which comprises 38,310 m² of lettable floor space), Luk Yeung Galleria in Tsuen Wan (which comprises 10,383 m² of lettable floor space), Heng Fa Chuen in Chai Wan (which comprises 19,625 m² of lettable floor space) and Maritime Square in Tsing Yi (which comprises 28,197 m² of lettable floor space). It also owns certain other smaller properties, including a 50% commercial interest in Telford Plaza II, which comprises 19,612 m² of lettable floor space, as well as 189 carpark spaces. A major renovation programme for the shopping centre at Heng Fa Chuen is planned for the end of 2000 to ensure that the centre remains competitive with other newer shopping centres.

The Company holds these properties under long-term leases from the Government and rents them to tenants for commercial use. The Company has no present intention to sell any of these shopping centres.

In addition, the Company manages over 36,700 residential units and approximately 353,687 m² of office and retail space at 18 locations.

During 1999, the Company assumed, under its agreements with developers, management of the first stages of the developments relating to the Airport Railway Project that were completed and handed over for residential occupancy. Growth in the property management portfolio from these developments is expected to continue over the next few years adding some further 19,000 residential units to the portfolio. In the longer term, additional units under management will arise from the property developments at Tseung Kwan O.

The Company has recently established a new brand as part of its property management services. Called "Premier Management Services", it is aimed at the high-end residential, serviced apartments and high quality office accommodations forming part of some of the property developments relating to the Airport Railway Project. Designed to provide a higher quality level of service to these higher quality property developments, the new service has been separately branded to distinguish the service from the property management of mass residential properties.

The Company aims to provide a property management service that gives a high level of service to tenants and applies appropriate technology to make the Company a leader in market practice, thereby enhancing the attractiveness of the residential developments.

On 12th July, 2000, the Company entered into a heads of agreement with SuperHome.net (HK) Limited, a subsidiary of Sunevision Holdings Limited, for the provision of Superhome.net as a property portal offering e-facilities to residential units in the Company's estate management portfolio. It is anticipated that a final agreement will be entered into. It is expected that Superhome.net will provide specific content for the

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Company's managed estates and will be identified with the Company. The Company's property portal, using Superhome.net, is expected to offer residents "infotainment", on-line shopping and e-services as well as clubhouse facilities booking, billing and invoicing, management fee payment, bulletins and general enquiry services. The Company's retail tenants are also expected to be able to use the e-facilities to offer goods and services for sale to residents.

The tables below show information in relation to the properties managed or to be managed by the Company by the end of June 2000:

Residential

<u>Development</u>	As at 30th June, 2000		
	<u>Completion (Year)</u>	<u>Residential (No. of units)</u>	<u>Parking spaces (No.)</u>
Telford Gardens	1980	4,992	723
Luk Yeung Sun Chuen	1983	4,000	651
New Kwai Fong Gardens	1983	1,264	126
Fortress Metro Tower	1986	757	114
Kornhill	1987	6,648	1,168 ⁽¹⁾
Kornhill Gardens (PSPS)	1987	2,180	—
Hongway Garden	1987	412	—
Perfect Mount Gardens	1988	760	—
Southorn Garden	1988	480	12
Heng Fa Chuen	1989	6,504	849
Felicity Garden	1990	732	—
Tierra Verde	1999	3,500	700
Tung Chung Crescent	1999	2,158	507
Island Harbourview	2000	2,314	579
Total		<u><u>36,701</u></u>	<u><u>5,429</u></u>

Note:

(1) Includes 292 carparking spaces held by the Company for investment.

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Commercial

As at 30th June, 2000					
Development	Completion (Year)	Office (GFA m ²)	Retail (GFA m ²)	Lettable area ⁽²⁾ (m ²)	Parking spaces (No.)
Admiralty Centre	1980	72,290	18,114	—	—
Admiralty Centre (10 shop units on 1st floor) ⁽¹⁾	1980	—	—	286	—
Telford Plaza I ⁽¹⁾	1980	—	52,171	38,310	270
Worldwide House	1981	33,314	7,141	—	—
Nathan Road (retail space) ⁽¹⁾	1979	—	106	106	—
Fairmont House	1982	20,886	—	—	—
New Kwai Fong Gardens ⁽¹⁾	1983	—	540	540	—
Luk Yeung Galleria ⁽¹⁾	1983	—	15,548	10,383	—
Heng Fa Chuen ⁽¹⁾	1989	—	26,742	19,625	415
Telford Plaza II ⁽¹⁾	1996	—	31,030	19,612	188
Telford Plaza—Hang Seng Tower	1996	26,635	—	—	25
Maritime Square ⁽¹⁾	1998	—	46,170	28,197	220
Tung Chung Crescent	1999	—	3,000	—	—
International Finance Centre ⁽¹⁾	1998	—	—	—	136
Olympian City I	2000	—	—	—	330
Total		<u>153,125</u>	<u>200,562</u>	<u>117,059</u>	<u>1,584</u>

Notes:

- (1) Properties held for investment, all of which are wholly-owned by the Company (except for Telford Plaza II and the 10 shop units on the first floor at the Admiralty Centre which are beneficially owned by the Company as to 50%, and the 136 parking spaces at the International Finance Centre which are beneficially owned by the Company as to 51%).
- (2) Lettable area typically means the area within the internal walls of the relevant premises, as defined in the relevant lease agreements, but typically excludes all common areas within the relevant commercial property.

The Company's ownership and management of properties is undertaken by its Property Department but is treated in its accounts as being related to its railway operations. The results from these activities form part of the Company's railway and related operations. The table below shows the Company's property rental and property management revenue since 1995:

	Year ended 31st December,								Six months ended 30th June,					
	1995	% of total turnover	1996	% of total turnover	1997	% of total turnover	1998	% of total turnover	1999	% of total turnover	2000	% of total turnover	1999	% of total turnover
	(HK\$ million, except %)													
Property rental ⁽¹⁾	483	8.4	490	7.8	577	8.8	654	9.4	740	10.2	400	10.9	339	9.8
Property management income	36	0.6	37	0.6	39	0.6	43	0.6	50	0.7	28	0.8	24	0.7
Total	<u>519</u>	<u>9.0</u>	<u>527</u>	<u>8.4</u>	<u>616</u>	<u>9.4</u>	<u>697</u>	<u>10.0</u>	<u>790</u>	<u>10.9</u>	<u>428</u>	<u>11.7</u>	<u>363</u>	<u>10.5</u>
Property ownership and management as a percentage of turnover (%)		9.0		8.4		9.4		10.0		10.9		11.7		10.5

Note:

- (1) For 1995 and 1996, property rental revenues included revenues from properties wholly-owned by the Company. For 1997, 1998 and 1999, property rental revenues included revenues from properties wholly-owned by the Company and revenues from properties in which the Company has a 50% ownership interest.

Interests in land

The Company has interests in land and property which may be categorised as follows:

- land and property used in connection with the operation and maintenance of the Mass Transit Railway ("**Railway Properties**");

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- land and property held as investments (“**Investment Properties**”);
- land and property occupied by the Company (“**Owner Occupied Properties**”); and
- land and property held for development (“**Development Properties**”).

Railway Properties

The Company’s interests in Railway Properties may be categorised as follows:

- railway tracks and certain MTR Stations which are subject to a running line lease (a “**Running Line Lease**”). The Company has entered into two Running Line Leases with the Government in respect of the running lines of the Mass Transit Railway, one for the Tung Chung and Airport Express Lines and the other for the remaining railway system. It is intended that a third Running Line Lease which will be in substantially the same form as one of the existing Running Line Leases will be entered into for the Tseung Kwan O Line.

On 30th June, 2000, the Company entered into an agreement (the “**EHC Agreement**”) with the Secretary for the Treasury for and on behalf of the Government in respect of the vesting of certain assets comprised in the Eastern Harbour Crossing by Government into the Company in 2008 for nominal consideration. The Company has agreed to indemnify the Government for certain amounts which are expected to be nominal. A copy of the EHC Agreement is available for inspection as described in Appendix X. Pursuant to a letter dated 14th July, 2000 from the Secretary for Planning and Lands to the Company (the “**Land Comfort Letter**”), the Government agreed that in 2008 the land supporting the railway element of the Eastern Harbour Crossing will be leased to the Company as an extension to an existing Running Line Lease at nominal premium. A copy of the Land Comfort Letter is available for inspection as described in Appendix X;

- certain MTR Stations which are held under land grants from the Government (each a “**Land Grant**”) by way of undivided shares;
- certain MTR Stations which are held partly under a Land Grant by way of undivided shares and partly subject to a Running Line Lease;
- certain depots which are held under a Land Grant. The Company has interests in four depots located at Siu Ho Wan, Tsuen Wan, Kowloon Bay and Chai Wan, respectively. The depot at Siu Ho Wan is held under a Land Grant which confers a 100% ownership interest in the Company. There are property developments above the other three depots. These depots are held by the Company by way of undivided shares in respect of the entire development (including the depots and the relevant property developments) which are attributable to the depot. The remainder of the undivided shares in respect of the entire development are attributable to the relevant property development; and

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- certain other interests which are held by way of assignments from private third-party owners, licences, leases, sub-leases and easements which the Company uses in connection with the Mass Transit Railway.

There are retail sites of various types which form part of the Railway Properties. These include kiosks, mini-banks and food outlets which are leased to third parties. In addition, there are approximately 15,000 poster panels which form part of the Railway Properties. Further details are contained in the paragraph headed "Railway related businesses" in this section.

The Running Line Leases and the Land Grants typically contain a number of restrictions ("**Legal Restrictions**"), including provisions prohibiting the Company from disposing of the relevant property or any interest therein and provisions prohibiting the Company from using the relevant property for any purpose other than in connection with the Mass Transit Railway. The Running Line Leases also contain provisions allowing the Government to re-enter and resume the relevant property.

The Railway Properties are stated in the Company's financial statements on a historical cost basis and depreciated at rates sufficient to write off their costs over their estimated useful lives except for the initial cost on rails and tunnel excavation and boring. Further details on the treatment of Railway Properties are contained in Notes 1(c), (d) and 14 to the financial statements in the Accountants' Report in Appendix I.

Investment Properties, Owner Occupied Properties, Development Properties and other property interests

The Company also has interests in a number of Investment Properties, Owner Occupied Properties, Development Properties (awarded and unawarded) and other property interests, further details of which are contained in the Property Valuation Report in Appendix V.

Exemptions and waivers

Under paragraph 34 ("**Paragraph 34**") of the Third Schedule to the Companies Ordinance and Rule 5.01 of the Listing Rules, the Company is required to include in this prospectus a valuation report with respect to all the Company's and its subsidiaries' interests in land and buildings. Each of Paragraph 34 and Rule 5.06(1) of the Listing Rules require certain particulars to be included in that valuation report. The Board of Directors believes that:

- no meaningful valuation figures could be determined for the Railway Properties and that any valuation figures that may be arrived at by applying normal valuation methodologies would be artificial, particularly given the Legal Restrictions; and
- there are commercial sensitivities in relation to the disclosure of detailed valuation figures for (a) Development Properties where development packages have been awarded and (b) Development Properties where development packages have not yet been awarded and property interests held for future development.

Accordingly, the Company has applied to the Securities and Futures Commission for an exemption under Section 38A of the Companies Ordinance from strict compliance with the requirements under Paragraph 34 and to the Stock Exchange for waivers from strict

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compliance with the requirements under Rules 5.01 and 5.06 of the Listing Rules in the following terms:

- in respect of the Railway Properties, that they are not required to be valued in the Property Valuation Report contained in Appendix V, for the reasons set out above;
- in respect of the Development Properties where packages have been awarded, that they are valued in the Property Valuation Report contained in Appendix V on a station-by-station basis; and
- in respect of the Development Properties where development packages have not yet been awarded and property interests held for future development, that in the Property Valuation Report contained in Appendix V they are valued on an aggregated basis and described on a station-by-station basis,

in each case for the reasons set out above.

The Securities and Futures Commission has issued a certificate of exemption under Section 38A of the Companies Ordinance granting exemptions from strict compliance with the requirements under Paragraph 34 in the terms applied for and for the reasons set out above; and the Stock Exchange has granted waivers from strict compliance with Rules 5.01 and 5.06 of the Listing Rules in the terms applied for and for the reasons set out above.

ACTIVITIES OF SUBSIDIARIES

Creative Star

In June 1994, the Company entered into an agreement with four public transport providers, KCRC, Kowloon Motor Bus, Citybus and The Hongkong and Yaumati Ferry Company, Limited to undertake the development and operation of a contactless smart card ticketing system known as “Octopus” through a company, Creative Star. The Company and each of these companies are shareholders in Creative Star. Details of the Octopus system are contained in the paragraph headed “Octopus smart cards” in this section. To maximise the opportunities resulting from the widespread holding of Octopus cards and watches, which at 30th June, 2000 was more than 6.34 million, Creative Star is actively pursuing the further expansion of Octopus card usage. In particular, it is considering opportunities for increasing its non-transport related uses, including for payment in convenience stores and supermarkets. Octopus cards are now accepted at certain carparks and a fast food chain store. It is also considering entering into arrangements with other third parties, such as banks and conglomerates as a means of expanding the potential uses of Octopus cards.

The Company holds 67.8% of the issued share capital in Creative Star but its voting rights at board meetings of Creative Star, exercisable by directors of Creative Star who are appointed by the Company, are limited to 49%. None of the shareholders in Creative Star is individually able to control the board of directors of Creative Star. The shareholders of Creative Star have agreed to provide the necessary funding to Creative Star for its operations and for the development of the Octopus system. The shareholders also agreed that their objective would not be to seek profit but they have recently agreed to discuss in good faith the possible amendment of this objective and possible changes in their respective

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shareholdings in Creative Star. Creative Star and the Company have entered into an agreement pursuant to which the Company provides certain services to Creative Star, most of which relate to the rental of space for computer equipment and services and warehouse storage space.

On 20th April, 2000, Creative Star became authorised by the HKMA as a deposit-taking company to issue a multi-purpose card. As an authorised institution under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong), Creative Star is now required to maintain a minimum capital adequacy ratio. It is authorised to expand the range of applications of the Octopus system subject to certain conditions, including that the goods and services to be supplied on the production of an Octopus card are restricted to certain “core” uses (principally, transport-related uses for Creative Star’s shareholders) and “non-core” uses (including for certain vending machines, photo booths and telecommunication services, carparking facilities, certain estate management services, tunnel tolls, goods and services in certain convenience stores, supermarkets and fastfood restaurants and goods and services purchased through certain internet terminals), subject to certain limits related to the aggregate value of transactions that are “non-core” and non-transport related relative to the aggregate value of transactions which are “core” and transport related, respectively. In addition, the maximum value of money stored on an Octopus card at any time must not exceed HK\$1,000.

Creative Star receives sums of money as deposits and pre-payments for stored value upon the issue of Octopus cards and when Octopus cardholders add value to their Octopus cards. All interest earned on these sums is for the account of Creative Star which, together with the fees paid by service providers who use the Octopus system and processing fees which Creative Star charges if a holder wishes to personalise his Octopus card, is used to meet the costs of establishing and operating the Octopus system. It is Creative Star’s current policy to charge its shareholders a transaction fee on an “at-cost” basis and other transport operators mostly at 1% of the relevant transaction value. Service providers also pay for their own Octopus system processing equipment. There are arrangements in place between Creative Star and each of these service providers for the reconciliation of sums payable between Creative Star and each of the service providers.

Further details in relation to Creative Star are contained in Note 18(a) to the financial statements in the Accountants’ Report in Appendix I.

Other subsidiaries

MTR Engineering

MTR Engineering operates principally from the United Kingdom. It carries out inspection and related services on equipment manufactured in Europe for the Company and other third-party clients.

MTR Travel

MTR Travel, another wholly-owned subsidiary of the Company, operates a travel service centre, located at Hong Kong station which operates as a travel agent, selling local

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and overseas tours and tickets for the Turbojet to Macau and China. It also acts as a customer service outlet, providing information on the Mass Transit Railway and selling souvenirs.

Fasttrack Insurance

Fasttrack Insurance was incorporated as a wholly-owned subsidiary of the Company in Bermuda in November 1997. The primary purpose of this subsidiary is to operate as the Company's captive insurance company. Further details relating to Fasttrack Insurance are contained in the paragraph headed "Insurance" in this section.

MTR (Estates Management) Limited

MTR (Estates Management) Limited is a wholly-owned subsidiary of the Company and is currently dormant.

ENVIRONMENTAL MATTERS

Environmental issues have assumed an increasingly important role in the design and development of extensions to, and operations of, the Mass Transit Railway and associated property development.

The Company has initiated a proactive environmental management programme, which serves to enforce environmental awareness. Through the implementation of an environmental audit programme attached to supplier contracts and based on approved environmental management plans, each contractor must comply with and implement the required standards throughout the term of the relevant contract.

At many levels within the Company, programmes to reduce energy consumption and to reuse and recycle resources are in effect under the Company's internal environmental management systems policy based on the ISO 14000 standard. Principal efforts in 1999 focused on the management and monitoring of wastewater, air quality and noise.

The Company has embarked on a programme of ensuring compliance with wastewater discharge requirements from all its stations by 2001 but has been fined under the Water Pollution Control Ordinance (Chapter 358 of the Laws of Hong Kong) in respect of wastewater discharge. Three new treatment facilities at Kowloon Bay, Chai Wan and Tsuen Wan depots are operational and pipeline connections to other stations with treatment prior to discharge are to be implemented at 26 MTR Stations.

In 1999, the Company's noise reduction programme progressed with the completion of the installation of wheel dampers on the MTR Lines and the replacement of 64 rail joints throughout the system. Railway noise is also mitigated by regular maintenance of the rails and train wheels.

The Company believes that its existing operations are in compliance with applicable environmental regulations, including the Noise Control Ordinance (Chapter 400 of the Laws of Hong Kong) to the extent that they apply to the Company.

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For projects under development, the Company is required to comply with the statutory processes prescribed by the Government, including submission of an environmental impact assessment to the Environmental Protection Department and satisfactory conclusion of a public consultation period. The Company is also required to comply with the terms of environmental permits issued as a result of its environment impact assessment and applicable environmental regulations in its construction activities.

The Company completed comprehensive environmental impact assessments for the TKE Project and the QBR Works, covering a range of environmental concerns, including noise, air and water quality, land use and landscape, visual impact, archaeology and culture, resources, ecology, waste management and man-made hazards. The environmental impact assessments concluded that, by incorporating suitable measures, the environmental impact associated with the construction and operation of the TKE and the QBR Works could be kept within the stringent requirements imposed by the Environmental Protection Department and in compliance with all other statutory requirements. In particular, the noise impact of railway operations has been addressed by an integrated design approach. The final reports of the environmental impact assessments have been endorsed by the Advisory Council on the Environment.

INSURANCE

General

The Company maintains insurance cover which it considers to be adequate and appropriate for the business which it operates. In particular, it insures against a variety of risks, including railway asset and property damage, business interruption, third party liability, construction damage and employees' compensation. The Company believes that it has a very good safety record and insurance loss experience.

The Company insures against third party liability in respect of the operating railway, property management and property ownership with a limit of indemnity of HK\$1 billion for any one occurrence, including HK\$200 million cover for any one occurrence in respect of directors' and officers' liability. Employees' compensation is maintained in accordance with the requirements of the Employees Compensation Ordinance (Chapter 282 of the Laws of Hong Kong) and includes unlimited common law liability cover. Project specific insurance to the full contract sum in respect of damage to the works has been arranged by the Company in respect of the TKE Project and associated property developments, QBR Works and property developments associated with the Airport Railway Project. Third party liability for these projects is insured with a limit of indemnity of HK\$700 million for any one occurrence. The policies have been arranged for the full contract period in each case and are non-cancellable.

The Company also maintains insurance in respect of contracted out repairs and renewal and maintenance works on the operating railway. The contract works are insured to the full contract sum. Third party liability cover including excess layer coverage provides cover up to a limit of indemnity of HK\$1,050 million for any one occurrence. The Company has made no material claims under this insurance policy.

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Fasttrack Insurance

Until November 1997, all of the Company's insurance risks were placed in the Hong Kong and international insurance markets. Since that time, the Company's railway asset damage and business interruption risks have been placed through Fasttrack Insurance, a wholly-owned subsidiary incorporated in Bermuda as a captive insurance company.

Fasttrack Insurance retains for its own account cover of HK\$100 million and reinsures the balance of HK\$1,150 million in the international reinsurance market. The total premium in respect of the railway asset damage and business interruption risks is paid to Fasttrack Insurance annually. It retains a proportion of that premium to cover its retained risk and pays a portion of that premium to cover the balance of the risks which are placed in the reinsurance market. Insurance and reinsurance arrangements on this basis commenced in November 1997 and were continued in May 1999 for a three year period expiring in May 2002.

Fasttrack Insurance has demonstrated several advantages over the approach adopted by the Company prior to November 1997. First, by forming a wholly-owned captive insurance company with a significant retained risk, the Company is able to attract a larger pool of reinsurers to compete for Mass Transit Railway business. Secondly, Fasttrack Insurance is able to retain profitable premium income that would otherwise be paid to insurers. Thirdly, Fasttrack Insurance is able to charge a commission on transactions that are passed through to the reinsurance market. Fourthly, by demonstrating within the Company that, through Fasttrack Insurance, it is retaining a significant level of risk, it is possible to continue to emphasise the importance of sound and effective safety management standards.

Since its commencement of business in November 1997, Fasttrack Insurance has generated a cumulative surplus of approximately HK\$15 million resulting from underwriting profits and investment income. As at 30th June, 2000, this cumulative surplus together with paid-up capital amounted to HK\$40 million. As at 30th June, 2000, only the railway asset damage and business interruption risks have been placed with Fasttrack Insurance, and the Company is not planning to place any other insurance risks with Fasttrack Insurance until it has established a level of reserves which the Company considers to be adequate.

FUTURE PLANS AND STRATEGIES

The Company's key objective is to continue to develop and manage a world class railway together with property and other related businesses, to maximise its inherent strengths and to enhance shareholder value. The Company has developed the following principal future plans and strategies to achieve this.

Existing railway and related operations

To derive maximum value from its railway assets and related operations.

- The Company intends to continue its leadership in urban railway operations by leveraging the Government's stated transport planning environment, the Government's recognised need to rely on railways as the backbone of Hong Kong's transport system and the regulatory framework under which it operates. It intends to utilise this position to enhance patronage on its existing railway network and to capture significant market shares in its future railway networks.
- The Company will continue to explore ways of increasing patronage on, and the market share of, the Mass Transit Railway and will seek to maximise the increased patronage opportunities arising from the introduction of new transport links, such as the West Rail and Ma On Shan links. The Company will seek to promote the use of the Mass Transit Railway through a wide range of marketing programmes and will seek to provide improved access to the Mass Transit Railway system by an increased network of feeder services and links to MTR Stations.
- The Company also aims to enhance the value of its railway operations and its other businesses. The Company believes it has been successful in achieving this in a number of areas, including the development of properties in close proximity to MTR Stations which provide additional potential patronage for its railway system. The Company intends to continue this successful formula wherever possible.
- The Company aims to continue to increase the productivity and the level of utilisation of its railway assets through its on-going railway asset management programmes, the introduction of advanced technology and by continuing to improve the efficiency of its logistics and supplies systems.
- The Company is considering internet related opportunities, such as connectivity to the internet from within the Mass Transit Railway system, at MTR Stations and on its trains through integration with third generation mobile telephones, and establishing fulfilment centres at MTR Stations. It is evaluating the possible development of an e-commerce/fulfilment portal joint venture to cover business-to-consumer and business-to-business market segments.
- The Company intends to exploit its communications infrastructure, including its optic fibre and radio transmission systems, in order to provide a wider range of services to the public, such as third generation mobile telecommunications systems. It also intends to maximise the opportunities from existing and potential fixed network telecommunications providers by allowing them to utilise the Company's railway and associated properties to extend their coverage and the scope of their services.

FUTURE PLANS AND STRATEGIES

- With more than 6.34 million Octopus cards and watches which have been issued since their introduction, the Company and Creative Star are exploring the range of potential new applications for the Octopus system to maximise the opportunities resulting from the widespread holding of these cards and watches. These include a wide variety of non-transport related goods and services. The Company and Creative Star are also considering entering into arrangements with third parties, such as banks and conglomerates as a means of expanding the potential applications of the Octopus system.

To plan and deliver a cost efficient, reliable, safe and environmentally friendly railway service to satisfy the Company's existing customers and attract new customers.

- The Company will continue to provide a safe, reliable, cost efficient and environmentally friendly railway service. To achieve this, the Company undertakes projects to enhance its railway system, including installing platform screen doors at all underground MTR Stations on the Tsuen Wan, Kwun Tong and Island Lines which is expected to reduce the Company's energy costs, continuing its rolling programme of station improvements and modernising its trains. The Company plans to continue providing a service that meets the high performance levels reflected in the performance requirements contained in the Operating Agreement and in the customer service pledges the Company has established, to satisfy the expectations of existing customers and to attract new customers.
- In order to achieve further cost efficiencies, the Company plans to continue to outsource a variety of works to independent third parties where it is more cost efficient to do so, including maintenance and technical works.

Extensions, improvement projects and future new projects

To extend the railway system when the transport need and commercial viability has been demonstrated and to carry out such extensions in a timely and cost effective manner.

- The Company continues to identify, evaluate and plan new projects using sound transport and engineering methodology and adopting prudent commercial principles. For the current decade, the Company expects to be actively engaged in carrying out projects such as the Tseung Kwan O Extension Project and the Penny's Bay Rail Link, and, potentially, the Island Line Extensions, the Shatin to Central Link and the Regional Express Line. It is also examining the possibility of developing alternative forms of transport such as medium and light rail and a cable car system. For new projects, it plans to continue using its project management approach that has proven successful for the projects it has undertaken in the past and which has demonstrated a track record of having completed its railway projects within budget and on schedule.

Property

To leverage its competitive advantage in property development by obtaining development sites in conjunction with railway development.

- The Company intends to continue to leverage its competitive advantage in property development that arises from the location of the Mass Transit Railway.

FUTURE PLANS AND STRATEGIES

The Company aims to implement this strategy by actively pursuing property development opportunities and property related business opportunities associated with the Mass Transit Railway and new railway projects which it expects would enhance the associated railway returns from the relevant new railway projects, thereby contributing to an improved rate of return on the investment cost of constructing the relevant new railway projects.

- Historically, the Company has been involved in significant property development schemes associated with the construction of new railway projects and intends to continue with the balanced-risk approach it has adopted in the past for property development in conjunction with experienced third party developers.
- The Company intends to grow its investment property portfolio where it believes it is appropriate to take profit from its property development activities in the form of real property, taking account of market conditions and other factors. The Company expects its property management business to grow as its investment property portfolio grows.

To capitalise on the opportunities resulting from its proposed agreement with Superhome for the provision of a property portal.

- Having recently entered into a heads of agreement with SuperHome.net (HK) Limited (a subsidiary of Sunevision Holdings Limited) for the provision of Superhome.net as a property portal offering e-facilities to the high number of residential units managed by the Company, it is anticipated that a final agreement will be entered into and that the Company and SuperHome.net will be seeking to capitalise on the wide range of consumer-related opportunities that are expected to arise.

Finance matters

To plan, manage and control its finances in a prudent commercial manner and maintain its financing capabilities both in the local and international markets.

- The Company aims to plan its finances in a prudent manner, ensuring that new investments are made only where it has sufficient funding capacity and where the new investment can generate a commercially acceptable rate of return. To finance its anticipated funding needs, the Company will seek to maintain and enhance its strong access to the international capital markets and to manage its debt liabilities in a disciplined and prudent manner using its Preferred Financing Model.

To minimise its cost of capital within a prudent capital structure through cost effective financing

- The Company will seek to enhance shareholder value and the value that can be created from new investments through minimising its cost of capital whilst preserving a prudent capital structure. It will also seek to minimise its financing costs through maintaining its high credit ratings, its strong relationships with the international financial community and utilising the debt markets in a systematic and cost efficient manner.

FUTURE PLANS AND STRATEGIES

Management and employees

To align management and employee interests through the implementation of the Pre-Global Offering Share Option Scheme and the Employee Share Grant.

- The Company recognises the important contribution that its staff make to its success. Accordingly, the Company will continue to encourage and promote ownership and participation among staff through open communication and consultation, partnership and empowerment. Further, the Company will continue to encourage motivation and recognise the contribution by staff through a performance-driven and competitive reward system and through career development opportunities.

MEMBERS OF THE BOARD, MEMBERS OF THE EXECUTIVE DIRECTORATE, SENIOR MANAGEMENT AND EMPLOYEES

GENERAL

The management of the Company's business is vested in the Board of Directors. Pursuant to the Articles and the protocol adopted by the Board of Directors, the Board of Directors has delegated the day-to-day management of the Company's business to the Executive Directorate but the Board of Directors has reserved to itself certain powers such as the approval of the Company's financial statements, dividends, significant changes in accounting policy, its annual operating budget, certain material contracts, certain financing arrangements and major investments, risk management strategy, treasury policies and fare structures.

The Board of Directors currently comprises 10 members, consisting of one executive and nine non-executive Directors, of which six are independent non-executive Directors. The Articles provide that the number of Directors constituting the Board of Directors shall not be less than two and there is no maximum number prescribed. The shareholders can change these requirements by passing an ordinary resolution at a general meeting.

A person may be appointed as a Director at any time either by the shareholders in general meeting or by the Board of Directors upon the recommendation of the nomination committee. Directors who are appointed by the Board of Directors must retire at the conclusion of the first annual general meeting after their appointment. In either case, the Directors so elected and appointed are eligible for re-election and re-appointment. At the annual general meeting of the Company, at least one-third of the Directors are required to retire from office by rotation.

The Chief Executive may, pursuant to section 8 of the new 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. 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, "additional directors" are treated for all purposes in the same way as other Directors. With effect from 30th June, 2000, the Chief Executive appointed the office of the Secretary for Transport, which is currently held by Mr. Nicholas Ng, and the office of the Commissioner of Transport, which is currently held by Mr. Robert Footman, as "additional directors" pursuant to section 8 of the new MTR Ordinance. In the event of any transaction, arrangement or other kind of proposal being considered by the Board of Directors, in which any additional director has a material interest including a material interest that arises as a result of the Government office which he holds, such additional director shall abstain from voting at the relevant meeting of the Board of Directors in accordance with the provisions of the Articles, as set out in Appendix VIII, which shall apply to all Directors.

MEMBERS OF THE BOARD, MEMBERS OF THE EXECUTIVE DIRECTORATE, SENIOR MANAGEMENT AND EMPLOYEES

MEMBERS OF THE BOARD

The table below shows certain information concerning the Members of the Board:

<u>Name</u>	<u>Age</u>	<u>Position</u>
Jack So Chak Kwong	55	Chairman and chief executive
Professor Cheung Yau Kai.....	65	Independent non-executive Director
Dr. The Honourable Raymond Ch'ien Kuo Fung	48	Independent non-executive Director
David Gordon Eldon	54	Independent non-executive Director
David Wylie Gairns	64	Independent non-executive Director
Edward Ho Sing Tin	60	Independent non-executive Director
Lo Chung Hing	48	Independent non-executive Director
Denise Yue Chung Yee (Secretary for the Treasury).....	47	Non-executive Director
Secretary for Transport, Nicholas Ng Wing Fui.....	53	Non-executive Director and “additional director” appointed under section 8 of the new MTR Ordinance
Commissioner for Transport, Robert Charles Law Footman.....	48	Non-executive Director and “additional director” appointed under section 8 of the new MTR Ordinance

Chairman and chief executive

Jack So Chak Kwong is the chairman of the Board of Directors and chief executive of the Company responsible for the Company's overall management. Mr. So began his career with the Government. He joined the private sector in 1978, serving in various posts in the securities, finance and property industries. From 1985 to 1992, Mr. So served as executive director of the Hong Kong Trade Development Council. Prior to joining the Company in 1995, Mr. So was the managing director of a member of the Sun Hung Kai Properties group and was involved in direct investment and property development in China. A fellow of the Chartered Institute of Transport, Mr. So is also a vice president of the International Union of Public Transport and is chairman of its Asia-Pacific Division. Mr. So is a non-executive director of The Hongkong and Shanghai Banking Corporation Limited. He also serves on a number of other committees and organisations, including the Hong Kong/European Union Business Cooperation Committee, the Independent Commission Against Corruption — Operations Review Committee, The Employers' Federation of Hong Kong, the Hong Kong Management Association and the Community Chest of Hong Kong.

Non-executive Directors

Professor Cheung Yau Kai is a non-executive Director and has been a Member of the Board since 1999. He was Taikoo Professor of Engineering and Acting Deputy Vice-Chancellor of the University of Hong Kong until 30th June, 2000. Professor Cheung began his academic research career at the University College of Swansea, Wales. He was appointed Professor of Civil Engineering at Calgary in 1970 and moved to the University of Adelaide in 1974 as Professor and Chairman of the Department of Civil Engineering. In 1977, he took up the Chair and Headship of the Department of Civil Engineering in the University

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of Hong Kong. In addition to his academic appointments, Professor Cheung has served as first Senior Vice-President of the Hong Kong Institution of Engineers and is currently the Chairman of its Accreditation Board. Professor Cheung has been awarded several honorary degrees at educational institutions, including, recently, an honorary Doctor of Science by the University of Hong Kong and an honorary Doctor of Laws by the University of Wales.

Dr. The Honourable Raymond Ch'ien Kuo Fung is a non-executive Director and has been a Member of the Board since 1998. Dr. Ch'ien is chairman of China.com Corporation and Hongkong.com Corporation. He is a director of Inchcape plc, The Hongkong and Shanghai Banking Corporation Limited and HSBC Holdings plc, while chairing Inchcape Greater China and HSBC Private Equity (Asia) Limited. Dr. Ch'ien is a member of the Executive Council of the Hong Kong Special Administrative Region. He also serves as Chairman of the Hong Kong/Japan Business Cooperation Committee and the Hong Kong Industrial Technology Centre Corporation. In addition, Dr. Ch'ien is the honorary president and past chairman of the Federation of Hong Kong Industries and serves on the Council of the Hong Kong University of Science and Technology. Dr. Ch'ien received a doctorate in economics from the University of Pennsylvania, U.S.A. in 1978. 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.

David Gordon Eldon is a non-executive Director and has been a Member of the Board since 1999. He is chairman of The Hongkong and Shanghai Banking Corporation Limited and an executive director of HSBC Holdings plc, non-executive chairman of Hang Seng Bank Limited, a director of HSBC Investment Bank Asia Holdings Limited and a non-executive director of Swire Pacific Limited. Mr. Eldon began his banking career in London in 1964 and joined HSBC Bank Middle East (formerly The British Bank of the Middle East), a principal member of the HSBC Group, in 1968. He served in many positions at companies in the HSBC Group before being made an executive director of The Hongkong & Shanghai Banking Corporation Limited in 1994. He became chief executive officer in 1996 and chairman in 1999. Mr. Eldon is a fellow of both the Chartered Institute of Bankers and the Hong Kong Institute of Bankers. In addition, Mr. Eldon serves on a number of local organisations, including the Exchange Fund Advisory Committee, the Hong Kong Jockey Club, the Community Chest of Hong Kong and the Hong Kong Trade Development Council.

David Wylie Gairns is a non-executive Director and has been a Member of the Board since 1991. He is a chartered accountant and was previously the senior partner of KPMG Peat Marwick, Hong Kong, having been with that international firm, in UK and Hong Kong, since 1955. He served on the Council of the Hong Kong Society of Accountants from 1983 to 1989 and was President of the Society in 1988. Mr. Gairns is currently a non-executive director of The Hongkong and Shanghai Banking Corporation Limited, Johnson Electric Holdings Limited, Wing On Company International Limited and Hsin Chong Construction Group Limited.

Edward Ho Sing Tin is a non-executive Director and has been a Member of the Board since 1991. He is an architect and is managing director 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

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president of the Hong Kong Institute of Architects in 1983 and 1984. Mr. Ho is also chairman of the Hong Kong Industrial Estates Corporation and serves on a number of statutory boards and advisory committees, including the Construction Advisory Board, the ICAC Advisory Committee on Corruption, the Board of Trustees of the Lord Wilson Heritage Trust and as chairman of the Heritage Trust's Council. He has been appointed a non-executive director of the Exchange Fund Investment Limited.

Lo Chung Hing is a non-executive Director and has been a Member of the Board since 1995. He is deputy general manager of the Bank of China, Hong Kong Branch. Mr. Lo began his banking career in 1969 and he served in several positions within the Bank of China Group before being appointed to his present post in 1988. Mr. Lo is a non-executive director of Trilease International Limited. He is also a board member of the Hospital Authority and a trustee of the Hong Kong University of Science & Technology Educational Trust. He was appointed as a board member of the Provisional Airport Authority in 1994 and served as Vice Chairman of the Airport Authority from April 1996 to May 1999. Mr. Lo is a Deputy to the National People's Congress of the People's Republic of China. He was awarded the Silver Bauhinia Star medal in 1998.

Denise Yue Chung Yee is a non-executive Director and has been a Member of the Board since 1998 upon her appointment as Secretary for the Treasury of the Government. Miss Yue joined the civil service in 1974 and has served in a number of executive departments and policy bureaux. Prior to her appointment as Secretary for the Treasury in 1998, Miss Yue served as Secretary for Trade and Industry and Director-General of Industry. Miss Yue is a member of the boards of a number of statutory bodies in Hong Kong, including the Airport Authority, the Kowloon-Canton Railway Corporation and the Housing Authority. In addition, she is currently a member of the Standing Committee on Implementation of Hong Kong Disneyland.

Secretary for Transport, Nicholas Ng Wing Fui is a non-executive Director appointed as an "additional director" under section 8 of the new MTR Ordinance. Mr. Ng has been a Member of the Board since 1997. He was educated in Hong Kong and joined the civil service in 1970. Prior to his appointment, Mr. Ng served as Secretary for Constitutional Affairs from 1994 to 1997 and Director of Administration from 1991 to 1994. In addition, Mr. Ng is also a member of the board of the Kowloon-Canton Railway Corporation, Western Harbour Tunnel Company Limited and Route 3 (CPS) Company Limited.

Commissioner for Transport, Robert Charles Law Footman is a non-executive Director appointed as an "additional director" under section 8 of the new MTR Ordinance with effect from the Appointed Day. Mr. Footman came to Hong Kong and joined the civil service in 1974. He was appointed as Commissioner for Transport in 1998, prior to which he had held the post of Postmaster General since 1995. Previous Government posts held by Mr. Footman include the Head of the Efficiency Unit from its establishment in 1992 until 1995 and Deputy Director in the Trade Department from 1989 to 1992. As Commissioner for Transport, Mr. Footman is also a director of several transport-related companies, including KMB, Long Win Bus, New World First Bus, New Lantao Bus, Citybus, 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.

**MEMBERS OF THE BOARD, MEMBERS OF THE EXECUTIVE DIRECTORATE,
SENIOR MANAGEMENT AND EMPLOYEES**

MEMBERS OF THE EXECUTIVE DIRECTORATE

The members of the Executive Directorate are senior full time employees of the Company. The table below shows certain information relating to them:

<u>Name</u>	<u>Age</u>	<u>Position</u>
Jack So Chak Kwong.....	55	Chairman and chief executive
Russell John Black.....	53	Project director
William Chan Fu Keung	51	Human Resources director
Philip Gaffney	52	Operations director
Thomas Ho Hang Kwong.....	49	Property director
Clement Kwok King Man	40	Finance director
Leonard Bryan Turk	51	Legal director and Secretary

Jack So Chak Kwong. Details relating to Mr. So are contained in the paragraph headed “Members of the Board” in this section.

Russell John Black is the Company’s Project director, appointed to that post in 1992. He is responsible for the planning and implementation of all major extension projects, including the Airport Railway Project, the QBR Works and the TKE Project. He is also responsible for undertaking feasibility studies into possible new extensions to the railway, including the Shatin to Central Link, the NIL and the WIL. Mr. Black initially worked for the Company on the construction of the Mass Transit Railway from 1976 to 1984. Prior to rejoining the Company in 1992, Mr. Black was the Project Director for London Underground’s Jubilee Line Extension project from 1990 to 1992 and, before that, he worked on Singapore’s underground railway and on the Eastern Harbour Crossing. Mr. Black holds an honours degree in civil engineering, and is a fellow of the Hong Kong Institution of Engineers, the Institution of Professional Engineers, New Zealand and the Hong Kong Academy of Engineering Science. He serves on the Vocational Training Council and had served previously on the Construction Advisory Board. Mr. Black was awarded the Bronze Bauhinia Star medal in 1999.

William Chan Fu Keung is the Human Resources director of the Company, responsible for human resource management, operational and management training, administration and security management. He joined the Company in 1989 as Human Resources Manager. He joined the Executive Directorate of the Company in 1996 and became Human Resources director in 1998. 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. Mr. Chan is a founding member of the Hong Kong Institute of Human Resource Management. He has served on the Institute’s executive council for many years and was elected Fellow Member in 1985. Mr. Chan graduated from the University of Hong Kong in 1971, majoring in Economics.

Philip Gaffney became the Operations director of the Company in 1998. He is responsible for all matters relating to the operations, safety and railway asset management of the Mass Transit Railway. He also has responsibility for all transport planning-related matters. Mr. Gaffney began his career in 1965 as an engineering student in the Signals and

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Telecomms Department of British Railways Scottish Region. He joined the Company in 1977 working on the design development, approval and testing of the railway's automatic train control system. He became Chief Engineer (Operations) in 1989 and Deputy director (Operations Engineering) in 1995. Mr. Gaffney is a member of the Hong Kong Institution of Engineers, a fellow of the Institution of Railway Signal Engineers and a member of the Chartered Institute of Transport in Hong Kong.

Thomas Ho Hang Kwong has been the Property director since he joined 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. Mr. Ho qualified in 1974 as a chartered surveyor in Hong Kong. Until he joined the Company, he worked for the 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. He is a member of the Executive Committee of the Hong Kong Housing Society and serves on the Community Chest.

Clement Kwok King Man joined the Company as Finance director in 1996. He 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 Creative Star and the board of trustees of the Company's retirement scheme. Mr. Kwok obtained an honours degree in Economics from the London School of Economics in 1980 and qualified as a chartered accountant in the United Kingdom. Prior to joining the Company, he worked as an accountant with PriceWaterhouse in London and for a number of years as an investment banker in both London and Hong Kong, latterly as Head of Corporate Finance at Schrodgers Asia Limited. He is currently a member of the Takeovers and Mergers Panel and of the Hang Seng Index Advisory Committee and had previously served on the Listing Committee of the Stock Exchange.

Leonard Bryan Turk is the Legal director and Secretary to the Board of Directors of the Company. He is responsible for legal advice, corporate secretarial services and the procurement function within the Company. In particular, Mr. Turk's responsibilities include construction contracts, covering contract drafting and administration, cost control and dispute resolution. Mr. Turk joined the Company in 1981 and became Legal director and Secretary in 1988. He is a solicitor admitted to practice in both Hong Kong and in England and Wales. Before joining the Company, Mr. Turk worked in local government in England, concentrating particularly on commercial property development and the financing of large projects.

COMMITTEES

The Company has established an audit committee, a remuneration committee and a nominations committee in accordance with the Articles. Each of these committees comprises entirely non-executive Directors.

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For as long as the Financial Secretary Incorporated controls 50% or more of the voting power of the Company, it has the right to appoint and remove any non-executive Director as a member of each of these three committees.

The chairman is entitled to be a member of any of these three committees so long as he does not concurrently hold the office of chief executive officer or fulfil any other executive function. If the chairman concurrently holds the office of the chief executive officer or fulfils any other executive function, he is entitled to be in attendance only at meetings of any of these three committees.

Audit committee

The audit committee will select and engage, on behalf of the Company, independent public accountants to audit the Company's annual financial statements, and will review and approve the planned scope of the Company's annual audit. The members of the audit committee are David Wylie Gairns (chairman), Professor Cheung Yau Kai and the Commissioner for Transport, Robert Charles Law Footman.

Remuneration committee

The remuneration committee makes recommendations to the Board on executive remuneration and considers all matters relating to the Company's remuneration policy and the remuneration and incentives of the Directors and senior management with reference to independent remuneration research and professional advice. The members of the remuneration committee are Dr. The Honourable Raymond Ch'ien Kuo Fung (chairman), Denise Yue Chung Yee and Edward Ho Sing Tin.

Nominations committee

The nominations committee makes recommendations to the Board of Directors on candidates to fill vacancies on the Board of Directors. The members of the nominations committee are David Gordon Eldon (chairman), Lo Chung Hing and the Secretary for Transport, Nicholas Ng Wing Fui.

COMPENSATION TO MEMBERS OF THE BOARD AND MEMBERS OF THE EXECUTIVE DIRECTORATE

The aggregate amount of the emoluments paid by the Company to the Members of the Board and the Members of the Executive Directorate for the year ended 31st December, 1999 and the six months ended 30th June, 2000 were HK\$37 million and HK\$16 million, respectively, including fees, salaries, allowances, benefits and retirement scheme contributions.

The estimated aggregate amount of the emoluments payable to the Members of the Board and the Members of the Executive Directorate in the year to 31st December, 2000 under the arrangements currently in force is HK\$36 million.

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Under the Articles, if at any time when the Financial Secretary Incorporated holds 50% or more of the voting power in the Company and the chairman concurrently holds the office of chief executive officer or fulfils any other executive function, the Financial Secretary shall determine his terms and conditions of appointment and his remuneration (whether as salary, commission, profit share or any other form of remuneration), after receiving a recommendation from the remuneration committee as approved by the Directors.

CHIEF EXECUTIVE OFFICER OF CREATIVE STAR

Robert Hewett Noble was appointed Chief Executive Officer of Creative Star on 1st September, 1999. He joined the Company in 1976 and worked for the Company as Marketing and Planning director with responsibility for advertising and promotional activities, transport planning, railway-related commercial activities and the Octopus project. Mr. Noble holds a masters degree in business administration. He is 51 years old.

SENIOR MANAGEMENT AND EMPLOYEES

Senior managers

Geoffrey David Avery is the Head of Procurement & Contracts for the Company. He is qualified as a chartered quantity surveyor. He joined the Company in 1998 and reports to the Legal director and Secretary. Mr. Avery is responsible for the procurement of contracts, consultancies, services and materials for the Company and the provision of cost control, estimating and contract administration services in support of major contracts and consultancies. He is 54 years old.

Martin Charles Brown is the Head of Operations in the Operations Division of the Company. He is a chartered civil engineer and a fellow of the Hong Kong Institution of Engineers. He joined the Company in 1998 and reports to the Operations director. Mr. Brown is responsible for the operation of the railway, the maintenance of station equipment and facilities and for the safety of passengers. He provides internal operational advice to the Company, particularly for railway projects and possible extensions of the railway. He is 49 years old.

Victor Chan Hin Fu is the Property Development Manager of the Company. He is a chartered surveyor. He joined the Company in 1992 and reports to the Property director. Mr. Chan's principal responsibility is to maximise the development potential and thus revenue of all land owned or held by the Company for development. He provides professional advice to the Company and plays a lead role in the land grant and land development process from the securing of land grants from the Government through to the identification of joint venture developers and completion of sales and letting programmes. He is 47 years old.

Teresa Cheung Chi Ying is the Legal Manager General of the Company and reports to the Legal director and Secretary. She obtained her law degree from the University of Hong Kong in 1979. She worked as a solicitor in private practice and in-house, before joining the Company in 1983. Ms. Cheung now manages the legal affairs of the Company and Creative

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Star in the areas of corporate and general business operations. She is also responsible for the administration of land held for railway operations and for managing insurance cover on completed non-railway properties. She is 43 years old.

Geoffrey Stuart Daniel is the Chief Electrical & Mechanical Engineer, reporting to the Project director. He is responsible for the standards to which the railway is designed and built and for the specifications of all projects. He has thirty years experience in the transportation engineering industry and joined the Company in 1992. He is 52 years old.

Franco Fabbian is the Operations Engineering Services Manager of the Company. He has worked in the international transport industry since 1974, and he is a professional railway signalling engineer. He joined the Company in 1989 and reports to the Operations director. Mr. Fabbian is responsible for the provision of engineering services for the Company's railway operations and is responsible for the safety of systems used on the railway. He is 51 years old.

Alan Malcolm Gibson is the Chief Design Manager within Project Division, reporting to the Project director. He is a professional civil engineer and has been with the Company for 16 years. Mr Gibson is responsible for the planning and initiation of new railway projects, as well as the provision of specialist civil engineering design expertise and design management staff resources to current committed projects. He is 46 years old.

Mingo Kwan Sze Ming is the Chief Estate Manager of the Company. He is a professional property manager with over 26 years' experience in the management of commercial and residential developments. He joined the Company in 1981 and reports to the Property director. Mr. Kwan is responsible for the overall control of all of the property management activities of the Company, including leasing, management, maintenance and renovation works for the Company's investment and managed properties. He is 48 years old.

Daniel Lai is the Head of Information Technology ("IT") of the Company. He has held various senior IT management positions in Hong Kong and Australia. He joined the Company in 1999 and reports to the Finance director. Mr. Lai is responsible for implementing the Company's IT strategy and for developing the IT organisation in line with the Company's business requirements. He manages the planning, development, implementation and operation of information systems and information technology services. Mr. Lai is president of the Hong Kong Computer Society. He is 53 years old.

Henry Lam Hing Cheung is the overall Project Manager of the TKE Project and the QBR Works, reporting to the Project director. He is a chartered engineer and fellow of the Hong Kong Institution of Engineers, the Institution of Electrical Engineers (UK) and the Chartered Institution of Building Services Engineers (UK). He initially worked for the Company between 1979 and 1986. He rejoined the Company in 1993 and was responsible for the electrical & mechanical construction works on the Airport Railway Project. He is 51 years old.

Jimmy Lau Chiu Chung is the Head of Financial Control and Treasury of the Company. Reporting to the Finance director, he is responsible for all activities relating to accounting, budgeting, projects evaluation, borrowing and other financial control and treasury

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matters. He joined the Company in 1986 as Assistant Treasurer, left the Company in 1988 and rejoined in 1993. He was appointed Treasurer in 1994 and was appointed to the present post in July this year. He holds an MBA degree and is a member of the Association of Corporate Treasurers in the UK. He is 45 years old.

Adi Lau Tin Shing is the Infrastructure Manager of the Company. He is a chartered civil engineer and corporate member of the Institution of Civil Engineers (UK) and the Hong Kong Institute of Engineers. He joined the Company in 1982 and reports to the Operations director. Mr. Lau is the head of the Infrastructure Maintenance Department, accountable for the upkeep and improvement works of all civil, structural, trackwork, signalling & telecommunications and power supply assets of the railway. He is 41 years old.

Miranda Leung Chan Che Ming is the Corporate Relations Manager of the Company, reporting to the Chairman. She joined the Company in 1976. Mrs. Leung is responsible for the public relations and external affairs functions of the Company. She is a Fellow of the Chartered Institute of Transport and a Member of the Institute of Public Relations. She is 47 years old.

Lo Tak Ping is the Rolling Stock Manager of the Company. He is a mechanical engineer with a higher degree in business administration. He joined the Company in 1980 and reports to the Operations director for the maintenance of trains. He manages train maintenance operations and manages 800 maintenance personnel who maintain the train fleet for safe, reliable and cost-effective operation. He is 46 years old.

Vincent Luk Kin Ping is the Human Resources Manager of the Company. He graduated from the University of Hong Kong with a BSc Degree. Prior to joining the Company in 1992, Mr. Luk had worked in large organisations in Hong Kong and Canada. Reporting to the Human Resources director, he is responsible for the development and implementation of human resource policies and practices, and advises senior and line management on issues relating to recruitment and selection, compensation and benefits management, staff relations and manpower planning. He is 49 years old.

Stephen Rigby Marshall is the Legal Manager (Secretarial) of the Company. He is a solicitor admitted to practice in Hong Kong and in England and Wales. He joined the Company in 1999 and reports to the Legal director and Secretary. Mr. Marshall is responsible for the organisation of matters relating to the Board of Directors and Executive Directorate of the Company. He provides internal legal advice to the Company, particularly in areas of finance, railway projects and insurance. He is 41 years old.

Andrew McCusker is the Project Manager of the Operations Division. He joined the Company in 1987 and reports to the Operations director. Mr. McCusker is responsible for the supervision, control and completion of all improvement, modernisation and renewal projects on the operating railway. Mr. McCusker is a chartered engineer. He is 55 years old.

Eric Tang Koon Hung is the Head of Internal Audit & Business Processes of the Company. He qualified as a chartered accountant in Canada and is also a member of the Hong Kong Society of Accountants. He joined the Company in 1984 as the Financial Controller and was recently transferred to his current position and reports to the Chairman.

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In addition to responsibility for the Company's internal audit function, Mr. Tang is also responsible for the implementation of certain initiatives for improved corporate performance. He is 55 years old.

Jeny Yeung Mei Chun is the Marketing Manager of the Company. She joined the Company in 1999 and reports to the Chairman. Prior to joining the Company, Ms. Yeung worked in various marketing posts at Standard Chartered Bank and Citibank. Ms. Yeung is responsible for the marketing of the Company's railway services as well as the generation of related revenue from railway operations. She is 36 years old.

The business address of each of the senior managers is at MTR Tower, Telford Plaza, Kowloon Bay, Kowloon.

The Company attributes its success to the quality and dedication of its staff. The table below shows the number of employees in each of the Company's divisions as at 30th June, 2000:

<u>Division</u>	<u>Employees (No.)</u>
Finance ⁽¹⁾	332
Human resources and administration	563
Legal and procurement.....	201
Operations	
— Operations	2,762
— Engineering and maintenance	2,205
Property.....	448
Project	747
Headquarters.....	117
Total	<u>7,375</u>

Note:

(1) Includes six employees in the Company's office in Rugby, England.

The Company believes it has good relations with its employees. It has been operating a number of schemes for its staff designed to stimulate and develop their potential.

Among the most notable schemes run by the Company are:

- the work improvement team scheme, which is designed to encourage staff to identify and undertake work-related improvement projects. In 1999, over 2,000 employees participated in this scheme and the Company has been awarded the Hong Kong Quality Circle Award on three consecutive occasions;
- the "top 10" equipment reliability improvement scheme whereby multi-disciplinary teams are formed and encouraged to improve the reliability of equipment used by the Company; and
- the staff suggestion scheme, which is designed to encourage staff to put forward their ideas in relation to business development and the improvement of operating efficiency.

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The Company is also committed to employee training and development and has a dedicated training centre located in Kowloon Bay. In 1999, over 53,000 man-days of training and development activities took place. The Company has also established an accelerated development programme for managers and has extended the programme to supervisory and professional staff. In 1999, the Company was awarded, for the second consecutive year, the American Society for Training and Development Award, and the Good People Management Award, the first award of this kind to be made by the Government's Labour Department.

The Company's excellence in management and staff training and development were recognised when it was awarded the Quality Award by the Hong Kong Management Association.

During the past 16 years, the Company did not experience any strikes, work stoppages, labour disputes or actions which have affected the operation of the Company's business. The Company consults employees when formulating staff policy and on corporate strategies and major changes that affect employees' careers. In addition to 30 Joint Consultative Committees comprising over 500 elected representatives, the Company also has a Staff Consultative Council, chaired by the Human Resources director, which consists of representatives from Joint Consultative Committees and management delegates. The Staff Consultative Council meets periodically to discuss various employee matters.

There are two unions of which the Company's employees are members, one with membership of approximately 500 train and station staff and another with membership of over 1,760 staff from various departments. No other trade unions claim to include any of the Company's employees as members and the Company is not aware of any other trade union activity among its employees.

During 1999, a voluntary separation scheme was implemented under which some 750 employees chose to leave the Company with enhanced leaving benefits and were paid an aggregate sum of HK\$255 million. This contributed significantly to a reduction in the Company's total number of employees from 8,786 at the end of 1998 to 7,537 at the end of 1999. During 1999 a number of other initiatives were also undertaken in order to streamline operations and costs. The Company believes that, as a result of such initiatives, significant gains in productivity and cost savings have been achieved.

RETIREMENT SCHEME AND RETENTION BONUS SCHEME

The Company operates the MTR Corporation Limited Retirement Scheme ("**Retirement Scheme**") and the MTR Corporation Limited Retention Bonus Scheme ("**Retention Bonus Scheme**"). The assets of these schemes are held under the terms of separate trust arrangements so that they are kept separate from the assets of the Company.

Retirement Scheme

The Retirement Scheme contains both defined benefit and defined contribution elements. This original scheme was closed to new entrants on 31st March, 1999. Since then, a new schedule of benefits, providing retirement and leaving benefits mainly on defined

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contribution has been offered to all new staff joining the Company. Membership is compulsory for all employees of the Company engaged on continuous terms of service. As at 30th June, 2000, there were 7,210 members participating in the Retirement Scheme.

Retention Bonus Scheme

The Company also operates the Retention Bonus Scheme which applies to all employees classified by the Company as working on designated projects and who are not on gratuity terms. The Retention Bonus Scheme is a defined benefits scheme and provides for benefits to be payable only in the event of redundancy and in respect of service accrued up to 31st December, 2002. It is non-contributory for members. As at 30th June, 2000, there were approximately 800 members of the Retention Bonus Scheme.

Further details on the Retirement Scheme and the Retention Bonus Scheme are contained in Note 33 to the financial statements in the Accountants' Report contained in Appendix I.

SAVINGS UNION

In 1980, an employee savings union was registered by the Registrar of Credit Unions under the Credit Unions Ordinance (Chapter 119 of the Laws of Hong Kong) under the name, Metro Credit Union (the "MCU"). The MCU was established primarily to act as a co-operative, non-profit association to provide a source of credit, and to make loans at low interest rates, to its members. Some Members of the Executive Directorate have made savings contributions to, but none have taken any loans from, the MCU. No Member of the Board has made any savings contributions to, or taken any loans from, the MCU. Employees who are members of the MCU can make savings contributions each month through the Company's payroll system and are able to borrow from the MCU at a fixed interest rate not exceeding 1% per month on the reducing balance. As at 30th June, 2000, the MCU had 5,761 members and held funds of approximately HK\$117 million.

PRE-GLOBAL OFFERING SHARE OPTION SCHEME

The Company has adopted the Pre-Global Offering Share Option Scheme details of which are contained in the paragraph headed "Pre-Global Offering Share Option Scheme" in Appendix IX.

EMPLOYEE SHARE GRANT

The Selling Shareholder has agreed to make free transfers of certain Shares to full time employees of the Company, details of which are contained in the paragraph headed "Employee Share Grant" in Appendix IX.

OTHER STAFF BENEFITS

The Company also provides other benefits to its staff or particular categories of staff, including free travel on the MTR Lines, housing loans, uniforms, medical and education allowances.

SHARE CAPITAL

The table below shows details relating to the Company's share capital as at the date of this prospectus and immediately after the completion of the Global Offering:

	<u>HK\$</u>
Authorised share capital	6,500,000,000
Issued, fully paid or credited as fully paid	5,000,000,000

ASSUMPTIONS

The details shown in the table above assumes that the Global Offering becomes unconditional and takes no account of any Shares which may be issued under the Pre-Global Offering Share Option Scheme or which may be issued or repurchased pursuant to the Issue Mandate or the Repurchase Mandate, as the case may be.

Details in relation to the Pre-Global Offering Share Option Scheme, the Repurchase Mandate and the Issue Mandate are contained in Appendix IX.

RANKING

All Shares are ordinary shares in the share capital of the Company and rank equally with all Shares now in issue or to be issued and qualify for all dividends or other distributions declared, made or paid after the date of this prospectus.

RELATIONSHIP WITH THE GOVERNMENT

THE GOVERNMENT AS SHAREHOLDER

The Government's shareholding

As at the date of this prospectus, the entire issued share capital of the Company is beneficially owned by the Government as follows:

<u>Name</u>	<u>Number of Shares</u>	<u>Voting Power (%)</u>
The Financial Secretary Incorporated ⁽¹⁾	4,999,999,999	100
Denise Yue Chung Yee ⁽¹⁾	1	0

Note:

(1) The Financial Secretary Incorporated and Denise Yue Chung Yee hold these Shares on trust for the Government.

The Government expects that, immediately following the completion of the Global Offering (without adjustment), the only party interested in 10% or more of the voting power at any of the Company shareholders' general meetings of the Company will be:

<u>Name</u>	<u>If the Over-allotment Option is exercised</u>		<u>If the Over-allotment Option is not exercised</u>	
	<u>Number of Shares⁽²⁾</u>	<u>Voting Power (%)</u>	<u>Number of Shares⁽²⁾</u>	<u>Voting Power (%)</u>
The Financial Secretary Incorporated ⁽¹⁾	3,849,999,999	77	3,999,999,999	80

Notes:

(1) The Financial Secretary Incorporated holds these Shares on trust for the Government.

(2) Includes 7,413,177 Shares which is the maximum number of Shares the Selling Shareholder has agreed to transfer to employees of the Company, as described in the paragraph headed "Employee Share Grant" in Appendix IX.

In relation to Rule 8.08(1) of the Listing Rules, the Company has applied to the Stock Exchange, and the Stock Exchange has accepted, that the prescribed minimum percentage of Shares which must be in the hands of the public must not be less than 10% because the Company has an expected market capitalisation at the time of listing of over HK\$4,000 million and the number of Shares concerned is expected to be sufficient to ensure that there is an open market in the Shares.

Control at shareholder meetings

For as long as the Government is the beneficial owner of the majority of the issued Shares, it will be able to pass ordinary resolutions on its own at general meetings of the Company. Ordinary resolutions are passed by a simple majority of members entitled to vote, and actually voting, at a meeting for which proper notice has been given in accordance with the Articles. Under Hong Kong law, all matters for a company may be decided by the passing of ordinary resolutions except those which, under the Companies Ordinance or a company's articles of association, specifically require the passing of a special resolution. Matters which, under Hong Kong law, are to be decided by the passing of a special resolution include the alteration of a company's memorandum of association and articles of association, the change of name of a company, a reduction of a company's share capital, a resolution of a company that it should be wound up by the court, the voluntary winding up of a company and approval of a scheme of arrangement. A special resolution is one which requires not less than three fourths of the votes cast by members, entitled to vote, who vote in person (or by proxy) at a general meeting of which not less than 21 days' notice specifying the intention to propose the

RELATIONSHIP WITH THE GOVERNMENT

resolution has been given. If the Government is the beneficial owner of at least 75% of the issued Shares it will be able to pass special resolutions on its own at general meetings of the Company.

Control of the Board of Directors

For as long as the Government is the beneficial owner of the majority of the issued Shares, it will be able to appoint persons to the Board of Directors on its own and, in addition, no other shareholder, or shareholders together, will be able to appoint persons to the Board of Directors unless the Government fails to vote its Shares against the appointment of such persons.

All of the Members of the Board as at the date of the prospectus, have been appointed by the Government. In addition, under Section 8 of the new MTR Ordinance, the Chief Executive may appoint, for a period he directs, not more than three persons to be “additional directors” of the Company. Persons appointed in this way may be removed from office only by the Chief Executive. In the event of any transaction, arrangement or other kind of proposal being considered by the Board of Directors, in which any additional director has a material interest including a material interest that arises as a result of the Government office which he holds, such additional director shall abstain from voting at the relevant meeting of the Board of Directors in accordance with the provisions of the Articles, as set out in Appendix VIII, which apply to all Directors. As at the date of this prospectus, only the office of the Secretary for Transport and the office of the Commissioner for Transport have been appointed as “additional directors” under Section 8 of the new MTR Ordinance.

Under the Articles, for so long as the Government is the beneficial owner of the majority of the issued Shares, it will be able to appoint the chairman of the Company. The Government exercised this power in appointing Mr. Jack So as chairman of the Company.

In addition, under the Articles, for so long as the Financial Secretary Incorporated controls 50% or more of the voting power of the Company, it has the right to appoint and remove any non-executive Director as a member of each of the audit committee, nominations committee and remuneration committee.

Government’s assurances

Government shareholding in the Company

The Government will remain the largest shareholder of the Company and will continue to hold the legal and beneficial interest in not less than 50% of the ordinary share capital of the Company (the “**Minimum Shareholding**”) and not less than 50% of the voting rights at general meetings of the Company for at least 20 years from the date of the listing. This reflects the Government’s commitment to the continuous development of the railway system and shows local and overseas investors as well as credit rating agencies that the Government is determined to support the Company in its continuous provision of quality railway services and expansion of transport infrastructures in Hong Kong. The Government’s support is an important factor in maintaining the Company’s credit rating at a level which is comparable to that of the Government, which will reduce the Company’s costs of borrowing.

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Further, the Government has acknowledged that a number of the Company's existing borrowings are reliant on the Government's position as the major shareholder of the Company. Such being the case, the Government's unchanged position as the majority shareholder of the Company is of importance to its credit.

As set out in the section headed "Underwriting" below, the Government has agreed that it will not sell any further shares in the period of six months from the date on which dealings in the Shares commence on the Stock Exchange. The Government does not intend to sell any further Shares for at least 12 months from the date of the listing.

For fiscal planning purposes, the Government has assumed proceeds from the sale of shares in the Company of HK\$30 billion in 2000-02 and it is the Government's intention to dispose of all or part of its remaining shareholding above the Minimum Shareholding, subject to market conditions, budgetary considerations and the state of the economy, in the financial year 2001/2002.

Voting

The Company has commercial freedom to develop its business, including its railway business within the regulatory framework of the new MTR Ordinance and the Operating Agreement, and key commercial decisions will be approved by the Board of Directors acting in consultation with the Executive Directorate. The Government does not intend to use its rights as a shareholder to intervene in the commercial decisions of the Company. The Government does not intend to vote its shareholding in opposition to a resolution supported by a majority of the Board of Directors, although it retains the power to do so.

Support

The Government recognises the importance of the continued ability of the Company to raise finance to fund its activities. Without derogating from the Government's powers and duties as the regulatory authority or otherwise under the law, the Government would like to see that the Company's credit ratings are maintained at a level which is comparable to that of the Government, which will reduce the Company's costs of borrowing and it is possible that future major railway projects will be financed by a mixture of debt and equity. There are no specific proposals at present which require additional equity financing. However, if the Company were to seek to raise equity finance from shareholders, the Selling Shareholder on behalf of the Government would provide equity capital to the Company pro-rata to its shareholding in the Company where the Government considers it appropriate.

Transport policy

In the context of the Government's overall transport policy as articulated in its Railway Development Strategy 2000 and "Hong Kong Moving Ahead — A Transport Strategy for the Future", the Government acknowledges that it will take active measures to achieve the policy objectives set out therein. In particular, it recognises:

- the need to rely on railways as the backbone of Hong Kong's transport system and for railways to be given priority in the Government's plans for infrastructure development;

RELATIONSHIP WITH THE GOVERNMENT

- the need for balanced competition within the transport market in Hong Kong and a level playing field for different forms of transport; and
- the need for, and will facilitate the provision of, feeder services to railway stations.

As a result, the Company expects that it will continue to benefit from a supportive relationship with the Government.

THE GOVERNMENT AS REGULATOR

The railway operations carried on by the Company are principally regulated under the new MTR Ordinance and the Operating Agreement. A detailed description of each of the new MTR Ordinance and the Operating Agreement is contained in Appendix VII and a copy of each is available for inspection, as described in the paragraph headed "Documents Available for Inspection" in Appendix X.

THE GOVERNMENT'S RELATIONSHIP WITH COMPETITORS

General

The Government has interests in a number of transport providers in Hong Kong.

In the case of KCRC, the Government has a beneficial shareholding interest and the ability to appoint all of the members to KCRC's board of directors. KCRC is a statutory corporation and a separate legal entity from the Government. It owns and operates the KCR. At present, KCRC does not compete directly with the Company in the provision of railway services. In certain respects, the KCR operates as a feeder service to the Mass Transit Railway. However, as stated in the Government's Railway Development Strategy 2000, the proposed Shatin to Central Link and the proposed Regional Express Line will be awarded by the Government following competitive bidding processes involving the Company, KCRC and, potentially, other bidders. In this event, the Company and KCRC may be in competition. The Government has no intention to inject KCRC or the KCR into the Company. Further details in relation to KCRC are contained elsewhere in this prospectus, including in the section headed "Industry Background" and in Appendix VII.

By virtue of its representation on their respective boards of directors, the Government also has interests in a number of bus and ferry operators, including Kowloon Motor Bus, New World First Bus, Citybus and Star Ferry. The Government has no shareholding interest in any of these companies and each of them is a separate legal entity from the Government. Each of these companies operates transport services within the catchment area of the Mass Transit Railway. Further details in relation to these companies is contained in the section headed "Industry Background", in the paragraph headed "Competition" in the section headed "Business" and in Appendix VII.

Shareholding

The Government beneficially owns KCRC as to 100% through the Selling Shareholder.

RELATIONSHIP WITH THE GOVERNMENT

Board representation

All of the members of the board of directors of KCRC are appointed by the Government. The Secretary for Transport, Mr. Nicholas Ng Wing Fui and the Secretary for the Treasury, Miss Denise Yue Chung Yee are both members of the board of directors of KCRC. The Government has appointed the Commissioner for Transport, Mr. Robert Charles Law Footman and the Deputy Secretary for Transport, Ms. Linda Lai as directors of each of Kowloon Motor Bus, New World First Bus, Citybus, Long Win Bus and Star Ferry. The Government also regulates the Company's competitors in the manner described in the paragraph headed "Administrative framework" in Appendix VII.

THE GOVERNMENT AS CONTRACTING PARTY

In this paragraph the terms "associates", "Connected Person" and "Connected Transactions" have the meaning ascribed to them in the Listing Rules.

The Company and its subsidiaries have entered into a range of transactions with the Government, the Selling Shareholder and associates thereof and it is expected that the Company will enter into similar transactions in the future. There is no assurance that, in relation to these transactions, the Company's interests or those of its subsidiaries will not conflict with the interests of the Government, the Selling Shareholder or any associates thereof. These transactions can be categorised as follows:

- **Transactions with the Government entered into as a matter of law or regulation.** These transactions have been entered into in the usual course of its business and on normal commercial terms and include rates, rent, taxes and fees payable to the Government. This category also includes activities carried out in compliance with legislative and regulatory requirements, including under the new MTR Ordinance and the Operating Agreement;
- **Project agreements.** Prior to the construction of a new railway line or an extension to an existing railway line, the Company has typically entered into a project agreement with the Government ("**Project Agreements**"). The Company entered into a Project Agreement in respect of the Airport Railway Project, further details of which are contained in the paragraph headed "Property developments related to the Airport Railway Project" in the section headed "Business". The Company also entered into Project Agreements in respect of each of the TKE Extension and the QBR Works, further details of which are contained in paragraph 4(A)(iv) (Summary of material contracts) in Appendix IX;
- **Operation agreements.** The Company has entered into agreements with the Government relating to the operation of the railway and ancillary facilities ("**Operation Agreements**"). The Company has entered into the following Operation Agreements: (i) the Operating Agreement (a summary of which is contained in Appendix VII); (ii) the Memorandum of Understanding relating to the Eastern Harbour Crossing (further details of which are contained in paragraph 4(A)(iv) (Summary of material contracts) in Appendix IX; and (iii) the Airport Railway Operating and Maintenance Terms (further details of which are contained in paragraph 4(A)(iv) (Summary of material contracts) in Appendix IX;

RELATIONSHIP WITH THE GOVERNMENT

- **Transactions involving land and interests in land.** The Company has entered into numerous agreements and transactions with the Government involving land and interests in land, including running line leases, land grants and leases (“**Land Transactions**”), further details of which are contained in the paragraph headed “Interests in land” in the section headed “Business”;
- **Entrustment agreements.** The Company has entered into various entrustment agreements with the Government and its associates (including the Airport Authority in respect of works at Chek Lap Kok and KCRC in respect of works at Nam Cheong) pursuant to which one party, as entrustor, has appointed the other party, as trustee, to construct specific types of infrastructure works (“**Entrustment Agreements**”). Generally, the Entrustment Agreements provide that the entrustor will reimburse the trustee for the works carried out by the trustee. Further details are contained in Note 22 to the financial statements in the Accountants’ Report in Appendix I;
- **Treasury services.** The Company has entered into various agreements with the HKMA in relation to treasury-related arrangements (“**Treasury Services Agreements**”);
- **Purchasing agreements.** The Company has entered into various purchasing agreements with the Government and its associates pursuant to which one party purchases goods or services from the other party, such as the purchase of books and other Government publications (“**Purchasing Agreements**”). All of these agreements have been entered into in the ordinary and usual course of business of the Company and on normal commercial terms;

Having reviewed the information and documents provided by the Company to them relating to the purchasing agreements described above, and in reliance upon confirmation made by the Executive Directorate that they are fair and reasonable so far as the Company’s shareholders are concerned, the Joint Sponsors are of the view that such connected transactions are fair and reasonable so far as the Company’s shareholders are concerned. In reaching such view, the Joint Sponsors have assumed and relied upon, without independent verification, the accuracy and completeness of the information and documents provided by the Company;

- **Other agreements, transactions, arrangements and settlement.** From time to time, the Company and its subsidiaries may enter into other types of agreements, transactions, arrangements or settlements with Government and its associates, such as settlement arrangements in relation to any possible dispute that could arise between the Company or its subsidiaries and the Government or its associates (“**Other Transactions**”);
- **Transactions between the Company and Creative Star.** In June 1994, MTRC entered into an agreement with a number of transport providers, including KCRC (which is beneficially-owned by the Government) in relation to Creative Star. In addition, the Company has agreed to provide certain services to Creative Star pursuant to a residual services agreement, and Creative Star, from time to time, provides certain services to the Company (as described in the paragraph headed “Creative Star” in the section headed “Business”); and

RELATIONSHIP WITH THE GOVERNMENT

- **Transactions between KCRC and Creative Star.** In June 1994, KCRC also entered into the Creative Star Agreement. In addition, arrangements have also been entered into between Creative Star and KCRC, such as the management by Creative Star of the installation of equipment related to the Octopus system and transaction and interchange services provided by Creative Star for handling Octopus card usage.

Further details in relation to Connected Transactions are contained in Note 36 to the financial statements in the Accountants' Report in Appendix I.

TREATMENT OF CONNECTED TRANSACTIONS

The Members of the Board, Members of the Executive Directorate and the Joint Sponsors recognise the unique circumstances in relation to Connected Transactions involving the Company, the Government, the Selling Shareholder and their respective associates and have confirmed to the Stock Exchange that, in each case, they believe it would not be meaningful for any person to express any opinion as to the fairness and reasonableness of Connected Transactions (other than Purchasing Agreements) entered into by the Company or its subsidiaries prior to the date of this prospectus and which are ongoing. However, for these transactions, the Stock Exchange has required the Company to disclose details of the relevant Connected Transactions in this prospectus and for certain ongoing contracts to be made available for inspection as described in the paragraph headed "Documents Available for Inspection" in Appendix X.

Given the unique circumstances in relation to Connected Transactions involving the Company, the Government, the Selling Shareholder and their respective associates, the Company has made an application to the Stock Exchange for a waiver to be granted from strict compliance with Chapter 14 of the Listing Rules insofar as it relates to Connected Transactions. These unique circumstances result from the fact that the Company has been a public sector transport provider, beneficially-owned as to 100% by the Government and MTRC, the predecessor of the Corporation was a statutory corporation. Recognising these unique circumstances, the Stock Exchange has agreed to treat the Connected Transactions entered into and to be entered into in the manner described below:

- **Transactions entered into as a matter of law or regulation and Operation Agreements**

The Stock Exchange has granted a waiver from strict compliance with the Listing Rules that relate to Connected Transactions;

- **Project Agreements, Operation Agreements, Land Transactions, Entrustment Agreements, Treasury Services Agreements, Purchasing Agreements and Other Transactions**

The Stock Exchange has granted a waiver from strict compliance with the Listing Rules that relate to Connected Transactions, subject to the following conditions:

- (i) for transactions for which the Company would be required to publish a press notice containing brief details of the transaction and to include

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prescribed details in its next published annual report and accounts following such transactions, the Stock Exchange has granted a waiver from the requirement for the publication of a press notice. However, the Company will be required to include prescribed details in its next published annual report and accounts following such transactions. This will cover each transaction whose total consideration or value is: (a) equal to or greater than the higher of either HK\$1 million or 0.03% of the book value of the net tangible assets of the Company (as disclosed in its latest published audited accounts); and (b) less than the higher of either HK\$10 million or 3% of the book value of the net tangible assets of the Company (as disclosed in its latest published audited accounts); and

- (ii) for transactions for which the Company would be required to issue a circular to its shareholders, provide an opinion from an independent expert as to whether the transaction is fair and reasonable so far as the shareholders are concerned and make the transaction conditional on the approval by the shareholders in general meeting (with any Connected Person interested in the transaction abstaining from voting), the Stock Exchange has granted a waiver from these requirements although Connected Transactions of this kind will be subject to: (a) the Company being required to issue a press notice containing details of the transaction and to include prescribed details of the transaction in the next annual report and accounts following such transactions; and (b) the approval of the Board of Directors (with the Directors who are appointed by Government under Section 8 of the new MTR Ordinance, and any Director who holds a position in the Government, being required to abstain from voting). This will cover each transaction whose total consideration or value is equal to or higher than HK\$10 million or 3% of the book value of the net tangible assets of the Company (as disclosed in its latest published audited accounts);

- **Transactions between the Company and Creative Star**

The Stock Exchange has granted a waiver from strict compliance with the Listing Rules that relate to: (i) Connected Transactions entered into prior to the date of this prospectus and which continue in effect following completion of the Global Offering provided that, in respect of the periods during which such transactions continue in effect, the Company will be required to include prescribed details in its annual reports and accounts; and (ii) Connected Transactions to be entered into between the Company and Creative Star following the completion of the Global Offering, provided, in the latter case, that the Company confirms in its next annual report and accounts following the entering into of such transactions that:

- (i) the relevant transactions have been entered into by the Company in the ordinary and usual course of its business;
- (ii) the relevant transactions have been entered into either: (a) on normal commercial terms (by reference to transactions of a similar nature made by similar entities within Hong Kong); or (b) (where there is no available

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comparison) on terms that are, in the opinion of the Board of Directors, fair and reasonable so far as the shareholders of the Company are concerned; and

(iii) the relevant transactions have been entered into on terms no less favourable than terms available to the other shareholders of Creative Star; and

- **Transactions between KCRC and Creative Star**

The Stock Exchange has agreed to treat these transactions in the same manner as described in the paragraph headed “Project Agreements, Operation Agreements, Land Transactions, Entrustment Agreements, Treasury Services Agreements, Purchasing Agreements and Other Transactions” in this section.

All other Connected Transactions would otherwise be treated in accordance, and be required to comply, with Chapter 14 of the Listing Rules.

FINANCIAL INFORMATION

OVERVIEW

The discussion below should be read in conjunction with the selected financial data and financial statements of the Company which appear elsewhere in this prospectus.

The Company's principal sources of revenue are its railway and related operations and include fare revenue, advertising, kiosk rental and miscellaneous business revenue, property ownership and management income, and property development profits.

The Company's results of railway operations have generally been affected by, amongst other factors, patronage, fare levels, competition, the state of the Hong Kong economy (which affects fare levels, consumer preferences amongst transportation modes and frequency of travel) and demographic trends. The contribution to fare revenue from the Airport Express Line is principally driven by tourist arrivals and departures. Between 1990 and 1997, economic and population growth contributed to patronage and fare revenue growth. During 1997, the Western Harbour Tunnel opened and has since contributed to a decline in passenger patronage for the Company. During 1998, the continued effect of the Western Harbour Tunnel, road improvements in west Kowloon, the economic downturn in Hong Kong and the significant fall in tourist numbers, contributed to a decline in patronage and fare revenue. In 1999, patronage increases on buses and the continuing economic downturn in Hong Kong caused a further decrease in patronage on the Mass Transit Railway. Despite this decrease, however, total fare revenue in 1999 increased as compared to 1998. This was primarily a result of the full year revenue contribution by the Tung Chung and Airport Express Lines in 1999, as compared to approximately six months in 1998. For the six months ended 30th June, 2000, patronage on the Tung Chung and Airport Express Lines continued to grow, which partly offset the impact of a reduction in patronage on the Tsuen Wan, Kwun Tong and Island Lines. Together with the effects of the removal of the staggered hour discount since July 1999, the Company generated a 1.8% increase in fare revenue compared with the same period in 1999.

Substantially all of the Company's depreciation charges are attributable to its railway operations. As a result, following the implementation of new railway projects, the Company's operating profit from railway and related operations after depreciation and the operating margin from railway and related operations are typically adversely affected by the significantly higher depreciation charges. In addition, the Company's net results are typically affected by the significant amount of interest and finance charges on its indebtedness arising from the financing of such railway projects. The implementation of new railway projects involves substantial capital expenditure and requires long periods of time to generate the necessary returns. The Company's interest and finance charges and depreciation charges have increased significantly as a result of the commencement of operations of the Tung Chung and Airport Express Lines in 1998. The Company expects the planned commencement of operations of the TKE in late 2002 to increase its depreciation and interest charges.

The Company's operating expenses before depreciation relate to costs and expenses relating to: (i) railway operations; (ii) advertising, kiosk rental and miscellaneous businesses; and (iii) property ownership and management. The principal costs of railway operations are staff and related expenses, energy and utilities costs and repairs and maintenance costs. As a result of the economic downturn in Hong Kong during 1998 and continuing during 1999,

FINANCIAL INFORMATION

the Company has adopted a comprehensive cost control programme to control its costs and expenses, increase employee productivity and improve asset efficiency. A review of the operating expenses of the Company is set out in the paragraph headed “Review of operating expenses” in this section.

In conjunction with its railway construction activities, the Company has been involved in the development of residential and commercial properties above and adjacent to MTR Stations and depots under agreements with various property developers. Property development has historically produced significant profits for the Company which it has used to supplement associated railway returns, thereby contributing to an improved rate of return on the investment cost of constructing new railway projects. The amount and timing of property development profits have been largely driven by the scale and progress of various property developments associated with new railway projects with which the Company has been involved as well as the state of the property market in Hong Kong. Further details in relation to the Company’s involvement with property development and the manner in which it recognises profits derived from property development are contained in the paragraph headed “Property Development” in the section headed “Business” and in Note 1(f) to the financial statements in the Accountants’ Report in Appendix I.

The Company has historically relied on equity injections from the Government as well as debt financing to finance the construction and operation of the Mass Transit Railway and it is possible that future major railway projects will be financed by a mixture of debt and equity. There are no specific proposals at present which require additional equity financing. However, if the Company were to seek to raise equity finance from shareholders, the Selling Shareholder on behalf of the Government would provide equity capital to the Company pro-rata to its shareholding in the Company where the Government considers it appropriate. The level of the Company’s indebtedness reflects a decision by the Government and the Company as to an appropriate ratio of debt to shareholder funds, which takes into account the Company’s cash requirements and the impact of additional indebtedness on the Company’s credit ratings and cost of debt financing. Due to the capital intensive nature of the Company’s business and its significant financing requirements, the Company has developed a financing strategy to assist in balancing its debt profile. Details of the Company’s financing strategy are set out in the paragraph headed “Financing” in this section.

No provision for profits tax has been made in the Company’s profit and loss account for each of the three years ended 31st December, 1999 and the six months ended 30th June, 2000. As at 30th June, 2000, the Company had substantial accumulated tax losses carried forward amounting to approximately HK\$33 billion which are available for set-off against future assessable profits.

Under paragraph 31(3) (“Paragraph 31(3)”) of the Third Schedule to the Companies Ordinance and Paragraph 32 of Part A of Appendix 1 to the Listing Rules (“Paragraph 32”), the Company is required to include in this prospectus certain financial information on a consolidated basis. The Company has applied to the Securities and Futures Commission for an exemption under Section 38A of the Companies Ordinance from strict compliance with the requirements under Paragraph 31(3) and to the Stock Exchange for a waiver from strict compliance with the requirements under Paragraph 32. The grounds for these applications are that group

FINANCIAL INFORMATION

accounts of the Company and its subsidiaries are not prepared, in view of the Company having no effective control over the board of one of its subsidiaries, Creative Star, and the relatively insignificant amounts involved in the other subsidiaries (see Note 1(a) to the financial statements in the Accountants' Report contained in Appendix I). For these reasons, the Securities and Futures Commission has granted an exemption under Section 38A of the Companies Ordinance from strict compliance with the requirements under Paragraph 31(3); and the Stock Exchange has granted a waiver from strict compliance with the requirements under Paragraph 32 for the reporting accountants to report on the consolidated or combined financial history of results and the consolidated or combined statement of assets and liabilities of the Company and its subsidiaries. Accordingly, the financial statements included in the Accountants' Report in Appendix I are the non-consolidated financial statements of the Company with appropriate disclosures of information relating to its subsidiaries.

TRADING RECORD

The tables below show the Company's summary historical profit and loss account data, cash flow statement data and selected financial ratios for each of the five years ended 31st December, 1999 and the six months ended 30th June, 1999 and 2000, the Company's summary historical balance sheet data as of 31st December, 1995, 1996, 1997, 1998 and 1999 and 30th June, 1999 and 2000 and selected historical information by segment for each of the five years ended 31st December, 1999 and the six months ended 30th June, 2000. The summary historical profit and loss account data, cash flow statement data, selected financial ratios and selected historical financial information by segment for each of the three years ended 31st December, 1999 and the six months ended 30th June, 2000 and the summary historical balance sheet data as of 31st December, 1997, 1998 and 1999 and 30th June, 2000 are based on information included in the Accountants' Report contained in Appendix I. The summary historical profit and loss account data (except for basic earnings per Share data), cash flow statement data, selected financial ratios and selected historical information by segment for each of the two years ended 31st December, 1996 and the summary historical balance sheet data as of 31st December, 1995 and 1996 have been derived from the audited financial statements included in the Company's 1995 and 1996 annual reports. Certain figures in the 1995 and 1996 audited financial statements have been reclassified to conform with the present presentation. These financial statements and information relate to historical results of operations and financial position of the Company. The selected railway operations financial data for each of the five years ended 31st December, 1999 are based on information included in the Company's 1995, 1996, 1997, 1998 and 1999 annual reports and operating data supplied by the Company. The selected railway operations financial data for the six months ended 30th June, 2000 is based on financial information included in the Accountants' Report contained in Appendix I and railway operational data supplied by the Company. **Figures and data stated in this prospectus as at and for the six months ended 30th June, 1999 are derived from the unaudited management accounts of the Company and are included for the purpose of comparison.**

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Profit and Loss Account Data:

	Year ended 31st December,					Six months ended 30th June,	
	1995	1996	1997	1998	1999	2000	1999
	(HK\$ million, except for basic earnings per Share)						
Turnover	5,737	6,253	6,574	6,981	7,252	3,655	3,471
Operating profit from railway and related operations before depreciation ⁽¹⁾	3,144	3,340	3,529	3,301	3,493	1,957	1,647
Profit/(costs) on property developments	(1)	2	276	1,419	2,030	746	1,026
Depreciation	(658)	(850)	(927)	(1,426)	(2,039)	(1,052)	(995)
Interest and finance charges	(1,289)	(957)	(95)	(475)	(1,104)	(600)	(528)
Staff separation payments	—	—	—	—	(264)	—	(2)
Profit for the period	1,196	1,535	2,783	2,819	2,116	1,051	1,148
Dividend	—	(647)	(1,252)	—	—	—	—
Retained profit for the period	1,196	888	1,531	2,819	2,116	1,051	1,148
Basic earnings per Share ⁽²⁾ (in HK\$)	0.24	0.31	0.56	0.56	0.42	0.21	0.23

Notes:

- (1) Includes operating profit from railway operations, advertising, kiosk rental and miscellaneous businesses and property ownership and management income.
- (2) Basic earnings per Share is calculated based on the profit for each period and assuming that the total number of 5,000,000,000 Shares in issue on 25th September, 2000 were in issue throughout the relevant period, taking no account of any Shares which may be issued or repurchased under the Issue Mandate or the Repurchase Mandate, as the case may be, referred to in the paragraph headed "Written resolutions of all the shareholders of the Company" in Appendix IX.

Balance Sheet Data:

	At 31st December,					At 30th June,	
	1995	1996	1997	1998	1999	2000	1999
	(HK\$ million)						
Total assets	45,356	64,644	75,422	82,104	87,250	90,816	86,887
Loans, obligations under finance leases and bank overdrafts	14,736	12,696	10,875	16,897	23,177	25,591	22,602
Deferred income ⁽¹⁾	1,056	9,094	16,705	15,970	13,776	13,028	15,040
Shareholder funds	25,261	35,473	41,815	42,601	45,115	47,239	43,749

Note:

- (1) Represents the balance of up-front payments received from developers in excess of the related costs incurred by the Company for property development projects, not yet recognised as profit by the Company.

Cash Flow Statement Data:

	Year ended 31st December,					Six months ended 30th June,	
	1995	1996	1997	1998	1999	2000	1999
	(HK\$ million)						
Net cash inflow from operating activities	3,259	3,488	3,377	3,915	3,311	1,926	1,741
Net cash outflow from servicing of finance and returns on investments	(1,145)	(883)	(877)	(2,107)	(1,387)	(947)	(660)
Investing activities							
— Capital expenditure							
— Airport Railway Project	(6,880)	(8,266)	(10,177)	(5,103)	(1,847)	(74)	(1,189)
— TKE Project	—	—	(272)	(885)	(2,816)	(1,560)	(1,024)
— Other capital projects	(1,562)	(2,828)	(3,272)	(3,710)	(3,415)	(1,263)	(1,674)
— Property development projects	(1,069)	(1,619)	(1,776)	(1,992)	(1,568)	(519)	(771)
— Receipts from property developers	910	10,119	9,440	—	613	120	613
— Other cash inflow/(outflow) from investing activities	1	(543)	(896)	(185)	96	(86)	5
Net cash inflow from financing	8,206	5,934	2,192	5,988	6,270	2,401	5,717

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Selected Financial Ratios:

	Year ended 31st December,					Six months ended 30th June,	
	1995	1996	1997	1998	1999	2000	1999
	Operating profit from railway and related operations before depreciation ⁽¹⁾ as a percentage of turnover (%).....	54.8	53.4	53.7	47.3	48.2	53.5
Non-fare revenue ⁽²⁾ as a percentage of turnover (%).....	17.8	18.8	21.0	22.1	22.2	24.3	21.7
Net debt/equity ratio (net of cash and cash equivalents)(%)	51.5	15.6	14.4	37.8	51.2	54.0	43.5
Net debt/equity ratio (net of cash and cash equivalents) (excluding revaluation reserves)(%)	64.8	19.2	17.3	42.9	58.3	62.7	49.3
Net interest cover (in times).....	2.9	4.0	15.7	5.1	3.7	2.9	4.0

Notes:

- (1) Includes operating profit from railway operations, advertising, kiosk rental and miscellaneous businesses and property ownership and management.
- (2) Includes advertising, kiosk rental and miscellaneous business revenue and property ownership and management income.

Selected Historical Information by Segment:

	Year ended 31st December,										Six months ended 30th June, 2000	
	1995	1996		1997		1998 ⁽¹⁾		1999 ⁽²⁾				
(HK\$ million, except percentages)												
Operating profit from railway and related operations before depreciation												
Railway	2,298	73.1%	2,363	70.8%	2,393	67.8%	2,058	62.3%	2,185	62.5%	1,198	61.2%
Advertising, kiosk rental and miscellaneous businesses	403	12.8%	532	15.9%	621	17.6%	665	20.2%	673	19.3%	397	20.3%
Property ownership and management	443	14.1%	445	13.3%	515	14.6%	578	17.5%	635	18.2%	362	18.5%
	3,144	100.0%	3,340	100.0%	3,529	100.0%	3,301	100.0%	3,493	100.0%	1,957	100.0%
Operating profit after depreciation and before interest and finance charges												
Railway	1,648	66.3%	1,545	62.0%	1,537	53.4%	703	21.3%	232	6.6%	189	11.4%
Advertising, kiosk rental and miscellaneous businesses	395	15.9%	500	20.0%	550	19.1%	594	18.0%	589	16.9%	355	21.5%
Property ownership and management	443	17.8%	445	17.9%	515	17.9%	578	17.6%	633	18.2%	361	21.9%
Property development	(1)	—	2	0.1%	276	9.6%	1,419	43.1%	2,030	58.3%	746	45.2%
	2,485	100.0%	2,492	100.0%	2,878	100.0%	3,294	100.0%	3,484	100.0%	1,651	100.0%

Notes:

- (1) Includes results derived from the operation of the Tung Chung and Airport Express Lines which commenced operations on 22nd June, 1998 and 6th July, 1998, respectively.
- (2) Includes results from the operation of the Tung Chung and Airport Express Lines for the full year.

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Selected Railway Operations Financial Data:

	Year ended 31st December,					Six months ended 30th June,	
	1995	1996	1997	1998	1999	2000	1999
Revenue car km operated ⁽¹⁾ (thousands)							
MTR Lines.....	82,472	83,769	84,258	94,260	94,704	45,542	48,397
Airport Express Line.....	—	—	—	9,011	19,394	9,746	9,633
HK\$ per car km operated (all lines)							
Fare revenue ⁽²⁾	57.2	60.6	61.6	52.7	49.4	50.0	46.8
Railway operating costs.....	37.2	42.2	43.4	45.9	47.4	46.6	45.7
Railway EBITDA ⁽³⁾	27.9	28.2	28.4	19.9	19.2	21.7	17.7
HK\$ per passenger carried (all lines)							
Fare revenue.....	5.80	6.22	6.39	6.82	7.14	7.26	6.96
Railway operating costs.....	3.77	4.33	4.50	5.94	6.85	6.77	6.80
Railway EBITDA ⁽³⁾	2.83	2.89	2.95	2.58	2.77	3.15	2.62

Notes:

- (1) Revenue car km operated means the sum of the kilometres travelled by each passenger train car when in operation for passenger use.
- (2) Fare revenue per car km operated means the total fare revenue generated by the Company divided by the sum of the kilometres travelled by each passenger train car when in operation for passenger use.
- (3) Railway EBITDA means earnings from railway operations before interest, tax, depreciation and amortisation.

RESULTS OF OPERATIONS

Six months ended 30th June, 2000 compared to six months ended 30th June, 1999

Turnover for the six months ended 30th June, 2000 was HK\$3,655 million, a 5.3% increase from HK\$3,471 million for the same period in 1999. Total fare revenue increased by 1.8% from HK\$2,718 million for the six months ended 30th June, 1999 to HK\$2,766 million for the same period in 2000. This increase was principally due to increased patronage levels on the Tung Chung and Airport Express Lines as a result of population growth in the catchment area for those lines, the removal of the staggered hour discount since July 1999, improved economic conditions in Hong Kong since the beginning of 2000 and the levelling out of competition from franchised bus operators.

Revenue from advertising, kiosk rental and miscellaneous businesses increased by 18.2% from HK\$390 million for the six months ended 30th June, 1999 to HK\$461 million for the same period in 2000. This increase was primarily due to higher income generated from advertising activities, kiosk rental and sales of souvenir tickets. The increase in advertising activities was partly due to an increase in demand for advertising from the information technology sector in the first quarter of the year and various mandatory provident fund schemes providers since the beginning of the year. It was also partly due to the introduction of additional advertising panels, track-side motion advertising panels, infopanel and advertising stickers on the bodies of the rolling stock and on pillars in MTR Stations.

Revenue from property ownership and management rose by 17.9% from HK\$363 million for the first six months ended 30th June, 1999 to HK\$428 million for the same period in 2000, primarily due to a full six months of rental income contribution from the Maritime Square retail shopping complex which commenced operations in April 1999, as well as increased rental income from other properties and higher property management income.

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Total operating expenses decreased by 6.9% from HK\$1,824 million for the six months ended 30th June, 1999 to HK\$1,698 million for the same period in 2000. This was principally due to a reduction in: (i) total staff costs and related expenses of 12.8% due to the introduction of staff reduction programmes, reduction of housing allowances for senior staff and the introduction of the Voluntary Separation Scheme in 1999; (ii) energy and utilities costs of 2.9% due to the implementation of energy control measures on the environmental control system and auxiliaries in headquarters and stations, as well as the full period effect of reduced train frequency during off-peak hours since April 1999; and (iii) repairs and maintenance of 8.0% as a result of the management review on cost efficiency of non-routine repairs and maintenance projects, with fewer non-routine repairs and maintenance projects carried out in 2000 compared to 1999. Such reduction was partly offset by a 17.8% increase in other expenses. As a result, operating profit from railway and related operations before depreciation increased by 18.8% from HK\$1,647 million for the six months ended 30th June, 1999 to HK\$1,957 million for the same period in 2000.

Operating profit before depreciation increased by 1.1% from HK\$2,673 million in 1999 to HK\$2,703 million in 2000. Within this, the operating margin from railway and related operations (being the operating profit from railway and related operations before depreciation divided by turnover) increased from 47.5% in 1999 to 53.5% in 2000.

The Company recognised property development profits of HK\$746 million for the six months ended 30th June, 2000 compared to HK\$1,026 million for the same period in 1999. The decrease was primarily due to the slowdown by the developers on construction and sales programmes as a result of the sluggish property market.

Depreciation increased by 5.7% from HK\$995 million for the first six months ended 30th June, 1999 to HK\$1,052 million for the same period in 2000. All of the depreciation charges were attributable to the Company's railway and related operations.

Interest and finance charges (net of interest income) increased from HK\$528 million for the six months ended 30th June, 1999 to HK\$600 million for the same period in 2000, primarily due to a significant decrease in interest income in respect of deposits with financial institutions. Deposits with financial institutions decreased in the first six months of 2000 compared to the same period in 1999 as funds were used to settle payments in relation to the construction of the Tung Chung and Airport Express Lines and other capital expenditures.

As a result of the foregoing, the Company generated a profit after interest and finance charges of HK\$1,051 million for the six months ended 30th June, 2000 compared to HK\$1,150 million for the same period in 1999. As there were no staff separation payments during the first six months ended 30th June, 2000, the Company's profit for the period was HK\$1,051 million compared to HK\$1,148 million for the same period in 1999.

No provision for profits tax has been made in the profit and loss account for the six months ended 30th June, 2000 and 1999 because the Company sustained a loss for tax purposes during these periods. As at 30th June, 2000, the Company had substantial accumulated tax losses carried forward amounting to approximately HK\$33 billion available for set off against future assessable profits.

The Company did not pay any dividend during the first six months ended 30th June, 2000.

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Year ended 31st December, 1999 compared to year ended 31st December, 1998

Turnover was HK\$7,252 million in 1999, a 3.9% increase from HK\$6,981 million in 1998. Total fare revenue increased by 3.6% from HK\$5,441 million in 1998 to HK\$5,639 million in 1999. This increase was primarily a result of the full-year revenue contributions from the Tung Chung and Airport Express Lines in 1999, as compared to approximately half-year revenue contributions in 1998, which more than offset the lower fare revenue attributable to the Tsuen Wan, Kwun Tong and Island Lines resulting from the increased competition from bus operators, the continued economic downturn and the deflationary environment in Hong Kong.

Revenue from advertising, kiosk rental and miscellaneous businesses decreased by 2.4% from HK\$843 million in 1998 to HK\$823 million in 1999. This decrease was primarily due to a substantial reduction in income from the sale of souvenir tickets, as well as the deflationary environment prevailing in Hong Kong during this period, which resulted in reduced revenues from advertising which more than offset the increase in revenues from kiosk rental and the provision of telecommunications facilities.

Property ownership and management income rose by 13.3% from HK\$697 million in 1998 to HK\$790 million in 1999, primarily due to the rental income contribution from the Maritime Square retail shopping complex, which commenced operations in April 1999, together with increased property rental income from other properties and higher property management income, partially offset by lower property rental income from Telford Plaza and Heng Fa Chuen shopping centre.

Operating expenses before depreciation increased by only 2.1% from HK\$3,680 million in 1998 to HK\$3,759 million in 1999 despite a full year of operations on the Tung Chung and Airport Express Lines. This resulted principally from the Company's significant efforts to control costs, which were partially offset by an 11% increase in energy and utility costs and repair and maintenance expenses resulting from a full year of operations of the Tung Chung and Airport Express Lines in 1999 as compared to approximately half a year in 1998 and an increase of approximately 30% in property ownership and management expenses resulting principally from the opening of Maritime Square. As a result, operating profit from railway and related operations before depreciation increased 5.8% from HK\$3,301 million in 1998 to HK\$3,493 million in 1999.

Operating profit before depreciation increased by 17.0% from HK\$4,720 million in 1998 to HK\$5,523 million in 1999. Within this, the operating margin from railway and related operations (being the operating profit from railway and related operations before depreciation divided by turnover) increased from 47.3% in 1998 to 48.2% in 1999.

The Company recognised property development profits of HK\$2,030 million in 1999, as compared to property development profits of HK\$1,419 million in 1998. The substantial increase in property development profits was due primarily to the recognition as profit of a proportion of the up-front payments received from developers in connection with the property development projects associated with the Airport Railway Project. In accordance with the Company's accounting policies, these profits are recognised by the Company in line with the progress of construction of the relevant development projects.

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Depreciation increased substantially in 1999 to HK\$2,039 million, a 43.0% increase from HK\$1,426 million in 1998. This was as a result of a full year of depreciation charges for the Tung Chung and Airport Express Lines in 1999 as compared to approximately half a year in 1998 following the commencement of operations of the Tung Chung and Airport Express Lines in mid-1998. All of the depreciation charges were attributable to the Company's railway and related operations.

Total operating profit in 1999 after depreciation and before interest and finance charges was HK\$3,484 million compared to HK\$3,294 million in 1998.

Interest and finance charges (net of interest income) increased significantly from HK\$475 million in 1998 to HK\$1,104 million in 1999, primarily due to the discontinuation of interest capitalisation on the Tung Chung and Airport Express Lines development projects upon their completion in mid-1998. The substantial increase in total borrowings reflects additional indebtedness incurred in connection with, and the substantial decrease in deposits was primarily due to the utilisation of such deposits for, the construction of the TKE and other capital expenditures.

As a result of the foregoing, the Company's profit after interest and finance charges was HK\$2,380 million in 1999 compared to HK\$2,819 million in 1998. After taking into account the one-off staff separation payments totalling HK\$264 million, the Company's profit for the year was HK\$2,116 million in 1999. Due to the Company's significant funding needs related to the construction of the TKE, it did not pay a dividend to the Government for 1999.

No provision for profits tax was made in the profit and loss account in 1999 and 1998 because the Company sustained a loss for tax purposes during these years. At 31st December, 1999, the Company had substantial accumulated tax losses carried forward and available for set off against future assessable profits.

Year ended 31st December, 1998 compared to year ended 31st December, 1997

Turnover was HK\$6,981 million in 1998, a 6.2% increase from HK\$6,574 million in 1997. Total fare revenue increased by 4.8% from HK\$5,191 million in 1997 to HK\$5,441 million in 1998. This increase was primarily a result of the additional revenue attributable to the operation of the Tung Chung Line since its opening on 22nd June, 1998 and the Airport Express Line since its opening on 6th July, 1998, which more than offset the lower fare revenue from the Tsuen Wan, Kwun Tong and Island Lines resulting from the increased patronage on buses, the opening of the Western Harbour Tunnel, road improvements in west Kowloon and the economic downturn in Hong Kong.

Revenue from advertising, kiosk rental and miscellaneous businesses grew by 9.9% from HK\$767 million in 1997 to HK\$843 million in 1998. This resulted from the commissioning of the Tung Chung and Airport Express Lines and the sale of souvenir tickets, which was partially offset by lower advertising and kiosk rental revenue resulting from the slowdown in retail activity in Hong Kong during 1998 and by lower service fees from the use of telecommunications facilities within the Mass Transit Railway.

Property ownership and management income rose by 13.1% from HK\$616 million in 1997 to HK\$697 million in 1998, primarily due to an increase in rental income from Telford

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Plaza II which was completed in 1997 and Telford Plaza I, the renovations of which were completed in 1997, and an increase in the number of properties under management.

Due to the commencement of operations of the Tung Chung and Airport Express Lines in mid-1998, operating expenses before depreciation rose 20.9% from HK\$3,045 million in 1997 to HK\$3,680 million in 1998. The increase in operating expenses before depreciation was principally due to increases in staff costs and related expenses (16.7%), energy and utility costs (32.8%) and other expenses, including payments to Creative Star for Octopus and related services, promotional and operating expenses relating to the Tung Chung and Airport Express Lines and costs associated with the preparations for the year 2000. The increase in staff costs and related expenses was due to a 25.7% increase in the number of employees from 6,106 as of year end 1997 to 7,675 as of year end 1998, of which most of the additional employees were employed to serve the newly commissioned Tung Chung and Airport Express Lines. As a result, operating profit from railway and related operations before depreciation declined by 6.5%, from HK\$3,529 million in 1997 to HK\$3,301 million in 1998.

Operating profit before depreciation increased by 24.0% from HK\$3,805 million in 1997 to HK\$4,720 million in 1998. Within this, the operating margin from railway and related operations (being the operating profit from railway and related operations before depreciation divided by turnover) decreased from 53.7% in 1997 to 47.3% in 1998.

The Company recognised property development profits of HK\$1,419 million in 1998, as compared to property development profits of HK\$276 million in 1997. The substantial increase in property development profits was due primarily to the Company taking possession of Maritime Square retail shopping complex which constituted the Company's share of assets in kind under the development agreement. The Company also recognised as profit in 1998 a small amount of up-front payments received from developers in connection with the property development projects.

Depreciation increased substantially by 53.8% from HK\$927 million in 1997 to HK\$1,426 million in 1998. This was principally due to the commissioning and subsequent operation of the Tung Chung and Airport Express Lines during the second half of 1998. All of the depreciation charges were attributable to the Company's railway and related operations.

Interest and finance charges (net of interest income) increased significantly from HK\$95 million in 1997 to HK\$475 million in 1998, primarily due to the discontinuation of interest capitalisation on the development projects associated with the Tung Chung and Airport Express Lines upon their completion in mid-1998. The substantial increase in total borrowings reflects additional indebtedness incurred in connection with, and the substantial decrease in deposits was primarily due to the utilisation of such deposits for, the construction of the Tung Chung and Airport Express Lines and other capital expenditures.

As a result of the foregoing, the Company's profit after interest and finance charges was HK\$2,819 million in 1998 compared to HK\$2,783 million in 1997. Due to the Company's significant funding needs related to the construction of the TKE, it did not pay a dividend to the Government for 1998. The Company paid a dividend to the Government of HK\$1,252 million in 1997.

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No provision for profits tax was made in the profit and loss account in 1998 and 1997 because the Company sustained a loss for tax purposes during these years. At 31st December, 1998, the Company had substantial accumulated tax losses carried forward and available for set off against future assessable profits.

REVIEW OF OPERATING EXPENSES

The table below contains details on the Company's operating expenses for the railway and related operations and the percentages of turnover they represent for the periods indicated:

	Year ended 31st December,										Six months ended 30th June,			
	1995		1996		1997		1998 ⁽¹⁾		1999 ⁽²⁾		2000		1999	
	HK\$	%	HK\$	%	HK\$	%	HK\$	%	HK\$	%	HK\$	%	HK\$	%
	(million, except percentages)													
Staff costs and related expenses	1,434	25.0	1,536	24.6	1,610	24.5	1,879	26.9	1,911	26.4	847	23.2	971	28.0
Energy and utilities.....	292	5.1	321	5.1	348	5.3	462	6.6	513	7.1	235	6.4	242	7.0
Operational rent and rates ⁽³⁾	47	0.8	48	0.8	68	1.0	59	0.8	63	0.9	29	0.8	36	1.0
Stores and spares consumed	130	2.3	128	2.0	122	1.9	133	1.9	136	1.9	55	1.5	59	1.7
Repairs and maintenance ⁽⁴⁾	317	5.5	457	7.3	446	6.8	433	6.2	482	6.6	184	5.0	200	5.8
Expenses relating to advertising, kiosk rental and miscellaneous businesses.....	100	1.8	116	1.9	146	2.2	178	2.6	150	2.1	64	1.7	64	1.8
Property ownership and management expenses	76	1.3	82	1.3	101	1.5	119	1.7	155	2.1	66	1.8	67	1.9
Other expenses ⁽⁵⁾	197	3.4	225	3.6	204	3.1	417	6.0	349	4.8	218	6.0	185	5.3
Sub-total	2,593	45.2	2,913	46.6	3,045	46.3	3,680	52.7	3,759	51.9	1,698	46.4	1,824	52.5
Depreciation	658	11.5	850	13.6	927	14.1	1,426	20.4	2,039	28.1	1,052	28.8	995	28.7
Total operating expenses of railway and related operations.....	3,251	56.7	3,763	60.2	3,972	60.4	5,106	73.1	5,798	80.0	2,750	75.2	2,819	81.2

Notes:

- (1) Includes operating costs relating to the operation of the Tung Chung Line which commenced on 22nd June, 1998 and the Airport Express Line which commenced on 6th July, 1998.
- (2) Includes operating costs and operating revenues derived from the operation of the Tung Chung and Airport Express Lines for the full year.
- (3) Similar to property taxes in respect of the Company's occupation of the land on which the railway is situated. Reduction of operational rates in 1998 was mainly due to the rate refund in respect of the second quarter of 1998.
- (4) Includes mainly repairs and maintenance costs paid to outside contractors and revenue works.
- (5) Includes marketing costs, payments to Creative Star for Octopus and related services, promotional expenses, consultants' fees, conference and training expenses, insurance and uninsured claims and, since the opening of the Airport Express Line in 1998, expenses in relation to shuttle-bus and in-town check-in facilities.

Staff costs and related expenses

Staff costs and related expenses consist primarily of staff salaries and benefits which are principally influenced by the number of staff employed by the Company, inflation, labour productivity and the supply and demand for labour in Hong Kong. The number of staff increased from 1996 up to and including 1998 as a result of additional staff required to implement new safety procedures, as well as hirings related to the Tung Chung and Airport Express Lines. In 1999, staff levels decreased due to the introduction of staff reduction

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programmes which involved the layoff of approximately 80 employees. In the same year, the Company also initiated a hiring freeze, non-replacement of vacated posts, reduction of housing allowances for senior staff and the introduction of a staff voluntary separation scheme, offering enhanced benefits to those who chose to leave the employment of the Company voluntarily. Under this scheme, approximately 750 staff members vacated their posts and were paid an aggregate sum of HK\$255 million. Before 1998, the absolute level of staff costs and related expenses increased rapidly, primarily due to rising wages resulting from inflation and a tight labour market. More recently, wages have generally decreased due to the economic downturn and the comparatively higher level of unemployment. In 1999, staff costs increased slightly as compared to 1998, in spite of the inclusion of staff costs associated with the operation of the Tung Chung and Airport Express Lines for their first full year of operation, as compared to approximately six months in 1998. For the six months ended 30th June, 2000, staff costs have decreased by 12.8% from the equivalent period in 1999 due to a reduction in the number of operations staff.

Energy and utilities costs

The Company's energy and utilities costs consist primarily of electricity costs which are principally influenced by car kilometres operated, asset efficiency, electricity tariffs and other factors. Electricity tariffs are regulated by the Government and are affected principally by international fuel prices for gas, coal and, to a lesser extent, for oil. Over the past five years, electricity tariffs and the Company's energy and utilities costs have increased. However, during that period, the Company has introduced energy efficient "chopper" control equipment on trains and adopted other energy saving measures. In 1998, energy and utilities costs increased by 32.8% from HK\$348 million in 1997 to HK\$462 million in 1998, principally as a result of higher electricity tariffs and the commencement of operations of the Tung Chung and Airport Express Lines. For the six months ended 30th June, 2000, energy and utilities costs decreased by 2.9% from the equivalent period in 1999. This was principally as a result of the implementation of energy control measures on the environment control system and auxiliaries in the Company's headquarters and MTR Stations and the full year effect of the reduction in train frequency in off-peak periods which started in April 1999.

Operational rent and rates

Operational rent and rates are payments by the Company to the Government, similar to property taxes, in respect of its occupation of the land on which the railway is situated.

Stores and spares consumed

Stores and spares consumed consist mainly of costs for certain spare parts and other items used primarily for repairs and maintenance. The Company uses inventory management and purchasing economies to maintain an optimal level of stores and spares on hand.

Repairs and maintenance costs

Repairs and maintenance costs primarily include amounts paid to outside contractors and the costs of revenue works. Although the Company undertakes most of its repairs and maintenance using its own employees, it uses outside contractors for, amongst other things,

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its ongoing programme of repairs to tunnel linings, certain repairs and maintenance of escalators and elevators and certain station cleaning. Revenue works are undertaken principally by the Company's employees and are works that are not of a capital nature. In recent years, the Company has increased the level of both in-house and contracted repairs and maintenance to improve passenger service and reliability.

Expenses relating to advertising, kiosk rental and miscellaneous businesses

These expenses consist principally of agency commissions in respect of advertising and energy costs for illuminated advertising panels.

Property ownership and management expenses

The expenses consist principally of costs associated with the ownership and management of properties. These costs have increased steadily over the past five years due mainly to the greater number of properties comprised in the Company's property portfolio.

Other expenses

Other expenses include marketing costs, payments to Creative Star for Octopus and related services, promotional expenses, consultants' fees, conference and training expenses, insurance, uninsured claims and, since the opening of the Airport Express Line in 1998, expenses in relation to shuttle-bus and in-town check-in facilities. The 17.8% increase in other expenses for the six months ended 30th June, 2000 compared to the equivalent period in 1999 was due to an increase in usage of the in-town-check-in facilities associated with the Airport Express Line, loss on disposal of assets and higher insurance expenses which resulted from lower insurance rebates.

FINANCING

The Company has historically relied on equity injections from the Government, debt financings, funds from railway and related operations and property development profits to finance both its operating and capital requirements.

The Company believes it is a premier Asian corporate borrower and is an active issuer in the local and international debt capital markets. Since being first rated in 1984, the Company has continued to be one of the few companies in Hong Kong which has credit ratings on par with the Hong Kong sovereign level and believes it is widely recognised as a leading benchmark for Asian corporate borrowers.

Its credit ratings at present are shown in the table below:

<u>Credit rating agency</u>	<u>Commercial paper</u>	<u>Long- term ratings⁽¹⁾</u>
Standard & Poor's	A-1	A+/A
Moody's.....	P-1	Aa3/A3
Rating and Investment Information, Inc.	—	AA/AA –

Note:

(1) Long-term ratings for Hong Kong dollar denominated debt and foreign currency denominated debt, respectively.

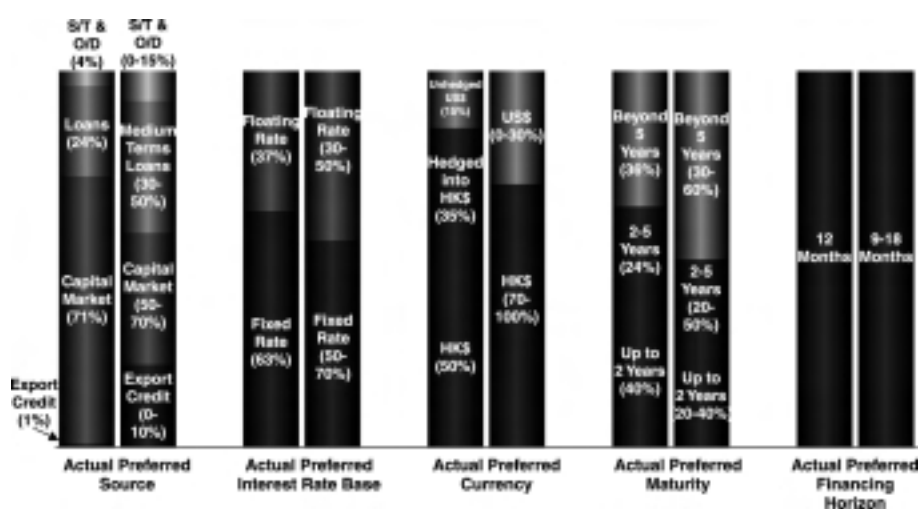
FINANCIAL INFORMATION

In June 2000, following the finalisation of discussions between the Company and the Government on the Operating Agreement, Standard & Poor's confirmed that the Operating Agreement and the new MTR Ordinance established a clear regulatory framework and a favourable operating environment for the Company and revised its long-term ratings outlook for the Company from "developing" to "stable". On 31st August, 2000, Moody's upgraded the Company's short-term and long-term local currency ratings from P-2 and A1 to P-1 and Aa3, respectively.

The Company enters into and uses a wide range of financing and hedging transactions and instruments, including listed and unlisted debt securities, syndicated and bilateral loans, export credits and derivative instruments. It maintains a policy of using derivative instruments for the purposes of risk management only and believes it has developed a comprehensive framework and prudent guidelines and procedures to control its derivatives activities. These activities include entering into interest rate and currency derivatives transactions to hedge against exposures arising from borrowings and from foreign currency denominated contracts. Further details in relation to the off-balance sheet derivative instruments used by the Company are contained in Appendix III and Note 25 to the financial statements in the Accountants' Report in Appendix I.

In raising and managing its finances, and given its significant borrowings, the Company has developed a model, the "**Preferred Financing Model**" which seeks to diversify risk by specifying a preferred mix of fixed and floating rate debt, a permitted currency exposure, a balanced spread of maturity, the use of different types of financing instruments and an adequate length of financing horizon. The Company believes that it has a balanced debt profile with adequate risk diversification and forward coverage consistent with its Preferred Financing Model.

The diagram below shows information in relation to the Preferred Financing Model and the Company's actual debt position as at 30th June, 2000:



Note:

- (1) S/T = short term
O/D = overdrafts

FINANCIAL INFORMATION

The list below contains some of the principal milestones in relation to the Company's financing arrangements:

- 1976 — Issued Hong Kong dollar denominated fixed rate bond (HK\$400 million).
- 1984 — Established US commercial paper facilities.
- 1985 — Issued ECU denominated bonds (€50 million).
- 1988 — Issued Samurai bonds (¥10 billion) in the Japanese bond market.
 - Established multi-currency Euro medium-term note programme (HK\$3 billion).
- 1993 — Privately placed US dollar bond (US\$150 million) under Rule 144A of the US Securities Act in the United States.
 - Established a debt issuance programme, listed on the London Stock Exchange, for the issue of up to US\$1 billion notes with maturities up to 30 years (the “**Listed Debt Issuance Programme**”).
- 1995 — Established a note issuance programme (HK\$10 billion) arranged by the HKMA with features similar to the Government's exchange fund notes programme.
 - Issued debut Yankee bond (US\$300 million) in the US public bond market.
- 1997 — Arranged a HK\$5 billion 5-year revolving credit facility.
- 1998 — Issued a 20-year fixed rate note for US\$60 million.
- 1999 — Issued US\$750 million global bond.
 - Increased size of its Listed Debt Issuance Programme to US\$2 billion and listed the Programme on the Stock Exchange.
 - Issued a public Hong Kong dollar fixed rate note (HK\$1 billion).
 - Arranged two export credit facilities of US\$72.5 million and US\$16.1 million with the Export-Import Bank of Korea and the Japan Bank for International Co-operation, respectively.

FINANCIAL INFORMATION

CAPITALISATION AND INDEBTEDNESS

The table below shows the indebtedness and capitalisation of the Company as at 31st July, 2000:

	At 31st July, 2000 <u>(HK\$ million)</u>
Short-term Debt, including current portion of long-term debt	
Finance lease in Hong Kong dollars, current portion.....	127
Loans in Hong Kong dollars, current portion	667
US\$ private placement notes due 2000 ⁽¹⁾	1,168
Note issuance programme notes due 2000 and 2001.....	1,000
Samurai Yen bonds (4th series) due 2001 ⁽¹⁾	1,121
Total short-term debt	<u>4,083</u>
Long-term Debt, less current portion	
Finance lease in Hong Kong dollars	818
Loans in Hong Kong dollars	4,900
Loans in other currencies ⁽¹⁾	466
US\$ Yankee notes due 2005 ⁽¹⁾	2,324
US\$ global notes due 2009 ⁽¹⁾⁽³⁾	5,834
Debt issuance programme notes due 2001 to 2018 ⁽¹⁾⁽²⁾	5,284
Note issuance programme notes due 2001 to 2003.....	1,000
Total.....	<u>20,626</u>
Shareholder Funds	
Share capital 3 billion Shares issued and fully paid (authorised 33 billion Shares of HK\$1.00 each)	3,000
Capital reserve.....	29,188
Investment property revaluation reserve	6,394
Fixed asset revaluation reserve	161
Retained profits.....	8,947
Total shareholder funds.....	<u>47,690</u>
Total capitalisation	<u>68,316</u>

Notes:

(1) Major foreign currency debts were translated at the following approximate exchange rates, which are the weighted averages of forward exchange contracts and currency swaps under transactions entered into by the Company and the spot rates prevailing on 31st July, 2000: HK\$7.7688 = US\$1 and HK\$1 = ¥13.87.

(2) The Programme is listed on the Stock Exchange and on the London Stock Exchange.

(3) The US\$ global notes due 2009 are listed on the Stock Exchange and on the Luxembourg Stock Exchange.

Total short-term and long-term debt of HK\$24,709 million as at 31st July, 2000 did not include amounts outstanding under overdraft and short-term loan facilities totalling HK\$1,261 million. The aggregate amount of HK\$25,970 million represents the total borrowings of the Company as at 31st July, 2000. None of the Company's subsidiaries had any external borrowings as at 31st July, 2000. There were no material contingent liabilities or guarantees outstanding as at 31st July, 2000.

Except as disclosed elsewhere in this prospectus (see, in particular: (i) the paragraph headed "Changes in share capital" in Appendix IX which describes the changes to the Company's authorised and issued share capital since the date of its incorporation; and (ii) the paragraph headed "Written resolutions of all the shareholders of the Company" in

FINANCIAL INFORMATION

Appendix IX which describes, amongst other things, details in relation to the Company's capital reserve), there has been no material change to the capitalisation and indebtedness or contingent liabilities and guarantees of the Company since 31st July, 2000 other than loans drawdown and repaid, apart from short-term loan facilities and bank overdraft, totalling approximately HK\$1,114 million and approximately HK\$396 million, respectively during the period between 1st August and 19th September, 2000.

The Company's outstanding indebtedness, as at 31st July, 2000, was HK\$25.97 billion. For the seven months ended 31st July, 2000, the Company's principal repayments of outstanding indebtedness amounted to HK\$1.77 billion. Principal repayment obligations with respect to indebtedness outstanding as at 31st July, 2000 in each year up to and including 2003 and thereafter are shown below:

	2000	2001	2002	2003	Thereafter
	(HK\$ billion)				
Principal repayment obligations as of 31st July, 2000	3.33	2.96	4.74	4.24	10.70

Security

As at 31st July, 2000, none of the Company's borrowings were secured nor were any of the Company's borrowings guaranteed by the Government or any third party.

CAPITAL EXPENDITURE, CAPITAL REQUIREMENTS AND LIQUIDITY

Capital expenditure

The table below contains information in relation to certain capital expenditure incurred by the Company for the periods shown:

	Year ended 31st December,			Six months ended 30th June,		
	1998	1999	% Increase/ (Decrease)	2000	1999	% Increase/ (Decrease)
	(HK\$ million)					
Airport Railway Project	5,103	1,847	(63.8)	74	1,189	(93.8)
TKE Project	885	2,816	218.2	1,560	1,024	52.3
Other capital projects	3,710	3,415	(8.0)	1,263	1,674	(24.6)
Property development projects	1,992	1,568	(21.3)	519	771	(32.7)
Total capital expenditure	11,690	9,646	(17.5)	3,416	4,658	(26.7)

Capital requirements

The Company expects to have a total capital expenditure of HK\$24.3 billion between 2000 and 2002 covering requirements for the Airport Railway Project, TKE Project, the QBR Works, other capital projects, property development and the operations of the Mass Transit Railway. The financing of this expenditure is expected to be provided by funds generated from railway and related operations, property development profits and debt financing.

The Company raised a total of approximately HK\$3.1 billion of debt financing in the six months ended 30th June, 2000 and expects to raise a further HK\$4.9 billion in the second half of 2000, inclusive of refinancing borrowings. The Company expects to raise total debt financing of approximately HK\$22.4 billion between August 2000 and the end of 2002, of which

FINANCIAL INFORMATION

approximately HK\$11.4 billion and HK\$11.0 billion are expected to be for meeting the Company's capital expenditure requirements and refinancing of loan repayments, respectively. The amount of borrowings that the Company will incur will depend upon the actual amount of its capital expenditure requirements, the results of its operations, the amount of receipts related to its property development business, factors affecting its interest expense, the initiation of new capital investment programmes and other factors. The Company may incur certain borrowings in advance of when funds are required, in order to facilitate a more orderly phased and cost-effective capital raising programme. The Company expects it would use the proceeds of any such indebtedness to purchase investments which would be liquidated as funds are required. Such investments would be substantially limited to short-term bank deposits, high quality corporate instruments and government debt instruments, primarily denominated in Hong Kong dollars.

As at 31st July, 2000, the Company had undrawn committed facilities of HK\$9.84 billion which are available for its anticipated capital expenditure requirements and debt refinancing requirements up to mid-2001.

Railway and related operations

The Company expects to obtain a portion of its capital requirements from funds provided by its operations. For the year ended 31st December, 1999 and the six months ended 30th June, 2000, funds provided by railway and related operations before interest and finance charges were HK\$3,311 million and HK\$1,926 million, respectively. The amount of funds provided by the Company's operations in the future will depend upon the Company's operating profit from railway and related operations before depreciation and changes in working capital.

Property developments

The Company may obtain a portion of its capital requirements from funds provided by its property development activities, including up-front payments from property developers and profit distributions from the disposal of developed properties. The amount of funds provided by its property development activities will be heavily dependent upon the prevailing conditions in the Hong Kong property market. During 1999 and the first six months of 2000, the Company received up-front payments totalling HK\$0.6 billion and HK\$0.1 billion, respectively from property developers, but did not share with developers in any proceeds from the disposal of properties.

Liquidity

The Company's liquidity is dependent upon its results of operations as well as the factors discussed under the paragraph headed "Capital requirements" in this section. In addition, the Company's liquidity is subject to a variety of other factors, including those relating to interest rates and rates of currency exchange discussed below. The Company anticipates that a portion of its future borrowings will bear interest at floating rates. Changes in prevailing market rates of interest may therefore affect the Company's liquidity.

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For the year ended 31st December, 1999, the Company had interest and finance charges (net of interest income and amounts capitalised) of HK\$1,104 million, which was primarily due to a discontinuation of capitalisation of interest with respect to the Tung Chung and Airport Express Lines upon their completion. The weighted average interest rate on outstanding indebtedness (excluding obligations under finance leases) for 1999 was 7.6%. For the six months ended 30th June, 2000, the Company's weighted average interest rate on outstanding indebtedness was 7.8% as compared to 7.5% for the corresponding period in 1999. As of 31st December, 1999, HK\$13,928 million, or 63% of the Company's outstanding debt (excluding obligations under finance leases) bore interest at fixed rates or bore interest at floating rates, but was covered by interest rate swap agreements which fixed the interest cost to the Company. The remaining HK\$8,244 million or 37% of the Company's outstanding debt (excluding obligations under finance leases) bore interest at floating rates. As of 30th June, 2000, the Company had available undrawn committed and uncommitted credit facilities totalling HK\$29.8 billion, including debt/note programmes, commercial paper programmes, bank loans and other credit facilities. Due to effective management of its interest rate exposures, the Company's interest cost has not been adversely affected by the increase in interest rates during 2000. Since 1st July, 2000 to the date of this prospectus, there have been no significant changes to the weighted average interest rate in respect of the Company's outstanding indebtedness, the Company's mix of outstanding debt bearing interest at fixed and floating rates, nor the Company's total amount of available undrawn committed and uncommitted credit facilities.

For the six months ended 30th June, 2000, net cash inflow from operating activities was HK\$1,926 million, as compared to HK\$1,741 million for the six months ended 30th June, 1999. This increase was principally due to higher fare revenue as well as lower operating expenses.

For the six months ended 30th June, 2000, net cash outflow from investing activities was HK\$3,382 million, as compared to HK\$4,040 million for the six months ended 30th June, 1999. This decrease was principally due to a substantial reduction in project payments in respect of the Airport Railway Project as most of the construction contracts were finalised in 1999.

For the six months ended 30th June, 2000, net cash inflow from financing was HK\$2,401 million, as compared to HK\$5,717 million for the six months ended 30th June, 1999. This decrease was principally due to a reduction in the amount of loans drawn down.

Disclaimer

Save as aforesaid or as otherwise disclosed in this prospectus, the Company did not have, at the close of business on 31st July, 2000, outstanding liabilities or any mortgages, charges, debentures or other loan capital, bank overdrafts, loans, liabilities under acceptance or other similar indebtedness, hire purchase and finance lease commitments or any guarantees or other material contingent liabilities. The Members of the Board and the Members of the Executive Directorate have confirmed that there has not been any material change in the indebtedness or contingent liabilities of the Company since 31st July, 2000.

FINANCIAL INFORMATION

Practice Note 19 to the Listing Rules

The Members of the Board and the Members of the Executive Directorate have confirmed that they were not aware of any circumstances which, had the Company been required to comply with Practice Note 19 of the Listing Rules, would give rise to a disclosure requirement under that Practice Note.

WORKING CAPITAL

Taking into account the financing available to the Company and expected net operating cash inflow, the Members of the Board and the Members of the Executive Directorate are of the opinion that the Company and its subsidiaries have sufficient working capital for their present requirements.

US GAAP RECONCILIATION

The Company's financial statements are prepared in accordance with Hong Kong GAAP, which differ in certain material respects from US GAAP. The following table sets forth a comparison of the Company's profit (equivalent to "net income" under US GAAP) and shareholder funds (equivalent to "shareholder equity" under US GAAP) in accordance with Hong Kong GAAP and US GAAP:

	Year ended 31st December,			Six months ended 30th June,	
	1997	1998	1999	2000	1999
	(HK\$ million)				
Net income in accordance with:					
Hong Kong GAAP	2,783	2,819	2,116	1,051	1,148
US GAAP	3,335	1,556	2,449	1,446	717
Shareholder funds in accordance with:					
Hong Kong GAAP	41,815	42,601	45,115	47,239	43,749
US GAAP	35,126	35,430	37,879	39,325	36,147

See Appendix II for a discussion of the significant differences between Hong Kong GAAP and US GAAP as they relate to the Company.

YEAR 2000

Under the supervision of the Company's information technology and operations teams, the transition to the year 2000 went seamlessly.

PROFIT FORECAST AND DIVIDENDS

Profit forecast

The Members of the Board and the Members of the Executive Directorate believe that, on the bases and the assumptions contained in the paragraph headed "Bases and assumptions" in Appendix IV and in the absence of unforeseen circumstances, the Company's profit after taxation but before extraordinary items for the year ending 31st December, 2000 will be not less than HK\$3,600 million. The Members of the Board and

FINANCIAL INFORMATION

the Members of the Executive Directorate are currently unaware of any extraordinary items which have arisen or are likely to arise in respect of the year ending 31st December, 2000. On the basis of the forecast profit of HK\$3,600 million for the year ending 31st December, 2000 and assuming that the 5,000,000,000 Shares in issue prior to the Global Offering were in issue throughout the year ending 31st December, 2000, the forecast basic earnings per Share would be approximately HK\$0.72. On the assumption that all the Shares in respect of which options may be granted under the Pre-Global Offering Share Option Scheme described in Appendix IX were granted on 20th September, 2000, that all options were exercised in respect of all such underlying Shares on the same day and that the fair value of the Shares for the year ending 31st December, 2000 was within the range of the minimum and maximum Offer Prices of HK\$8.00 and HK\$9.38, the forecast diluted earnings per Share would be approximately HK\$0.72.

The texts of the letters from KPMG, the Company's independent reporting accountants, and from the Joint Sponsors in respect of the profit forecast are contained in Appendix IV.

Dividends

The Corporation was incorporated on 26th April, 2000 and has not declared or paid any dividends since its incorporation. The new MTR Ordinance contains a provision which enables the Company to distribute a dividend during the financial year of the Company which includes the Appointed Day or at any time before its accounts are laid or filed in respect of that year, based on accounts prepared by MTRC. The Company may pay dividends out of its distributable profits in accordance with Hong Kong law generally and its Articles. Further details are contained in Appendix VII and Appendix VIII.

The declaration of dividends is subject to the discretion of the Board of Directors and any final dividend for the year is subject to shareholders' approval. The amounts of dividends actually paid to holders of the Shares will depend upon a number of factors, including the Company's earnings, capital requirements, general financial condition and any factors considered relevant by the Board of Directors.

Dividends will be declared in Hong Kong dollars. Cash dividends receivable by holders of ADSs will be paid in US dollars, net of conversion expenses of the Depository.

In the absence of unforeseen circumstances, the Board of Directors intends to recommend a final dividend in respect of the year ending 31st December, 2000, payable in or around June 2001. The Board of Directors expects that such final dividend will represent a per annum dividend yield of approximately 4.5% (based on the final Offer Price) which, given that the Company will not have been listed for the whole of the year ending 31st December, 2000, will be pro-rated accordingly.

For subsequent financial years, the Board of Directors anticipates that, subject to the financial performance of the Company, the Company will pay two dividends in respect of each financial year with interim and final dividends payable in October and June respectively, with the interim dividend representing approximately one third of the total dividends to be paid for the entire year.

FINANCIAL INFORMATION

The Company intends that a scrip dividend election will be offered to all shareholders and holders of ADSs (subject to applicable securities laws) in respect of future dividends for the financial year ending 31st December, 2000 and for each of the three financial years ending 31st December, 2003. The Selling Shareholder has agreed that, in respect of the final dividend for the financial year ending 31st December, 2000 and any dividends declared in respect of each of the three financial years ending 31st December, 2003, it will elect to receive all or part of its entitlement to dividends in the form of Shares 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 in the form of cash.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company attributable to shareholders as at 30th June, 2000 were HK\$8,496 million.

ADJUSTED NET TANGIBLE ASSETS

The following statement of adjusted net tangible assets is based on the Company's net assets as at 30th June, 2000, contained in the Accountants' Report in Appendix I, as adjusted as described below:

	HK\$ million
Net assets as at 30th June, 2000 as set out in the Accountants' Report in Appendix I	47,239
Unaudited net profit of the Company for the month ended 31st July, 2000 based on management accounts.....	451
Surplus arising on valuation of the Company's Development Properties at 31st July, 2000 ⁽²⁾	31,687
Adjusted net tangible assets	79,377
Adjusted net tangible assets per Share ⁽³⁾	HK\$ 15.88

Notes:

- (1) Railway Properties of the Company are stated in the Company's financial statements on a historical cost basis and depreciated at rates sufficient to write off their costs over their estimated useful lives, except for the initial cost on rails and tunnel excavation and boring. Railway Properties of the Company were not revalued in the "Property Valuation Report" contained in Appendix V. Further details on the exemption from valuation of Railway Properties is contained in the paragraph headed "Interests in land" in the "Business" section of the prospectus.
- (2) Brooke International (China) Limited, an independent property valuer, has confirmed that there would have been no material difference in the valuation amounts as at 31st July, 2000 and 30th June, 2000 of the Investment Properties and Owner Occupied Properties. The valuation at 31st July, 2000 of the Investment Properties and Owner Occupied Properties has therefore been adopted in the financial statements of the Company for the six months ended 30th June, 2000 with any revaluation surpluses or deficits dealt with in those financial statements accordingly.

The surplus arising on the valuation of the Company's Development Properties as at 31st July, 2000 is based on the property valuation as set out in the "Property Valuation Report" in Appendix V after adjusting for the balance as at 31st July, 2000 of the amounts of up-front payments received or receivable by the Company less the related costs incurred or to be incurred by the Company in respect of the awarded packages and Kowloon Station Development Packages Five, Six and Seven (which were awarded on 6th September, 2000) of the Development Properties, to the extent these have not already been recognised as profits. The surplus will not be incorporated in the financial statements of the Company for the year ending 31st December, 2000. The Company's Development Properties and profits arising therefrom are accounted for in accordance with the accounting policies stated in Note 1(f) to the financial statements in the Accountants' Report in Appendix I.

- (3) The adjusted net tangible assets per Share has been based on 5,000,000,000 Shares in issue immediately following the Global Offering without taking into account any Shares which may be issued or repurchased under the Issue Mandate or the Repurchase Mandate as the case may be.

USE OF PROCEEDS

USE OF PROCEEDS

The Company will receive none of the net proceeds of the Global Offering. The Selling Shareholder will receive all of the net proceeds of the Global Offering (after deduction of commissions and estimated expenses in connection with the Global Offering, assuming the Over-allotment Option is not exercised and assuming an Offer Price of HK\$9.38 per Offer Share being the maximum Offer Price), which are estimated to be approximately HK\$8,982 million (or approximately HK\$10,361 million, if the Over-allotment Option is exercised in full).

UNDERWRITING

HONG KONG UNDERWRITERS

Goldman Sachs (Asia) L.L.C.
HSBC Investment Bank Asia Limited
UBS Warburg, a business group of UBS AG
BOCI Asia Limited
Jardine Fleming Securities Limited
Celestial Capital Limited
Corporate Brokers Ltd
Dao Heng Securities Limited
Get Nice Investment Limited
Hang Seng Securities Limited
Indosuez W.I. Carr Securities Limited
ING Barings Asia Limited
Ka Wah Capital Limited
Kim Eng Securities (Hong Kong) Limited
Kleinwort Benson Limited
Lippo Securities Limited
Morgan Stanley Dean Witter Asia Limited
Prudential-Bache Securities (Hong Kong) Limited
Roctec Securities Company Limited
Sanfull Securities Limited
SG Securities (HK) Limited
Shenyin Wanguo Capital (H.K.) Limited
South China Securities Limited
Sun Hung Kai International Limited
Tai Fook Securities Company Limited
The Bank of East Asia, Limited
Vickers Ballas Capital Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Hong Kong Public Offering

Hong Kong Underwriting Agreement

Pursuant to the Hong Kong Underwriting Agreement, the Selling Shareholder is initially offering 200,000,000 Offer Shares for sale to the public in Hong Kong on and subject to the terms and conditions of this prospectus and the Application Forms. Subject to the Listing Committee of the Stock Exchange granting listing of, and permission to deal in, the Shares to be offered pursuant to the Global Offering and to certain other conditions set out in the Hong Kong Underwriting Agreement, the Hong Kong Underwriters have agreed severally and not jointly, to purchase or procure purchasers for the Hong Kong Offer Shares being offered under the Hong Kong Public Offering, on the terms and conditions of this prospectus and the Application Forms.

UNDERWRITING

Right of termination by the Selling Shareholder

The Selling Shareholder shall have the right to terminate the Global Offering by notice to the Joint Global Coordinators at any time at or prior to the signing of the Price Determination Agreement if the Selling Shareholder considers it expedient in the public interest to do so.

Grounds for termination by the Hong Kong Underwriters

The Joint Global Coordinators (for each of themselves and on behalf of the Hong Kong Underwriters) may in their absolute discretion (after consultation with the Selling Shareholder to the extent practicable) terminate the Hong Kong Underwriting Agreement, by notice to the Selling Shareholder and the Company, if at any time at or prior to 6.00 am on the date on which dealings in the Shares on the Stock Exchange commence:

- (a) there shall develop, occur, exist or come into effect:
 - (i) any material adverse change, or development involving a prospective material adverse change, in the condition, financial or otherwise, or in the earnings, business affairs or business prospects of the Company and its subsidiaries (taken as a whole), whether or not arising in the ordinary course of business; or
 - (ii) any change or any development involving a prospective change or any crisis in local, national, regional or international monetary, financial, economic, taxation or political conditions (including without limitation, conditions in the stock market, in the foreign exchange market, inter-bank market, money market and conditions with respect to interest rates in Hong Kong or otherwise) or any occurrence of a combination of any such changes or developments or crisis or any deterioration of any such conditions; or
 - (iii) any local, national, regional or international occurrence, outbreak or escalation of hostilities, whether war had been declared or not, or insurrection or armed conflict (whether or not involving financial markets); or
 - (iv) any new law or regulation in Hong Kong, the People's Republic of China, the United Kingdom or the United States, or any change in existing laws or regulations in Hong Kong, the People's Republic of China, the United Kingdom or the United States, or any change in the interpretation or application thereof by any court or other competent authority in Hong Kong, the People's Republic of China, the United Kingdom and the United States; or
 - (v) the imposition of any suspension or limitation on trading in shares or securities generally on the Stock Exchange, the New York Stock Exchange or the London Stock Exchange; or
 - (vi) if a banking moratorium or moratorium in foreign exchange trading has been declared by either Hong Kong, United States federal or New York authorities; or

UNDERWRITING

(vii) any change, or official announcement by a competent authority of a prospective change, in Hong Kong, the European Community (or any member thereof) or United States taxation adversely affecting the Company, the Shares or the ADSs or the transfer thereof,

in each case, which has resulted or may in the reasonable judgment of the Joint Global Coordinators be likely to result in:

- (i) the successful completion of the Global Offering being prejudiced; or
 - (ii) it becoming impracticable or inadvisable to proceed with the Global Offering or the delivery of the Shares and/or ADSs on the terms and in the manner contemplated in this prospectus and the international offering circular; or
 - (iii) the business or prospects of the Company or the Company and its subsidiaries being materially and adversely affected; or
- (b) there comes to the knowledge of the Joint Global Coordinators any matter or event showing any of the representations and warranties made by the Selling Shareholder or the Company contained in the Hong Kong Underwriting Agreement to be untrue or misleading in any material respect or as having been breached in any material respect, or any material breach on the part of the Selling Shareholder or the Company of any provisions of the Hong Kong Underwriting Agreement the effect of which, in the reasonable judgement of the Joint Global Coordinators, would jeopardise the successful completion of the Global Offering; or
- (c) any statement contained in this prospectus has become or been discovered to be untrue, incorrect or misleading in any material respect the effect of which, in the reasonable judgement of the Joint Global Coordinators, would jeopardise the successful completion of the Global Offering; or
- (d) matters have arisen or have been discovered which would, if this prospectus or the international offering circular was to be issued at that time, constitute a material omission therefrom.

Undertakings

During the period of six months from the date on which dealings in the Shares commence on the Stock Exchange, the Company shall not, and the Selling Shareholder undertakes with the Hong Kong Underwriters to procure that the Company will not, and the Selling Shareholder shall not, in each case directly or indirectly:

- (a) dispose of (including without limitation, issue, agree to issue, offer, pledge, lend, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase or otherwise transfer or dispose of, either conditionally or unconditionally, or directly or indirectly, or otherwise) any Shares or ADSs (in each case, issued or to be issued) or any other security that constitutes the right to receive Shares or ADSs or any securities convertible into or exercisable or exchangeable for or repayable with Shares or ADSs or file any registration statement under the US Securities Act with respect to any of the foregoing; or

UNDERWRITING

- (b) enter into any swap agreement or any other agreement or any transaction that transfers, in whole or in part, directly or indirectly, the economic consequence of ownership of the Shares or ADSs, whether any such swap agreement or other agreement or transaction is to be settled by delivery of Shares or ADSs or such other securities, in cash or otherwise; or
- (c) agree (conditionally or unconditionally) to enter into or effect any such transaction with the same economic effect as any of the foregoing transactions or announce any intention to enter into or effect any such foregoing transaction.

The above undertaking shall not apply to the Shares or ADSs to be sold or transferred in compliance with the requirements of the Listing Rules: (i) under the Hong Kong Underwriting Agreement, the International Underwriting Agreement or any stock borrowing arrangement entered into between the Selling Shareholder and the Joint Global Coordinators in connection with the Global Offering; or (ii) under any options to purchase Shares granted pursuant to a duly adopted stock option plan of the Company, provided that such options shall not be exercisable during such six-month period; or (iii) in relation to any Shares issued pursuant to the general mandate granted to the Directors to issue Shares as set out in Appendix IX; or (iv) in relation to any transaction by the Company or the Selling Shareholder, as the case may be, with the prior written consent of the Joint Global Coordinators.

The Company has undertaken to the Stock Exchange that: (i) except pursuant to the Global Offering or the Over-allotment Option, at any time during the period of six months from the date on which dealings in the Shares commence on the Stock Exchange (the “**First Six-month Period**”), it will not without the prior consent of the Stock Exchange and unless in compliance with the requirements of the Listing Rules, allot or issue or agree to allot or issue any Shares or other securities of the Company (including warrants or other convertible securities) or grant or agree to grant any options or rights over any Shares or other securities of the Company or enter into any swap or other arrangements that transfers, in whole or in part, any of the economic consequence of ownership of any Shares or offer to or agree to do any of the foregoing or have any intention to do so; and (ii) within a period of six months commencing from the expiry of the First Six-month Period (the “**Second Six-month Period**”), it will not allot or issue any Shares or other securities of the Company (including warrants or other convertible securities) or grant or agree to grant any options or rights over any Shares or other securities of the Company or enter into any swap or other arrangement that transfers, in whole or in part, any of the economic consequence of ownership of any Shares or offer to or agree to do any of the foregoing or announce any intention to do so to the extent that such action would result in the Selling Shareholder ceasing to be controlling shareholder (as defined in the Listing Rules) of the Company.

The Selling Shareholder has undertaken to the Stock Exchange that except pursuant to the Global Offering or the Over-allotment Option: (i) it will not, unless in compliance with the requirements of the Listing Rules, during the First Six-month Period, dispose of any of the Shares in respect of which the Selling Shareholder is shown by this prospectus to be the registered owner (the “**FSI Shares**”); and (ii) it will not, in the Second Six-month Period, dispose of any of the FSI Shares if, immediately following such disposal, the Selling Shareholder would cease to be a controlling shareholder (as defined in the Listing Rules) of the Company.

UNDERWRITING

The Selling Shareholder has further undertaken to the Stock Exchange and the Company that it will, at any time after the date of this prospectus up to and including the date falling 12 months after the date on which dealings in the Shares commence on the Stock Exchange: (i) immediately inform the Company of any pledges or charges of any Shares or other securities in respect of which it is the registered owner and the number of such Shares or other securities so pledged or charged; and (ii) immediately inform the Company of any indication received by it, either verbal or written, from any pledgee or chargee of any Shares or other securities pledged or charged that such Shares or other securities will be disposed of.

Indemnities

The Selling Shareholder has agreed to indemnify the Hong Kong Underwriters and certain other persons against certain liabilities, including liabilities under the US Securities Act. In addition, the Company has agreed to indemnify the Hong Kong Underwriters and certain other persons against liabilities for any breach of the warranties given by the Company in the Hong Kong Underwriting Agreement or of its obligations under the Hong Kong Underwriting Agreement.

Commission

The Hong Kong Underwriters will receive a gross commission of 2.5% on the Offer Price of all the Hong Kong Offer Shares.

Hong Kong Underwriters' interest in the Company

The Hong Kong Underwriters have no shareholding interests in the Company.

The International Offering

In connection with the International Offering, it is expected that the Company and the Selling Shareholder will enter into the International Underwriting Agreement with the International Underwriters. Under the International Underwriting Agreement, the International Underwriters would severally agree to procure purchasers for, or failing which to purchase themselves, the 800,000,000 Offer Shares initially being offered pursuant to the International Offering.

Under the International Underwriting Agreement, the Selling Shareholder intends to grant to the International Underwriters the Over-allotment Option, exercisable by the Joint Global Coordinators, on behalf of the International Underwriters, within 30 days after the date on which dealings in the Shares commence on the Stock Exchange, to require the Selling Shareholder to sell up to an aggregate of 150,000,000 additional Shares at the Offer Price solely to cover over-allocations in the International Offering, if any.

In the event that the number of Shares comprised in the Global Offering is reduced, the Over-allotment Option will be correspondingly reduced such that it shall be in respect of Offer Shares of an amount no more than 15% of such reduced number of Shares comprised in the Global Offering.

UNDERWRITING

Total Expenses

The aggregate commissions and estimated expenses payable by the Selling Shareholder in relation to the Global Offering are estimated to amount to approximately HK\$454 million (assuming the Over-allotment Option is not exercised and assuming an Offer Price of HK\$9.38 per Offer Share being the maximum Offer Price). The Joint Global Coordinators and the Underwriters have agreed to pay an aggregate of approximately HK\$56 million of the expenses of the Selling Shareholder in connection with the Global Offering.

STRUCTURE OF THE GLOBAL OFFERING

THE GLOBAL OFFERING

This prospectus is published in connection with the Hong Kong Public Offering as part of the Global Offering. The Global Offering consists of:

- (i) the Hong Kong Public Offering of an initial 200,000,000 Offer Shares (subject to adjustment as mentioned below) in Hong Kong as described below; and
- (ii) the International Offering of an initial 800,000,000 Offer Shares (which may, at the option of investors, be delivered in the form of ADSs) (subject to adjustment as mentioned below): (a) in the United States to qualified institutional buyers (as defined in Rule 144A) in reliance on Rule 144A under the US Securities Act; and (b) outside the United States in accordance with Regulation S under the US Securities Act.

PRICING AND ALLOCATION

The International Underwriters will be soliciting from prospective investors indications of interest in acquiring Shares or ADSs in the International Offering. Prospective investors will be required to specify the number of Shares or ADSs they would be prepared to acquire either at different prices or at a particular price. This process, known as “book-building”, is expected to continue up to, and to cease on or about, 29th September, 2000.

The Offer Price is expected to be fixed by agreement between the Joint Global Coordinators, on behalf of the Underwriters and the Selling Shareholder, after consultation with the Company, on the Price Determination Date, when market demand for the Offer Shares and ADSs will be determined. The Price Determination Date is expected to be on or about 1st October, 2000.

The Offer Price will be not more than HK\$9.38 per Offer Share and is currently expected to be not less than HK\$8.00 per Offer Share, unless otherwise announced by no later than the morning of the last day for lodging applications under the Hong Kong Public Offering as further explained below. **Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative Offer Price range stated in this prospectus.**

If, based on the level of interest expressed by prospective professional and international investors during the book-building process, the Joint Global Coordinators (on behalf of the Underwriters and with the consent of the Selling Shareholder) think it appropriate, the number of Shares being offered in the Global Offering and/or the indicative Offer Price range may be reduced below that stated in this prospectus at any time prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, the Selling Shareholder and the Company will jointly, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the day which is the last day for lodging applications under the Hong Kong Public Offering, cause to be published in the South China Morning Post and the Hong Kong Economic Times a notice of the reduction. **Before submitting applications for Hong Kong Offer Shares, applicants should have regard to the possibility that any announcement of a reduction in the number of Shares being offered in the Global Offering and/or the indicative Offer**

STRUCTURE OF THE GLOBAL OFFERING

Price range may not be made and published until the day which is the last day for lodging applications under the Hong Kong Public Offering. Such notice will also include confirmation or revision, as appropriate, of the offer statistics as currently set out in the section headed “Summary” and any other financial information which may change as a result of any such reduction. **Applicants under the Hong Kong Public Offering should note that in no circumstances can applications be withdrawn once submitted, even if the number of Shares being offered in the Global Offering and/or the Offer Price range is so reduced.** The Offer Price, if agreed upon, will be fixed within such revised Offer Price range. In the absence of any notice being published of a reduction in the indicative Offer Price range stated in this prospectus on or before the day which is the last day for lodging applications under the Hong Kong Public Offering, the Offer Price, if agreed upon, will under no circumstances be set outside the Offer Price range as stated in this prospectus. In the absence of such notice, the number of Offer Shares will not be reduced.

In the event of a reduction in the number of Shares being offered under the Global Offering, the Joint Global Coordinators may at their discretion reallocate the number of Shares to be offered under the Hong Kong Public Offering and the International Offering, provided that the number of Offer Shares comprised in the Hong Kong Public Offering shall not be less than 10% of the total number of Offer Shares in the Global Offering. The Shares and the ADSs to be offered in the International Offering and the Shares to be offered in the Hong Kong Public Offering may, in certain circumstances, be reallocated as between these offerings at the discretion of the Joint Global Coordinators.

The Hong Kong Public Offering is open to members of the public in Hong Kong. The International Offering will include selective marketing of Shares or ADSs by the International Underwriters to international and professional investors anticipated to have a sizeable demand for the Shares or the ADSs. Professional investors generally include brokers, dealers and companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities. Allocation of the Shares or the ADSs pursuant to the International Offering (further details of which are contained in the paragraph headed “The International Offering” in this section) will be based on a number of factors, including the level and timing of demand and whether or not it is expected that the relevant investor is likely to buy further, and/or hold or sell its Shares or the ADSs, after the listing of the Shares on the Stock Exchange. Such allocation is intended to result in a distribution of the Shares or the ADSs on a basis which would lead to the establishment of a solid international and professional shareholder base to the benefit of the Company and its shareholders as a whole.

CONDITIONS OF THE GLOBAL OFFERING

Acceptance of all applications for the Offer Shares pursuant to the Global Offering will be conditional on, *inter alia*:

- (i) the Listing Committee of the Stock Exchange granting listing of, and permission to deal in, the Shares (including the additional Shares which may be made available pursuant to the exercise of the Over-allotment Option and any Shares which may be issued pursuant to the exercise of options granted under the Pre-Global Offering Share Option Scheme); and

STRUCTURE OF THE GLOBAL OFFERING

- (ii) the obligations of the Underwriters under each of the Hong Kong Underwriting Agreement and the International Underwriting Agreement becoming and remaining unconditional which requires, amongst other things, that the Offer Price be agreed and the Price Determination Agreement be entered into and becoming unconditional (including, if relevant, following the waiver of any conditions by the Joint Global Coordinators on behalf of the Underwriters) and such obligations not having been terminated in accordance with the terms of the respective agreements prior to 6.00 am on the date on which dealings in the Shares in the Stock Exchange are to commence,

in each case on or before the dates and times specified in such underwriting agreements (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event not later than 24th October, 2000.

If, for any reason, the Price Determination Agreement is not entered into, the Global Offering will not proceed.

The consummation of each of the International Offering and the Hong Kong Public Offering is conditional upon, amongst other things, the other offering becoming unconditional and not having been terminated in accordance with their respective terms.

If the above conditions are not fulfilled or waived prior to the times and dates specified, the Global Offering will lapse and the Stock Exchange will be notified immediately. Notice of the lapse of the Hong Kong Public Offering will be caused to be published by the Selling Shareholder in the South China Morning Post and the Hong Kong Economic Times on the next day following such lapse. In such eventuality, all application monies, if received, will be returned, without interest, on the terms set out in the section headed “Terms and Conditions of the Hong Kong Public Offering”. In the meantime, all application monies received will be held in a separate bank account(s) with the receiving bankers or other licensed bank(s) in Hong Kong.

THE HONG KONG PUBLIC OFFERING

Under the Hong Kong Public Offering, the Selling Shareholder is initially offering 200,000,000 Offer Shares at the Offer Price, representing 20% of the 1,000,000,000 Offer Shares initially available under the Global Offering, for sale to the public in Hong Kong. Subject to adjustment as mentioned below, the number of Offer Shares initially offered under the Hong Kong Public Offering will represent 4% of the Company’s total issued share capital immediately after completion of the Global Offering, assuming the Over-allotment Option is not exercised. In Hong Kong, individual retail investors must apply for Offer Shares through the Hong Kong Public Offering and individual retail investors, including individual investors in Hong Kong, applying through banks and other institutions, seeking Shares and/or ADSs in the International Offering will not be allotted Shares (or a corresponding number of ADSs) in the International Offering.

For allocation purposes only, of the 200,000,000 Offer Shares initially being offered for purchase under the Hong Kong Public Offering:

- (i) 20,000,000 Hong Kong Offer Shares (representing 10% of the total number of Hong Kong Offer Shares initially being offered under the Hong Kong Public Offering) will

STRUCTURE OF THE GLOBAL OFFERING

be available for applications by full time employees of the Company (other than Members of the Board, Members of the Executive Directorate and their respective associates (as defined in the Listing Rules)); and

- (ii) no less than 180,000,000 Hong Kong Offer Shares (representing 90% of the total number of Hong Kong Offer Shares initially being offered under the Hong Kong Public Offering) will be available for purchase by the public.

Paragraph 3 of Practice Note 18 of the Listing Rules, entitled “Initial Public Offer of Securities”, requires the total number of Hong Kong Offer Shares pursuant to (ii) above to be divided equally into pools: Pool A and Pool B. Each valid application (other than made pursuant to (i) above) that has been received for Hong Kong Offer Shares to a value (excluding brokerage and Stock Exchange transaction levy payable thereon) of HK\$5 million or less will fall into Pool A and each valid application (other than made pursuant to (i) above) that has been received for Hong Kong Offer Shares to a value (excluding brokerage and Stock Exchange transaction levy payable thereon) of more than HK\$5 million will fall into Pool B.

The Stock Exchange has granted a waiver from strict compliance with paragraph 3 of Practice Note 18 of the Listing Rules such that the Joint Global Coordinators and the Selling Shareholder, after consultation with the Company, shall have absolute discretion in determining the number of Hong Kong Offer Shares which shall comprise of each of Pool A and Pool B. The number of Hong Kong Offer Shares comprised in each of Pool A and Pool B will initially be divided equally between the two pools. However, if demand for Hong Kong Offer Shares falling within Pool A is significant or otherwise justified, and irrespective of whether Pool B is undersubscribed or not, it is expected that the number of Hong Kong Offer Shares comprising Pool A will be increased in order to increase the allocation ratio of Pool A, with a view to allowing more Pool A applicants to receive allocations of Hong Kong Offer Shares.

In accordance with Practice Note 18 of the Listing Rules, Hong Kong Offer Shares in each of Pool A and Pool B are available on an equitable basis to applicants falling within each pool.

Applicants should be aware that applications in Pool B are likely to receive different allocation ratios than applications in Pool A. Where either of the pools is undersubscribed, the surplus Hong Kong Offer Shares will be transferred to satisfy demand in the other pool and be allocated accordingly. Applicants can only receive an allocation of Hong Kong Offer Shares from Pool A or Pool B but not from both pools. Multiple or suspected multiple applications are liable to be rejected.

Applications for more than the total number of Hong Kong Offer Shares originally allocated to each pool may not be accepted. On the basis that the number of Hong Kong Offer Shares originally allocated to Pool B will not be more than 50% of the Offer Shares initially comprised in the Hong Kong Public Offering, excluding those offered pursuant to (i) above (that is 90,000,000 Offer Shares), any application for over 90,000,000 Hong Kong Offer Shares is liable to be rejected.

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In addition, the number of Hong Kong Offer Shares comprised in Pool A and Pool B will not be determined until after applications have been made. Following such determination, applications in excess of the number of Hong Kong Offer Shares finally determined to be comprised in Pool B (but not more than the initial maximum number) will be deemed to have been made at the number of Hong Kong Offer Shares finally determined to be in Pool B.

Paragraph 4.2 of Practice Note 18 of the Listing Rules, entitled “Initial Public Offer of Securities”, requires a clawback mechanism to be put in place which would have the effect of increasing the number of Hong Kong Offer Shares to certain percentages of the total number of Offer Shares offered in the Global Offering if certain prescribed total demand levels are reached. The Stock Exchange has granted a waiver from strict compliance with paragraph 4.2 of Practice Note 18 of the Listing Rules such that, in the event of over-applications, the Selling Shareholder and the Joint Global Coordinators, after consultation with the Company, shall apply a clawback mechanism following closing of the application lists on the basis of factors including, *inter alia*, total demand in the Hong Kong Public Offering, with a view to ensuring that applicants under the Hong Kong Public Offering are treated no less favourably than they would otherwise have been under the clawback requirements set out in Practice Note 18 of the Listing Rules.

The final number of Hong Kong Offer Shares comprised in the Hong Kong Public Offering, Pool A and Pool B, respectively, will, following the determination by the Selling Shareholder and the Joint Global Coordinators, after consultation with the Company, be published on Tuesday, 3rd October, 2000 with the announcement of the Offer Price, the level of indications of interest in the International Offering, the level of applications in the Hong Kong Public Offering and the basis of allocations of the Hong Kong Offer Shares.

The results of allocations of the Hong Kong Offer Shares will be available through a variety of channels from Wednesday, 4th October, 2000. Further details are contained in the section headed “Prospectus, Application Forms and Results of Allocations”.

In the event that a clawback mechanism is applied, the number of Offer Shares allocated in the International Offering will be correspondingly reduced, in such manner as the Joint Global Coordinators deem appropriate, and such additional Offer Shares will be allocated to the Hong Kong Public Offering.

Each applicant under the Hong Kong Public Offering will also be required to give an undertaking and confirmation in the Application Form submitted by him that he and any person(s) for whose benefit he is making the application have not indicated and will not indicate an interest for any Shares or ADSs under the International Offering, and such applicant’s application is liable to be rejected if such undertaking and/or confirmation is breached and/or untrue (as the case may be).

The Offer Price will not be more than HK\$9.38 per Offer Share and is currently expected to be not less than HK\$8.00 per Offer Share. Applicants for Hong Kong Offer Shares under the Hong Kong Public Offering are required to pay, on application, the

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maximum Offer Price of HK\$9.38 per Hong Kong Offer Share, plus brokerage of 1% and Stock Exchange transaction levy of 0.01%. If the Offer Price as finally determined in the manner described above is less than HK\$9.38 per Offer Share, appropriate refund payments (including the brokerage and Stock Exchange transaction levy attributable to the surplus application monies) will be made to successful applicants. Further details are contained in the section headed “Terms and Conditions of the Hong Kong Public Offering”.

References in this prospectus to applications, Application Forms, application monies or to the procedure for application relate solely to the Hong Kong Public Offering.

THE INTERNATIONAL OFFERING

The International Offering will consist of an offering of an initial 800,000,000 Offer Shares (which may at the option of investors be delivered in the form of ADSs): (i) in the United States to qualified institutional buyers (as defined in Rule 144A) in reliance on Rule 144A under the US Securities Act; and (ii) outside the United States in accordance with Regulation S under the US Securities Act.

Subject to the reallocation of Offer Shares between the International Offering and the Hong Kong Public Offering, the Offer Shares to be offered under the International Offering will represent 16% of the Company’s issued share capital immediately after completion of the Global Offering (before any exercise of the Over-allotment Option).

Allocations of the Offer Shares to investors pursuant to the International Offering will be effected in accordance with the “book-building” process described in the paragraph headed “Pricing and Allocation” in this section.

The International Offering is subject to the same conditions as set out in the paragraph headed “Conditions of the Global Offering” in this section.

PREFERENTIAL OFFERING TO EMPLOYEES

20,000,000 Offer Shares (representing 10% of the Hong Kong Offer Shares initially available under the Hong Kong Public Offering) are available for purchase by full time employees of the Company (other than Members of the Board, Members of the Executive Directorate and their respective associates (as defined in the Listing Rules)).

Each eligible employee will be entitled to purchase a certain number of Hong Kong Offer Shares with assured entitlement. The assured entitlement of Hong Kong Offer Shares for each eligible employee is equal to 90% of one month’s base salary for such employee divided by the minimum Offer Price of HK\$8.00, rounded up to the nearest board lot of 500 Shares. Eligible employees can apply for more than their assured entitlement and may receive such additional Hong Kong Offer Shares depending upon the aggregate level of applications by other eligible employees. If the sum of the assured entitlements of those eligible employees who apply under the preferential offering to employees is less than 10% of the Hong Kong Offer Shares that are available to eligible employees, any such excess

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Hong Kong Offer Shares will be allocated among those eligible employees who apply for more than their assured entitlement on a pro rata basis (based on the number of Hong Kong Offer Shares in excess of their assured entitlement applied for by each such employee) with any remaining such excess Hong Kong Offer Shares being allocated by ballot. Any Shares not purchased by eligible employees in connection with the preferential offering to employees will be available for purchase by the public under the Hong Kong Public Offering.

UNDERWRITING ARRANGEMENTS

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement.

The Selling Shareholder and the Company expect on or about 1st October, 2000, shortly after determination of the Offer Price, to enter into the International Underwriting Agreement.

These underwriting arrangements and the Hong Kong Underwriting Agreement and the International Underwriting Agreement are summarised in the section headed "Underwriting".

OVER-ALLOTMENT OPTION

Under the International Underwriting Agreement, the Selling Shareholder intends to grant to the International Underwriters the Over-allotment Option, exercisable by the Joint Global Coordinators on behalf of the International Underwriters, within 30 days after the date on which dealings in the Shares commence on the Stock Exchange, to require the Selling Shareholder to sell up to an aggregate of 150,000,000 additional Shares at the Offer Price solely to cover over-allocations in the International Offering, if any. The Joint Global Coordinators may also cover over-allocations in accordance with stock arrangements described in the paragraph headed "Stabilisation" in the section headed "Information about this Prospectus and the Global Offering". In the event that the number of Shares comprised in the Global Offering is reduced, the Over-allotment Option will be correspondingly reduced such that it shall be in respect of Offer Shares of an amount no more than 15% of such reduced number of Shares comprised in the Global Offering.

STABILISATION

In connection with the Global Offering, the Joint Global Coordinators may, on behalf of the Underwriters, over-allocate and cover such over-allocations by exercising the Over-allotment Option, stock borrowing or by making purchases in the secondary market. Any such purchase will be made in compliance with all applicable laws and regulatory requirements. The number of Shares which can be over-allocated will not exceed the number of Shares which may be sold by the Selling Shareholder under the Over-allotment Option which is 15% of the Shares initially available under the Global Offering.

In particular, for the purpose of covering any such over-allocations, the Joint Global Coordinators and/or their respective affiliates may borrow up to 150,000,000 Shares from the Selling Shareholder, equivalent to the maximum number of Shares to be sold on a full exercise of the Over-allotment Option, under stock borrowing arrangements to be entered

STRUCTURE OF THE GLOBAL OFFERING

into between the Selling Shareholder and any of the Joint Global Coordinator(s). The Stock Exchange has granted a waiver to the Selling Shareholder from strict compliance with Rule 10.07(1) of the Listing Rules which restricts the disposal of shares by controlling shareholders following a new listing, in order to allow the Selling Shareholder to enter into such stock borrowing arrangements and the Over-allotment Option, on the following conditions:

- the Selling Shareholder will not receive any payment or other benefit in respect of such stock borrowing arrangements and that the stock borrowing arrangements will be conducted in accordance with applicable laws and regulations; and
- any Shares which may be made available to the relevant Joint Global Coordinator(s) and/or its/their respective affiliate(s) under the stock borrowing arrangements will be made available on terms that the same number of Shares so borrowed must be returned to the Selling Shareholder within five business days of the exercise in full of the Over-allotment Option or the expiry of the Over-allotment Option, whichever is earlier.

In connection with the Global Offering, the Joint Global Coordinators and/or their respective affiliates may also, on behalf of the Underwriters, effect transactions which stabilise or maintain the market price of the Shares or the ADSs at levels above those which might otherwise prevail in the open market. Such transactions may be effected in all jurisdictions where it is permissible to do so, in each case in compliance with all applicable laws and regulatory requirements. Such transactions, if commenced, may be discontinued at any time. Should stabilising transactions be effected in connection with the Global Offering, they will be done at the absolute discretion of the Joint Global Coordinators.

Stabilisation is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilise, the underwriters may bid for, or purchase, the securities in the secondary market, during a specified period of time, to retard and, if possible, prevent a decline in the initial public offer prices of the securities. In Hong Kong and other jurisdictions, the stabilisation price will not exceed the Offer Price.

Stabilisation is not a practice commonly associated with the distribution of securities in Hong Kong. In Hong Kong, such stabilisation activities on the Stock Exchange are restricted to cases where underwriters genuinely purchase securities on the secondary market solely for the purpose of covering over-allocations in an offering. The relevant provisions of the Securities Ordinance prohibit market manipulation in the form of pegging or stabilising the price of securities in certain circumstances.

DEALING ARRANGEMENTS

Assuming that the Hong Kong Public Offering becomes unconditional at or before 6.00 am on 5th October, 2000, it is expected that dealings in the Shares on the Stock Exchange will commence at 10.00 am on 5th October, 2000.

RETAIL INCENTIVES

Introduction

Certain individuals who satisfy the Eligibility Conditions below who duly apply for Hong Kong Offer Shares in the Hong Kong Public Offering will be eligible to receive the Retail Incentives.

The Retail Incentives in the form of the Retail Discount and Bonus Shares are only available in respect of the first HK\$5 million (excluding brokerage and Stock Exchange transaction levy and before applying the Retail Discount) worth of Hong Kong Offer Shares allocated in a successful application, rounded down to the nearest board lot.

The Retail Discount will be available only in connection with Hong Kong Offer Shares purchased in the Hong Kong Public Offering and under the terms and conditions of the Retail Discount specified below. The Loyalty Share Bonus will be available only in connection with Hong Kong Offer Shares purchased in the Hong Kong Public Offering and under the terms and conditions of the Loyalty Share Bonus specified below.

Retail Discount

Under the Retail Discount, individuals who satisfy the Eligibility Conditions will be entitled to a 5.25% discount to the Offer Price (excluding brokerage and Stock Exchange transaction levy). When applying for Hong Kong Offer Shares, individuals who satisfy the Eligibility Conditions are required to pay the maximum Offer Price, plus brokerage and Stock Exchange transaction levy. A refund cheque in respect of the Retail Discount on the Hong Kong Offer Shares (if any) allocated to you, together with the surplus application monies (if any) representing Hong Kong Offer Shares applied for but not allocated to you and representing the difference (if any) between the final Offer Price and the maximum Offer Price (including any brokerage and Stock Exchange transaction levy attributable thereto), is expected to be sent to you (or to the first-named applicant in the case of joint applicants) at your own risk to the address stated on your Application Form or in your instructions to your ESP on or before Monday, 9th October, 2000.

The Retail Discount is available to individuals who satisfy the Eligibility Conditions in respect of the first HK\$5 million (excluding brokerage and Stock Exchange transaction levy and before applying the Retail Discount) worth of Hong Kong Offer Shares allocated in a successful application, rounded down to the nearest board lot.

Individuals who are determined by the Selling Shareholder not to satisfy the Eligibility Conditions or who have submitted application monies on the basis of the Retail Discount (rather than the maximum Offer Price) may not receive any allocations of Hong Kong Offer Shares.

Loyalty Share Bonus

Bonus Shares will be allocated in two tranches. Under the first tranche, individuals who satisfy the Eligibility Conditions will be entitled to receive one Bonus Share for every 20 Hong Kong Offer Shares which they purchase in the Hong Kong Public Offering using **WHITE** or **PINK** Application Forms or using an ESP to apply and hold continuously until 5th October, 2001 (or if not a business day the next following business day) (the "**First Bonus Date**").

RETAIL INCENTIVES

Under the second tranche, individuals who satisfy the Eligibility Conditions will be entitled to receive one Bonus Share for every 15 Hong Kong Offer Shares which they purchase in the Hong Kong Public Offering using **WHITE** or **PINK** Application Forms or using an ESP to apply and hold continuously until 5th October, 2002 (or if not a business day the next following business day) (the “**Second Bonus Date**”). Fractions of Bonus Shares will be rounded down to the nearest whole Share.

Any such Bonus Shares will be transferred to such individuals as soon as reasonably practicable after the First Bonus Date and the Second Bonus Date, as the case may be (together with all rights attaching to those Shares at such date(s)).

All stamp duty (if any) which may otherwise be payable by the eligible shareholder on the transfer to him or her of Bonus Shares will be met by the Selling Shareholder. In addition, any associated charges imposed by the Share Registrar on the Selling Shareholder or the eligible shareholder will also be met by the Selling Shareholder. All costs incurred in verifying applicants' eligibility (further details of which are contained in the paragraph headed “Eligibility Conditions” in this section) will also be met by the Selling Shareholder.

The Loyalty Share Bonus is available to individuals who satisfy the Eligibility Conditions in respect of the first HK\$5 million (excluding brokerage and Stock Exchange transaction levy and before applying the Retail Discount) worth of Hong Kong Offer Shares allocated in a successful application, rounded down to the nearest board lot.

Bonus Shares may be allocated to individuals in odd lots (of fewer than 500 Shares). No special dealing arrangements will be put in place to facilitate the trading or disposal of Bonus Shares in odd lots. Individuals should be aware that odd lots usually trade at a discount to the price of board lots.

Eligibility Conditions

Only applicants who have validly completed a WHITE or a PINK Application Form or validly applied by instructing an ESP and meet the Eligibility Conditions set out below will be eligible to receive any of the Retail Incentives. The number of Bonus Shares transferred will be based only on those Shares which are held continuously in the same shareholder'(s)' name for the period specified below. No Bonus Shares will be transferred in respect of Shares deposited in CCASS (either under the Hong Kong Public Offering or subsequently) or to applicants who complete a BLUE or YELLOW Application Form. For further details, see the section headed “How to Apply for Hong Kong Offer Shares”.

To be eligible to receive any of the Retail Incentives, each applicant, at the time of his or her application for Hong Kong Offer Shares, must:

- be a Hong Kong identity card holder;
- have an address in Hong Kong;
- be 18 years of age or over;
- be an individual investing for his or her own benefit (or investing jointly with not more than one other individual, solely for their joint benefit); and

RETAIL INCENTIVES

- complete a **WHITE** or **PINK** Application Form which is accepted, or successfully apply by instructing an ESP.

An individual who applies for Hong Kong Offer Shares by instructing an ESP and who wishes to participate in the Retail Incentives must apply for Shares to be registered in his/her own name or, in the case of joint applicants, solely for their joint benefit.

In order to qualify for the first tranche of the Loyalty Share Bonus:

- the Shares must have been registered in the name of the same shareholder (and if joint shareholders, in both of their names) continuously until the start of business on the First Bonus Date; and
- throughout the period until the start of business on the First Bonus Date, the address of the shareholder (and that of any joint shareholder) appearing in the register of shareholders must be a Hong Kong address.

In order to qualify for the second tranche of Loyalty Share Bonus:

- the Shares must have been registered in the name of the same shareholder (and if joint shareholders, in both of their names) continuously until the start of business on the Second Bonus Date; and
- throughout the period until the start of business on the Second Bonus Date, the address of the shareholder (and that of any joint shareholder) appearing in the register of shareholders must be a Hong Kong address.

The Selling Shareholder and the Share Registrar may require verification of each shareholder's identity and eligibility to receive the Loyalty Share Bonus before any Bonus Shares are allocated to that shareholder. This will apply to all shareholders who complete a **WHITE** or **PINK** Application Form, or apply by instructing an ESP (whilst satisfying these Eligibility Conditions). This may include verification of the shareholder's Hong Kong identity card. Notification of any verification procedures and requirements will be given to all shareholders entitled to the Loyalty Share Bonus prior to the First Bonus Date and the Second Bonus Date. **Any delay or failure by a shareholder to produce information required for verification purposes will result in the loss or cancellation of that shareholder's entitlement to any Bonus Shares.**

In any case of doubt as to whether or not a person satisfies these Eligibility Conditions, the decision of the Selling Shareholder shall be final and binding.

Under the terms of the **WHITE** or **PINK** Application Forms or applications made by instructing an ESP (in respect of individuals who satisfy these Eligibility Conditions), individuals will irrevocably appoint and authorise the Share Registrar to execute transfer forms in respect of the Bonus Shares to be transferred to them on the First Bonus Date and the Second Bonus Date, respectively. Such individuals will also irrevocably waive the right to be transmitted a stamped contract note pursuant to section 19(1)(c) of the Stamp Duty Ordinance (Chapter 117 of the Laws of Hong Kong) in respect of the transfer of the Bonus Shares to them.

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Disposals of Shares

Eligible individuals who dispose of (or deposit in CCASS) all or part of their allocations of Hong Kong Offer Shares before the First Bonus Date will lose their entitlement to any Bonus Shares under the first and second tranches of the Loyalty Share Bonus in respect of the Hong Kong Offer Shares disposed of (or deposited in CCASS) before the First Bonus Date (whether or not more Shares are subsequently purchased). Eligible applicants who dispose of (or deposit in CCASS) all or part of their allocations of Hong Kong Offer Shares after the First Bonus Date but before the Second Bonus Date will lose their entitlement to any Bonus Shares under the second tranche of the Loyalty Share Bonus in respect of the Hong Kong Offer Shares disposed of (or deposited in CCASS), whether or not more Shares are subsequently purchased.

Eligible individuals who wish to dispose of a portion of their Shares or deposit a portion of their Shares in CCASS, but who wish to preserve any entitlement they might have to Bonus Shares under the Loyalty Share Bonus in respect of the Shares to be retained by them, will first need to apply to the Share Registrar to surrender their existing share certificate in exchange for two new share certificates, one representing the aggregate number of Shares to be disposed of or deposited in CCASS and the other representing the balance of the Shares to be retained. For the first two weeks immediately following the first day of trading of the Shares on the Stock Exchange, the Share Registrar will offer an expedited service for splitting share certificates at a charge of HK\$2.50 per certificate. Under this expedited service, shareholders will only be entitled to exchange their share certificate for two share certificates in the required denominations. Shareholders should allow three business days to split their share certificates under this expedited service.

After that initial two week period, shareholders may apply to the Share Registrar to split a share certificate into two or more share certificates and will be liable to pay a fee to the Share Registrar of such amount as determined from time to time by the Share Registrar. Currently, the fees are HK\$2.50, HK\$3.00 and HK\$20.00 per certificate for a 10 business day, 6 business day and 3 business day processing time, respectively. In all cases, this fee is payable to the Share Registrar by the shareholders applying to split their share certificates.

A transfer of Hong Kong Offer Shares will not, however, result in loss of entitlement under the Loyalty Share Bonus if the transfer is “off exchange” and the relevant transfer form is accompanied by a valid certificate which has been duly completed, provided that the Share Registrar and the Selling Shareholder (whose decision will be final and binding) are satisfied that:

- the transfer involves the registration of the Shares, following the death of the shareholder, in the name of one or more individuals entitled to the Shares under the shareholder’s will or on his or her intestacy provided that the individual (or individuals) so entitled to such Shares is a Hong Kong identity card holder, has an address in Hong Kong and is 18 years of age or over as of the First Bonus Date and the Second Bonus Date, as the case may be; or

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- the Shares are being transferred from a joint shareholder into the sole name of the other joint shareholder without the addition of any other person. If a joint shareholder dies, the registration of the holding into the name of the remaining shareholder by virtue of survivorship will not be treated as a transfer and entitlement to Bonus Shares will not be affected.

Loss of and changes in entitlement

All rights to any Bonus Shares under the Loyalty Share Bonus will be lost if an application is:

- a prohibited multiple application or fraudulent application; or
- made in breach of the Eligibility Conditions.

The Share Registrar and the Selling Shareholder reserve the right to cancel a shareholder's right to any Bonus Shares:

- in the event of any delay or failure to provide any information required in connection with any verification of the shareholder's identity;
- if any false representation is made in connection with any application; or
- in the event of bankruptcy of that shareholder.

The number of Hong Kong Offer Shares which will qualify for Bonus Shares (and the maximum number of Bonus Shares) will be adjusted pro rata (ignoring fractions) if there is any sub-division or consolidation of the Company's share capital before the First Bonus Date or the Second Bonus Date.

HOW TO APPLY FOR HONG KONG OFFER SHARES

1. WHO CAN APPLY FOR HONG KONG OFFER SHARES

You, the applicant(s), and any person(s) for whose benefit you are applying, can apply for Hong Kong Offer Shares if you, or the person for whose benefit you are applying:

- are/is 18 years of age or older;
- have/has a Hong Kong address; and
- are/is not a United States person(s) (as defined in Regulation S under the US Securities Act).

If you are a firm, the application must be in the names of the individual members, not the firm's name. If you are a body corporate, the Application Form must be signed by a duly authorised officer, who must state his or her representative capacity.

The number of joint applicants may not exceed two. However, no joint applications are allowed for applications using **PINK** Application Forms.

If your application is made by a person duly authorised under a valid power of attorney, the Selling Shareholder, the Company and the Joint Global Coordinators (or their respective agents or nominees) may accept it at their discretion, and subject to any conditions they think fit, including production of evidence of the authority of your attorney.

Save under the circumstances permitted by the Listing Rules, you cannot apply for any Hong Kong Offer Shares if you, or any person for whose benefit you are applying, are/is an existing beneficial owner of the Shares or are/is an associate (as defined in the Listing Rules) of such owner.

2. METHODS TO APPLY FOR HONG KONG OFFER SHARES

You may apply for Hong Kong Offer Shares by using one of the following methods:

- using a **WHITE**, **BLUE** or **YELLOW** and/or **PINK** Application Form; or
- instructing an ESP to act as your agent to apply for Hong Kong Offer Shares on your behalf. Your ESP may have several ways for you to give an instruction and to effect payment, including via the Internet. Your ESP will apply on your behalf using an **ESP** Application Form, which may only be used by ESPs; or
- **electronically** instructing Hongkong Clearing (who may also act as an ESP as described above) to cause HKSCC Nominees to apply for Hong Kong Offer Shares on your behalf.

3. WHICH APPLICATION METHOD YOU SHOULD USE

Please choose the correct Application Form carefully. If you do not use the correct Application Form to apply for Hong Kong Offer Shares, your application is liable to be rejected.

(a) **WHITE Application Forms**

Use a **WHITE** Application Form if you want the Hong Kong Offer Shares to be registered in your own name and are eligible for, and wish to receive, the

HOW TO APPLY FOR HONG KONG OFFER SHARES

Retail Incentives. You may apply for Hong Kong Offer Shares with one other joint applicant. Nominees are not permitted to use **WHITE** Application Forms.

(b) **BLUE Application Forms**

Use a **BLUE** Application Form if you want the Hong Kong Offer Shares to be registered in your own name and are not eligible for, or do not wish to receive, the Retail Incentives. You may apply for Hong Kong Offer Shares with one other joint applicant.

Use a **BLUE** Application Form if you are applying on behalf of another person and want the Hong Kong Offer Shares to be registered in your own name as nominee. If you use a **BLUE** Application Form, you will not be eligible for the Retail Incentives.

(c) **YELLOW Application Forms**

Use a **YELLOW** Application Form if you want the Hong Kong Offer Shares to be registered in the name of HKSCC Nominees and deposited directly into CCASS for credit to your CCASS Investor Participant stock account or your designated CCASS Participant's stock account. You may apply for Hong Kong Offer Shares with one other joint applicant. Applicants using a **YELLOW** Application Form will not be eligible for the Retail Incentives.

(d) **PINK Application Forms**

Use a **PINK** Application Form if you are a full time employee of the Company (other than Members of the Board, Members of the Executive Directorate and their respective associates (as defined in the Listing Rules)), want the Hong Kong Offer Shares to be registered in your own name and want your application to be given preferential treatment. If you use a **PINK** Application Form and satisfy the Eligibility Conditions, you can receive the Retail Incentives.

Joint applications are not permitted. You may not apply on behalf of other person(s) as a nominee.

(e) **Instruct an ESP to make an application on your behalf**

Instead of applying for Hong Kong Offer Shares using either a **WHITE** Application Form or a **YELLOW** Application Form, you may instruct an ESP to act as your agent to apply for Hong Kong Offer Shares on your behalf. You can receive the Retail Incentives if you satisfy the Eligibility Conditions, if your ESP indicates in its application for Hong Kong Offer Shares to that effect, and if you elect for share certificates to be issued in your own name.

You can also have the Hong Kong Offer Shares registered in the name of HKSCC Nominees and deposited directly into CCASS for credit to your CCASS Investor Participant stock account or your designated CCASS Participant's stock account, although, in such case, you will not be eligible for the Retail Incentives.

You may apply for Hong Kong Offer Shares with one other joint applicant if this is permitted by your ESP. Further details are contained in the paragraph headed "How to apply by using an ESP" in this section.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Hongkong Clearing has been appointed by the Selling Shareholder to provide on-line share application services in connection with the Hong Kong Public Offering. Details of the services offered by Hongkong Clearing are set out in the paragraph headed “How to apply by using an ESP”.

(f) **Instruct Hongkong Clearing to make an electronic application on your behalf**

Instead of using a **YELLOW** Application Form, you may **electronically** instruct Hongkong Clearing to cause HKSCC Nominees to apply for Hong Kong Offer Shares on your behalf via CCASS. Any Hong Kong Offer Shares allocated to you will be registered in the name of HKSCC Nominees and deposited directly into CCASS for credit to your CCASS Investor Participant stock account or your designated CCASS Participant’s stock account. If you apply electronically through Hongkong Clearing for Hong Kong Offer Shares to be registered in the name of HKSCC Nominees, you will not be eligible for the Retail Incentives.

If you satisfy the Eligibility Conditions and wish to receive the Retail Incentives, you should use a **WHITE** or **PINK** Application Form or instruct an ESP to apply for Hong Kong Offer Shares on your behalf and elect for share certificates to be issued in your own name.

4. WHEN TO APPLY FOR THE HONG KONG OFFER SHARES

(a) **WHITE, BLUE or YELLOW Application Forms**

Completed **WHITE, BLUE** or **YELLOW** Application Forms, with cheque or banker’s cashier order attached, must be lodged by 12 noon on Thursday, 28th September, 2000, or, if the application lists are not open on that day, by the time and date stated in the sub-paragraph headed “Effect of bad weather conditions on the opening of the application lists” below.

Your completed **WHITE, BLUE** or **YELLOW** Application Form, with payment attached, should be deposited in the special collection boxes provided at any of the branches and sub-branches of the banks listed in the section headed “Prospectus, Application Forms and Results of Allocations” at the following times:

Monday, 25th September, 2000	—	9.00 am to 4.00 pm
Tuesday, 26th September, 2000	—	9.00 am to 4.00 pm
Wednesday, 27th September, 2000	—	9.00 am to 4.00 pm
Thursday, 28th September, 2000	—	9.00 am to 12 noon

Application Forms cannot be lodged at any MTR Station.

HOW TO APPLY FOR HONG KONG OFFER SHARES

(b) **PINK Application Form**

Completed **PINK** Application Forms, with cheque or banker's cashier order attached, must be deposited in the special collection box at the Main Lobby, Level 2, MTR Tower, Telford Plaza, Kowloon Bay, Kowloon, between 9.00 am on Monday, 25th September, 2000 and 4.00 pm on Wednesday, 27th September, 2000.

(c) **Application instructions to an ESP**

An investor can instruct an ESP to apply for Hong Kong Offer Shares. An ESP may provide such services at any time from 9.00 am on Monday, 25th September, 2000 to 12 noon on Thursday, 28th September, 2000.

(d) **Electronic application instructions to Hongkong Clearing**

CCASS Participants should input electronic application instructions at the following times:

Monday, 25th September, 2000	—	9.00 am to 7.00 pm
Tuesday, 26th September, 2000	—	9.00 am to 7.00 pm
Wednesday, 27th September, 2000	—	9.00 am to 7.00 pm
Thursday, 28th September, 2000	—	9.00 am to 12 noon

The latest time for inputting your electronic application instructions via CCASS (if you are a CCASS Participant) is 12 noon on Thursday, 28th September, 2000.

(e) **Application lists**

The application lists will be open from 11.45 am to 12 noon on Thursday, 28th September, 2000, except as provided in the sub-paragraph headed "Effect of bad weather conditions on the opening of the application lists" below. No proceedings will be taken on applications for the Hong Kong Offer Shares and no allocation of any such Shares will be made until after the closing of the application lists.

(f) **Effect of bad weather conditions on the opening of the application lists**

The application lists will be open between 11.45 am and 12 noon on Thursday, 28th September, 2000, subject to weather conditions. The application lists will not be open in relation to the Hong Kong Public Offering if there is:

- a tropical cyclone warning signal number 8 or above; or
- a "black" rainstorm warning signal,

in force in Hong Kong at any time between 9.00 am and 12 noon on Thursday, 28th September, 2000, or if there are similar extraneous factors as are

HOW TO APPLY FOR HONG KONG OFFER SHARES

acceptable to the Stock Exchange. Instead, they will be open between 11.45 am and 12 noon on the next business day which does not fall within the above circumstances at any time between 9.00 am and 12 noon in Hong Kong. **Business day** means a day that is not a Saturday, Sunday or public holiday in Hong Kong.

5. HOW TO APPLY USING A WHITE, BLUE OR YELLOW AND/OR PINK APPLICATION FORM

- (a) Obtain a **WHITE, BLUE or YELLOW** and/or **PINK** Application Form.
- (b) You should read the instructions in this prospectus and the relevant Application Form carefully. If you do not follow the instructions, your application is liable to be rejected and returned by ordinary post together with the accompanying cheque or banker's cashier order to you (or the first-named applicant in the case of joint applicants) at your own risk to the address stated on your Application Form.
- (c) Decide how many Hong Kong Offer Shares you want to purchase. Calculate the amount you must pay on the basis of the maximum Offer Price of HK\$9.38 per Hong Kong Offer Share, plus brokerage of 1% and Stock Exchange transaction levy of 0.01%. The table below sets out the total amount payable for the specified numbers of Hong Kong Offer Shares.

Each application must be in one of the numbers set out in the table below:

Number of Hong Kong Offer Shares applied for	Amount payable on application* (HK\$)	Number of Hong Kong Offer Shares applied for	Amount payable on application* (HK\$)	Number of Hong Kong Offer Shares applied for	Amount payable on application* (HK\$)
500	4,737.37	20,000	189,494.76	900,000	8,527,264.20
1,000	9,474.74	25,000	236,868.45	1,000,000	9,474,738.00
1,500	14,212.11	30,000	284,242.14	2,000,000	18,949,476.00
2,000	18,949.48	40,000	378,989.52	3,000,000	28,424,214.00
2,500	23,686.85	50,000	473,736.90	4,000,000	37,898,952.00
3,000	28,424.21	60,000	568,484.28	5,000,000	47,373,690.00
3,500	33,161.58	80,000	757,979.04	6,000,000	56,848,428.00
4,000	37,898.95	100,000	947,473.80	7,000,000	66,323,166.00
4,500	42,636.32	120,000	1,136,968.56	8,000,000	75,797,904.00
5,000	47,373.69	140,000	1,326,463.32	9,000,000	85,272,642.00
6,000	56,848.43	160,000	1,515,958.08	10,000,000	94,747,380.00
7,000	66,323.17	180,000	1,705,452.84	20,000,000	189,494,760.00
8,000	75,797.90	200,000	1,894,947.60	30,000,000	284,242,140.00
9,000	85,272.64	300,000	2,842,421.40	40,000,000	378,989,520.00
10,000	94,747.38	400,000	3,789,895.20	50,000,000	473,736,900.00
12,000	113,696.86	500,000	4,737,369.00	60,000,000	568,484,280.00
14,000	132,646.33	600,000	5,684,842.80	70,000,000	663,231,660.00
16,000	151,595.81	700,000	6,632,316.60	80,000,000	757,979,040.00
18,000	170,545.28	800,000	7,579,790.40	90,000,000	852,726,420.00

* The above amounts payable on application include brokerage of 1% and Stock Exchange transaction levy of 0.01%.

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No application for any other number of Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

- (d) Applicants eligible for the Retail Incentives must pay the maximum Offer Price without applying the Retail Discount. A refund cheque in respect of the Retail Discount on the Hong Kong Offer Shares (if any) allocated to you, together with the surplus application monies (if any) representing Hong Kong Offer Shares applied for but not allocated to you and representing the difference (if any) between the final Offer Price and the maximum Offer Price (including any brokerage and Stock Exchange transaction levy attributable thereto), is expected to be sent to you (or to the first-named applicant in the case of joint applicants) at your own risk to the address stated on your Application Form on or before Monday, 9th October, 2000.
- (e) Complete the Application Form in English (save as otherwise indicated) and sign it. Only written signatures will be accepted. Applications made by corporations, whether on their own behalf, or on behalf of other persons, must be stamped with the company chop (bearing the company name) and signed by a duly authorised officer, whose representative capacity must be stated. If you are applying for the benefit of someone else, you, rather than that person, must sign the Application Form. If it is a joint application, all applicants must sign it. If your application is made through a duly authorised attorney, the Selling Shareholder, the Company and the Joint Global Coordinators (or their respective agents or nominees) may accept it at their discretion, and subject to any conditions they think fit, including production of evidence of the authority of your attorney.
- (f) Each Application Form must be accompanied by either one cheque or one banker's cashier order, which must be stapled to the top left-hand corner of the Application Form.

If you pay by cheque, the cheque must:

- be in Hong Kong dollars;
- be drawn on your Hong Kong dollar bank account in Hong Kong;
- show your account name, which must either be pre-printed on the cheque, or be endorsed on the back by a person authorised by the bank. This account name must be the same as the name in the Application Form. If the cheque is drawn on a joint account, one of the joint account names must be the same as the name of the first-named applicant;
- be made payable to "HSBC Nominees (Hong Kong) Limited — MTR Public Offer";
- be crossed "Account Payee Only"; and
- not be post dated.

Your application may be rejected if your cheque does not meet all these requirements or is dishonoured on its first presentation.

HOW TO APPLY FOR HONG KONG OFFER SHARES

If you pay by banker's cashier order, the banker's cashier order must:

- be issued by a licensed bank in Hong Kong and have your name certified on the back by a person authorised by the bank. The name on the back of the banker's cashier order and the name on the Application Form must be the same. If it is a joint application, the name on the back of the banker's cashier order must be the same as the name of the first-named joint applicant;
- be in Hong Kong dollars;
- be made payable to "HSBC Nominees (Hong Kong) Limited — MTR Public Offer"; and
- be crossed "Account Payee Only".

Your application is liable to be rejected if your banker's cashier order does not meet all these requirements.

- (g) Lodge your Application Form in one of the collection boxes by the time and at one of the locations, as referred to in sub-paragraphs 4(a) and 4(b) (as the case may be) above.

Application Forms cannot be lodged at any MTR Station.

- (h) The Selling Shareholder reserves the right to present any cheques or bankers' cashier orders for payment. However, your cheque or banker's cashier order will not be presented for payment before 12 noon on Thursday, 28th September, 2000. The Selling Shareholder will not give you a receipt for your payment. The Selling Shareholder will keep any interest accrued on your application monies. The Selling Shareholder also reserves the right to retain any share certificates and/or any surplus application monies or refunds pending clearance of your cheque or banker's cashier order.
- (i) **Multiple or suspected multiple applications are liable to be rejected. Please see the paragraph headed "How many applications you can make" in the section headed "Terms and Conditions of the Hong Kong Public Offering".**
- (j) In order for the **YELLOW** Application Forms to be valid:
- If you are applying through a designated CCASS Participant (other than a CCASS Investor Participant):
 - the designated CCASS Participant or its authorised signatories must sign in the appropriate box; and
 - the designated CCASS Participant must endorse the form with its company chop (bearing its company name) and insert its participant I.D. in the appropriate box.

HOW TO APPLY FOR HONG KONG OFFER SHARES

- If you are applying as an individual CCASS Investor Participant:
 - you must fill in your full name and your Hong Kong Identity Card number; and
 - you must insert your CCASS Investor Participant I.D. and sign in the appropriate box.
- If you are applying as a joint individual CCASS Investor Participant:
 - you must insert all joint CCASS Investor Participants' names and the Hong Kong Identity Card number of at least one of the joint CCASS Investor Participants; and
 - you must insert your CCASS Investor Participant I.D. and the authorised signatory or signatories of the CCASS Investor Participant's stock account must sign in the appropriate box.
- If you are applying as a corporate CCASS Investor Participant:
 - you must insert your company name and your company's Hong Kong business registration number; and
 - you must fill in your CCASS Investor Participant I.D. and stamp your company chop (bearing your company's name) in the presence of the authorised signatory or signatories of the CCASS Investor Participant's stock account in the appropriate box.

The signature(s), number of signatories and form of chop, where appropriate, in each **YELLOW** Application Form should match the records kept by Hongkong Clearing. Incorrect or incomplete details of the CCASS Participant or the omission or inadequacy of authorised signatory or signatories (if applicable), CCASS Participant I.D. or other similar matters may render the application invalid.

- (k) Nominees who wish to submit separate applications in their names on behalf of different beneficial owners are requested to designate on each Application Form in the box marked "For nominees" an identification number for each beneficial owner.

6. HOW TO APPLY BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HONGKONG CLEARING

- (a) CCASS Participants may give electronic application instructions via CCASS to Hongkong Clearing to apply for Hong Kong Offer Shares and to arrange payment of the money due on application and payment of refunds. This will be in accordance with their participant agreements with Hongkong Clearing and the General Rules of CCASS and the CCASS Operational Procedures.
- (b) If you are a CCASS Investor Participant, you may give electronic application instructions through the CCASS Phone System by calling 2979 7888 (using the procedures contained in "An Operating Guide for Investor Participants" in effect

HOW TO APPLY FOR HONG KONG OFFER SHARES

from time to time). Hongkong Clearing can also input electronic application instructions for you if you come to:

Service Counter of Hongkong Clearing
at 2nd Floor, Vicwood Plaza
199 Des Voeux Road Central
Hong Kong

or to

Investor Service Centre of Hongkong Clearing
at Room 1901, Chinachem Exchange Square
1 Hoi Wan Street
Quarry Bay
Hong Kong

and complete an input request form.

Prospectuses are available for collection from both of the above addresses.

- (c) If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Broker Participant or a CCASS Custodian Participant to give electronic application instructions via CCASS terminals to apply for Hong Kong Offer Shares.
- (d) You are deemed to have authorised Hongkong Clearing and/or HKSCC Nominees to transfer the details of your application whether submitted by you or through your CCASS Broker Participant or CCASS Custodian Participant to the Selling Shareholder, the Company and the Share Registrar.
- (e) You may give **electronic application** instructions in respect of a minimum of 500 Hong Kong Offer Shares. Each **electronic application** instruction must be in one of the numbers set out in the table contained in sub-paragraph 5(c) above.
- (f) Where a **BLUE** Application Form is signed by HKSCC Nominees on behalf of persons who have given electronic application instructions to Hongkong Clearing to apply for Hong Kong Offer Shares:
 - HKSCC Nominees is only acting as nominee for those persons and shall not be liable for any breach of the terms and conditions set out in this prospectus or in the **BLUE** Application Form;
 - HKSCC Nominees does all the things on behalf of each of such persons as stated in sub-paragraph (e) in the paragraph headed “Effect of making any application” in the section headed “Terms and Conditions of the Hong Kong Public Offering”.

HOW TO APPLY FOR HONG KONG OFFER SHARES

- (g) If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares in respect of which you have given such instructions and/or in respect of which such instructions have been given for your benefit. Any electronic instructions to make an application for Hong Kong Offer Shares given by you or for your benefit to Hongkong Clearing shall be deemed to be an actual application.
- (h) For the purpose of allocating Hong Kong Offer Shares, HKSCC Nominees shall not be treated as an applicant. Instead, each CCASS Participant who gives electronic application instructions or each person for whose benefit each such instruction is given shall be treated as an applicant.
- (i) The paragraph headed “Personal data” in the section headed “Terms and Conditions of the Hong Kong Public Offering” applies to any personal data held by the Selling Shareholder, the Company and the Share Registrar about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

Warning

Application for Hong Kong Offer Shares by giving electronic application instructions to Hongkong Clearing is only a facility provided to CCASS Participants. The Selling Shareholder, the Company, the Joint Global Coordinators and any parties involved in the Global Offering take no responsibility for the application and provide no assurance that any CCASS Participant will be allocated any Hong Kong Offer Shares.

To ensure that CCASS Investor Participants can give their electronic application instructions to Hongkong Clearing through the CCASS Phone System, CCASS Investor Participants are advised not to wait until the last minute to phone in with their applications. If CCASS Investor Participants have problems in connecting to the CCASS Phone System to submit electronic application instructions, they should either:

- (a) submit the **WHITE, BLUE or YELLOW Application Form** (as appropriate) or apply using an **ESP**; or
- (b) go to **Hongkong Clearing’s Investor Service Centre or Service Counter** to complete an application instruction input request form before **12 noon on Thursday, 28th September, 2000** or such later time as described under the sub-paragraph headed “Effect of bad weather conditions on the opening of the application lists” above.

7. HOW TO APPLY BY USING AN ESP

- (a) You may apply by instructing an **ESP** to act as your agent to apply for Hong Kong Offer Shares on your behalf. An **ESP** is either a registered dealer or an

HOW TO APPLY FOR HONG KONG OFFER SHARES

exempt dealer as defined under the Securities Ordinance or a recognised clearing house as defined in the Securities and Futures (Clearing Houses) Ordinance (Chapter 420 of the Laws of Hong Kong). A list of the names of the ESPs who may provide services as an ESP in relation to the Hong Kong Public Offering released by the Securities and Futures Commission may be obtained on the website of the Securities and Futures Commission. **Applicants are asked to consider carefully in choosing an ESP since an ESP will be acting for you as your agent to apply for Hong Kong Offer Shares on your behalf and may be collecting and handling application monies from you and other applicants using this method. Accordingly, applicants using an ESP to apply for Hong Kong Offer Shares on their behalf do so at their own risk.**

- (b) When you apply for Hong Kong Offer Shares using an ESP, your ESP may have several ways for you to give instructions, such as by telephone or via the Internet, and may make available a number of ways for you to pay for the number of Hong Kong Offer Shares you applied for, such as on-line debit of bank accounts, by debiting money from any securities account you may have with your ESP or by cheque or banker's cashier order.
- (c) In addition to the terms and conditions set out in this prospectus, your ESP may impose fees and other terms and conditions on you. Once your ESP has collected application details and, where applicable, application monies from you and its other underlying applicants, it will then apply as your agent on your behalf using an **ESP Application Form**. Please consult your ESP for further details.
- (d) You may submit your application details to an ESP which may provide such services at any time between 9.00 am on Monday, 25th September, 2000 and 12 noon on Thursday, 28th September, 2000.
- (e) In choosing to apply for the Hong Kong Offer Shares using an ESP, you should be aware of the following:
- The Retail Incentives are only available to eligible applicants who elect to have their Hong Kong Offer Shares registered in their own names.
 - You can elect how you wish to receive your allocations of Hong Kong Offer Shares, if any. You may be able to elect for your share certificates to be: (i) issued in your own name; or (ii) issued in the name of HKSCC Nominees and deposited directly into CCASS for credit to your CCASS Investor Participant stock account or your designated CCASS Participant's stock account.
 - In relation to an ESP using the Internet to collect applications, the Securities and Futures Commission has published "Guidelines for Registered Persons Using the Internet to Collect Applications for Securities in an Initial Public Offering" in relation to the collection by ESPs of application details and

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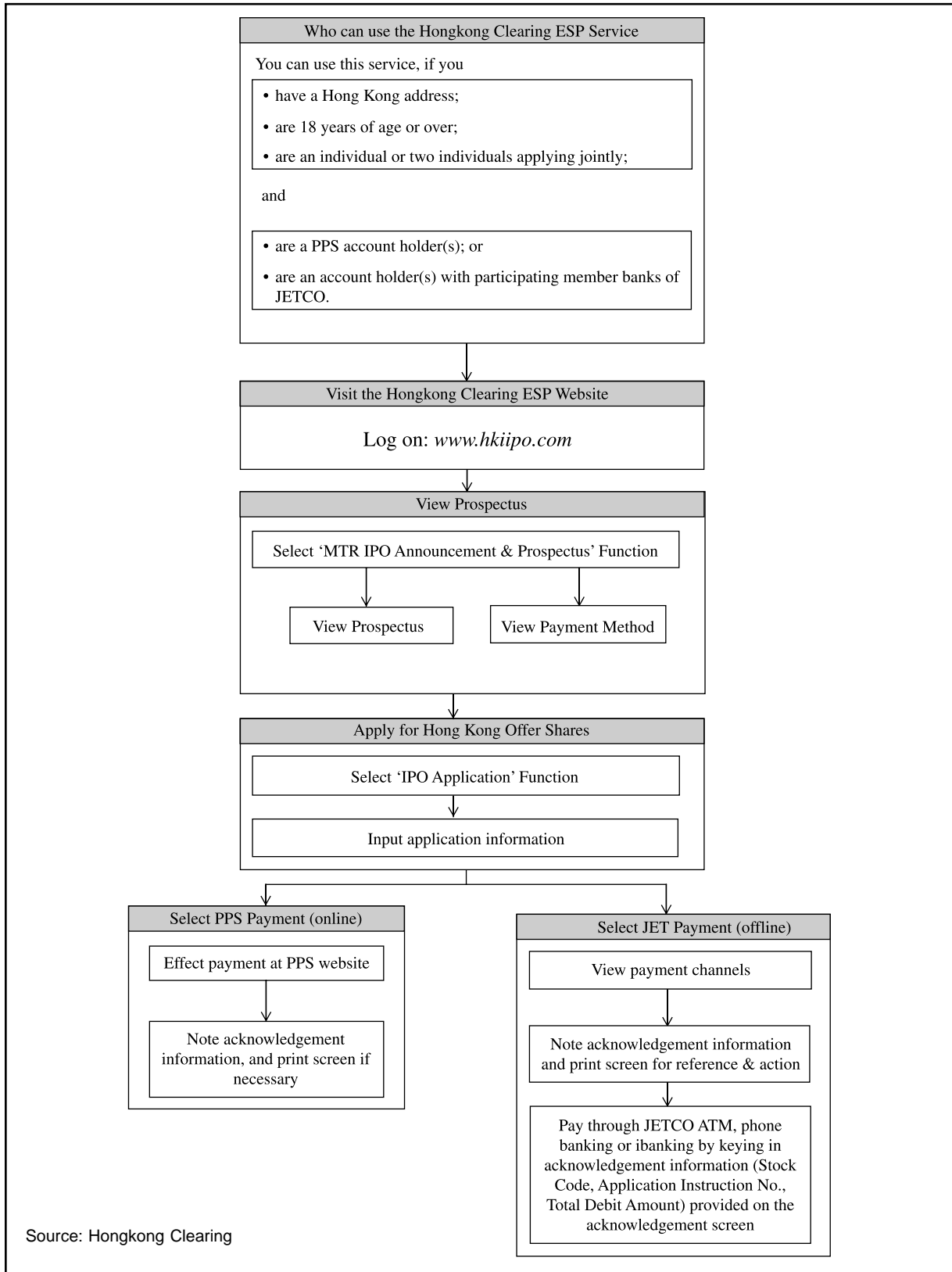
application monies from applicants. In relation to this, ESPs are required to have regard to the Securities and Futures Commission's "Guidance Note on Internet Regulation". Whilst these guidelines do not have the force of law, any ESPs who do not comply with the guidelines may be in breach of relevant laws or regulations.

- Websites of ESPs are provided by the relevant ESPs, and not by the Selling Shareholder, the Company, the Joint Global Coordinators or any other parties involved in the Global Offering and are not otherwise authorised by any of them.
- (f) You may apply for a minimum of 500 Hong Kong Offer Shares if you use an ESP to apply for the Hong Kong Public Offer Shares. Each application instruction to an ESP must be in one of the numbers set out in the table contained in sub-paragraph 5(c) above.
- (g) If you are suspected of having made multiple applications or if more than one application is made for your benefit, all your applications will be rejected. See the paragraph headed "How many applications you can make" in the section headed "Terms and Conditions of the Hong Kong Public Offering".
- (h) In relation to applying through an ESP, the arrangements for the posting of share certificates and refund of application monies for applying for Hong Kong Offer Shares are the same as for applicants applying for Hong Kong Offer Shares using a **WHITE** Application Form or a **YELLOW** Application Form, as appropriate. See the paragraph headed "Refund of your money — additional information" in the section headed "Terms and Conditions of the Hong Kong Public Offering".
- (i) The Selling Shareholder has appointed Hongkong Clearing to act as an ESP for the Hong Kong Public Offering. Hongkong Clearing is offering services as an ESP continuously via its website at www.hkiipo.com during the Hong Kong Public Offering starting from 9.00 am on Monday, 25th September, 2000 until 12 noon on Thursday, 28th September, 2000. This service is available to investors who have maintained accounts with participating member banks of Joint Electronic Teller Services Limited ("**JETCO**") or Electronic Payment Services Company (Hong Kong) Limited ("**EPSCO**"). A list of the participating member banks is available on the website at www.hkiipo.com. There is no need to open an account with CCASS in order to apply for Hong Kong Offer Shares using this service and no transaction cost or handling fee is charged for using it. Investors applying for Hong Kong Offer Shares using this service can receive the Retail Incentives if they satisfy the Eligibility Conditions.

If you use Hongkong Clearing as your ESP and have submitted an application through Hongkong Clearing's ESP services, you can either pay your application monies via JET Payment through JETCO or PPS Payment through EPSCO by following the procedures provided on its website. Application monies will be debited from your bank account immediately if you are using PPS Payment or at the time you effect your JET Payment.

HOW TO APPLY FOR HONG KONG OFFER SHARES

The following diagram shows the operational flow of Hongkong Clearing's ESP service:



Note: Share certificates and refund cheques will be posted directly to you by the Share Registrar.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Warning

Investors should note that this is the first time in Hong Kong that investors can apply for Hong Kong Offer Shares using an ESP. ESPs are agents of applicants and not agents of the Company, the Selling Shareholder, the Joint Global Coordinators or any parties involved in the Global Offering. There is no assurance that using an ESP to apply for Hong Kong Offer Shares on your behalf will result in a valid application being submitted on your behalf. Investors are urged to carefully evaluate the services offered by ESPs. For further details, see the section headed “Risk Factors”.

Investors applying for Hong Kong Offer Shares on-line through websites operated by ESPs should also note that the risks associated with conducting transactions through the Internet are to be borne by the users of these websites. Such risks include, for example: (i) interruption, transmission blackout or delayed transmission due to Internet traffic; (ii) incorrect data transmission due to the public nature of the Internet; (iii) information downloaded from the Internet may be incomplete, altered or tampered with and may not present complete and accurate information; and (iv) that there may be damage caused to the computer software or hardware of users or visitors to ESPs’ websites caused by virus transmission from, or technical defects of, these websites. None of the Selling Shareholder, the Company, the Joint Global Coordinators or other parties involved in the Global Offering or their respective directors, officers, employees, partners, agents and advisers shall be liable for any losses suffered or incurred as a result of use of these websites or reliance on any information downloaded from these websites (other than this prospectus for which the Selling Shareholder, the Members of the Board and the Members of the Executive Directorate accept responsibility as provided herein). Applicants are advised not to wait until the last minute to instruct their ESPs due to such risks.

8. HOW TO APPLY IF YOU ARE AN ESP

- (a) Consolidate share applications received from individual applicants and, if applicable, application monies from individual applicants and submit a bulk application as agent on behalf of such underlying applicants using the **ESP Application Form** which is available for collection from the locations set out in the section headed “Prospectus, Application Forms and Results of Allocations”. Each application for Hong Kong Offer Shares for the benefit of an underlying applicant must be in one of the numbers set out in the table in sub-paragraph 5(c) above. Applications for any other number of Hong Kong Offer Shares will be rejected.
- (b) A completed application by an ESP may be submitted in one of the following two ways:
 - (i) an ESP may submit a final application (“**Final ESP Application**”) by 1.00 pm on Thursday, 28th September, 2000 which must:
 - be set out in the format specified by the Federation of Share Registrars Limited in compliance with the “Operational Procedures for eIPO Applications Submitted via Banks/Stockbrokers” published by the Federation of Share Registrars Limited;

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- include a completed **ESP** Application Form;
 - include a completed “eIPO Applications Submission Form” as provided by the Federation of Share Registrars Limited indicating the electronic media used for transmitting application details of the underlying applicants;
 - include a data file in read-only CD-ROM format or transmitted via the Securities and Derivatives Network (“**SD Net**”), and, in the case of a read-only CD-ROM being used for transmitting details of the underlying applicants, the CD-ROM must be sealed in an envelope bearing the ESP’s company chop and signature of an authorised person across the seal;
 - include two copies of a summary of eIPO applications in the format specified by the Federation of Share Registrars Limited; and
 - include payment in the forms specified in sub-paragraph (c) below (together with a multi-cheques list in the form specified by the Federation of Share Registrars Limited, if applicable); or
- (ii) an ESP may submit a preliminary application (“**Preliminary ESP Application**”) by 1.00 pm on Thursday, 28th September, 2000 provided that it submits the Final ESP Application in the manner set out in sub-paragraph (b)(i) above by 3.00 pm on Thursday, 28th September, 2000. The Preliminary ESP Application must:
- be set out in the format specified by the Federation of Share Registrars Limited in compliance with the “Operational Procedures for eIPO Applications Submitted via Banks/Stockbrokers” published by the Federation of Share Registrars Limited;
 - include a data file in read-only CD-ROM format or transmitted via the SD Net, and, in the case of a read-only CD-ROM being used for transmitting details of the underlying applicants, the CD-ROM must be sealed in an envelope bearing the ESP’s company chop and signature of an authorised person across the seal;
 - include a completed “eIPO Applications Submission Form” as provided by the Federation of Share Registrars Limited indicating the electronic media used for transmitting application details of the underlying applicants; and
 - include two copies of a summary of eIPO applications in the format specified by the Federation of Share Registrars Limited.

If an ESP chooses to submit the application details of underlying applicants via the SD Net, it must ensure that the transmission of such data files is completed at or before the time when the corresponding Preliminary ESP Application or Final ESP Application is submitted.

HOW TO APPLY FOR HONG KONG OFFER SHARES

An ESP can submit more than one Final ESP Application to apply for Hong Kong Offer Shares on behalf of underlying applicants, although multiple applications on behalf of the same underlying applicants will be rejected.

- (c) The Preliminary ESP Application and the Final ESP Application may be lodged, in an unsealed envelope bearing the company chop of the relevant ESP, at a special counter at any one of the following receiving bank branches:

Bank of China, Hong Kong Branch	3/F, Bank of China Tower, 1 Garden Road, Central
Bank of Communications, Hong Kong Branch	20 Pedder Street, Central
Hang Seng Bank Limited, IPO Centre	21/F, Hang Seng Building, 77 Des Voeux Road, Central
The Hongkong and Shanghai Banking Corporation Limited, Hong Kong Main Branch	Correspondence Department, Basement Level 1, HSBC Main Building, 1 Queen's Road Central
Standard Chartered Bank, Custody and Clearing Services Department	Custody and Clearing Services Department, 8/F, Edinburgh Tower, The Landmark, 15 Queen's Road Central

- (d) Application monies received from individual applicants may be submitted on behalf of the underlying applicants either:

- in the form of a single cheque or a banker's cashier order showing the name of the ESP or its nominee and made payable to "HSBC Nominees (Hong Kong) Limited — MTR Public Offer"; or
- in the form of the individual cheques and/or bankers' cashier orders received from the underlying applicants showing the names of the respective underlying applicants and each made payable to "HSBC Nominees (Hong Kong) Limited — MTR Public Offer".

If an ESP is submitting application monies in the form of individual cheques and/or bankers' cashier orders, it must ensure that the following details are stated on the reverse of each of the cheques and/or bankers' cashier orders, as the case may be, received from the underlying applicants:

- its eIPO Service Provider ID;
- the file number of the data file containing application details of such underlying applicants; and
- the application number given to that underlying applicant in that relevant data file.

HOW TO APPLY FOR HONG KONG OFFER SHARES

It is each ESP's responsibility to ensure that the details on the cheques and/or bankers' cashier orders received from the underlying applicants and submitted with the **ESP** Application Form correspond with the application details contained in the read-only CD-ROM or data file it is submitting together with the completed **ESP** Application Form. The Selling Shareholder, the Company and the Joint Global Coordinators have full discretion to reject any or all applications in case of discrepancies.

ESPs must use separate **ESP** Application Forms if they wish to submit applications using more than one of the payment methods above.

Application monies may only be separately submitted by the underlying applicants to the receiving banks for those ESPs who have prior arrangements with the Selling Shareholder and the Joint Global Coordinators. These ESPs must state on the **ESP** Application Form the amount of application monies for the number of Hong Kong Offer Shares applied for on behalf of such underlying applicants. Applications for Hong Kong Offer Shares in respect of such underlying applicants will not be valid unless application monies are received by the receiving banks no later than 12 noon on Thursday, 28th September, 2000 from such underlying applicants. A separate ESP Application Form shall be submitted by an ESP in respect of such applications.

- (e) In submitting a completed **ESP** Application Form to apply for Hong Kong Offer Shares on behalf of underlying applicants, each ESP confirms that it has complied with (if applicable) the Guidelines for Registered Persons Using the Internet to Collect Applications for Securities in an Initial Public Offering issued by the Securities and Futures Commission, as amended from time to time, and all applicable laws and regulations (whether statutory or otherwise), and that it agrees to be bound by the terms and conditions and application procedures set out in this prospectus and the **ESP** Application Form. Further details on the terms and conditions applicable to an ESP are set out in the section "Terms and Conditions of the Hong Kong Public Offering".

TERMS AND CONDITIONS OF THE HONG KONG PUBLIC OFFERING

1. GENERAL

- (a) If you apply for Hong Kong Offer Shares in the Hong Kong Public Offering, you will be agreeing with the Selling Shareholder, the Company and the Joint Global Coordinators (on behalf of the Hong Kong Underwriters) as set out below.
- (b) If you instruct an ESP to act as your agent to apply for Hong Kong Offer Shares on your behalf or electronically instruct Hongkong Clearing to cause HKSCC Nominees to apply for Hong Kong Offer Shares on your behalf, you will have authorised the ESP or HKSCC Nominees (as the case may be) to apply on the terms and conditions set out below, as supplemented and amended by the terms and conditions applicable to the relevant application method.
- (c) In this section, references to “you”, “applicants”, “joint applicants” and other like references shall, if the context so permits, include references to both nominees and principals on whose behalf an ESP and HKSCC Nominees are applying for Hong Kong Offer Shares; and references to the making of an application shall, if the context so permits, include references to making applications electronically by giving instructions to ESPs or Hongkong Clearing; and references to “Application Forms” shall, if the context so permits, include references to the **ESP** Application Form by which your application is made, if applicable.
- (d) Applicants should read carefully this prospectus, including other terms and conditions of the Hong Kong Public Offering, the paragraph headed “The Hong Kong Public Offering” in the section headed “Structure of the Global Offering”, the section headed “How to Apply for Hong Kong Offer Shares” and the terms and conditions set out in the relevant Application Form or imposed by the relevant ESP or Hongkong Clearing (as the case may be) prior to making an application.

2. OFFER TO PURCHASE HONG KONG OFFER SHARES

- (a) You offer to purchase from the Selling Shareholder at the Offer Price the number of Hong Kong Offer Shares indicated in your Application Form (or any smaller number in respect of which your application is accepted) on the terms and conditions set out in this prospectus and the relevant Application Form.
- (b) Hong Kong Offer Shares available for purchase by the Hong Kong public are initially divided equally into pools: Pool A and Pool B. Each valid application (other than those applications made pursuant to **PINK** Application Forms) that has been received for Hong Kong Offer Shares of a value (excluding brokerage and Stock Exchange transaction levy payable thereon) of HK\$5 million or less will fall into Pool A and each valid application (other than made pursuant to **PINK** Application Forms) that has been received for Hong Kong Offer Shares of a value (excluding brokerage and Stock Exchange transaction levy payable thereon) of more than HK\$5 million will fall into Pool B.

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Applications for more than the total number of Hong Kong Offer Shares originally allocated to each pool are liable to be rejected. On the basis that the number of Hong Kong Offer Shares originally allocated to Pool B will not be more than 50% of the Offer Shares initially comprised in the Hong Kong Public Offering excluding those offered under the preferential offering to employees (that is, 90,000,000 Offer Shares), any application for over 90,000,000 Hong Kong Offer Shares is liable to be rejected.

In addition, the number of Hong Kong Offer Shares comprised in Pool A and Pool B will not be determined until after applications have been made. Following such determination, applications in excess of the number of Hong Kong Offer Shares finally determined to be comprised in Pool B (but not more than the initial maximum number) will be deemed to have been made at the number of Hong Kong Offer Shares finally determined to be in Pool B.

Further details are contained in the paragraph headed “The Hong Kong Public Offering” in the section headed “Structure of the Global Offering”.

- (c) The maximum Offer Price is HK\$9.38 per Offer Share. You must also pay brokerage of 1% and the Stock Exchange transaction levy of 0.01%. This means that if you apply for 500 Hong Kong Offer Shares, you will pay HK\$4,737.37. The proposed board lot for trading in the Shares on the Stock Exchange is 500 Shares. You must apply for a minimum of 500 Offer Shares.

You must pay the maximum Offer Price, brokerage and the Stock Exchange transaction levy in full when you apply for Hong Kong Offer Shares.

- (d) A refund cheque in respect of the Retail Discount on the Hong Kong Offer Shares (if any) allocated to you, together with the surplus application monies (if any) representing Hong Kong Offer Shares applied for but not allocated to you and representing the difference (if any) between the final Offer Price and the maximum Offer Price (including brokerage and Stock Exchange transaction attributable thereto), is expected to be sent to you at your own risk to the address stated on your Application Form or your instructions to your ESP on or before Monday, 9th October, 2000.

Details of the procedure for refunds relating to each of the Hong Kong Public Offering Methods are contained below in the paragraphs headed “If your application for Hong Kong Offer Shares is successful (in whole or in part)” and “Refund of your money — additional information” in this section.

- (e) Any application may be rejected in whole or in part.
- (f) Applicants under the Hong Kong Public Offering should note that in no circumstances (save for those provided under section 40 of the Companies Ordinance) can applications be withdrawn once submitted.
- (g) Your entitlement to the Retail Incentives is governed by, and you must comply with, the requirements set out in the section headed “Retail Incentives”.

TERMS AND CONDITIONS OF THE HONG KONG PUBLIC OFFERING

3. ACCEPTANCE OF YOUR OFFER

- (a) The Hong Kong Offer Shares will be allocated after the application lists close. The Selling Shareholder expects to announce the final number of Offer Shares comprised in the Hong Kong Public Offering, Pool A and Pool B, respectively, the level of applications under the Hong Kong Public Offering and the basis of allocations of the Hong Kong Offer Shares in the South China Morning Post and the Hong Kong Economic Times on Tuesday, 3rd October, 2000.
- (b) The results of allocations of Hong Kong Offer Shares under the Hong Kong Public Offering, including the Hong Kong Identity Card numbers of successful applicants and the number of Hong Kong Offer Shares successfully applied for, will be made available from Wednesday, 4th October, 2000 in the manner described in the paragraph headed “Results of allocations” in the section headed “Prospectus, Application Forms and Results of Allocations”.
- (c) The Selling Shareholder may accept your offer to purchase (if your application is received, valid, processed and not rejected) by announcing the basis of allocations and/or making available the results of allocations publicly.
- (d) If the Selling Shareholder accepts your offer to purchase (in whole or in part), there will be a binding contract under which you will be required to purchase the Hong Kong Offer Shares in respect of which your offer has been accepted if the conditions of the Global Offering are satisfied or the Global Offering is not otherwise terminated. Further details are contained in the section headed “Structure of the Global Offering”.
- (e) You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance. This does not affect any other right you may have.

4. HOW MANY APPLICATIONS YOU CAN MAKE

- (a) You may make more than one application for the Hong Kong Offer Shares only if:
 - You are a **nominee**, in which case you may make an application as a nominee by: (i) using an ESP as your agent; or (ii) giving electronic application instructions to Hongkong Clearing (if you are a CCASS Participant); and (iii) lodging more than one application in your own name on behalf of different beneficial owners. In the box on the Application Form marked “For nominees” you must include:
 - an account number; or
 - another identification number
- for **each** beneficial owner. If you do not include this information, the application will be treated as being for your benefit.

TERMS AND CONDITIONS OF THE HONG KONG PUBLIC OFFERING

- You are a **full time employee** of the Company (other than Members of the Board, Members of the Executive Directorate and their respective associates (as defined in the Listing Rules)), in which case you may apply for Hong Kong Offer Shares on a **PINK** Application Form and also: (i) on a **WHITE, BLUE** or **YELLOW** Application Form; or (ii) by using an ESP as your agent to apply; or (iii) **electronically** through Hongkong Clearing (if you are a CCASS Investor Participant or act through a CCASS Broker Participant or CCASS Custodian Participant).

Otherwise, multiple applications are liable to be rejected.

- (b) **All** of your applications are liable to be rejected as multiple applications if you, or you and other joint applicants together:
- make more than one application on a **WHITE, BLUE** or **YELLOW** Application Form or by using an ESP as your agent to apply or by giving **electronic** application instructions to Hongkong Clearing;
 - make more than one application on a **PINK** Application Form;
 - apply on one **WHITE, BLUE** or **YELLOW** Application Form (whether individually or jointly with another) or by using an ESP as your agent to apply or by giving **electronic** application instructions to Hongkong Clearing to apply for more than the number of Hong Kong Offer Shares initially available in Pool B as referred to in the paragraph headed “The Hong Kong Public Offering” in the section headed “Structure of the Global Offering”;
 - receive any Offer Shares and/or ADSs under the International Offering; or
 - apply on one **PINK** Application Form for more than 100% of the Hong Kong Offer Shares being offered to full time employees of the Company on a preferential basis under the Hong Kong Public Offering.
- (c) **All** of your applications are liable to be rejected as multiple applications if more than one application is made for **your benefit** (including the part of the application made by HKSCC Nominees acting on electronic application instructions or your ESP). If an application is made by an unlisted company and: (i) the only business of that company is dealing in securities; and (ii) you exercise statutory control over that company, then the application will be treated as being for your benefit. **Unlisted company** means a company with no equity securities listed on the Stock Exchange. **Statutory control** in relation to a company means you: (i) control the composition of the board of directors of that company; or (ii) control more than half of the voting power of that company; or (iii) hold more than half of the issued share capital of that company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

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5. EFFECT OF MAKING ANY APPLICATION

- (a) By making any application, you (and if you are joint applicants, each of you jointly and severally) for yourself or as agent or nominee and on behalf of each person for whom you act as agent or nominee:
- **instruct** and **authorise** the Selling Shareholder, the Company and/or the Joint Global Coordinators (or their respective agents or nominees) to execute any transfer forms, contract notes or other documents on your behalf and to do on your behalf all other things necessary to effect registration of any Hong Kong Offer Shares allocated to you in your name(s) or HKSCC Nominees, as the case may be, as required by the Articles and otherwise to give effect to the arrangements described in this prospectus and the relevant Application Form;
 - **undertake** to sign all documents and to do all things necessary to enable you or HKSCC Nominees, as the case may be, to be registered as the holder of the Hong Kong Offer Shares allocated to you, and as required by the Articles;
 - **represent** and **warrant** that you are not a United States person (as defined in Regulation S under the US Securities Act);
 - **confirm** that you have received a copy of this prospectus and have only relied on the information and representations contained in this prospectus in making your application, and not on any other information or representation concerning the Company and you agree that neither the Company, the Selling Shareholder, the Joint Global Coordinators and the Hong Kong Underwriters nor any of their respective directors, officers, employees, partners, agents or advisers will have any liability for any such other information or representations;
 - **agree** (without prejudice to any other rights which you may have) that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
 - (if the application is made by an agent on your behalf) **warrant** that the application is the only application which will be made for your benefit on a **WHITE, BLUE** or **YELLOW** Application Form or by using an ESP as your agent to apply or by giving electronic application instructions to Hongkong Clearing;
 - (if the application is made for your own benefit) **warrant** that you have validly and irrevocably conferred on your agent all necessary power and authority to make the application;
 - (if you are an ESP or otherwise an agent for another person) **warrant** that the application is the only application which will be made for the benefit of that other person on a **WHITE, BLUE** or **YELLOW** Application Form or by using an ESP as that other person's agent to apply or by giving electronic application instructions to Hongkong Clearing, and that you are duly authorised to sign the Application Form as that other person's agent;

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- **undertake** and **confirm** that you (if the application is made for your benefit) or the person(s) for whose benefit you have made the application have not applied for or taken up or indicated an interest in or received or been placed or allocated (including conditionally and/or provisionally) and will not apply for or take up or indicate any interest in any Shares and/or ADSs in the International Offering, nor otherwise participate in the International Offering;
- **warrant** the truth and accuracy of the information contained in your application;
- **agree** to disclose to the Selling Shareholder, the Company, the Joint Global Coordinators and their respective agents any information about you which they require or the person(s) for whose benefit you have made the application;
- **irrevocably waive** your right to be transmitted the stamped contract note from any person who acted as your agent in connection with your application for Hong Kong Offer Shares pursuant to Section 19(1)(c) of the Stamp Duty Ordinance (Chapter 117 of the Laws of Hong Kong);
- **agree** that your application, any acceptance of it and the resulting contract will be governed by and construed in accordance with the laws of Hong Kong;
- **undertake** and **agree** to accept the Hong Kong Offer Shares applied for, or any lesser number allocated to you under the application;
- **authorise** the Company to place your name(s) or HKSCC Nominees, as the case may be, on the register of members of the Company as the holder(s) of any Hong Kong Offer Shares allocated to you, and the Selling Shareholder and/or its agents to send any share certificate(s) and/or any refund cheque (where applicable) to you or (in case of joint applicants) the first-named applicant in the Application Form by ordinary post at your own risk to the address stated on your Application Form or the address submitted by your ESP (except that if you have been allocated 200,000 Hong Kong Offer Shares or more, you can collect your share certificate in person between 8.00 am and 2.00 pm on Wednesday, 4th October, 2000 from the Share Registrar);
- **acknowledge** and **agree** that the stamp duty which you are liable to pay in respect of the Hong Kong Offer Shares allocated to you shall be met by the Selling Shareholder;
- **understand** that these declarations and representations will be relied upon by the Selling Shareholder, the Company and the Joint Global Coordinators in deciding whether or not to allocate any Hong Kong Offer Shares in response to your application;
- if the laws of any place outside Hong Kong are applicable to your application, you **agree** and **warrant** that you have complied with all such laws and none of the Company, the Selling Shareholder, the Joint Global

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Coordinators and the Hong Kong Underwriters nor any of their respective officers or advisers will infringe any laws outside Hong Kong as a result of the acceptance of your offer to purchase, or any actions arising from your rights and obligations under the terms and conditions contained in this prospectus.

- (b) If you apply for Hong Kong Offer Shares using a **WHITE** or **PINK** Application Form or by instructing an ESP and satisfy the Eligibility Conditions, you irrevocably **appoint** and **authorise** the Share Registrar to execute transfer forms in respect of the Bonus Shares to be transferred to you on the First Bonus Date and the Second Bonus Date, respectively. You also irrevocably waive the right to be transmitted a stamped contract note pursuant to section 19(1)(c) of the Stamp Duty Ordinance (Chapter 117 of the Laws of Hong Kong) in respect of the transfer of the Bonus Shares to you.
- (c) If you apply for Hong Kong Offer Shares using a **YELLOW** Application Form, in addition to the confirmations and agreements referred to in (a) above you **agree** that any Hong Kong Offer Shares allocated to you shall be registered in the name of HKSCC Nominees and deposited directly into CCASS operated by Hongkong Clearing for credit to your CCASS Investor Participant stock account or the stock account of your designated CCASS Participant, in accordance with your election on the Application Form.
- (d) If you apply for Hong Kong Offer Shares using an ESP, in addition to the confirmations and agreements above, you are deemed to do the following:
- **instruct** and **authorise** your ESP to apply for the number of Hong Kong Offer Shares as instructed by you on the terms and conditions contained in this prospectus and subject to the Articles of Association as agent on your behalf;
 - **agree** that the Hong Kong Offer Shares to be allocated shall be: (i) registered in your name and that share certificates be issued in your name; or (ii) registered in the name of HKSCC Nominees and deposited directly into CCASS for credit to your CCASS Investor Participant stock account or your designated CCASS Participant stock account of the ESP who has applied for the Hong Kong Offer Shares on your behalf;
 - **undertake** and **agree** to accept the Hong Kong Offer Shares in respect of which you have applied for through your ESP or any lesser number;
 - **warrant** that you have validly and irrevocably conferred on your ESP all necessary power and authority to apply for Hong Kong Offer Shares; however, you may revoke the instructions before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is not a business day) if a person responsible for this prospectus under section 40 of the Companies Ordinance gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus;

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- (if you are submitting your application details to the ESP through the Internet) **confirm** that you are aware of the risks associated with conducting transactions over the Internet including: (i) interruption, transmission blackout or delayed transmission due to Internet traffic; (ii) incorrect data transmission due to the public nature of the Internet; (iii) information downloaded from the Internet may be incomplete, altered or tampered with and may not present complete and accurate information; and (iv) that there may be damage caused to the computer software or hardware of users or visitors to ESPs' websites caused by virus transmission from, or technical defects of, these websites;
- **agree** that you will not copy, reproduce, republish, frame, upload to a third party, transmit or distribute any part of or the whole of the electronic copy of this prospectus;
- **agree** that no representations, warranties, guarantees or undertakings (whether express or implied) are made or given by the Company, the Selling Shareholder, the Joint Global Coordinators or any parties involved in the Global Offering and their respective directors, officers, employees, partners, agents and advisers in any respect in relation to:
 - information and data (other than this prospectus for which the Selling Shareholder, the Members of the Board and the Members of the Executive Directorate accept responsibility as provided herein) contained in, and the use of, any websites of any ESPs; and
 - the receipt and processing of application details provided by applicants using any ESP or the collection, storage and disclosure of personal data provided by the underlying applicants;
- **agree** that to the extent permitted by law, the Company, the Selling Shareholder, the Joint Global Coordinators and any other parties involved in the Global Offering and their respective directors, officers, employees, partners, agents and advisers accept no liabilities for any claims, demands, losses and damages (whether direct or indirect) of any kind, including but not limited to contractual, tortious, statutory, strict, civil and criminal liabilities and liabilities under any theories of liabilities, howsoever arising from, or in connection with, the use of or in reliance on the information and data (other than this prospectus for which the Selling Shareholder, the Members of the Board and the Members of the Executive Director accept responsibility as provided herein) contained in any websites of any ESPs;
- **agree** that any websites operated by ESPs are provided by the respective ESPs independently of the Company, the Selling Shareholder, the Joint Global Coordinators and other parties involved in the Global Offering. None of the Selling Shareholder, the Company, the Joint Global Coordinators or

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any other parties to the Global Offering or their respective directors, officers, employees, partners, agents and advisers have authorised:

- any ESP or any other person to add to, amend, delete or in any way change the content or form of, or the information contained in, this prospectus; or
 - any ESP or any other person to make any statement or recommendation or to provide any additional information or comment concerning the matters and information contained in this prospectus;
 - **agree** that unless otherwise specified in this prospectus, nothing arising from, or connected with, the use of any websites of any ESPs will form the basis of any relationship (including, but not limited to, a contractual or fiduciary relationship) with any of the Selling Shareholder, the Company, the Joint Global Coordinators, any other parties involved in the Global Offering or their respective directors, officers, employees, partners, agents and advisers. Nothing contained in any websites of any ESPs shall be read or interpreted as to contradict the terms and conditions set out in this prospectus;
 - **agree** that no offer or invitation to acquire shares in the Company is being made by or in connection with information or data provided on any websites of any ESPs not contained in this prospectus. Any such offer or invitations is made solely by means of the prospectus and any acquisition of the Hong Kong Offer Shares should be made solely on the basis of the information contained in this prospectus.
- (e) In addition, by giving electronic application instructions to Hongkong Clearing or instructing your broker or custodian who is a CCASS Broker Participant or a CCASS Custodian Participant to give such instructions to Hongkong Clearing, you (and if you are joint applicants, each of you jointly and severally) are deemed to do the following additional things and neither Hongkong Clearing nor HKSCC Nominees will be liable to the Selling Shareholder, the Company nor any other person in respect of such things:
- **instruct** and **authorise** Hongkong Clearing to cause HKSCC Nominees (acting as nominee for the CCASS Participants) to apply for Hong Kong Offer Shares on your behalf;
 - **instruct** and **authorise** Hongkong Clearing to arrange payment of the maximum Offer Price, brokerage and Stock Exchange transaction levy by debiting your designated bank account and, in the case of wholly or partly unsuccessful applications and/or if the Offer Price is less than the maximum Offer Price of HK\$9.38, refund the appropriate portion of the application money by crediting your designated bank account; and
 - (in addition to the confirmations and agreements set out in paragraph (a) above) **instruct** and **authorise** Hongkong Clearing to cause HKSCC Nominees to do on your behalf the following:

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- **agree** that the Hong Kong Offer Shares to be allocated shall be registered in the name of HKSCC Nominees and deposited directly into CCASS for credit to your CCASS Investor Participant stock account or the stock account of the CCASS Participant who has inputted electronic application instructions on your behalf;
- **undertake** and **agree** to accept the Hong Kong Offer Shares in respect of which you have given electronic application instructions or any lesser number;
- (if the electronic application instructions are given for your own benefit) **declare** that only one set of electronic application instructions has been given for your benefit;
- (if you are an agent for another person) **declare** that you have given only one set of electronic application instructions for the benefit of that other person, and that you are duly authorised to give those instructions as that other person's agent;
- **understand** that the above declaration will be relied upon by the Selling Shareholder in deciding whether or not to make any allocation of Hong Kong Offer Shares in respect of the electronic application instructions given by you and that you may be prosecuted if you make a false declaration;
- **authorise** the Company to place the name of HKSCC Nominees on the register of members of the Company as the holder of the Hong Kong Offer Shares allocated in respect of your electronic application instructions and to send share certificates in accordance with arrangements separately agreed between the Company and Hongkong Clearing;
- **confirm** that you have read the terms and conditions and application procedures set out in this prospectus and agrees to be bound by them;
- **confirm** that you have only relied on the information and representations in this prospectus in giving your electronic application instructions or instructing your CCASS Broker Participant or CCASS Custodian Participant to give electronic application instructions on your behalf;
- **agree** (without prejudice to any other rights which you may have) that once the application of HKSCC Nominees has been accepted, the application cannot be rescinded for innocent misrepresentation;
- **agree** to disclose your personal data to the Selling Shareholder and the Company and its Share Registrar, receiving bankers, agents and advisers and any information about you which they require;
- **agree** that you cannot revoke electronic application instructions before 24th October, 2000, such agreement to take effect as a collateral contract with the Selling Shareholder and to become binding when you

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give the instructions and such collateral contract to be in consideration of the Selling Shareholder agreeing that it will not offer any Hong Kong Offer Shares to any person before 24th October, 2000, except by means of one of the procedures referred to in this prospectus. However, you may revoke the instructions before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is not a business day) if a person responsible for this prospectus under section 40 of the Companies Ordinance gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus;

- **agree** that once the application of HKSCC Nominees is accepted, neither that application nor your electronic application instructions can be revoked and that acceptance of that application will be evidenced by the results of the Hong Kong Public Offering made available by the Selling Shareholder; and
- **agree** to the arrangements, undertakings and warranties specified in the participant agreement between you and Hongkong Clearing, read with the General Rules of CCASS and the CCASS Operational Procedures, in respect of the giving of electronic application instructions relating to Hong Kong Offer Shares.

(f) In submitting a completed **ESP** Application Form, an ESP:

- **confirms** that it has complied with all applicable laws and regulations in relation to the provision of ESP services in relation to the Hong Kong Public Offering and that it has complied with all the provisions contained in: (i) the Guidance Note on Internet Regulation; and (ii) the Guidelines for Registered Persons Using the Internet to Collect Applications for Securities in an Initial Public Offering issued by the Securities and Futures Commission (where applicable);
- **confirms** that it has read the terms and conditions and application procedures set out in this prospectus and agrees to be bound by them;
- **confirms** that it is applying for the Hong Kong Offer Shares as agent on behalf of the underlying applicants;
- **warrants** that the application is the only application which will be made for the benefit of the underlying applicant;
- (in relation to those ESPs who provided on-line application facilities via their websites) **confirms** and **agrees** that:
 - it is either a registered dealer or an exempt dealer as defined under the Securities Ordinance or a recognised clearing house as defined in the Securities and Futures (Clearing Houses) Ordinance (Chapter 420 of the Laws of Hong Kong) and named in the list of the names of the ESPs which may provide services as an ESP in relation to the Hong

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Kong Public Offering released by the Securities and Futures Commission, a copy of which may be obtained on the website of the Securities and Futures Commission;

- it cannot accept instructions for application of Hong Kong Offer Shares after 12 noon on Thursday, 28th September, 2000;
- the website through which it is collecting share applications is provided independently of the Company, the Selling Shareholder, the Joint Global Coordinators or their respective directors, officers, employees, partners, agents and advisers and other parties involved in the Global Offering;
- the prospectus was displayed on its website or otherwise made available to the public no earlier than 9.00 am on Monday, 25th September, 2000 and was/will be withdrawn from its website no later than 12 noon on Thursday, 28th September, 2000;
- the Selling Shareholder, the Company and the Joint Global Coordinators or their respective directors, officers, employees, partners, agents and advisers take no responsibility as to the content (other than this prospectus for which the Selling Shareholder, the Members of the Board and the Members of the Executive Directorate accept responsibility as provided herein) or the operation of its website;
- none of the Selling Shareholder, the Company, the Joint Global Coordinators or their respective directors, officers, employees, partners, agents and advisers or any other parties involved in the Global Offering has authorised it or any other person to add to, amend, delete, or in any way change the content or form of, or the information contained in, this prospectus, or to make any statement or recommendation or to provide any additional information or comment concerning the matters and information contained in this prospectus;
- each of the Selling Shareholder, the Company, the Joint Global Coordinators or their respective directors, officers, partners, employees, agents, advisers or any other parties involved in the Global Offering expressly disclaims any responsibility or liability for any claims, demands, losses and damages (whether direct or indirect) of any kind whatsoever arising out of, or in connection with any addition, amendment, deletion or other change to this prospectus and any statement, recommendation, comment or information not contained in this prospectus;
- no guarantees, undertakings, warranties or representations (whether express or implied) are made or given by the Selling Shareholder, the Company, the Joint Global Coordinators or their respective directors, officers, employees, partners, agents and advisers or any other parties involved in the Global Offering in any respect in relation to the information and data (other than this prospectus for which the Selling

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Shareholder, the Members of the Board and the Members of the Executive Directorate accept responsibility as provided herein) contained in, and the use of, its website;

- to the extent permitted by law, the Selling Shareholder, the Company, the Joint Global Coordinators, their respective directors, officers, employees, partners, agents and advisers and any other parties involved in the Global Offering accept no liability for any claims, demands, losses and damages (whether direct or indirect) of any kind, including, but not limited to, contractual, tortious, statutory, strict, civil and criminal liabilities and liabilities under any theories of liabilities, howsoever arising from, or in connection with, the use of, or in reliance on, the information and data (other than this prospectus for which the Selling Shareholder, the Members of the Board and the Members of the Executive Directorate accept responsibility as provided herein) contained in its website;
- unless otherwise specified in this prospectus, nothing arising from, or connected with, the use of its website will form the basis of any relationship (including, but not limited to, a contractual or fiduciary relationship) with any of the Selling Shareholder, the Company, the Joint Global Coordinators, any other parties involved in the Global Offering or their respective directors, officers, employees, partners, agents and advisers and that nothing contained in its website shall be read or interpreted as to contradict the above terms and conditions;
- no offer or invitation to acquire shares in the Company is being made by or in connection with information or data provided on any of the websites that ESP operates and which is not contained in this prospectus; and
- it will not copy, reproduce, republish, frame, upload to a third party, transmit or distribute any part of or the whole of the electronic copy of this prospectus;
- **irrevocably waives** its right to be transmitted the stamped contract note in connection with its application for Hong Kong Offer Shares for itself and on behalf of underlying applicants pursuant to section 19(1)(c) of the Stamp Duty Ordinance (Chapter 117 of the Laws of Hong Kong);
- **undertakes** to sign all documents and do all things necessary to enable the underlying applicants on whose behalf it is applying for the Hong Kong Offer Shares to be registered as the holders of the Hong Kong Offer Shares allocated to them, and as required by the Articles;
- **represents** and **warrants** that measures reasonably designed to guard against sales or provision of services to US persons have been put in place in respect of the ESP services it is offering in relation to the Hong Kong Public Offering;

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- **confirms** that it has handled the personal information obtained from the underlying applicants in compliance with the Personal Data (Privacy) Ordinance (Chapter 486 of the Laws of Hong Kong);
 - **agrees** to disclose to the Selling Shareholder, the Company, the Joint Global Coordinators and their respective agents any information about it or the underlying applicants for whom it is applying for Hong Kong Offer Shares as agent which they require;
 - **warrants** that it has all the necessary power and authority to make the application for Hong Kong Offer Shares on behalf of the underlying applicants; and
 - **understands** that the above declarations and representations will be relied upon by the Selling Shareholder, the Company and the Joint Global Coordinators in deciding whether or not to allocate any Hong Kong Offer Shares in response to your application.
- (g) The Selling Shareholder, the Company, the Joint Global Coordinators, the Hong Kong Underwriters and their respective directors and any other parties involved in the Global Offering are entitled to rely on any warranty, representation or declaration made by you in your application.
- (h) All the warranties, representations, declarations and obligations expressed to be made, given or assumed by or imposed on the joint applicants shall be deemed to have been made, given or assumed by or imposed on the applicants jointly and severally.

6. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOCATED HONG KONG OFFER SHARES

You should note the following situations in which Hong Kong Offer Shares will not be allocated to you or your application is liable to be rejected:

(a) **If your application is revoked:**

By completing an Application Form, you agree that you cannot revoke your application before 24th October, 2000. This agreement will take effect as a collateral contract with the Selling Shareholder, and will become binding when you lodge your Application Form. This collateral contract will be in consideration of the Selling Shareholder agreeing that it will not offer any Hong Kong Offer Shares to any person before 24th October, 2000 except by means of one of the procedures referred to in this prospectus. For this purpose, acceptance of applications which are not rejected will be constituted by announcement of the basis of allocation and/or making available the results of allocation publicly, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

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You may only revoke your application earlier than 24th October, 2000 if a person responsible for this prospectus under section 40 of the Companies Ordinance gives a reasonable public notice under that section which excludes or limits the responsibility of that person for this prospectus.

If your application has been accepted, it cannot be revoked.

(b) **If the allocation of Hong Kong Offer Shares is void:**

Your allocation of Hong Kong Offer Shares will be void if the Listing Committee of the Stock Exchange does not grant permission to list the Shares either:

- within three weeks from the closing of the applications lists; or
- within a longer period of up to six weeks if the Listing Committee of the Stock Exchange notifies the Company of that longer period within three weeks of the closing of the application lists.

(c) **If you make applications under the Hong Kong Public Offering as well as the International Offering:**

By filling in any of the Application Forms or using an ESP as your agent to apply or giving application instructions to Hongkong Clearing **electronically**, you agree not to apply for Hong Kong Offer Shares as well as Offer Shares and/or ADSs under the International Offering. Reasonable steps will be taken to identify and reject applications under the Hong Kong Public Offering from investors who have received Shares and/or ADSs in the International Offering, and to identify and reject indications of interest in the International Offering from investors who have received Hong Kong Offer Shares in the Hong Kong Public Offering.

(d) **If the Selling Shareholder, the Joint Global Coordinators or their respective agents exercise their discretion:**

The Selling Shareholder, the Joint Global Coordinators or their respective agents have full discretion to reject or accept any application, or to accept only part of any application, without having to give any reasons for any rejection or acceptance.

(e) **If:**

- your application is a multiple or a suspected multiple application;
- your Application Form is not completed correctly;
- your payment is not made correctly or you pay by cheque or banker's cashier order and the cheque or banker's cashier order is dishonoured on its first presentation;

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- you or the person for whose benefit you are applying have applied for and/or received or will receive Shares and/or ADSs under the International Offering; or
 - the Hong Kong Underwriting Agreement does not become unconditional or it is terminated in accordance with the terms thereof.
- (f) If you are using an ESP as your agent to apply for Hong Kong Offer Shares on your behalf or if you are giving **electronic** application instructions to Hongkong Clearing to apply for Hong Kong Offer Shares on your behalf, you will also not be allocated any Hong Kong Offer Shares if your ESP's or HKSCC Nominees' application is not accepted.

7. IF YOUR APPLICATION FOR HONG KONG OFFER SHARES IS SUCCESSFUL (IN WHOLE OR IN PART)

- (a) **If you are applying using a WHITE or a BLUE Application Form or if you are using an ESP as your agent to apply and you elect to receive share certificates in your name:**

- If you have applied for and are successfully allocated 200,000 or more Hong Kong Offer Shares you can collect your share certificate(s) in person from:

Central Registration Hong Kong Limited
1712-1716
17/F, Hopewell Centre
183 Queen's Road East
Hong Kong

between 8.00 am and 2.00 pm on Wednesday, 4th October, 2000, after which the share certificate(s) will be posted to you by ordinary post and at your own risk to the address stated on the Application Form.

- Refund cheques cannot be collected and are expected to be despatched on or before Monday, 9th October, 2000 to the same address as that for share certificate(s).
- Applicants being individuals who opt for personal collection cannot authorise any other person to make collection on their behalf. Corporate applicants who opt for personal collection must attend by their authorised representatives bearing letters of authorisation from the corporation stamped with the corporation's respective chops. Both individuals and authorised representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to the Share Registrar.
- If you have applied for less than 200,000 Hong Kong Offer Shares or if you have applied for, and are successfully allocated, 200,000 or more Hong Kong Offer Shares and do not collect your share certificate(s) between the times and on the date specified above, then your share certificate(s) will be

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sent to you (or the first-named applicant in the case of joint applicants) at the address stated on your Application Form or the address submitted by your ESP in its application details on Wednesday, 4th October, 2000, by ordinary post and at your own risk.

- (b) **If: (i) you are applying on a YELLOW Application Form; (ii) you are using an ESP as your agent to apply; or (iii) you are giving electronic application instructions to Hongkong Clearing and in each case you elect to have allocated Hong Kong Offer Shares deposited directly into CCASS:** If your application is wholly or partly successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your CCASS Investor Participant stock account or the stock account of your designated CCASS Participant as instructed by you (on the Application Form or through your ESP or electronically, as the case may be), at the close of business on Wednesday, 4th October, 2000 or, under certain contingent situations, on any other date as shall be determined by Hongkong Clearing or HKSCC Nominees.
- **If you are applying through a designated CCASS Participant (other than a CCASS Investor Participant) on a YELLOW Application Form:** For Hong Kong Offer Shares credited to the stock account of your designated CCASS Participant (other than a CCASS Investor Participant), you can check the number of Hong Kong Offer Shares allocated to you with that CCASS Participant.
 - **If you are applying as a CCASS Investor Participant on a YELLOW Application Form:** The Selling Shareholder is expected to make available the the results of the Hong Kong Public Offering, including the results of CCASS Investor Participants' applications, in the manner described in the paragraph headed "Results of allocations" in the section headed "Prospectus, Application Forms and Results of Allocations", from Wednesday, 4th October, 2000. You should check against the results made available by the Selling Shareholder and report any discrepancies to Hongkong Clearing before 5.00 pm on Wednesday, 4th October, 2000 or such other date as shall be determined by Hongkong Clearing or HKSCC Nominees. On Thursday, 5th October, 2000 (being the next day following the credit of the Hong Kong Offer Shares to your stock account) you can check your new account balance via the CCASS Phone System (under the procedures contained in Hongkong Clearing's "An Operating Guide for Investor Participants" in effect from time to time). Hongkong Clearing will also mail to you an activity statement showing the number of Hong Kong Offer Shares credited to your stock account.
 - **If you have given electronic application instructions to Hongkong Clearing:** The Selling Shareholder is expected to make available the application results of the Hong Kong Public Offering, including the results of CCASS Participants' applications (and in the case of CCASS Broker Participants and CCASS Custodian Participant, the Selling Shareholder shall

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include information relating to the beneficial owner), your Hong Kong identity card/passport number/Hong Kong business registration number (as appropriate) in the manner described in the paragraph headed “Results of allocations” in the section headed “Prospectus, Application Forms and Results of Allocations”, from Wednesday, 4th October, 2000. You should check against the results made available by the Selling Shareholder and report any discrepancies to Hongkong Clearing before 5.00 pm on Wednesday, 4th October, 2000 or any other date Hongkong Clearing or HKSCC Nominees chooses.

If you are instructing your CCASS Broker Participant or Custodian Participant to give electronic application instructions to Hongkong Clearing on your behalf: You can also check the number of Hong Kong Offer Shares allocated to you and the amount of refund (if any) payable to you with that CCASS Broker Participant or CCASS Custodian Participant.

If you are applying as a CCASS Investor Participant by giving electronic instruction to Hongkong Clearing: You can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund (if any) payable to you via the CCASS Phone System (under the procedures contained in Hongkong Clearing’s “An Operating Guide for Investor Participants” in effect from time to time) on Wednesday, 4th October, 2000. On Thursday, 5th October, 2000 (being the next day following the credit of the Hong Kong Offer Shares to your stock account), Hongkong Clearing will also mail to you an activity statement showing the number of Hong Kong Offer Shares credited to your stock account and the amount of refund credited to your designated bank account (if any).

(c) **If you are applying using a PINK Application Form:**

The share certificate(s) will be sent to the relevant full time employee of the Company at the address stated on the **PINK** Application Form by ordinary post, at the risk of the relevant full time employee, on the same date of despatch of other share certificates which is expected to be on Wednesday, 4th October, 2000. Refund cheques (if any) will be despatched to relevant full time employees at the same time as other refund cheques are despatched, which is expected to be on or before Monday, 9th October, 2000.

No receipt will be issued for application monies paid. Neither the Selling Shareholder nor the Company will issue temporary documents of title.

8. REFUND OF YOUR MONEY — ADDITIONAL INFORMATION

- (a) You will be entitled to a refund if:
- your application is not successful, in which case the Selling Shareholders will refund your application money together with brokerage and Stock Exchange transaction levy to you, without interest;

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- your application is accepted only in part, in which case the Selling Shareholder will refund the appropriate portion of your application money, brokerage and Stock Exchange transaction levy, without interest;
 - the Offer Price (as finally determined) is less than the price per Offer Share initially paid by the applicant on application, in which case the Selling Shareholder will refund the surplus application money together with the appropriate portion of brokerage and Stock Exchange transaction levy, without interest; and
 - you are entitled to receive the Retail Discount, in which case the Selling Shareholder will refund the Retail Discount together with the appropriate portion of brokerage and Stock Exchange transaction levy, without interest.
- (b) If you are applying using an ESP, all refunds will be made to the underlying applicants as if they applied for Hong Kong Offer Shares using a **WHITE** or **YELLOW** Application Form, depending on your instructions to your ESP.
- (c) If you are applying by giving electronic instructions to Hongkong Clearing to apply on your behalf, all refunds are expected to be credited to your designated bank account (if you are applying as a CCASS Investor Participant) or the designated bank account of your broker or custodian (if you are applying through a CCASS Broker/Custodian Participant) on Wednesday, 4th October, 2000.
- (d) All refunds by cheque will be crossed “Account Payee Only”, and made out to you, or if you are a joint applicant, to the first-named applicant on your Application Form.
- (e) Refund cheques (including refunds in respect of the Retail Discount) are expected to be despatched on or before Monday, 9th October, 2000.
- (f) You may not collect any refund cheques.

The Selling Shareholder intends to make special efforts to avoid delays in refunding money.

9. PERSONAL DATA

The main provisions of the Personal Data (Privacy) Ordinance (Chapter 486 of the Laws of Hong Kong) (the “**Ordinance**”) came into effect in Hong Kong on 20th December, 1996. This Personal Information Collection Statement informs the applicant for and holder of the Hong Kong Offer Shares of the policies and practices of the Selling Shareholder, the Company and the Share Registrar in relation to personal data and the Ordinance.

(a) **Reasons for the collection of your personal data**

From time to time it is necessary for applicants for securities or registered holders of securities to supply their latest correct personal data to the Selling Shareholder, the Company and the Share Registrar when applying for

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securities or transferring securities into or out of their names or in procuring the services of the Share Registrar.

Failure to supply the requested data may result in your application for securities being rejected or in delay or inability of the Selling Shareholder, the Company or its Share Registrar to effect transfers or otherwise render their services. It may also prevent or delay registration or transfer of the Hong Kong Offer Shares which you have successfully applied for and/or the despatch of share certificate(s), and/or refund cheque(s) to which you are entitled.

It is important that holders of securities inform the Selling Shareholder, the Company and the Share Registrar immediately of any inaccuracies in the personal data supplied.

It may be necessary in order to verify a shareholder's entitlement to participate in the Loyalty Share Bonus, to request the shareholder to supply his or her Hong Kong identity card (or a copy of it) or Hong Kong identity card number and/or other personal data for the purpose of assessing his or her eligibility under the Loyalty Share Bonus and in order to prevent or detect any fraudulent or dishonest participation in the Loyalty Share Bonus. Failure by a shareholder to supply his or her Hong Kong identity card or Hong Kong identity card number or any other personal data in the time frame requested may result in the loss or cancellation of such shareholder's entitlement to any Bonus Shares.

(b) **Purposes**

The personal data of the applicants and the holders of securities may be used, held and/or stored (by whatever means) for the following purposes:

- processing of your application and verification of compliance with the terms and application procedures set out in the Application Forms and this prospectus and announcing results of allocations of the Hong Kong Offer Shares;
- authenticating the eligibility of shareholders to participate in the Loyalty Share Bonus and preventing or detecting any fraudulent or dishonest participation;
- transferring and registering Bonus Shares in the names of shareholders;
- enabling compliance with all applicable laws and regulations in Hong Kong and elsewhere;
- registering new issues or transfers into or out of the name of holders of securities including, where applicable, in the name of HKSCC Nominees Limited;
- maintaining or updating the registers of holders of securities of the Company;
- conducting or assisting to conduct signature verifications, any other verification or exchange of information;

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- establishing benefit entitlements of holders of securities of the Company, such as dividends, rights issues and bonus issues;
- distributing communications from the Selling Shareholder, the Company and its subsidiaries;
- compiling statistical information and shareholder profiles;
- making disclosures as required by laws, rules or regulations;
- disclosing relevant information to facilitate claims on entitlements; and
- any other incidental or associated purposes relating to the above and/or to enable the Selling Shareholder, the Company and the Share Registrar to discharge their obligations to holders of securities and/or the Loyalty Share Bonus and/or regulators and/or any other purpose to which the holders of securities may from time to time agree.

(c) **Transfer of personal data**

Personal data held by the Selling Shareholder, the Company and the Share Registrar relating to the applicants and the holders of securities will be kept confidential but the Selling Shareholder, the Company and the Share Registrar may, to the extent necessary for achieving the above purposes or any of them, make such enquiries as they consider necessary to confirm the accuracy of the personal data and in particular, they may disclose, obtain, transfer (whether within or outside Hong Kong) the personal data of the applicants and the holders of securities to, from or with any and all of the following persons and entities:

- the Selling Shareholder, the Company or their respective appointed agents such as financial advisers and receiving bankers;
- Hongkong Clearing and HKSCC Nominees, who will use the personal data for the purposes of operating CCASS (in cases where the applicants have requested for the Hong Kong Offer Shares to be desposited into CCASS);
- any agents, contractors or third party service providers who offer administrative, telecommunications, computer, payment or other services to the Company and/or the Share Registrar in connection with the operation of their businesses;
- the Stock Exchange, the Securities and Futures Commission and any other statutory, regulatory or governmental bodies; and
- any other persons or institutions with which the holders of securities have or propose to have dealings, such as their bankers, solicitors, accountants or stockbrokers.

By signing an Application Form or by giving electronic application instructions to Hongkong Clearing or by instructing an ESP, you agree to all of the above.

TERMS AND CONDITIONS OF THE HONG KONG PUBLIC OFFERING

(d) **Access and correction of personal data**

The Ordinance provides the applicants the holders of securities with rights to ascertain whether the Selling Shareholder, the Company and/or the Share Registrar hold their personal data, to obtain a copy of that data, and to correct any data that is inaccurate. In accordance with the Ordinance, the Selling Shareholder, the Company and the Share Registrar have the right to charge a reasonable fee for the processing of any data access request. All requests for access to data or correction of data or for information regarding policies and practices and the kinds of data held should be addressed to the Company for the attention of the Company Secretary or (as the case may be) the Share Registrar for the attention of the Privacy Compliance Officer for the purposes of the Ordinance.

10. MISCELLANEOUS

(a) **Commencement of dealings in the Shares**

- Dealings in the Shares are expected to commence at 10.00 am on Thursday, 5th October, 2000.
- Shares will be traded on the Stock Exchange in board lots of 500 Shares.
- Any share certificates in respect of Hong Kong Offer Shares collected or received by successful applicants will not be valid if the Global Offering is terminated in accordance with the terms of the Hong Kong Underwriting Agreement.

(b) **Shares will be eligible for CCASS**

- If the Stock Exchange grants the listing of and permission to deal in the Shares and the stock admission requirements of Hongkong Clearing are complied with, the Shares will be accepted as eligible securities by Hongkong Clearing for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on the Stock Exchange or on any other date Hongkong Clearing chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day.
- All activities under CCASS are subject to the general rules of CCASS and CCASS Operational Procedures in effect from time to time.
- All necessary arrangements have been made for the Shares to be admitted into CCASS.

PROSPECTUS, APPLICATION FORMS AND RESULTS OF ALLOCATIONS

PROSPECTUS AND APPLICATION FORMS

1. WHITE and BLUE Application Forms and prospectus

You can collect a **WHITE** or a **BLUE** Application Form and a prospectus from:

Any participant of the Stock Exchange

Goldman Sachs (Asia) L.L.C.
68th Floor
Cheung Kong Center
2 Queen's Road Central
Hong Kong

or

HSBC Investment Bank Asia Limited
Level 15
1 Queen's Road Central
Hong Kong

UBS Warburg, a business group of UBS AG
25th Floor
One Exchange Square
Central
Hong Kong

or

BOCI Asia Limited
35/F, Bank of China Tower
1 Garden Road
Hong Kong

Jardine Fleming Securities Limited
46th Floor, Jardine House
One Connaught Place
Central, Hong Kong

or

Celestial Capital Limited
22/F The Center
99 Queen's Road Central
Hong Kong

Corporate Brokers Ltd
7-9/F Radio City, 505 Hennessy Road
Causeway Bay
Hong Kong

or

Dao Heng Securities Limited
12/F The Center
99 Queen's Road Central
Hong Kong

Get Nice Investment Limited
21-22/F, Euro Trade Centre
13-14 Connaught Road Central
Hong Kong

or

Hang Seng Securities Limited
12/F, 83 Des Voeux Road Central
Hong Kong

Indosuez W.I. Carr Securities Limited
44/F, One Exchange Square
8 Connaught Place, Central
Hong Kong

or

ING Barings Asia Limited
39/F One International Finance Center
1 Harbour View Street
Hong Kong

Ka Wah Capital Limited
Unit 6310-6312, 63/F The Center
99 Queen's Road Central
Hong Kong

or

Kim Eng Securities (Hong Kong) Limited
8/F Alexandra House
16-20 Chater Road, Central
Hong Kong

or

Kleinwort Benson Limited
21/F Cheung Kong Center
2 Queen's Road Central
Hong Kong

Lippo Securities Limited
2302 Lippo Centre, Tower One
89 Queensway, Central
Hong Kong

PROSPECTUS, APPLICATION FORMS AND RESULTS OF ALLOCATIONS

Morgan Stanley Dean Witter Asia Limited
30th Floor, Three Exchange Square
Central
Hong Kong

or

Prudential-Bache Securities (Hong Kong) Limited
40/F Asia Pacific Finance Tower
3 Garden Road, Central
Hong Kong

Roctec Securities Company Limited
15th Floor, Admiralty Centre Tower II
18 Harcourt Road
Hong Kong

or

Sanfull Securities Limited
20/F, Far East Consortium Building
121 Des Voeux Road Central
Hong Kong

SG Securities (HK) Limited
41/F Edinburgh Tower
15 Queen's Road Central
Hong Kong

or

Shenyin Wanguo Capital (H.K.) Limited
28th Floor, Citibank Tower
3 Garden Road, Central
Hong Kong

South China Securities Limited
28/F, Bank of China Tower
1 Garden Road, Central
Hong Kong

or

Sun Hung Kai International Limited
Suite 1101-1106 One Pacific Place
88 Queensway
Hong Kong

Tai Fook Securities Company Limited
25th Floor, New World Tower
16-18 Queen's Road Central
Hong Kong

or

The Bank of East Asia, Limited
8/F, 10 Des Voeux Road Central
Hong Kong

or

Vickers Ballas Capital Limited
19/F Far East Finance Centre
16 Harcourt Road
Admiralty, Hong Kong

or (until 8.00 pm on Wednesday, 27th September, 2000) any of the following MTR Stations
(although no Application Forms can be lodged at any MTR Station):

Admiralty station

Causeway Bay station

or

Central station

Tsim Sha Tsui station

Kowloon Tong station

PROSPECTUS, APPLICATION FORMS AND RESULTS OF ALLOCATIONS

or any of the following branches and sub-branches of:

Bank of China, Hong Kong Branch:

Hong Kong Island

Hong Kong Branch	3/F, 1 Garden Road, Central
Central Sub-branch	Li Po Chun Chambers, 189 Des Voeux Road Central, Central
North Point Sub-branch	G/F, Roca Centre, 464 King's Road, North Point
United Centre Sub-branch	Shop 1021, 1/F, United Centre, 95 Queensway
Wanchai Sub-branch	395 Hennessy Road, Wanchai

Kowloon

Canton Road Sub-branch	Imperial Building, 60 Canton Road, Tsim Sha Tsui
Kwun Tong Sub-branch	55 Hoi Yuen Road, Kwun Tong
Tsim Sha Tsui Sub-branch	G/F Houston Centre, 63 Mody Road, Tsim Sha Tsui
Yaumatei Sub-branch	471 Nathan Road, Yaumatei
Whampoa Garden Sub-branch	G/F, Shop 2, Willow Mansion, Site 3, Whampoa Garden, Hung Hom

New Territories

Hong Kong International Airport Sub-branch	Unit 7T075, Passenger Terminal Building, Hong Kong International Airport
Shatin Sub-branch	G/F Lucky Plaza, Wang Pok Street, Shatin
Tsuen Wan Sub-branch	167 Castle Peak Road, Tsuen Wan
Tuen Mun Sub-branch	Shop 2, G/F Tuen Mun Town Plaza Phase II, Tuen Mun

Bank of Communications, Hong Kong Branch:

Hong Kong Island

Hong Kong Branch	20 Pedder Street, Central
Central District Sub-branch	125A Des Voeux Road Central, Central
Hennessy Road Sub-branch	368 Hennessy Road, Wanchai
North Point Sub-branch	442-448 King's Road, North Point
Wanchai Sub-branch	32-34 Johnston Road, Wanchai
West Point Sub-branch	327-333 Queen's Road West

Kowloon

Cheung Sha Wan Plaza Sub-branch	Unit G04, Cheung Sha Wan Plaza, 833 Cheung Sha Wan Rd
Kowloon Sub-branch	G/F, 563 Nathan Road
Mongkok Sub-branch	99-101 Argyle Street, Mongkok
Ngau Tau Kok Sub-branch	Shop G1 G/F, Phase 1 Amoy Plaza, 77 Ngau Tau Kok Road
Tseung Kwan O Sub-branch	Shop 253-255, Metro City Shopping Arcade, Phase I, Tseung Kwan O

New Territories

Tsuen Wan Sub-branch	G10-11, Pacific Commercial Plaza, Bo Shek Mansion, 328 Sha Tsui Road, Tsuen Wan
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PROSPECTUS, APPLICATION FORMS AND RESULTS OF ALLOCATIONS

Hang Seng Bank Limited:

Hong Kong Island

Head Office	83 Des Voeux Road Central
Causeway Bay Branch	28 Yee Wo Street
Central District Branch	2 D'Aguilar Street
North Point Branch	335 King's Road
Wan Chai Branch	200 Hennessy Road

Kowloon

Kowloon Main Branch	618 Nathan Road
Kwun Tong Branch	70 Yue Man Square
Tsim Sha Tsui Branch	18 Carnarvon Road
Yaumatei Branch	363 Nathan Road

New Territories

Chung On Street Branch	38 Chung On Street, Tsuen Wan
Sha Tin Branch	Shop 18, Lucky Plaza, Wang Pok Street, Sha Tin
Tai Po (On Chee Road) Branch	48, Fortune Plaza, On Chee Road, Tai Po
Yuen Long Branch	93 Castle Peak Road, Yuen Long

The Hongkong and Shanghai Banking Corporation Limited:

Hong Kong Island

Hong Kong Main Branch	Level 3, 1 Queen's Road Central
Central Branch	29 Queen's Road Central
Cityplaza Branch	Unit 065, Cityplaza I, Taikoo Shing
Des Voeux Road Central Branch	141 Des Voeux Road Central
Des Voeux Road West Branch	40-50 Des Voeux Road West
Hopewell Centre Branch	Shop No.1, G/F, Hopewell Centre, 183 Queen's Road East, Wan Chai
North Point Branch	306-316 King's Road, North Point

Kowloon

Kwun Tong Branch	1 Yue Man Square, Kwun Tong
Mongkok Branch	673 Nathan Road, Mongkok
Telford Gardens Branch	Unit P16, Blk G, Telford Plaza I, Kowloon Bay
Tsim Sha Tsui Branch	82-84 Nathan Road, Tsim Sha Tsui

New Territories

City Landmark Branch	Shops 117-131, 1/F, City Landmark I, 68 Chung On Street, Tsuen Wan
Shatin City One Branch	Shops 138-140, City One Plaza, Shatin
Yuen Long Branch	G/F, HSBC Building Yuen Long, 150-160 Castle Peak Road, Yuen Long

PROSPECTUS, APPLICATION FORMS AND RESULTS OF ALLOCATIONS

Standard Chartered Bank:

Hong Kong Island

Aberdeen Central Branch	Shop 4A, Aberdeen Centre, Site 5, 5-12 Nam Hing Street, Aberdeen
CIG Building Branch	Shop B, G/F, CIG Building, 141 Des Voeux Road Central
Des Voeux Road Central Branch	Standard Chartered Bank Building, 4-4A Des Voeux Road Central
Leighton Centre Branch	Shop 12-16, UG/F Leighton Centre, 77 Leighton Road, Causeway Bay
North Point Centre Branch	284 King's Road, North Point
Taikoo Place Branch	G/F, 969 King's Road, Quarry Bay
The Landmark Branch	The Landmark, 15 Queen's Road Central

Kowloon

Kwun Tong Branch	88-90 Fu Yan Street, Kwun Tong
Mongkok Bank Centre Branch	Bank Centre, 630-636 Nathan Road, Mongkok
Tsimshatsui Branch	10 Granville Road, Tsimshatsui
San Po Kong Branch	10-20 Ning Yuen Street, San Po Kong

New Territories

Shatin Centre Branch	Shop 32C, Level 3, Shatin Centre, Shopping Arcade, 2-16 Wang Pok Street, Shatin
Tsuen Wan Branch	Basement 1/F, Emperor Plaza, 263 Sha Tsui Road, Tsuen Wan

You may also view the prospectus from the Selling Shareholder's dedicated website at www.mtripo.com.hk and at websites of certain ESPs.

2. **YELLOW Application Form and prospectus**

You can collect a **YELLOW** Application Form and a prospectus from:

- (a) the service counter of Hongkong Clearing at 2nd Floor, Vicwood Plaza, 199 Des Voeux Road Central, Hong Kong; or
- (b) the Investor Service Centre of Hongkong Clearing at Room 1901, Chinachem Exchange Square, 1 Hoi Wan Street, Quarry Bay, Hong Kong; or
- (c) your broker, who may have such Application Forms available.

3. **PINK Application Form and prospectus**

You can collect a **PINK** Application Form and a prospectus from the following locations:

- (a) Between 9.00 am on Monday, 25th September, 2000 and 4.00 pm on Wednesday, 27th September, 2000, at:
Reception Counter at the Main Lobby, Level 2, MTR Tower, Telford Plaza, Kowloon Bay, Kowloon.

PROSPECTUS, APPLICATION FORMS AND RESULTS OF ALLOCATIONS

- (b) Between 9.00 am and 11.00 pm on Monday, 25th September, 2000 and Tuesday, 26th September, 2000, and between 9.00 am and 4.00 pm on Wednesday, 27th September, 2000, at:
- Choi Hung station, Sham Shui Po station, Tin Hau station and Tsing Yi station; and
 - MRC Recreation and Sports Centre at Kowloon Bay depot, Tsuen Wan depot or Chai Wan depot.

4. ESP Application Form and prospectus

An **ESP** can collect an **ESP** Application Form and an electronic version of the prospectus from The Hongkong and Shanghai Banking Corporation Limited, Hong Kong Main Branch, Basement Level 1 — Correspondence Department, HSBC Main Building, 1 Queen's Road Central between 9.00 am and 12 noon on Monday, 25th September, 2000 by prior arrangement with the Joint Global Coordinators.

RESULTS OF ALLOCATIONS

The results of allocations of Hong Kong Offer Shares under the Hong Kong Public Offering, including applications made under **WHITE, BLUE, YELLOW, PINK** and **ESP** Application Forms and by giving electronic application instructions to Hongkong Clearing, which will include the Hong Kong identity card numbers, passport numbers or Hong Kong business registration numbers of successful applicants and the number of Hong Kong Offer Shares successfully applied for, will be available at the times and dates and in the manner specified as follows:

- special allocations results booklets setting out the results of allocations will be available for inspection at the receiving banks below during opening hours of individual branches and sub-branches on 4th October, 2000 and 5th October, 2000;
- results of allocations will be available from the Selling Shareholder's dedicated hotline. Applicants may find out whether or not their applications have been successful and the number of Hong Kong Offer Shares allocated to them, if any, by calling 1836-888 between 7.00 am and 12 midnight on 4th October, 2000 and 5th October, 2000;
- results of allocations will be available from the Selling Shareholder's dedicated website at www.mtripo.com.hk on a 24-hour basis from 4th October, 2000 to 10th October, 2000;
- special allocations results booklets setting out the results of allocations will be available for inspection at all 126 branches of Hongkong Post during opening hours of individual post offices on 4th October, 2000 and 5th October, 2000;
- special allocations results booklets setting out the results of allocations will be available for collection from the Stock Exchange by participants of the Stock Exchange. Applicants can make enquiries with participants who have copies of the booklets on 4th October, 2000 and 5th October, 2000; and
- Hong Kong Underwriters will have special allocations results booklets setting out the results of allocations. Applicants can contact Hong Kong Underwriters for results of allocations between 9.00 am and 6.00 pm on 4th October, 2000 and 5th October, 2000.

PROSPECTUS, APPLICATION FORMS AND RESULTS OF ALLOCATIONS

Bank of China, Hong Kong Branch

Hong Kong Island

Hong Kong Branch	3/F, 1 Garden Road, Central
Central Sub-branch	Li Po Chun Chambers, 189 Des Voeux Road Central, Central
North Point Sub-branch	G/F, Roca Centre, 464 King's Road, North Point
United Centre Sub-branch	Shop 1021, 1/F, United Centre, 95 Queensway
Wanchai Sub-branch	395 Hennessy Road, Wanchai

Kowloon

Canton Road Sub-branch	Imperial Building, 60 Canton Road, Tsim Sha Tsui
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PROSPECTUS, APPLICATION FORMS AND RESULTS OF ALLOCATIONS

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Des Voeux Road Branch	Standard Chartered Bank Building, 4-4A Des Voeux Road Central
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Taikoo Place Branch	G/F, 969 King's Road, Quarry Bay
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Kowloon

Kwun Tong Branch	88-90 Fu Yan Street, Kwun Tong
Mong Kok Bank Centre Branch	Bank Centre, 630-636 Nathan Road, Mong Kok
San Po Kong Branch	10-20 Ning Yuen Street, San Po Kong
Tsim Sha Tsui Branch	10 Granville Road, Tsim Sha Tsui

New Territories

Sha Tin Centre Branch	Shop 32C, Level 3, Shatin Centre, Shopping Arcade, 2-16 Wang Pok Street, Sha Tin
Tsuen Wan Branch	Basement 1/F, Emperor Plaza, 263 Sha Tsui Road, Tsuen Wan

The following is the text of a report, prepared for the purpose of incorporation in this prospectus, received from the auditors and independent reporting accountants of the Company, KPMG, Certified Public Accountants, Hong Kong. As described in the section headed "Documents Delivered and Available for Inspection" in Appendix X, a copy of the Accountants' Report is available for inspection.



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

The Members of the Board and the Members of the Executive Directorate
MTR Corporation Limited
Goldman Sachs (Asia) L.L.C.
HSBC Investment Bank Asia Limited
UBS Warburg, a business group of UBS AG

25th September, 2000

Dear Sirs

We set out below our report on the financial information relating to MTR Corporation Limited (the "Company") for each of the three years ended 31st December, 1999 and the six months ended 30th June, 2000 (the "relevant period") for inclusion in the prospectus of the Company dated 25th September, 2000 (the "Prospectus"). Terms used herein have the same meaning ascribed to them in the "Definitions" section of the Prospectus unless otherwise stated.

The Company was incorporated in Hong Kong on 26th April, 2000. By virtue of the Mass Transit Railway Ordinance (Cap. 556 of the Laws of Hong Kong) enacted on 3rd March, 2000 (the "new MTR Ordinance"), among other things,

- all the property, rights and liabilities to which Mass Transit Railway Corporation ("MTRC") was entitled or subject immediately before 30th June, 2000, the appointed day for the purposes of the Ordinance (the "Appointed Day"), became the property, rights and liabilities of the Company on the Appointed Day;
- any agreement made, transaction effected or other thing done by, to or in relation to MTRC which was in force or effective immediately before the Appointed Day, has effect as from that day as if made, effected or done by, to or in relation to the Company, in all respects as if the Company were the same person in law as MTRC;

- on the Appointed Day, 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; and
- for the purposes of any accounts of the Company, the Company has been treated, on and from the Appointed Day, as if it were the continuation of MTRC.

Accordingly, all the financial statements prepared by and all financial information of or in relation to MTRC before the Appointed Day are treated, on and from the Appointed Day, as if they were, and are referred to thereafter as such, the financial statements and financial information of or in relation to the Company.

We have examined the audited financial statements for each of the three years ended 31st December, 1999 and for the six months ended 30th June, 2000 of the Company in accordance with the Auditing Guideline "Prospectuses and the reporting accountant" issued by the Hong Kong Society of Accountants.

We have acted as auditors of the Company for the relevant period. The financial statements for the relevant period as set out in section A below, comprising the balance sheets of the Company as at 31st December, 1997, 1998 and 1999, and 30th June, 2000, and the related profit and loss accounts, statements of recognised gains and losses and cash flow statements for each of the years in the three-year period ended 31st December, 1999 and for the six months ended 30th June, 2000, together with the notes thereto, have been prepared based on the audited financial statements of the Company. The financial information for the six months ended 30th June, 1999, which is included for comparison purpose only is based on the unaudited management accounts of the Company.

The Members of the Board and the Members of the Executive Directorate of the Company are responsible for the preparation of the financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently, that judgements and estimates are made which are prudent and reasonable and that the reasons for any significant departure from applicable accounting standards are stated.

It is our responsibility to form an independent opinion on the financial statements for the relevant period.

In our opinion, the financial statements for the relevant period referred to above, for the purpose of this report, give a true and fair view of the state of the Company's affairs as at 31st December, 1997, 1998 and 1999, and 30th June, 2000, and of its profit and cash flows for each of the years in the three-year period ended 31st December, 1999 and for the six months ended 30th June, 2000, and have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Such financial statements and notes were examined and reported on solely on the basis of and in accordance with standards and practices established in Hong Kong; our report has not been prepared in accordance with reporting standards generally accepted in the United States and, accordingly, should not be relied upon as if it had been carried out in accordance with those standards.

A. FINANCIAL STATEMENTS

Profit and Loss Accounts

	Note	Year ended 31st December,			Six months ended 30th June,	
		1997	1998	1999	2000	1999
		(in HK\$ millions)				
Fare revenue	2					
—MTR Lines.....		5,191	5,229	5,194	2,514	2,509
—Airport Express		—	212	445	252	209
Advertising, kiosk rental and miscellaneous business revenue		767	843	823	461	390
Property ownership and management income	3	616	697	790	428	363
Turnover		<u>6,574</u>	<u>6,981</u>	<u>7,252</u>	<u>3,655</u>	<u>3,471</u>
Staff costs and related expenses		(1,610)	(1,879)	(1,911)	(847)	(971)
Energy and utilities		(348)	(462)	(513)	(235)	(242)
Operational rent and rates		(68)	(59)	(63)	(29)	(36)
Stores and spares consumed		(122)	(133)	(136)	(55)	(59)
Repairs and maintenance		(446)	(433)	(482)	(184)	(200)
Expenses relating to advertising, kiosk rental and miscellaneous businesses.....		(146)	(178)	(150)	(64)	(64)
Property ownership and management expenses.....		(101)	(119)	(155)	(66)	(67)
Other expenses		(204)	(417)	(349)	(218)	(185)
Operating expenses before depreciation	4	<u>(3,045)</u>	<u>(3,680)</u>	<u>(3,759)</u>	<u>(1,698)</u>	<u>(1,824)</u>
Operating profit from railway and related operations before depreciation		3,529	3,301	3,493	1,957	1,647
Profit on property developments	6	276	1,419	2,030	746	1,026
Operating profit before depreciation		3,805	4,720	5,523	2,703	2,673
Depreciation.....	7	(927)	(1,426)	(2,039)	(1,052)	(995)
Operating profit before interest and finance charges		2,878	3,294	3,484	1,651	1,678
Interest and finance charges.....	8					
Interest expense		(620)	(690)	(1,349)	(631)	(704)
Interest income		525	215	245	31	176
		<u>(95)</u>	<u>(475)</u>	<u>(1,104)</u>	<u>(600)</u>	<u>(528)</u>
Profit after interest and finance charges		2,783	2,819	2,380	1,051	1,150
Staff separation payments.....	9	—	—	(264)	—	(2)
Profit for the period		2,783	2,819	2,116	1,051	1,148
Dividend.....	10	(1,252)	—	—	—	—
Retained profit for the period		<u>1,531</u>	<u>2,819</u>	<u>2,116</u>	<u>1,051</u>	<u>1,148</u>
Basic earnings per share	11	HK\$0.56	HK\$0.56	HK\$0.42	HK\$0.21	HK\$0.23

The accompanying notes are an integral part of these financial statements

Statements of Recognised Gains and Losses

	Year ended 31st December,			Six months ended 30th June,	
	1997	1998	1999	2000	1999 (unaudited)
	(in HK\$ millions)				
Surplus/(deficit) on revaluation of investment properties.....	169	(1,273)	432	1,126	—
Surplus/(deficit) on revaluation of other fixed assets.....	642	(760)	(34)	(53)	—
Net gains/(losses) transferred directly to reserves.....	811	(2,033)	398	1,073	—
Net profit for the period	2,783	2,819	2,116	1,051	1,148
Total recognised gains and losses.....	3,594	786	2,514	2,124	1,148

The accompanying notes are an integral part of these financial statements

Balance Sheets

	Note	At 31st December,			At 30th June,	
		1997	1998	1999	2000	1999
(in HK\$ millions)						
Assets						
Fixed assets:	14					
—Investment properties		7,683	8,310	8,857	10,027	8,342
—Other property, plant and equipment		29,748	67,112	68,248	68,334	67,370
		37,431	75,422	77,105	78,361	75,712
Railway construction in progress	15	29,631	1,536	4,996	6,920	3,015
Property development in progress	16(a)	1,242	2,213	2,968	3,308	2,334
Deferred expenditure	17	598	123	138	136	138
Investments in subsidiaries	18	25	25	25	53	25
Investment in unlisted debt securities in Hong Kong		98	—	—	—	—
Staff housing loans	19	701	887	793	832	882
Stores and spares	20	209	265	290	298	293
Debtors, deposits and payments in advance	21	405	527	608	675	654
Amounts due from the Government and other related parties	22	314	298	259	162	277
Cash at banks and in hand	23	4,768	808	68	71	3,557
		75,422	82,104	87,250	90,816	86,887
Liabilities						
Bank overdrafts	24(b)	11	32	35	40	23
Short-term loans	24(b)	—	—	436	843	—
Dividend payable		1,252	—	—	—	—
Creditors, accrued charges and provisions	26	3,151	4,973	3,784	3,667	4,065
Contract retentions	27	916	588	741	795	627
Amounts due to the Government and other related parties	28	640	1,017	587	423	734
Loans and obligations under finance leases	24(b)	10,864	16,865	22,706	24,708	22,579
Deferred liabilities	29	68	58	70	73	70
Deferred income	16(b)	16,705	15,970	13,776	13,028	15,040
		33,607	39,503	42,135	43,577	43,138
Net assets		41,815	42,601	45,115	47,239	43,749
Shareholder funds						
Share capital and capital reserve	30	32,188	32,188	32,188	32,188	32,188
Other reserves	31	9,627	10,413	12,927	15,051	11,561
		41,815	42,601	45,115	47,239	43,749

The accompanying notes are an integral part of these financial statements

Cash Flow Statements

Note	Year ended 31st December,			Six months ended 30th June,		
	1997	1998	1999	2000	1999	
	(in HK\$ millions)					
Net cash inflow from operating activities.....	32(a)	3,377	3,915	3,311	1,926	1,741
Servicing of finance and returns on investments:						
Interest paid		(747)	(911)	(1,328)	(911)	(673)
Interest received		654	251	133	31	113
Interest element of finance lease rental payments.....		(102)	(101)	(89)	(41)	(46)
Finance charges paid		(35)	(94)	(103)	(26)	(54)
Dividend paid		(647)	(1,252)	—	—	—
Net cash outflow from servicing of finance and returns on investments.		(877)	(2,107)	(1,387)	(947)	(660)
Investing activities:						
Capital expenditure						
—Airport Railway Project		(10,177)	(5,103)	(1,847)	(74)	(1,189)
—Tseung Kwan O Extension Project		(272)	(885)	(2,816)	(1,560)	(1,024)
—Other capital projects		(3,272)	(3,710)	(3,415)	(1,263)	(1,674)
—Property development projects.		(1,776)	(1,992)	(1,568)	(519)	(771)
Acquisition of office space		(320)	—	—	—	—
Receipts from property developers		9,440	—	613	120	613
Receipt on disposal of fixed assets.....		129	1	2	—	—
Investment in a subsidiary		—	—	—	(47)	—
Loans made under Staff Housing Loan Scheme		(716)	(295)	(156)	(138)	(87)
Principal repayments under Staff Housing Loan Scheme.....		11	109	250	99	92
Net cash outflow from investing activities.....		(6,953)	(11,875)	(8,937)	(3,382)	(4,040)
Net cash outflow before financing		(4,453)	(10,067)	(7,013)	(2,403)	(2,959)

The accompanying notes are an integral part of these financial statements

Cash Flow Statements—continued

	Note	Year ended 31st December,			Six months ended 30th June,	
		1997	1998	1999	2000	1999
		(in HK\$ millions)				
Financing:						
Shares issued.....		4,000	—	—	—	—
Drawdown of loans.....		126	9,287	8,394	4,165	6,966
Repayment of loans		(1,872)	(3,222)	(1,949)	(1,707)	(1,135)
Reduction in capital element of finance lease.....		(58)	(63)	(116)	(59)	(58)
Full repayment of finance lease obligation ..		—	—	(68)	—	(68)
(Release)/collection of refundable deposits and asset replacement reserve funds		(4)	(14)	9	2	12
Net cash inflow from financing.....	32(b)	<u>2,192</u>	<u>5,988</u>	<u>6,270</u>	<u>2,401</u>	<u>5,717</u>
(Decrease)/increase in cash and cash equivalents		(2,261)	(4,079)	(743)	(2)	2,758
Cash and cash equivalents at beginning of period.....		<u>7,116</u>	<u>4,855</u>	<u>776</u>	<u>33</u>	<u>776</u>
Cash and cash equivalents at end of period		<u><u>4,855</u></u>	<u><u>776</u></u>	<u><u>33</u></u>	<u><u>31</u></u>	<u><u>3,534</u></u>
Analysis of the balances of cash and cash equivalents:						
Cash at banks and in hand.....		4,768	808	68	71	3,557
Unlisted debt securities		98	—	—	—	—
Bank overdrafts		(11)	(32)	(35)	(40)	(23)
		<u><u>4,855</u></u>	<u><u>776</u></u>	<u><u>33</u></u>	<u><u>31</u></u>	<u><u>3,534</u></u>

The accompanying notes are an integral part of these financial statements

NOTES TO FINANCIAL STATEMENTS**1 Principal accounting policies****(a) Basis of preparation of financial statements**

(i) The financial statements have been prepared in accordance with all applicable Statements of Standard Accounting Practice and Interpretations issued by the Hong Kong Society of Accountants, generally accepted accounting principles in Hong Kong and the disclosure provisions in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

(ii) The measurement basis used in the preparation of the financial statements is historical cost modified by the revaluation of investment properties and self-occupied office land and buildings.

(iii) Subsidiaries are companies in which the Company has an attributable interest of more than 50% of the ordinary share capital held for the long-term. Group accounts of the Company and its subsidiaries are not prepared in view of the Company having no effective board control over one of its subsidiaries, Creative Star Limited, and the insignificant amounts involved in the other subsidiaries. Investments in subsidiaries are stated in the Company's balance sheet at cost less any provision for diminution in value which is other than temporary as determined by the Members of the Board. Any such provisions are charged to the profit and loss account as an expense.

(b) Revenue recognition

Provided it is probable that the economic benefits associated with the transactions will flow to the Company and the amount of revenue can be measured reliably, revenue is recognised in the profit and loss account as follows:

(i) Ticket sales on stored value, single and two-ride tickets and Octopus cards are recognised as revenue when the journey is provided. The prepaid value in passengers' stored value tickets sold by the Company is recorded as a liability and included in creditors, accrued charges and provisions.

(ii) Advertising income and service fees from telecommunication services provided within the railway are recognised when the services are provided.

(iii) Rental income from investment properties and station kiosks is accounted for in accordance with the terms of the leases. Property management income is recognised when the services are provided.

(c) Fixed assets

(i) Investment properties are stated in the balance sheet at their open market value as determined annually by independent professionally qualified valuers.

Changes in the value of investment properties arising upon revaluations are treated as movements in the investment property revaluation reserve, except:

- where the balance of the investment property revaluation reserve is insufficient to cover a revaluation deficit on a portfolio basis, the excess of the deficit is charged to the profit and loss account; and
- 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 investment property revaluation reserve.

On disposal of an investment property, the related portion of the investment property revaluation reserve is transferred to the profit and loss account.

(ii) Leasehold land and buildings comprise leasehold land for railway depots and self-occupied office land and buildings:

(a) Leasehold land for railway depots is stated at cost less accumulated depreciation.

(b) Self-occupied office land and buildings are stated in the balance sheet at their open market value on the basis of their existing use at the date of revaluation less any subsequent accumulated depreciation. Revaluations are performed by independent qualified valuers every three years and by qualified in-house persons with sufficient regularity during the intervening years to ensure that the carrying amount of these assets does not differ materially from their fair value at the balance sheet date. Changes in the value of self-occupied office land and buildings arising upon revaluations are treated as movements in the fixed asset revaluation reserve, except:

- where the balance of the fixed asset revaluation reserve relating to a self-occupied office 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
- 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.

(iv) Assets under construction for the operational railway are stated at cost. Cost comprises the 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 fixed assets when substantially all the activities necessary to prepare the asset for its intended use are completed.

(v) Where assets are acquired under finance leases, the amount representing the present value of the minimum lease payments (computed using the rate of interest implicit in the lease) is capitalised as a fixed asset and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases.

(vi) Subsequent expenditure relating to an existing fixed asset is added to the carrying amount of the asset if it is probable that future economic benefit in excess of the originally assessed standard of performance of the asset will flow to the Company.

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.

(vii) The carrying amount of fixed assets, except investment properties and self-occupied office land and buildings already dealt with above, is reviewed periodically in order to assess whether the recoverable amount has declined to below the carrying amount. When such a decline has occurred, the carrying amount is reduced to the recoverable amount. The amount of the reduction is charged as an expense in the profit and loss account. In determining the recoverable amount, the physical condition of, and the undiscounted future cash flows expected to be generated by, the fixed asset concerned are taken into consideration.

(viii) Gains or losses arising from the retirement or disposal of a fixed asset other than an investment property are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and 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.

(d) Depreciation

(i) Investment properties with an unexpired lease term of more than 20 years are not depreciated. The Company has no investment properties with an unexpired lease term of 20 years or less.

(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 over their estimated useful lives as follows:

Leasehold Land and Buildings

Self-occupied office land and buildings.....	the shorter of 50 years and the unexpired term of the lease
Leasehold land for railway depots.....	the unexpired term of the lease

Civil Works

Rails (initial cost)	Indefinite ⁽¹⁾
Tunnel excavation and boring	Indefinite
Tunnel linings, underground civil structures, overhead structures and immersed tubes	100 years
Station building structures	80-100 years
Depot structures	80 years
Concrete kiosk structures	20 years
Station architectural finishes.....	20-25 years

Plant and Equipment

Rolling stock (electrical).....	35-40 years
Platform screen doors	35 years
Environmental control systems, lifts and escalators and drainage system.....	20-30 years
Power supply equipment, metal station kiosks, fire protection system, rolling stock (battery operated) and other mechanical equipment.....	20 years
Train control and signalling equipment, automatic fare collection systems and advertising panels	15 years
Rolling stock (diesel), telecommunication systems, maintenance equipment and office furniture and equipment.....	10 years
Computer software licences	7 years
Cleaning equipment, computer equipment and tools.....	5 years
Motor vehicles.....	4 years

Note:

(1) Replacement costs of rails are charged to the profit and loss account as revenue expenses.

The useful lives of the various categories of fixed assets are reviewed regularly in the light of actual asset condition, usage experience and the current asset replacement programme. The depreciation charge for the current and future periods is adjusted if there are significant changes from previous estimates.

(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 Company 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.

(e) Construction costs

(i) Costs incurred by the Company 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 Board of Directors based on a feasible financial plan, the costs concerned are dealt with as deferred expenditure until such time as a project agreement is reached with the Government, whereupon the costs are transferred to railway construction in progress.

(ii) After entering into a project agreement with the Government, 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.

(f) Property development

(i) Costs incurred by the Company in the preparation of sites for property development are dealt with as property development in progress.

(ii) 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 Company in respect of that development are charged against deferred income.

(iii) Expenditure incurred on the development of properties for retention by the Company 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 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 asset revaluation reserve. On commencement of redevelopment, the net book value of the property is transferred to property development in progress.

(v) 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 Company 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 Company in connection with the development;
- where the Company receives sharing of proceeds from sale of the development, profits arising from such proceeds are recognised upon the issue of occupation permits; and
- where the Company receives a distribution of the assets of the development upon completion of construction, profit is recognised based on the fair value of such assets at the time of receipt.

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.

(vi) Where the Company is liable to pay the developer consideration for the retention of part of a property to be redeveloped, profit attributable to the Company in respect of the redevelopment (including any payment received from the developer) is recognised in the profit and loss account when the quantum of the obligation of the Company and the amount of realised profit can be determined with reasonable accuracy.

(g) Operating leases

Rentals payable under operating leases are charged to the profit and loss account on a straight-line basis over the period of the lease, 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, property development in progress and deferred expenditure respectively.

(h) Stores and spares

Stores and spares are categorised as either revenue or capital. Revenue items are stated in the balance sheet at cost, using the weighted average cost method. Provision is made for obsolescence where appropriate. Capital items are included in fixed assets and stated at cost less aggregate depreciation. Depreciation is charged at the rates applicable to the relevant fixed assets against which the capital spares are held in reserve.

(i) Interest and finance charges

Interest earned on funds obtained by the Company specifically for the construction of the Airport Railway Project prior to the date of expenditure for such purpose is credited

to construction in progress related to the Airport Railway Project. Interest earned for this purpose includes notional interest on funds temporarily applied by the Company for purposes other than related to the construction of the Airport Railway Project.

Interest expense directly attributable to the financing of assets under construction 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 interest costs. Interest expense, including notional interest, 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.

The differentials paid and received on interest rate swap agreements are accrued and recognised as adjustments to interest expense.

(j) Foreign currency translation

Foreign currency transactions during the year are translated into Hong Kong dollars and recorded at the 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. Forward foreign exchange contracts, swaps and options used as a hedge against foreign currency liabilities are revalued at the balance sheet date at the exchange rates ruling at that date. Gains and losses on currency hedging transactions are used to offset gains and losses resulting from currency fluctuations inherent in the underlying foreign currency liabilities. Differences arising on foreign currency translation and the revaluation of forward foreign exchange contracts, swaps and options are dealt with in the profit and loss account.

(k) Deferred taxation

Deferred taxation is provided using the liability method in respect of the taxation effect arising from all material timing differences which are expected with reasonable probability to crystallise in the foreseeable future.

A deferred tax asset in respect of carried forward tax losses is only recognised if it is assured beyond reasonable doubt that the Company will have taxable profits sufficient to offset the available losses in the foreseeable future.

(l) Retirement scheme costs

The Company operates two occupational retirement schemes as described in Note 33 to the financial statements.

Contributions paid and payable by the Company to the schemes are charged to the profit and loss account.

(m) Jointly controlled operations

The arrangements entered into by the Company with developers for property developments along the Tung Chung and Airport Express Lines are considered to be jointly controlled operations pursuant to Statement of Standard Accounting Practice 21 "Accounting for interests in joint ventures". Pursuant to the development arrangements, the Company 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, construction costs, professional fees, etc. In respect of its interests in such operations, the Company accounts for the costs of enabling works net of up-front payments received as property development in progress. In cases where up-front payments received from developers exceed the related expenditure incurred by the Company, such excess is recorded as deferred income. Expenses incurred by the Company on staff, overheads and consultancy fees in respect of these developments are also capitalised as property development in progress. The Company's share of income earned from such operations is recognised in the profit and loss account in accordance with Note 1(f) after netting off any related balance in the property development in progress account at that time.

2 Fare revenue

The MTR Lines comprise the Kwun Tong, Tsuen Wan, Island and Tung Chung Lines of which the Kwun Tong, Tsuen Wan and Island Lines were already in operation prior to 1997. The fare revenue attributable to the Tung Chung and the Airport Express Lines relates to the period after those lines commenced operation, being 22nd June, 1998 and 6th July, 1998 respectively.

Fare revenue of the Airport Express for the period ended 30th June, 2000 included income of HK\$19 million (1997-1999: HK\$Nil) relating to the write back of unused value of expired tickets.

3 Property ownership and management income

	Year ended 31st December,			Six months ended 30th June,	
	1997	1998	1999	2000	1999
					(unaudited)
	(in HK\$ millions)				
Property rental income was attributable to:					
Telford Plaza.....	309	372	348	170	168
Luk Yeung Galleria.....	84	95	96	49	48
Heng Fa Chuen Shopping Centre.....	113	111	105	52	53
Maritime Square	—	—	102	80	29
Other properties.....	71	76	89	49	41
	577	654	740	400	339
Property management income.....	39	43	50	28	24
	616	697	790	428	363

Property rental income in respect of Maritime Square relates to the period from 1st April, 1999, the commencement date of its operation.

4 Operating expenses before depreciation

The operating expenses for 1998 include operating expenses in respect of the Tung Chung and Airport Express Lines from the commencement of services on those lines on 22nd June, 1998 and 6th July, 1998 respectively.

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.

Included in other expenses are the following charges:

	Year ended 31st December,			Six months ended 30th June,	
	1997	1998	1999	2000	1999
	(in HK\$ millions)				
Auditors' remuneration.....	3	3	3	—	—
Operating lease expenses:					(unaudited)
Office buildings and staff quarters	81	68	40	10	26
Less: Amount capitalised	53	44	18	6	12
	<u>28</u>	<u>24</u>	<u>22</u>	<u>4</u>	<u>14</u>

5 Emoluments and loans to Members of the Board and Members of the Executive Directorate

(a) Remuneration of Members of the Board and Members of the Executive Directorate

The aggregate emoluments of Members of the Board and Members of the Executive Directorate of the Company were as follows:

	Year ended 31st December,			Six months ended 30th June,	
	1997	1998	1999	2000	1999
	(in HK\$ millions)				
Fees.....	1	1	1	—	—
Salaries, allowances and benefits-in-kind	32	35	32	14	16
Retirement scheme contributions	4	4	4	2	2
	<u>37</u>	<u>40</u>	<u>37</u>	<u>16</u>	<u>18</u>

Allowances and benefits-in-kind include housing, medical and education allowances. Non-executive directors are appointed on terms of either one or two years.

The gross emoluments of Members of the Board and Members of Executive Directorate during the relevant period were within the following bands:

	Year ended 31st December,			Six months ended 30th June,	
	1997	1998	1999	2000	1999
	(Number)				
EMOLUMENTS					
HK\$0—HK\$200,000	9	9	10	8	10
HK\$1,500,001—HK\$2,000,000	—	—	—	1	—
HK\$2,000,001—HK\$2,500,000	—	1	—	5	7
HK\$2,500,001—HK\$3,000,000	—	—	1	—	—
HK\$3,000,001—HK\$3,500,000	1	—	—	1	1
HK\$3,500,001—HK\$4,000,000	—	2	—	—	—
HK\$4,000,001—HK\$4,500,000	6	4	6	—	—
HK\$4,500,001—HK\$5,000,000	—	1	—	—	—
HK\$6,000,001—HK\$6,500,000	1	—	—	—	—
HK\$6,500,001—HK\$7,000,000	—	1	1	—	—
	<u>17</u>	<u>18</u>	<u>18</u>	<u>15</u>	<u>18</u>

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 bracket.

(b) Loans to Members of the Executive Directorate

The following are loans to Members of the Executive Directorate disclosed pursuant to section 161B of the Companies Ordinance.

The Company operates a Staff Housing Loan Scheme (the "Scheme") for its staff to facilitate the purchase of their self-occupied principal residence. The loan granted to Mr. Thomas Ho Hang Kwong under the Scheme carries interest at the prevailing Best Lending Rate less 1.75% per annum during the relevant period and is secured by a first charge on the property. The maximum outstanding balance of the loan during the period was HK\$2.6 million (1999: HK\$3.4 million; 1998: HK\$3.7 million; 1997: HK\$3.8 million) and the balance as at 30th June, 2000 was HK\$2.4 million (1999: HK\$2.6 million; 1998: HK\$3.4 million; 1997: HK\$3.7 million) with a remaining term of 58 months.

In 1999, a loan under the Scheme was granted to Mr. Clement Kwok King Man, which carries interest at the prevailing Best Lending Rate less 1.75% per annum during the relevant period and is secured by a first charge on the property. The balance of the loan as at 30th June, 2000 was HK\$7.8 million (1999: HK\$7.9 million) and the maximum outstanding balance during the period was HK\$7.9 million (1999: HK\$8.0 million). The loan to Mr. Kwok was fully repaid on 27th July, 2000.

Mr. Jack So Chak Kwong was also granted a loan under the Scheme during 1999 which carried interest at the prevailing Best Lending Rate less 1.75% per annum in 1999 and was secured by a first charge on the property. The loan was fully repaid in 1999. The maximum outstanding balance during 1999 was HK\$4.0 million.

There was no outstanding unpaid interest nor any doubtful debt provision made against these loans as at 31st December, 1997, 1998 and 1999 and 30th June, 1999 and 2000.

6 Profit on property developments

	Year ended 31st December,			Six months ended 30th June,	
	1997	1998	1999	2000	1999
					(unaudited)
	(in HK\$ millions)				
Profit on property developments comprises:					
Transfer from deferred income (Note 16(b)).....	—	37	2,260	750	1,225
Profit recognised from sharing in kind	—	1,391	—	—	—
Profit recognised from Telford Headquarters redevelopment (Note 16(c))	281	—	—	—	—
Additional development costs	—	—	(224)	—	(195)
Other overhead costs.....	(5)	(9)	(6)	(4)	(4)
	<u>276</u>	<u>1,419</u>	<u>2,030</u>	<u>746</u>	<u>1,026</u>

7 Depreciation

	Year ended 31st December,			Six months ended 30th June,	
	1997	1998	1999	2000	1999
					(unaudited)
	(in HK\$ millions)				

(a) Depreciation comprised charges on:

Railway operation					
—on fixed assets held under finance leases	24	21	20	10	11
—on other railway fixed assets	832	1,334	1,935	1,000	950
Assets relating to MTR Station advertising, kiosks and miscellaneous businesses	71	71	84	42	34
	<u>927</u>	<u>1,426</u>	<u>2,039</u>	<u>1,052</u>	<u>995</u>

(b) Change in depreciation rates

During the year ended 31st December, 1998, an extensive review was undertaken of the useful lives of all major fixed asset categories. Effective from 1st January, 1998, the estimated useful lives of the following assets were revised, with the following resultant financial effects for the years ended 31st December, 1998 and 1999, and the six months ended 30th June, 1999 and 2000:

Asset category	Original useful life	Revised useful life	Decrease in depreciation charge for			
			Year ended 31st December,		Six months ended 30th June,	
			1998	1999	2000	1999
						(unaudited)
	(Years)	(Years)	(in HK\$ millions)			
Rolling stock (electrical)	25	35-40	132	162	103	74
Lifts and escalators	20	25	14	16	5	8
Advertising panels	10	15	1	1	1	1
Automatic fare collection systems.....	10	15	16	19	10	9
Environmental control systems	20	25	22	24	8	12
Depot structures	50	80	7	10	5	5
MTR Station building structures.....	50-100	80-100	16	32	16	16
MTR Station architectural finishes	20	20-25	13	24	12	12
			<u>221</u>	<u>288</u>	<u>160</u>	<u>137</u>

8 Interest and finance charges

	Year ended 31st December,			Six months ended 30th June,	
	1997	1998	1999	2000	1999
	(unaudited)				
	(in HK\$ millions)				
Interest expenses in respect of:					
Bank loans and overdrafts, and capital market instruments wholly repayable within 5 years ...	590	812	935	530	462
Capital market instruments not wholly repayable within 5 years	172	184	630	338	297
Obligations under finance leases.....	100	99	86	38	45
Finance charges.....	55	54	61	51	27
Exchange loss/(gain)	1	(1)	14	12	8
Interest expenses capitalised:					
Airport Railway Project.....	(81)	(197)	—	—	—
Tseung Kwan O Extension Project.....	—	(65)	(199)	(201)	(65)
Property development projects	—	(13)	(45)	(46)	(15)
Other capital projects	(35)	(139)	(87)	(68)	(34)
Assets under construction.....	(144)	(42)	(46)	(23)	(21)
Purchase of assets	(14)	—	—	—	—
Deferred expenditure	(24)	(2)	—	—	—
	<u>(298)</u>	<u>(458)</u>	<u>(377)</u>	<u>(338)</u>	<u>(135)</u>
	<u>620</u>	<u>690</u>	<u>1,349</u>	<u>631</u>	<u>704</u>
Interest income in respect of:					
Deposits with financial institutions	(664)	(149)	(186)	(1)	(145)
Staff housing loans	(11)	(66)	(59)	(30)	(31)
Interest income transferred to:					
Airport Railway Project.....	150	—	—	—	—
	<u>(525)</u>	<u>(215)</u>	<u>(245)</u>	<u>(31)</u>	<u>(176)</u>
	<u>95</u>	<u>475</u>	<u>1,104</u>	<u>600</u>	<u>528</u>

Interest expenses have been capitalised at the average cost of funds to the Company calculated on a monthly basis. The average interest rates for each month varied from 7.5% to 7.8% per annum during the period ended 30th June, 2000 (1999: 7.3% to 7.9%; 1998: 8.2% to 9.4%; 1997: 7.5% to 9.1%).

9 Staff separation payments

	Year ended 31st December,			Six months ended 30th June,	
	1997	1998	1999	2000	1999
	(unaudited)				
	(in HK\$ millions)				
Staff separation payments comprise:					
Compensation paid and payable under the Voluntary Separation Scheme.....	—	—	255	—	—
Other compensation.....	—	—	9	—	2
	<u>—</u>	<u>—</u>	<u>264</u>	<u>—</u>	<u>2</u>

Approximately 750 staff elected to terminate their employment with the Company under a Voluntary Separation Scheme introduced in August 1999 with compensation determined according to their years of service.

Other compensation comprised mainly redundancy payments made to certain managers and operating staff.

10 Dividend

The Company declared a dividend of HK\$1,252 million to the Government in respect of the year ended 31st December, 1997. This payout ratio is consistent with the assumptions set out in the Airport Railway Agreement with the Government for the Airport Railway Project. No dividend was declared in respect of the years ended 31st December, 1998 and 1999 and the period ended 30th June, 2000 in view of the future capital requirements of the Company.

11 Basic earnings per share

The calculation of basic earnings per share is based on the profit for each respective period and assuming that the total number of shares in issue prior to the listing of 5,000,000,000 were in issue throughout the periods presented.

12 Taxation

(a) Profits tax

No provision for Hong Kong profits tax has been made in the profit and loss account as the Company sustained a loss for tax purposes during the relevant period. As at 30th June, 2000, the Company has substantial accumulated tax losses carried forward which are available for set off against future assessable profits.

(b) Deferred tax

Provision for deferred taxation is not required as any potential liability arising from tax depreciation allowances in excess of related depreciation is not expected to crystallise in the foreseeable future.

The major components of unprovided deferred taxation are:

	Year ended 31st December,			Six months ended 30th June,	
	1997	1998	1999	2000	1999
					(unaudited)
	(in HK\$ millions)				
Depreciation allowances in excess of related depreciation	3,239	4,777	4,968	5,473	5,066
Future benefit of tax losses.....	(4,046)	(4,378)	(4,904)	(5,294)	(5,142)
Other timing differences	1,569	735	1,119	1,118	1,122
Net deferred tax liabilities.....	<u>762</u>	<u>1,134</u>	<u>1,183</u>	<u>1,297</u>	<u>1,046</u>

No deferred taxation has been provided on the surpluses arising on the revaluation of properties as the disposal of these assets at their carrying value would result in capital gains which are not subject to taxation.

13 Segmental information

The results of major business activities for each of the three years ended 31st December, 1999 and the six months ended 30 June, 1999 and 2000 are summarised below:

	Railway operations	Advertising, kiosk rental and miscellaneous businesses	Property ownership and management	Total railway operations and related activities	Property developments	Total
(in HK\$ millions)						
Year ended 31st December, 1997:						
Revenue	5,191	767	616	6,574	—	6,574
Less: Operating expenses before depreciation	<u>2,798</u>	<u>146</u>	<u>101</u>	<u>3,045</u>	—	<u>3,045</u>
	2,393	621	515	3,529	—	3,529
Profit on property developments....	—	—	—	—	<u>276</u>	<u>276</u>
Operating profit before depreciation	2,393	621	515	3,529	276	3,805
Less: Depreciation.....	<u>856</u>	<u>71</u>	<u>—</u>	<u>927</u>	—	<u>927</u>
	<u>1,537</u>	<u>550</u>	<u>515</u>	<u>2,602</u>	<u>276</u>	<u>2,878</u>
Less: Interest and finance charges (net)						<u>95</u>
Profit for the year ended 31st December, 1997						<u>2,783</u>
Segmental fixed assets employed .	<u>23,386</u>	<u>553</u>	<u>7,691</u>	<u>31,630</u>	—	<u>31,630</u>
Unallocated fixed assets						<u>2,028</u>
						<u><u>33,658</u></u>
Year ended 31st December, 1998:						
Revenue	5,441	843	697	6,981	—	6,981
Less: Operating expenses before depreciation	<u>3,383</u>	<u>178</u>	<u>119</u>	<u>3,680</u>	—	<u>3,680</u>
	2,058	665	578	3,301	—	3,301
Profit on property developments....	—	—	—	—	<u>1,419</u>	<u>1,419</u>
Operating profit before depreciation	2,058	665	578	3,301	1,419	4,720
Less: Depreciation.....	<u>1,355</u>	<u>71</u>	<u>—</u>	<u>1,426</u>	—	<u>1,426</u>
	<u>703</u>	<u>594</u>	<u>578</u>	<u>1,875</u>	<u>1,419</u>	<u>3,294</u>
Less: Interest and finance charges (net)						<u>475</u>
Profit for the year ended 31st December, 1998						<u>2,819</u>
Segmental fixed assets employed .	<u>62,333</u>	<u>1,104</u>	<u>8,321</u>	<u>71,758</u>	—	<u>71,758</u>
Unallocated fixed assets						<u>1,228</u>
						<u><u>72,986</u></u>

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	Railway operations	Advertising, kiosk rental and miscellaneous businesses	Property ownership and management	Total railway operations and related activities	Property developments	Total
(in HK\$ millions)						
Year ended 31st December, 1999:						
Revenue	5,639	823	790	7,252	—	7,252
Less: Operating expenses before depreciation	3,454	150	155	3,759	—	3,759
	<u>2,185</u>	<u>673</u>	<u>635</u>	<u>3,493</u>	<u>—</u>	<u>3,493</u>
Profit on property developments	—	—	—	—	2,030	2,030
Operating profit before depreciation	2,185	673	635	3,493	2,030	5,523
Less: Depreciation	1,953	84	2	2,039	—	2,039
	<u>232</u>	<u>589</u>	<u>633</u>	<u>1,454</u>	<u>2,030</u>	<u>3,484</u>
Less: Interest and finance charges (net)						1,104
Profit after interest and finance charges						2,380
Less: Staff separation payments						264
Profit for the year ended 31st December, 1999						<u><u>2,116</u></u>
Segmental fixed assets employed ...	<u>62,653</u>	<u>999</u>	<u>8,869</u>	<u>72,521</u>	<u>—</u>	<u>72,521</u>
Unallocated fixed assets						1,169
						<u>73,690</u>
Six months ended 30th June, 2000:						
Revenue	2,766	461	428	3,655	—	3,655
Less: Operating expenses before depreciation	1,568	64	66	1,698	—	1,698
	<u>1,198</u>	<u>397</u>	<u>362</u>	<u>1,957</u>	<u>—</u>	<u>1,957</u>
Profit on property developments	—	—	—	—	746	746
Operating profit before depreciation	1,198	397	362	1,957	746	2,703
Less: Depreciation	1,009	42	1	1,052	—	1,052
	<u>189</u>	<u>355</u>	<u>361</u>	<u>905</u>	<u>746</u>	<u>1,651</u>
Less: Interest and finance charges (net)						600
Profit for the period ended 30th June, 2000						<u><u>1,051</u></u>
Segmental fixed assets employed ...	<u>62,226</u>	<u>959</u>	<u>10,039</u>	<u>73,224</u>	<u>—</u>	<u>73,224</u>
Unallocated fixed assets						1,103
						<u>74,327</u>

	Railway operations	Advertising, kiosk rental and miscellaneous businesses	Property ownership and management	Total railway operations and related activities	Property developments	Total
(in HK\$ millions)						
Six months ended 30th June, 1999 (unaudited):						
Revenue	2,718	390	363	3,471	—	3,471
Less: Operating expenses before depreciation.....	1,693	64	67	1,824	—	1,824
	1,025	326	296	1,647	—	1,647
Profit on property developments	—	—	—	—	1,026	1,026
Operating profit before depreciation.....	1,025	326	296	1,647	1,026	2,673
Less: Depreciation.....	961	34	—	995	—	995
	<u>64</u>	<u>292</u>	<u>296</u>	<u>652</u>	<u>1,026</u>	1,678
Less: Interest and finance charges (net) .						528
Profit after interest and finance charges..						1,150
Less: Staff separation payments.....						2
Profit for the period ended 30th June, 1999						<u>1,148</u>
Segmental fixed assets employed	<u>62,141</u>	<u>1,038</u>	<u>8,354</u>	<u>71,533</u>	—	71,533
Unallocated fixed assets						1,215
						<u>72,748</u>

Fixed assets employed in respect of railway operations for 1998, 1999 and the six months ended 30th June, 2000 includes an amount of HK\$36,179 million, being assets of the Tung Chung and Airport Express Lines and in-town check-in facilities capitalised upon their commissioning in 1998.

Segmental operating expenses comprise direct costs such as staff costs, energy, depreciation on equipment and direct and indirect overheads. Indirect overhead costs are allocated from railway operations to other business segments on a labour related overhead absorption rate to cover the costs of the relevant service departments. Segmental fixed assets employed do not include assets under construction or railway construction in progress.

14 Fixed assets

	Investment properties	Leasehold land and buildings	Civil works	Plant and equipment	Assets under construction	Total
	(in HK\$ millions)					
Cost or Valuation						
At 1st January, 1997	6,700	1,159	16,656	13,344	2,643	40,502
Additions	814	1,412	—	57	2,814	5,097
Disposals / write-offs	—	(578)	—	(54)	(50)	(682)
Surplus on revaluation (Note 31)	169	615	—	—	—	784
Assets commissioned	—	—	242	1,392	(1,634)	—
At 31st December, 1997	7,683	2,608	16,898	14,739	3,773	45,701
At Cost	—	581	16,898	14,739	3,773	35,991
At 31st December, 1997 Valuation	7,683	2,027	—	—	—	9,710
Aggregate depreciation						
At 1st January, 1997	—	48	629	6,770	—	7,447
Charge for the year	—	41	121	765	—	927
Written back on disposal	—	(31)	—	(46)	—	(77)
Written back on revaluation (Note 31) ..	—	(27)	—	—	—	(27)
At 31st December, 1997	—	31	750	7,489	—	8,270
Net book value at 31st December, 1997	7,683	2,577	16,148	7,250	3,773	37,431
Cost or Valuation						
At 1st January, 1998	7,683	2,608	16,898	14,739	3,773	45,701
Additions	1,900	—	—	165	3,255	5,320
Disposals / write-offs	—	—	—	(109)	(16)	(125)
Deficit on revaluation (Note 31)	(1,273)	(801)	—	—	—	(2,074)
Airport Railway assets capitalised on completion (Note 15)	—	—	16,014	19,086	—	35,100
In-town check-in facilities commissioned (Note 15)	—	—	290	789	—	1,079
Reclassification (Note 15)	—	—	—	—	(9)	(9)
Other assets commissioned	—	—	1,244	3,323	(4,567)	—
At 31st December, 1998	8,310	1,807	34,446	37,993	2,436	84,992
At Cost	—	581	34,446	37,993	2,436	75,456
At 31st December, 1998 Valuation	8,310	1,226	—	—	—	9,536
Aggregate depreciation						
At 1st January, 1998	—	31	750	7,489	—	8,270
Charge for the year	—	51	228	1,147	—	1,426
Written back on disposal	—	—	—	(85)	—	(85)
Written back on revaluation (Note 31) ..	—	(41)	—	—	—	(41)
At 31st December, 1998	—	41	978	8,551	—	9,570
Net book value at 31st December, 1998	8,310	1,766	33,468	29,442	2,436	75,422

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	Investment properties	Leasehold land and buildings	Civil works	Plant and equipment	Assets under construction	Total
	(in HK\$ millions)					
Cost or Valuation						
At 1st January, 1999	8,310	1,807	34,446	37,993	2,436	84,992
Additions	115	—	—	65	3,185	3,365
Disposals / write-offs	—	—	—	(230)	(22)	(252)
Surplus / (deficit) on revaluation (Note 31)	432	(59)	—	—	—	373
Reclassification	—	—	55	(57)	2	—
Assets commissioned	—	—	293	1,893	(2,186)	—
At 31st December, 1999	<u>8,857</u>	<u>1,748</u>	<u>34,794</u>	<u>39,664</u>	<u>3,415</u>	<u>88,478</u>
At Cost	—	581	34,794	39,664	3,415	78,454
At 31st December, 1999 Valuation	<u>8,857</u>	<u>1,167</u>	—	—	—	<u>10,024</u>
Aggregate depreciation						
At 1st January, 1999	—	41	978	8,551	—	9,570
Charge for the year	—	36	330	1,673	—	2,039
Written back on disposal	—	—	—	(211)	—	(211)
Written back on revaluation (Note 31)	—	(25)	—	—	—	(25)
At 31st December, 1999	—	<u>52</u>	<u>1,308</u>	<u>10,013</u>	—	<u>11,373</u>
Net book value at 31st December, 1999	<u>8,857</u>	<u>1,696</u>	<u>33,486</u>	<u>29,651</u>	<u>3,415</u>	<u>77,105</u>
Cost or Valuation						
At 1st January, 2000	8,857	1,748	34,794	39,664	3,415	88,478
Additions	44	—	—	18	1,196	1,258
Disposals / write-offs	—	—	(1)	(63)	(2)	(66)
Surplus / (deficit) on revaluation (Note 31)	1,126	(66)	—	—	—	1,060
Reclassification	—	—	2	(2)	—	—
Assets commissioned	—	—	9	566	(575)	—
At 30th June, 2000	<u>10,027</u>	<u>1,682</u>	<u>34,804</u>	<u>40,183</u>	<u>4,034</u>	<u>90,730</u>
At Cost	—	581	34,804	40,183	4,034	79,602
At 30th June, 2000 Valuation	<u>10,027</u>	<u>1,101</u>	—	—	—	<u>11,128</u>
Aggregate depreciation						
At 1st January 2000	—	52	1,308	10,013	—	11,373
Charge for the period	—	18	163	871	—	1,052
Written back on disposal	—	—	—	(43)	—	(43)
Written back on revaluation (Note 31)	—	(13)	—	—	—	(13)
At 30th June, 2000	—	<u>57</u>	<u>1,471</u>	<u>10,841</u>	—	<u>12,369</u>
Net book value at 30th June, 2000	<u>10,027</u>	<u>1,625</u>	<u>33,333</u>	<u>29,342</u>	<u>4,034</u>	<u>78,361</u>
Cost or Valuation (unaudited)						
At 1st January, 1999	8,310	1,807	34,446	37,993	2,436	84,992
Additions	32	—	—	64	1,202	1,298
Disposals / write-offs	—	—	—	(143)	—	(143)
Reclassification	—	—	(13)	13	—	—
Assets commissioned	—	—	22	652	(674)	—
At 30th June, 1999	<u>8,342</u>	<u>1,807</u>	<u>34,455</u>	<u>38,579</u>	<u>2,964</u>	<u>86,147</u>
At Cost	—	581	34,455	38,579	2,964	76,579
At 31st December, 1998 revaluation	<u>8,342</u>	<u>1,226</u>	—	—	—	<u>9,568</u>
Aggregate depreciation (unaudited)						
At 1st January, 1999	—	41	978	8,551	—	9,570
Charge for the period	—	18	160	817	—	995
Written back on disposal	—	—	—	(130)	—	(130)
At 30th June, 1999	—	<u>59</u>	<u>1,138</u>	<u>9,238</u>	—	<u>10,435</u>
Net book value at 30th June, 1999 (unaudited)	<u>8,342</u>	<u>1,748</u>	<u>33,317</u>	<u>29,341</u>	<u>2,964</u>	<u>75,712</u>

Notes:

(a) The remaining lease periods in respect of the investment properties and leasehold land and buildings held in Hong Kong are as follows: -

	Investment properties									
	At 31st December,					At 30th June,				
	1997	1998	1999	2000	1999	2000	1999	2000	1999	2000
	(in HK\$ millions)									
Valuation										
Over 50 years	1,580	1,268	1,298	1,522	1,272	1,580	1,268	1,298	1,522	1,272
10 to 50 years	6,103	7,042	7,559	8,505	7,070	6,103	7,042	7,559	8,505	7,070
	<u>7,683</u>	<u>8,310</u>	<u>8,857</u>	<u>10,027</u>	<u>8,342</u>	<u>7,683</u>	<u>8,310</u>	<u>8,857</u>	<u>10,027</u>	<u>8,342</u>

	Leasehold land and buildings									
	Leasehold land for railway depots					Office land and buildings				
	At 31st December,		At 30th June,			At 31st December,		At 30th June,		
	1997	1998	1999	2000	1999	1997	1998	1999	2000	1999
	(in HK\$ millions)									
Cost or valuation										
Over 50 years	193	193	193	193	193	26	12	13	16	12
10 to 50 years	388	388	388	388	388	2,001	1,214	1,154	1,085	1,214
	<u>581</u>	<u>581</u>	<u>581</u>	<u>581</u>	<u>581</u>	<u>2,027</u>	<u>1,226</u>	<u>1,167</u>	<u>1,101</u>	<u>1,226</u>

(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 running line lease for the period up to 30th June, 2047 which has been extended to 29th June, 2050. It is assumed that the lease will be renewed and that the operation of the railway will continue after 2050.

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 expenses in the profit and loss account.

(c) All the investment properties of the Company were revalued at 31st December, 1997, 1998 and 1999 by Jones Lang Wootton (both 1997 and 1998) and DTZ Debenham Tie Leung (1999). All the investment properties of the Company were revalued at 31st July, 2000 by Brooke International (China) Limited, Chartered Surveyors, at their open market value. Brooke International (China) Limited has confirmed that, had the date of valuation been 30th June, 2000, there would be no material difference in the valuation amounts. The majority of the valuations are based on capitalisation of the net income receivable at an appropriate capitalisation rate, taking into account the reversionary income potential.

(d) All self-occupied office land and buildings were revalued at 31st December, 1997 by Jones Lang Wootton, Chartered Surveyors, and by a qualified executive of the Company, who is a fellow of the Royal Institute of Chartered Surveyors, at 31st December, 1998 and 1999 at open market value on an existing use basis. All self-occupied office land and buildings were revalued at 31st July, 2000 by Brooke International (China) Limited at open market value on an existing use basis. Brooke International (China) Limited has confirmed that, had the date of valuation been 30th June, 2000, there would have been no material difference in the valuation amounts. The net revaluation deficit of HK\$53 million (1999: HK\$34 million; 1998: HK\$760 million; 1997: HK\$642 million) arising from the revaluation has been transferred to the fixed asset revaluation reserve to offset prior period revaluation surpluses (Note 31).

The carrying amount of the office land and buildings at 30th June, 2000 would have been HK\$1,323 million (1999: HK\$1,337 million; 1998: HK\$1,365 million; 1997: HK\$1,392 million) had the office land and buildings been stated at cost less accumulated depreciation.

(e) Fixed assets include the following assets held under agreements which are treated as finance leases:

	Net Book Value at 31st December,			Cost at 30th June, 2000	Aggregate depreciation at 30th June, 2000	Net Book Value at 30th June,	
	1997	1998	1999			2000	1999
	(unaudited)						
	(in HK\$ millions)						
Civil works							
— Eastern Harbour Crossing.....	1,120	1,100	1,081	1,254	182	1,072	1,091
Plant and equipment							
— Rolling stock	62	60	—	—	—	—	—
	<u>1,182</u>	<u>1,160</u>	<u>1,081</u>	<u>1,254</u>	<u>182</u>	<u>1,072</u>	<u>1,091</u>

The Company has entered into a Management Agreement (the "Agreement") with New Hong Kong Tunnel Company Limited to operate the Eastern Harbour Crossing until 2008. Included in the assets held under the Agreement are railway and ancillary works relating to the rail tunnel.

At the end of the Agreement, title to the assets will, pursuant to the Eastern Harbour Crossing Ordinance (Cap. 215 of the Laws of Hong Kong), be vested in the Government which has in turn entered into a Memorandum of Understanding dated 17th October, 1986 with the Company to the effect that the assets will be vested in the Company on terms to be agreed between the Company and the Government. On 30th June, 2000, the Company entered into an agreement with the Government in relation to the vesting of the assets by the Government in the Company in 2008 for a nominal consideration. On this basis, the semi-annual payments made by the Company to New Hong Kong Tunnel Company Limited in respect of the Eastern Harbour Crossing are dealt with in these financial statements as payments under a finance lease.

The finance lease in respect of rolling stock was terminated in 1999 with the Company acquiring the rolling stock through a lump sum payment of HK\$68 million.

(f) Assets transferred from railway construction in progress to fixed assets upon completion of the Airport Railway Project in 1998 comprised:

	(in HK\$ millions)
Civil Works	
— Tunnel, immersed tube, underground and overhead structures	14,647
— Depot structure.....	<u>1,367</u>
	<u>16,014</u>
Plant and Equipment	
— Rolling stock.....	2,380
— Trackworks.....	2,899
— Station architectural finishes.....	2,443
— Environmental control system and auxiliary equipment.....	4,375
— Train control, signalling and telecommunications system.....	2,057
— Glazing walls, platform screen doors, lifts and escalators, automatic fare collection system and other equipment.....	<u>4,932</u>
	<u>19,086</u>
	<u><u>35,100</u></u>

15 Railway construction in progress

	Balance at 1st Jan,	Transfer from deferred expenditure (Note 17)	Expenditure/ (income) during the year	Capitalised on commissioning (Note 14)	Balance at 31st Dec,
	(in HK\$ millions)				
31st December, 1997:					
Airport Railway Project					
Main contracts					
—Civil works	8,317	—	3,731	—	12,048
—Plant and equipment	3,433	—	3,354	—	6,787
—Works entrusted to Government/Airport Authority	5,447	—	587	—	6,034
Associated construction costs					
—Site investigation	49	—	1	—	50
—Rental of work sites	85	—	48	—	133
Overheads					
—Consultancy fees	867	—	145	—	1,012
—Staff costs and general expenses	2,301	—	883	—	3,184
Finance credits, net	(321)	—	(69)	—	(390)
	<u>20,178</u>	<u>—</u>	<u>8,680</u>	<u>—</u>	<u>28,858</u>
In-town check-in Project					
Construction costs	171	—	353	—	524
Works entrusted to Airport Authority	43	—	33	—	76
Staff costs and general expenses	64	—	62	—	126
Finance costs	12	—	35	—	47
	<u>290</u>	<u>—</u>	<u>483</u>	<u>—</u>	<u>773</u>
Total	<u>20,468</u>	<u>—</u>	<u>9,163</u>	<u>—</u>	<u>29,631</u>
31st December, 1998:					
Airport Railway Project					
Main contracts					
—Civil works	12,048	—	1,328	(13,376)	—
—Plant and equipment	6,787	—	1,949	(8,736)	—
—Works entrusted to Government/Airport Authority	6,034	—	19	(6,053)	—
Associated construction costs					
—Site investigation	50	—	—	(50)	—
—Rental of work sites	133	—	30	(163)	—
Overheads					
—Consultancy fees	1,012	—	—	(1,012)	—
—Staff costs and general expenses	3,184	—	540	(3,724)	—
Accruals	—	—	2,179	(2,179)	—
Finance credits, net	(390)	—	197	193	—
	<u>28,858</u>	<u>—</u>	<u>6,242</u>	<u>(35,100)</u>	<u>—</u>
In-town check-in Project					
Construction costs	524	—	125	(649)	—
Works entrusted to Airport Authority	76	—	6	(82)	—
Staff costs and general expenses	126	—	29	(155)	—
Accruals	—	—	115	(115)	—
Finance costs	47	—	31	(78)	—
	<u>773</u>	<u>—</u>	<u>306</u>	<u>(1,079)</u>	<u>—</u>
Tseung Kwan O Extension Project					
Main contracts					
—Civil works	—	—	329	—	329
—Plant and equipment	—	—	1	—	1
—Works entrusted to Government	—	51	25	—	76
Associated construction costs					
—Site investigation	—	24	32	—	56
—Rental of work sites	—	—	10	—	10
Overheads					
—Consultancy fees	—	117	314 ⁽¹⁾	—	431
—Staff costs and general expenses	—	220	323 ⁽¹⁾	—	543
Finance costs	—	25	65	—	90
	<u>—</u>	<u>437</u>	<u>1,099</u>	<u>—</u>	<u>1,536</u>
Total	<u>29,631</u>	<u>437</u>	<u>7,647</u>	<u>(36,179)</u>	<u>1,536</u>

Note:

(1) Included an amount of HK\$9 million being works reclassified from assets under construction (Note 14).

	Balance at 1st Jan,	Expenditure during the year	Balance at 31st Dec,
	(in HK\$ millions)		
31st December, 1999:			
Tseung Kwan O Extension Project			
Main contracts			
—Civil works	329	1,798	2,127
—Plant and equipment	1	407	408
—Works entrusted to Government	76	212	288
Associated construction costs			
—Site investigation	56	12	68
—Rental of work sites	10	53	63
Overheads			
—Consultancy fees	431	276	707
—Staff costs and general expenses	543	503	1,046
Finance costs	90	199	289
Total	<u>1,536</u>	<u>3,460</u>	<u>4,996</u>
	(in HK\$ millions)		
	Balance at 1st Jan,	Expenditure during the period	Balance at 30th June,
30th June, 2000:			
Tseung Kwan O Extension Project			
Main contracts			
—Civil works	2,127	997	3,124
—Plant and equipment	408	352	760
—Works entrusted to Government	288	49	337
Associated construction costs			
—Site investigation	68	14	82
—Rental of work sites	63	50	113
Overheads			
—Consultancy fees	707	46	753
—Staff costs and general expenses	1,046	198	1,244
Finance costs	289	201	490
	<u>4,996</u>	<u>1,907</u>	<u>6,903</u>
Tseung Kwan O Extension Further Capital Works Project			
—Consultancy fees	—	9	9
—Staff costs	—	8	8
	<u>—</u>	<u>17</u>	<u>17</u>
Total	<u>4,996</u>	<u>1,924</u>	<u>6,920</u>

	Balance at 1st Jan,	Expenditure during the period	Balance at 30th June,
	(in HK\$ millions)		
30th June, 1999 (unaudited):			
Tseung Kwan O Extension Project			
Main contracts			
—Civil works	329	779	1,108
—Plant and equipment	1	160	161
—Works entrusted to Government	76	58	134
Associated construction costs			
—Site investigation	56	9	65
—Rental of work sites	10	27	37
Overheads			
—Consultancy fees	431	156	587
—Staff costs and general expenses	543	225	768
Finance costs	90	65	155
Total	<u>1,536</u>	<u>1,479</u>	<u>3,015</u>

16 Property development in progress and deferred income

Under the Airport Railway Agreement related to the construction of the Tung Chung and Airport Express Lines, the Government granted to the Company land on five station sites along the railway at full 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 up-front 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.

Despite 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.

Costs of foundation and site enabling works 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 16(b)). In these cases, any subsequent expenditure incurred by the Company in respect of that development will be charged against deferred income. It is expected that the majority of deferred income will be recognised as profits of the Company at the appropriate time after charging any remaining costs related to foundation and site enabling works, 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 TKE Project Agreement entered into between 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. The basis of accounting for development costs incurred by the Company and payments received by the Company related thereto is consistent with that for the property developments along the Tung Chung and Airport Express Lines (“Airport Railway Property Project”).

(a) Property development in progress

	Balance at 1st Jan,	Transfer from deferred expenditure (Note 17)	Expenditure during the period	Offset against payments received from developers (Note 16(b))	Transferred out on project completion	Balance at 31st Dec,
	(in HK\$ millions)					
31st December, 1997:						
Telford Headquarters redevelopment project (at valuation) (Note 16(c))	580	—	117	(117)	(580)	—
Airport Railway Property Projects	1,273	—	1,459	(1,490)	—	1,242
	<u>1,853</u>	<u>—</u>	<u>1,576</u>	<u>(1,607)</u>	<u>(580)</u>	<u>1,242</u>
31st December, 1998:						
Airport Railway Property Projects	1,242	—	1,810	(698)	(389)	1,965
Tseung Kwan O Extension Property Projects	—	87	161	—	—	248
	<u>1,242</u>	<u>87</u>	<u>1,971</u>	<u>(698)</u>	<u>(389)</u>	<u>2,213</u>
31st December, 1999:						
Airport Railway Property Projects	1,965	—	424	(547)	—	1,842
Tseung Kwan O Extension Property Projects	248	—	835	—	—	1,083
Choi Hung Park and Ride Project	—	31	12	—	—	43
	<u>2,213</u>	<u>31</u>	<u>1,271</u>	<u>(547)</u>	<u>—</u>	<u>2,968</u>
	Balance at 1st Jan,					Balance at 30th June,
30th June, 2000:						
Airport Railway Property Projects	1,842	—	54	(118)	(46)	1,732
Tseung Kwan O Extension Property Projects	1,083	—	445	—	—	1,528
Choi Hung Park and Ride Project	43	—	5	—	—	48
	<u>2,968</u>	<u>—</u>	<u>504</u>	<u>(118)</u>	<u>(46)</u>	<u>3,308</u>
30th June, 1999 (unaudited):						
Airport Railway Property Projects	1,965	—	13	(318)	—	1,660
Tseung Kwan O Extension Property Projects	248	—	388	—	—	636
Choi Hung Park and Ride Project	—	31	7	—	—	38
	<u>2,213</u>	<u>31</u>	<u>408</u>	<u>(318)</u>	<u>—</u>	<u>2,334</u>

(b) Deferred income

	Balance at 1st Jan,	Payments received from developers	Offset against property development in progress (Note 16(a))	Transfer out on project completion	Amount recognised as profit (Note 6)	Balance at 31st Dec,
	(in HK\$ millions)					
31st December, 1997:						
Telford Headquarters redevelopment project.	344	—	(117)	(227)	—	—
Airport Railway Property Projects	8,750	9,445	(1,490)	—	—	16,705
	<u>9,094</u>	<u>9,445</u>	<u>(1,607)</u>	<u>(227)</u>	<u>—</u>	<u>16,705</u>
31st December, 1998:						
Airport Railway Property Projects	16,705	—	(698)	—	(37)	15,970
	<u>16,705</u>	<u>—</u>	<u>(698)</u>	<u>—</u>	<u>(37)</u>	<u>15,970</u>
31st December, 1999:						
Airport Railway Property Projects	15,970	613	(547)	—	(2,260)	13,776
	<u>15,970</u>	<u>613</u>	<u>(547)</u>	<u>—</u>	<u>(2,260)</u>	<u>13,776</u>
	<u>Balance at 1st Jan,</u>					<u>Balance at 30th June,</u>
30th June, 2000:						
Airport Railway Property Projects	13,776	120	(118)	—	(750)	13,028
	<u>13,776</u>	<u>120</u>	<u>(118)</u>	<u>—</u>	<u>(750)</u>	<u>13,028</u>
30th June, 1999 (unaudited):						
Airport Railway Property Projects	15,970	613	(318)	—	(1,225)	15,040
	<u>15,970</u>	<u>613</u>	<u>(318)</u>	<u>—</u>	<u>(1,225)</u>	<u>15,040</u>

(c) Telford Headquarters redevelopment

In 1993, when the Company entered into an agreement with a developer to redevelop the Company's headquarters and adjacent storage facilities in Kowloon Bay, the two sites were revalued at a total amount of HK\$580 million on 1st July, 1993 by a qualified professional executive of the Company who is a fellow of the Royal Institute of Chartered Surveyors, on an existing use basis, representing the Company's development cost for the project. Under the terms of the agreement, the developer was responsible for all costs associated with the redevelopment and was required to make a certain payment to the Company. The cash payment received from the developer, net of related Company staff costs and overhead expenses, had been recorded previously as deferred income (Note 16(b)).

Upon completion of the project in 1997, the redeveloped headquarters building retained by the Company was recorded as an addition of land and buildings under fixed assets. The Company's share of the shopping centre and the cash payment received, net of related costs, were recognised as property development profits. In addition, part of the revaluation surplus arising from the revaluation of the two sites included in the fixed asset revaluation reserve, amounting to HK\$190 million, was transferred to retained profits (Note 31).

(d) Stakeholding funds

As stakeholder under certain agreements for the Airport Railway Property Project, 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. Accordingly, the balances of the stakeholding funds and the corresponding bank balances have not been included in the Company's balance sheet. Movements in stakeholding funds during the relevant period were as follows:

	<u>1997</u>	<u>1998</u>	<u>1999</u>
	(in HK\$ millions)		
Balance at 1st January.....	—	—	5,596
Stakeholding funds received and receivable.....	—	18,045	12,200
Add: Interest earned thereon	—	124	310
	<u>—</u>	<u>18,169</u>	<u>18,106</u>
Disbursements during the year	—	(12,573)	(13,802)
Balance at 31st December	<u>—</u>	<u>5,596</u>	<u>4,304</u>
<i>Represented by:</i>			
Balances in designated bank accounts at 31st December.....	—	5,406	4,302
Retention receivable	—	190	2
	<u>—</u>	<u>5,596</u>	<u>4,304</u>
		<u>2000</u>	<u>1999</u>
		(unaudited)	
		(in HK\$ millions)	
Balance at 1st January.....	4,304	5,596	
Stakeholding funds received and receivable	4,145	8,248	
Add: Interest earned thereon	110	141	
	<u>8,559</u>	<u>13,985</u>	
Disbursements during the period	(5,697)	(8,257)	
Balance at 30th June	<u>2,862</u>	<u>5,728</u>	
<i>Represented by:</i>			
Balances in designated bank accounts at 30th June	2,860	5,535	
Retention receivable.....	2	193	
	<u>2,862</u>	<u>5,728</u>	

17 Deferred expenditure

	Balance at 1st Jan,	Expenditure during the period / (transfer to operating expenses)	Transfer to railway construction in progress (Note 15)	Transfer to property development in progress (Note 16(a))	Balance at 31st Dec,
(in HK\$ millions)					
31st December, 1997:					
Deferred finance charges.....	61	(16)	—	—	45
Expenditure on proposed capital projects					
— Tseung Kwan O Extension Project.....	172	356	—	—	528
— Choi Hung Park and Ride Project.....	13	5	—	—	18
Others.....	—	7	—	—	7
	<u>246</u>	<u>352</u>	<u>—</u>	<u>—</u>	<u>598</u>
31st December, 1998:					
Deferred finance charges.....	45	29	—	—	74
Expenditure on proposed capital projects					
— Tseung Kwan O Extension Project.....	528	(4)	(437)	(87)	—
— Choi Hung Park and Ride Project.....	18	13	—	—	31
Others.....	7	11	—	—	18
	<u>598</u>	<u>49</u>	<u>(437)</u>	<u>(87)</u>	<u>123</u>
31st December, 1999:					
Deferred finance charges.....	74	40	—	—	114
Expenditure on proposed capital projects					
— Choi Hung Park and Ride Project.....	31	—	—	(31)	—
— Penny's Bay Rail Link.....	—	4	—	—	4
Privatisation expenses.....	—	20	—	—	20
Others.....	18	(18)	—	—	—
	<u>123</u>	<u>46</u>	<u>—</u>	<u>(31)</u>	<u>138</u>
	Balance at 1st Jan,				Balance at 30th June,
30th June, 2000:					
Deferred finance charges.....	114	(22)	—	—	92
Expenditure on proposed capital projects					
— Penny's Bay Rail Link.....	4	3	—	—	7
Privatisation expenses.....	20	17	—	—	37
	<u>138</u>	<u>(2)</u>	<u>—</u>	<u>—</u>	<u>136</u>
30th June, 1999 (unaudited):					
Deferred finance charges.....	74	48	—	—	122
Expenditure on proposed capital projects					
— Choi Hung Park and Ride Project.....	31	—	—	(31)	—
Privatisation expenses.....	—	6	—	—	6
Others.....	18	(8)	—	—	10
	<u>123</u>	<u>46</u>	<u>—</u>	<u>(31)</u>	<u>138</u>

Following the signing of the formal agreement with the Government for the construction and operation of the Tseung Kwan O Extension on 4th November, 1998, the cumulative costs incurred on the project were transferred to railway construction in progress (Note 15) and property development in progress (Note 16(a)).

Following the approval of the Choi Hung Park and Ride Development Proposal by the Town Planning Board during 1999 the cumulative costs incurred on the project were transferred to property development in progress (Note 16(a)).

Privatisation expenses comprise legal and professional costs incurred in preparing for the partial privatisation of the Company. These costs will be recoverable out of the proceeds of the offering upon the successful listing of the Company's shares.

18 Investments in subsidiaries

	At 31st December,			At 30th June,	
	1997	1998	1999	2000	1999
					(unaudited)
	(in HK\$ millions)				
Unlisted shares, at cost	27	28	28	56	28
Less: Provision for diminution in value.....	2	3	3	3	3
	<u>25</u>	<u>25</u>	<u>25</u>	<u>53</u>	<u>25</u>

With the exception of Fasttrack Insurance Limited and Creative Star Limited, full provision against the cost of investment in the Company's subsidiaries has been made in these financial statements.

Details of principal subsidiaries throughout the relevant period are as follows:

Name of Company	Authorised share capital HK\$	Issued share capital HK\$	Direct interest in equity shares	Country of incorporation	Activities
MTR Engineering Services Limited.....	10,000	1,000	100%	Hong Kong	Engineering consultancy services
MTR Travel Limited.....	2,500,000	2,500,000	100%	Hong Kong	Travel services
Creative Star Limited	60,000,000	42,000,000	67.8%	Hong Kong	Development and operation of smart card system
Fasttrack Insurance Limited...	100,000,000	25,000,000	100%	Bermuda	Insurance underwriting

(a) Creative Star Limited

In June 1994, the Company entered into an agreement with four local transport companies, Kowloon-Canton Railway Company, The Kowloon Motor Bus Company (1933) Limited, Citybus Limited and The Hongkong and Yaumati Ferry Co., Limited, to incorporate a company, Creative Star Limited ("Creative Star"), to undertake the development and operation of a new Octopus contactless smart card ticketing system, which will initially be used by the shareholding transport companies. The Company holds 67.8% of the HK\$42,000,000 equity capital but its voting rights at board meetings amount to only 49%. The shareholders have agreed to provide the necessary funding to Creative Star, in proportion to their respective shareholdings, for its operations and for the development of the Octopus system.

On 20th April, 2000, Creative Star received approval from the Hong Kong Monetary Authority to become a deposit taking company ("DTC") for the issue of a multi-purpose stored value card. Prior to becoming a DTC, the Octopus card was exempted from the definition of "multi-purpose card" under the Hong Kong Banking Ordinance (Cap. 155 of the Laws of Hong Kong) because of its restricted uses. With the granting of this DTC registration, Creative Star can extend the use of its Octopus cards from transport related services to some non-transport related applications. In connection with the application, the Company and the other shareholders injected HK\$28 million and HK\$42 million into Creative Star in the form of subordinated loan and share capital respectively on 18th April, 2000 in order to fulfill the capital requirements pursuant to the Banking Ordinance (Cap. 155 of the Laws of Hong Kong). The contributions were made in proportion to each shareholders' interest in equity shares of Creative Star.

During the period ended 30th June, 2000, a net amount of HK\$16 million (*1999: HK\$32 million; 1998: HK\$33 million; 1997: HK\$9 million*) was paid to Creative Star in respect of the central clearing services provided to the Company.

Creative Star had separately entered into a service agreement with the Company for the Company to provide management services to Creative Star for an initial period of 6 years from the commencement of operation of the system in 1997. However, this agreement was terminated on 1st September, 1999 upon the establishment of an organisation and manpower structure within Creative Star. A residual services agreement between Creative Star and the Company became effective on the same day, specifying the services that the Company will continue to provide to Creative Star on an on-going or as required basis. Most of these services relate to the rental of computer equipment and services and warehouse storage space. Fees payable under the initial and the residual services agreements by Creative Star to the Company amounted to HK\$2 million for the period ended 30th June, 2000 (*1999: HK\$30 million; 1998: HK\$38 million; 1997: HK\$40 million*).

The condensed profit and loss accounts and the balance sheets for Creative Star are shown below:

	Profit and loss account			
	Year ended 31st December,			Period ended 30th June,
	1997	1998	1999	2000
	(in HK\$ millions)			
Turnover	16	62	98	68
(Loss)/profit before taxation	(18)	(10)	8	10
Taxation	—	—	—	—
(Loss)/profit for the period	(18)	(10)	8	10
Company's share of (loss)/profit	(12)	(7)	5	7
	Balance sheet			
	At 31st December,			At 30th June,
	1997	1998	1999	2000
	(in HK\$ millions)			
Assets				
Fixed assets and development in progress	293	355	372	355
Cash and others	179	222	333	438
	472	577	705	793
Liabilities				
Card deposits, card floats and others	(338)	(607)	(728)	(736)
Shareholders' loans	(155)	—	—	(28)
Net (liabilities)/assets	(21)	(30)	(23)	29
Represented by:				
Shareholders' (deficit)/surplus	(21)	(30)	(23)	29
Company's share of net (liabilities)/assets	(14)	(20)	(16)	20

(b) Fasttrack Insurance Limited

Fasttrack Insurance Limited ("Fasttrack Insurance") was incorporated as a wholly-owned subsidiary in Bermuda on 14th November, 1997. The primary purpose of this subsidiary is to operate as the Company's captive insurance company to obtain better direct access to the international reinsurance market and to contain insurance premium payments at a favourable level. Fasttrack Insurance commenced operation on 30th November, 1997 upon the placing with it of the Company's principal insurance cover for its railway assets and revenue. Fasttrack Insurance retains the primary level of insurance cover and places the excess and catastrophe cover with the international reinsurance market. The first set of financial statements for Fasttrack Insurance was made up from 14th November, 1997 to 31st December, 1998.

Fasttrack Insurance had an operating loss of HK\$5 million for the six months ended 30th June, 2000 (1999: profit of HK\$7 million, 1998: profit of HK\$12 million)

and net assets of HK\$40 million as at 30th June, 2000 (1999: HK\$45 million, 1998: HK\$37 million).

No dividend has been paid or is payable to the Company by Fasttrack Insurance for the period up to 30th June, 2000.

(c) MTR Travel Limited and MTR Engineering Services Limited

MTR Travel Limited ("MTR Travel") operates in Hong Kong, whereas MTR Engineering Services Limited ("MTR Engineering Services") operates both in Hong Kong and in the United Kingdom. The operations of MTR Travel have been substantially reduced, with six of its seven sales outlets closed down since 1st January, 2000.

The cumulative losses of Creative Star, MTR Travel and MTR Engineering Services, attributable to the Company, have been fully provided for in the financial statements as follows:

	<u>1997</u>	<u>1998</u>	<u>1999</u>
	(in HK\$ millions)		
Balance at 1st January.....	4	13	19
Net aggregate losses for the year.....	9	6	4
Balance at 31st December.....	<u>13</u>	<u>19</u>	<u>23</u>
	<u>2000</u>	<u>1999</u>	
	(unaudited)		
	(in HK\$ millions)		
Balance at 1st January	23	19	
Net aggregate losses for the period	3	— ⁽¹⁾	
Balance at 30th June	<u>26</u>	<u>19</u>	

Note:

- (1) No provision for the subsidiaries' operating losses for the six months ended 30th June, 1999 has been made in the unaudited management accounts of the Company for the six months ended 30th June, 1999.

19 Staff housing loans

	Balance at 1st Jan,	New loans drawn down	Redemptions and repayments/ provision	Balance at 31st Dec,	
	(in HK\$ millions)				
31st December, 1997:					
Housing loans receivable	—	716	(11)	705	
General provision	—	—	(4)	(4)	
	<u>—</u>	<u>716</u>	<u>(15)</u>	<u>701</u>	
31st December, 1998:					
Housing loans receivable	705	295	(109)	891	
General provision	(4)	—	—	(4)	
	<u>701</u>	<u>295</u>	<u>(109)</u>	<u>887</u>	
31st December, 1999:					
Housing loans receivable	891	156	(250)	797	
General provision	(4)	—	—	(4)	
	<u>887</u>	<u>156</u>	<u>(250)</u>	<u>793</u>	
	Balance at 1st Jan,			Balance at 30th June,	
30th June, 2000:					
Housing loans receivable	797	138	(99)	836	
General provision	(4)	—	—	(4)	
	<u>793</u>	<u>138</u>	<u>(99)</u>	<u>832</u>	
30th June, 1999 (unaudited):					
Housing loans receivable	891	87	(92)	886	
General provision	(4)	—	—	(4)	
	<u>887</u>	<u>87</u>	<u>(92)</u>	<u>882</u>	
	At 31st December,			At 30th June,	
	1997	1998	1999	2000	1999
					(unaudited)
	(in HK\$ millions)				
Amount receivable:					
—within 1 year.....	38	49	53	56	57
—after 1 year.....	663	838	740	776	825
	<u>701</u>	<u>887</u>	<u>793</u>	<u>832</u>	<u>882</u>

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 are secured by mortgages over the relevant properties.

20 Stores and spares

	At 31st December,			At 30th June,	
	1997	1998	1999	2000	1999
					(unaudited)
	(in HK\$ millions)				
Stores and spares expected to be consumed:					
—within 1 year	155	202	199	179	192
—after 1 year	63	68	99	126	106
	<u>218</u>	<u>270</u>	<u>298</u>	<u>305</u>	<u>298</u>
Less: Provision for obsolete stock	9	5	8	7	5
	<u>209</u>	<u>265</u>	<u>290</u>	<u>298</u>	<u>293</u>

Stores and spares expected to be consumed after 1 year comprise mainly contingency spares and stocks kept to meet cyclical maintenance.

21 Debtors, deposits and payments in advance

	At 31st December,			At 30th June,	
	1997	1998	1999	2000	1999
					(unaudited)
	(in HK\$ millions)				
Debtors, deposits and payments in advance comprise:					
—Airport Railway Project	1	8	2	2	3
—Tseung Kwan O Extension Project.....	—	20	36	26	49
—Railway operations and other projects	404	499	570	647	602
	<u>405</u>	<u>527</u>	<u>608</u>	<u>675</u>	<u>654</u>

The Company's credit policy in respect of receivables arising from its principal activities are as follows:

- (i) Rental income, advertising and telecommunication revenue are billed monthly with due dates ranging from 7 to 50 days. Tenants of the Company's investment properties and station kiosks are required to pay three months' rental deposits upon the signing of lease agreements.
- (ii) Amounts receivable under interest rate swap agreements with financial institutions are due in accordance with the respective terms of the agreements.
- (iii) Debtors in relation to capital works entrusted to the Company, subject to any agreed retentions, are due upon the certification of work in progress.

Fare revenue is collected in cash for single ride tickets or by Octopus Cards which is settled daily.

The ageing analysis of debtors included above as at 30th June, 2000 is as follows:

	At 30th June, 2000
	(in HK\$ millions)
Amount not yet due	545
Overdue by 30 days	34
Overdue by 60 days	26
Overdue by 90 days	4
Overdue by more than 90 days	41
Total debtors.....	650
Deposits and payments in advance	25
	<u>675</u>

22 Amounts due from the Government and other related parties

	At 31st December,			At 30th June,	
	1997	1998	1999	2000	1999
	(in HK\$ millions)				
	(unaudited)				
Amount due from the Government	202	257	207	125	257
Amount due from the Housing Authority.....	4	13	48	13	16
Amount due from Kowloon-Canton Railway Corporation	—	—	—	1	—
Amount due from subsidiaries (net of provision for losses).....	108	28	4	23	4
	<u>314</u>	<u>298</u>	<u>259</u>	<u>162</u>	<u>277</u>

The amount due from the Government related to outstanding payments and retentions, as well as provision for contract claims recoverable from the Government, in connection with infrastructure works entrusted to the Company.

The amount due from the Housing Authority related to site formation works entrusted to the Company by the Housing Authority in respect of the Tseung Kwan O Extension Project. The entrustment enabled early possession of a site by the Company to facilitate railway construction.

As at 30th June, 2000, the contract retentions on the above entrusted works due for release after one year were HK\$13 million (1999: HK\$9 million; 1998: HK\$46 million; 1997: HK\$44 million). All other amounts due from the Government and other related parties were expected to be received within 12 months.

The amount due from subsidiaries at 30th June, 2000 includes an interest-bearing subordinated loan granted by the Company to Creative Star in the amount of HK\$19 million (1997-1999: HK\$Nil).

23 Cash at banks and in hand

	At 31st December,			At 30th June,	
	1997	1998	1999	2000	1999
					(unaudited)
			(in HK\$ millions)		
Deposits with financial institutions..	4,734	777	15	35	3,530
Cash at banks and in hand	34	31	53	36	27
	<u>4,768</u>	<u>808</u>	<u>68</u>	<u>71</u>	<u>3,557</u>

24 Loans and obligations under finance leases**(a) By Type**

	Balance at closing rate at 31st Dec, 1997	Exchange (gain)/loss on related forward exchange contracts at 31st Dec, 1997	Balance at 31st Dec, 1997
			(in HK\$ millions)
At 31st December, 1997:			
Capital market instruments			
Listed or publicly traded:			
US dollar Yankee notes due 2005	2,325	(3)	2,322
Samurai yen bonds (4th Series) due 2001	895	223	1,118
	<u>3,220</u>	<u>220</u>	<u>3,440</u>
Unlisted:			
US dollar private placement notes (Rule 144A) due 2000.....	1,162	—	1,162
Debt issuance programme notes due 1999 to 2004.....	215	—	215
HK dollar medium-term notes due 1998 to 2000.....	730	—	730
HK dollar note issuance programme notes due 2000 to 2003	1,500	—	1,500
Shibosai yen bonds (Series B) due 1998.....	298	(18)	280
	<u>3,905</u>	<u>(18)</u>	<u>3,887</u>
Total capital market instruments	7,125	202	7,327
Bank loans and overdrafts.....	2,175	121	2,296
	<u>9,300</u>	<u>323</u>	<u>9,623</u>
Obligations under finance leases	1,252	—	1,252
Total.....	<u>10,552</u>	<u>323</u>	<u>10,875</u>

	Balance at closing rate at 31st Dec, 1998	Exchange (gain)/loss on related forward exchange contracts at 31st Dec, 1998	Balance at 31st Dec, 1998
	(in HK\$ millions)		
At 31st December, 1998:			
Capital market instruments			
Listed or publicly traded:			
US dollar Yankee notes due 2005	2,324	(2)	2,322
Debt issuance programme notes due 2005	194	—	194
Samurai yen bonds (4th Series) due 2001	1,025	93	1,118
	<u>3,543</u>	<u>91</u>	<u>3,634</u>
Unlisted:			
US dollar private placement notes (Rule 144A) due 2000.....	1,162	—	1,162
Debt issuance programme notes due 1999 to 2018.....	3,380	—	3,380
HK dollar medium-term notes due 1999 to 2000.....	630	—	630
HK dollar note issuance programme notes due 2000 to 2003	2,500	—	2,500
	<u>7,672</u>	<u>—</u>	<u>7,672</u>
Total capital market instruments	11,215	91	11,306
Bank loans and overdrafts.....	4,458	(56)	4,402
	<u>15,673</u>	<u>35</u>	<u>15,708</u>
Obligations under finance leases	1,189	—	1,189
Total.....	<u>16,862</u>	<u>35</u>	<u>16,897</u>

	Balance at closing rate at 31st Dec, 1999	Exchange (gain)/loss on related forward exchange contracts at 31st Dec, 1999	Balance at 31st Dec, 1999
	(in HK\$ millions)		
At 31st December, 1999:			
Capital market instruments			
Listed or publicly traded:			
US dollar Yankee notes due 2005	2,332	(9)	2,323
US dollar Global notes due 2009	5,829	(6)	5,823
Debt issuance programme notes due 2005...	194	—	194
Samurai yen bonds (4th Series) due 2001	1,143	(23)	1,120
	<u>9,498</u>	<u>(38)</u>	<u>9,460</u>
Unlisted:			
US dollar private placement notes (Rule 144A) due 2000	1,166	(1)	1,165
Debt issuance programme notes due 2000 to 2018	4,390	(2)	4,388
HK dollar medium-term notes due 2000	450	—	450
HK dollar note issuance programme notes due 2000 to 2003	2,500	—	2,500
	<u>8,506</u>	<u>(3)</u>	<u>8,503</u>
Total capital market instruments	18,004	(41)	17,963
Bank loans and overdrafts	4,301	(92)	4,209
	22,305	(133)	22,172
Obligations under finance leases	1,005	—	1,005
Total	<u>23,310</u>	<u>(133)</u>	<u>23,177</u>

	Balance at closing rate at 30th June, 2000	Exchange (gain)/loss on related forward exchange contracts at 30th June, 2000 (in HK\$ millions)	Balance at 30th June, 2000
At 30th June, 2000:			
Capital market instruments			
Listed or publicly traded:			
US dollar Yankee notes due 2005	2,339	(15)	2,324
US dollar Global notes due 2009	5,847	(14)	5,833
Debt issuance programme notes due 2005 ..	195	—	195
Samurai yen bonds (4th Series) due 2001 ...	1,110	11	1,121
	<u>9,491</u>	<u>(18)</u>	<u>9,473</u>
Unlisted:			
US dollar private placement notes (Rule 144A) due 2000	1,169	(2)	1,167
Debt issuance programme notes due 2000 to 2018	5,093	(4)	5,089
HK dollar note issuance programme notes due 2000 to 2003	2,000	—	2,000
	<u>8,262</u>	<u>(6)</u>	<u>8,256</u>
Total capital market instruments	<u>17,753</u>	<u>(24)</u>	<u>17,729</u>
Bank loans and overdrafts	<u>6,970</u>	<u>(53)</u>	<u>6,917</u>
	24,723	(77)	24,646
Obligations under finance leases	<u>945</u>	<u>—</u>	<u>945</u>
Total	<u>25,668</u>	<u>(77)</u>	<u>25,591</u>

	Balance at closing rate at 30th June, 1999	Exchange (gain)/loss on related forward exchange contracts at 30th June, 1999 (in HK\$ millions)	Balance at 30th June, 1999
At 30th June, 1999 (unaudited):			
Capital market instruments			
Listed or publicly traded:			
US dollar Yankee notes due 2005	2,328	(5)	2,323
US dollar Global notes due 2009	5,819	(1)	5,818
Debt issuance programme notes due 2005 ..	194	—	194
Samurai yen bonds (4th Series) due 2001 ...	963	156	1,119
	<u>9,304</u>	<u>150</u>	<u>9,454</u>
Unlisted:			
US dollar private placement notes (Rule 144A) due 2000	1,164	(1)	1,163
Debt issuance programme notes due 1999 to 2018	4,487	(1)	4,486
HK dollar medium-term notes due 1999 to 2000	450	—	450
HK dollar note issuance programme notes due 2000 to 2003	2,500	—	2,500
	<u>8,601</u>	<u>(2)</u>	<u>8,599</u>
Total capital market instruments	<u>17,905</u>	<u>148</u>	<u>18,053</u>
Bank loans and overdrafts	<u>3,398</u>	<u>89</u>	<u>3,487</u>
	21,303	237	21,540
Obligations under finance leases	<u>1,062</u>	<u>—</u>	<u>1,062</u>
Total	<u>22,365</u>	<u>237</u>	<u>22,602</u>

At 30th June, 2000, the Company had available undrawn committed bank loan facilities amounting to HK\$9,844 million (1999: HK\$13,113 million; 1998: HK\$11,777 million; 1997: HK\$9,200 million). In addition, the Company had a number of uncommitted facilities with undrawn amounts totalling HK\$19,974 million (1999: HK\$21,323 million; 1998: HK\$17,119 million; 1997: HK\$22,362 million), comprising a multi-currency medium-term note programme, a HK dollar note issuance programme and short-term bank loan facilities.

No listed debt securities were redeemed during the relevant period.

(b) By Repayment Terms

	Capital market instruments	Bank loans and overdrafts	Obligations under finance leases	Total
	(in HK\$ millions)			
At 31st December, 1997:				
Long-term loans and obligations under finance leases				
Amounts repayable beyond 5 years	2,389	316	608	3,313
Amounts repayable within a period of between 2 and 5 years.....	4,233	689	462	5,384
Amounts repayable within a period of between 1 and 2 years.....	330	1,042	119	1,491
Amounts repayable within 1 year.....	380	233	63	676
	<u>7,332</u>	<u>2,280</u>	<u>1,252</u>	<u>10,864</u>
Bank overdrafts	<u>—</u>	<u>11</u>	<u>—</u>	<u>11</u>
	<u>7,332</u>	<u>2,291</u>	<u>1,252</u>	<u>10,875</u>
At 31st December, 1998:				
Long-term loans and obligations under finance leases				
Amounts repayable beyond 5 years	3,147	—	505	3,652
Amounts repayable within a period of between 2 and 5 years.....	5,221	1,656	436	7,313
Amounts repayable within a period of between 1 and 2 years.....	2,612	1,092	129	3,833
Amounts repayable within 1 year.....	330	1,618	119	2,067
	<u>11,310</u>	<u>4,366</u>	<u>1,189</u>	<u>16,865</u>
Bank overdrafts	<u>—</u>	<u>32</u>	<u>—</u>	<u>32</u>
	<u>11,310</u>	<u>4,398</u>	<u>1,189</u>	<u>16,897</u>

	Capital market instruments	Bank loans and overdrafts	Obligations under finance leases	Total
	(in HK\$ millions)			
At 31st December, 1999:				
Long-term loans and obligations under finance leases				
Amounts repayable beyond 5 years	8,962	—	393	9,355
Amounts repayable within a period of between 2 and 5 years	4,216	1,988	358	6,562
Amounts repayable within a period of between 1 and 2 years	2,170	661	132	2,963
Amounts repayable within 1 year	2,615	1,089	122	3,826
	<u>17,963</u>	<u>3,738</u>	<u>1,005</u>	<u>22,706</u>
Short-term loans	—	436	—	436
Bank overdrafts	—	35	—	35
	<u>17,963</u>	<u>4,209</u>	<u>1,005</u>	<u>23,177</u>
At 30th June, 2000:				
Long-term loans and obligations under finance leases				
Amounts repayable beyond 5 years	8,989	—	334	9,323
Amounts repayable within a period of between 2 and 5 years	4,902	813	347	6,062
Amounts repayable within a period of between 1 and 2 years	1,050	4,559	137	5,746
Amounts repayable within 1 year	2,788	662	127	3,577
	<u>17,729</u>	<u>6,034</u>	<u>945</u>	<u>24,708</u>
Short-term loans	—	843	—	843
Bank overdrafts	—	40	—	40
	<u>17,729</u>	<u>6,917</u>	<u>945</u>	<u>25,591</u>
At 30th June, 1999 (unaudited):				
Long-term loans and obligations under finance leases				
Amounts repayable beyond 5 years	9,055	—	450	9,505
Amounts repayable within a period of between 2 and 5 years	5,166	1,325	369	6,860
Amounts repayable within a period of between 1 and 2 years	2,782	666	127	3,575
Amounts repayable within 1 year	1,050	1,473	116	2,639
	<u>18,053</u>	<u>3,464</u>	<u>1,062</u>	<u>22,579</u>
Bank overdrafts	—	23	—	23
	<u>18,053</u>	<u>3,487</u>	<u>1,062</u>	<u>22,602</u>

The amounts repayable within 1 year in respect of long-term loans and obligations under finance leases are included in long-term loans as these amounts are intended to be refinanced on a long-term basis.

Obligations under finance leases are the Company's commitments to make future payments to New Hong Kong Tunnel Company Limited under the management agreement for the Eastern Harbour Crossing which is treated as a finance lease.

(c) Bonds and notes issued

No bonds nor notes were issued in 1997.

Bonds and notes issued during 1998 comprise:

	<u>Debt Issuance Programme Notes</u>	<u>Note Issuance Programme Notes</u>
	(in HK\$ millions)	
Amount Issued.....	3,359	1,000
Consideration Received	3,342	1,005

Bonds and notes issued during 1999 comprise:

	<u>Debt Issuance Programme Notes</u>	<u>US Dollar Global Notes</u>
	(in HK\$ millions)	
Amount issued.....	1,155	5,811
Consideration received.....	1,154	5,761

Bonds and notes issued during the period ended 30th June, 2000 comprise:

	<u>Debt Issuance Programme Notes</u>
	(in HK\$ millions)
Amount issued	700
Consideration received	698

US dollar Global notes are unsecured and the proceeds from the issuance are used to repay existing indebtedness of the Company and/or for general corporate purposes.

Debt issuance programme notes and note issuance programme notes are unsecured and rank pari passu with all other unsecured obligations of the Company. The proceeds from the issuance are used for general working capital, refinancing or any other purpose permitted by the new MTR Ordinance.

(d) Guarantees

There were no guarantees given by the Government in respect of loan facilities throughout the relevant period.

(e) Interest rates

The total borrowings, excluding obligations under finance leases, at 31st December, 1997, 1998, 1999 and 30th June, 1999 and 2000 comprise:

	At 31st Dec, 1997		At 31st Dec, 1998		At 31st Dec, 1999		At 30th June, 2000		At 30th June, 1999	
	Loan amount	Interest rate	Loan amount	Interest rate	Loan amount	Interest rate	Loan amount	Interest rate	Loan amount	Interest rate
	HK\$ millions	% p.a.	HK\$ millions	% p.a.	HK\$ millions	% p.a.	HK\$ millions	% p.a.	HK\$ millions	% p.a. (unaudited)
Fixed rate loans and loans swapped into fixed rates.....	7,552	6.0-9.4	10,079	6.5-9.4	13,928	6.2-8.4	15,605	6.2-8.4	11,666	6.5-8.4
Variable rate loans and loans swapped from fixed rates.....	2,071	(Note 1)	5,629	(Note 1)	8,244	(Note 1)	9,041	(Note 1)	9,874	(Note 1)
	<u>9,623</u>		<u>15,708</u>		<u>22,172</u>		<u>24,646</u>		<u>21,540</u>	

Note:

(1) Interest rates were determined by reference to either the prime rate, the Hong Kong Interbank Offered Rate or the London Interbank Offered Rate.

25 Off-balance sheet financial instruments

The Company has employed off-balance sheet derivative instruments such as interest rate swaps and currency swaps to manage its interest rate and foreign exchange exposure. These instruments are used solely to reduce or eliminate the financial risks associated with the Company's liabilities and not for trading or speculative purposes.

The contracted notional amounts of derivative instruments outstanding by maturity and type at 31st December, 1997, 1998 and 1999 and 30th June, 1999 and 2000 are as follows:

	At 31st December,			At 30th June,					
	1997	1998	1999	2000			1999		
	Total	Total	Total	Less than 2 Years	2-5 Years	Over 5 Years	Total	Total	
				Maturing in					
				(in HK\$ millions)					
Foreign Exchange Forwards	52	60	262	283	264	90	637	217	
Cross Currency and Interest Rate Swaps .	8,570	7,904	10,718	3,969	1,516	4,801	10,286	10,098	
Interest Rate Swaps and Options.....	3,402	6,802	12,481	6,607	5,500	780	12,887	11,154	
	<u>12,024</u>	<u>14,766</u>	<u>23,461</u>	<u>10,859</u>	<u>7,280</u>	<u>5,671</u>	<u>23,810</u>	<u>21,469</u>	

There are four main categories of risk related to using derivative instruments, namely, market risk, credit risk, operational risk and legal risk. Since the Company employs derivative instruments purely for hedging purposes, it is not exposed to market risk because any change in market values will be offset by an opposite change in the market values of the underlying liabilities being hedged.

The Company manages credit risk by assigning limits to counterparties and by dealing only with financial institutions with acceptable credit ratings. The Company further monitors its credit exposure by estimating the fair market values plus any potential adverse movement in the values of the derivative instruments employed. The Company has not experienced non-performance by any counterparty.

The Company has internal control measures to ensure compliance with policies and procedures to minimise operational risk. Standardised or master agreements are used whenever practicable to reduce legal risk and credit exposure.

26 Creditors, accrued charges and provisions

	At 31st December,			At 30th June,	
	1997	1998	1999	2000	1999
					(unaudited)
	(in HK\$ millions)				
Airport Railway Project	966	1,874	549	618	1,013
Tseung Kwan O Extension Project	19	153	456	486	542
Property projects.....	176	340	276	209	177
Railway operations and other projects	1,990	2,606	2,503	2,354	2,333
	<u>3,151</u>	<u>4,973</u>	<u>3,784</u>	<u>3,667</u>	<u>4,065</u>

Included in creditors are mainly payables in relation to the Company's capital projects which are settled upon certification of work in progress. The Company has no significant balances of trade creditors resulting from its provision of transportation services.

The analysis of creditors included above at 30th June, 2000 by due dates is as follows:

	At 30th June, 2000
	(in HK\$ millions)
0-30 days	807
31-60 days	893
61-90 days	311
Over 90 days	<u>1,386</u>
	3,397
Rental and other refundable deposits	<u>270</u>
Total	<u>3,667</u>

Included in creditors, accrued charges and provisions in respect of the Airport Railway Project are provisions for claims on completed contracts, which were capitalised as part of the railway assets upon commissioning of the Tung Chung and Airport Express Lines in 1998.

At 30th June, 2000, all creditors, accrued charges and provisions were expected to be settled within one year except for HK\$243 million (1999: HK\$239 million; 1998: HK\$230 million; 1997: HK\$269 million) included in the amounts relating to railway operations and other projects, 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 various telecommunication services operators.

27 Contract retentions

	Due for release after 12 months	Due for release within 12 months	Total
(in HK\$ millions)			
At 31st December, 1997:			
Airport Railway Project	284	279	563
Tseung Kwan O Extension Project	5	—	5
Property projects	17	16	33
Railway operations and other projects	107	208	315
	<u>413</u>	<u>503</u>	<u>916</u>
At 31st December, 1998:			
Airport Railway Project	132	154	286
Tseung Kwan O Extension Project	30	11	41
Property projects	5	2	7
Railway operations and other projects	144	110	254
	<u>311</u>	<u>277</u>	<u>588</u>
At 31st December, 1999:			
Airport Railway Project	—	132	132
Tseung Kwan O Extension Project	243	10	253
Property projects	47	12	59
Railway operations and other projects	118	179	297
	<u>408</u>	<u>333</u>	<u>741</u>
At 30th June, 2000:			
Airport Railway Project	—	85	85
Tseung Kwan O Extension Project	315	17	332
Property projects	54	14	68
Railway operations and other projects	121	189	310
	<u>490</u>	<u>305</u>	<u>795</u>
At 30th June, 1999 (unaudited):			
Airport Railway Project	85	162	247
Tseung Kwan O Extension Project	83	12	95
Property projects	17	4	21
Railway operations and other projects	146	118	264
	<u>331</u>	<u>296</u>	<u>627</u>

28 Amounts due to the Government and other related parties

The following were amounts due to the Government and Airport Authority in respect of works entrusted to them by the Company:

Party Entrusted	Project	At 31st December,			At 30th June,	
		1997	1998	1999	2000	1999
						(unaudited)
		(in HK\$ millions)				
Hong Kong Government....	Airport Railway Project	439	671	308	297	394
	Tseung Kwan O Extension Project	10	2	1	9	1
	Other railway projects	—	—	—	4	15
		<u>449</u>	<u>673</u>	<u>309</u>	<u>310</u>	<u>410</u>
Airport Authority.....	Airport Railway Project	191	344	278	113	324
		<u>640</u>	<u>1,017</u>	<u>587</u>	<u>423</u>	<u>734</u>

At 30th June, 2000, HK\$75 million in respect of the amounts due to the Government and other related parties are expected to be settled after one year. At 31st December, 1997, 1998 and 1999, HK\$67 million, HK\$36 million and HK\$1 million in respect of retention withheld on the above entrusted works are expected to be settled after one year.

29 Deferred liabilities

	At 31st December,			At 30th June,		
	1997	1998	1999	2000	1999	
					(unaudited)	
		(in HK\$ millions)				
Estate management funds.....						
—Refundable deposits on managed properties	16	17	27	27	26	
—Building maintenance and asset replacement reserve funds	<u>52</u>	<u>41</u>	<u>43</u>	<u>46</u>	<u>44</u>	
	<u>68</u>	<u>58</u>	<u>70</u>	<u>73</u>	<u>70</u>	

30 Share capital and capital reserve

The share capital of MTRC at 31st December, 1997, 1998, 1999 and 30th June, 1999 was:

	At 31st December,			At 30th June,		
	1997	1998	1999	1999		
				(unaudited)		
		(in HK\$ millions)				
Authorised:						
327,000 shares of HK\$100,000 each	<u>32,700</u>	<u>32,700</u>	<u>32,700</u>	<u>32,700</u>		
Issued and fully paid:						
321,881 shares of HK\$100,000 each	<u>32,188</u>	<u>32,188</u>	<u>32,188</u>	<u>32,188</u>		

On 26th April, 2000, the Company was incorporated with an authorised share capital of HK\$33 billion divided into 33 billion shares of HK\$1.00 each and an issued share capital of HK\$2.00 divided into two shares of HK\$1.00 each. By virtue of the new MTR Ordinance, on the Appointed Day, all the property, rights and liabilities to which MTRC was entitled or subject immediately before 30th June, 2000, became the property, rights and liabilities of the Company and the Company issued 2,999,999,998 shares to the Financial Secretary Incorporated on trust for the Government with an aggregate par value of HK\$2,999,999,998. The difference between the aggregate par value of the shares issued to the Financial Secretary Incorporated on trust for the Government on the Appointed Day and the aggregate par value of the issued shares of MTRC immediately before the Appointed Day was transferred to a special capital reserve established by the Articles of Association.

The share capital and capital reserve of the Company at 30th June, 2000 were:

	At 30th June, 2000
	(in HK\$ millions)
Authorised share capital:	
33,000,000,000 shares of HK\$1.00 each	33,000
Share capital, issued and fully paid	
3,000,000,000 shares of HK\$1.00 each	3,000
Capital reserve	29,188
	<u>32,188</u>

The capital reserve of the Company 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.

31 Other reserves

	Investment property revaluation reserve	Fixed asset revaluation reserve	Retained profits	Total
	(in HK\$ millions)			
31st December, 1997:				
Balance at 1st January	5,940	556	789	7,285
Surplus on revaluations	169	642	—	811
Transfer of revaluation surplus to retained profits (Note 16(c))	—	(190)	190	—
Retained profit for the year	—	—	1,531	1,531
Balance at 31st December, 1997	<u>6,109</u>	<u>1,008</u>	<u>2,510</u>	<u>9,627</u>
31st December, 1998:				
Balance at 1st January	6,109	1,008	2,510	9,627
Deficit on revaluations	(1,273)	(760)	—	(2,033)
Retained profit for the year	—	—	2,819	2,819
Balance at 31st December, 1998	<u>4,836</u>	<u>248</u>	<u>5,329</u>	<u>10,413</u>
31st December, 1999:				
Balance at 1st January	4,836	248	5,329	10,413
Surplus / (deficit) on revaluations	432	(34)	—	398
Retained profit for the year	—	—	2,116	2,116
Balance at 31st December, 1999	<u>5,268</u>	<u>214</u>	<u>7,445</u>	<u>12,927</u>
30th June, 2000:				
Balance at 1st January	5,268	214	7,445	12,927
Surplus / (deficit) on revaluations	1,126	(53)	—	1,073
Retained profit for the period	—	—	1,051	1,051
Balance at 30th June, 2000	<u>6,394</u>	<u>161</u>	<u>8,496</u>	<u>15,051</u>
30th June, 1999 (unaudited):				
Balance at 1st January	4,836	248	5,329	10,413
Retained profit for the period	—	—	1,148	1,148
Balance at 30th June, 1999	<u>4,836</u>	<u>248</u>	<u>6,477</u>	<u>11,561</u>

The investment property and fixed asset revaluation reserves are not available for distribution to the shareholders because they do not constitute realised profits. As at 30th June, 2000, the total amount of reserves available for distribution to shareholders under the Hong Kong Companies Ordinance (Cap. 32 of the Laws of Hong Kong) amounted to HK\$8,496 million (1999: HK\$7,445 million; 1998: HK\$5,329 million; 1997: HK\$2,510 million).

32 Cash Flow Statement Analysis

(a) Reconciliation of operating profit to net cash inflow from operating activities:

	Year ended 31st December,			Six months ended 30th June,	
	1997	1998	1999	2000	1999 (unaudited)
	(in HK\$ millions)				
Operating profit from railway and related operations before depreciation.....	3,529	3,301	3,493	1,957	1,647
Increase/(decrease) in provision for staff housing loans	4	1	(1)	—	—
Loss on disposal of fixed assets.....	6	21	16	20	11
Fixed assets written off to profit and loss account	50	—	—	—	—
Loss/(gain) on exchange translation.....	2	—	2	(1)	1
(Increase)/decrease in debtors, deposits and payments in advance	(104)	210	69	(16)	64
Increase in stores and spares	(5)	(56)	(25)	(8)	(28)
(Decrease)/increase in creditors, accrued charges and provisions	(98)	449	(26)	39	46
Privatisation expenses	—	—	—	(17)	(6)
(Increase)/decrease in other deferred expenditure	(7)	(11)	(2)	—	8
Staff separation payments	—	—	(215)	(48)	(2)
Net cash inflow from operating activities.....	<u>3,377</u>	<u>3,915</u>	<u>3,311</u>	<u>1,926</u>	<u>1,741</u>

(b) Analysis of changes in financing during the relevant period:

	Share capital	Capital reserve	Loans and finance lease obligations	Deferred liabilities	Total
	(in HK\$ millions)				
Year ended 31st December, 1997:					
Balance at 1st January	28,188	—	12,667	68	40,923
Cash inflow / (outflow) from financing	4,000	—	(1,804)	(4)	2,192
Unrealised exchange loss.....	—	—	1	—	1
Interest capitalised	—	—	—	4	4
Balance at 31st December	<u>32,188</u>	<u>—</u>	<u>10,864</u>	<u>68</u>	<u>43,120</u>
Year ended 31st December, 1998:					
Balance at 1st January	32,188	—	10,864	68	43,120
Cash inflow / (outflow) from financing	—	—	6,002	(14)	5,988
Unrealised exchange gain	—	—	(1)	—	(1)
Interest capitalised	—	—	—	4	4
Balance at 31st December	<u>32,188</u>	<u>—</u>	<u>16,865</u>	<u>58</u>	<u>49,111</u>
Year ended 31st December, 1999:					
Balance at 1st January	32,188	—	16,865	58	49,111
Cash inflow from financing	—	—	6,261	9	6,270
Unrealised exchange loss.....	—	—	16	—	16
Interest capitalised	—	—	—	3	3
Balance at 31st December	<u>32,188</u>	<u>—</u>	<u>23,142</u>	<u>70</u>	<u>55,400</u>
Period ended 30th June, 2000:					
Balance at 1st January	32,188	—	23,142	70	55,400
Transfer to capital reserve.....	(29,188)	29,188	—	—	—
Cash inflow from financing	—	—	2,399	2	2,401
Unrealised exchange loss.....	—	—	10	—	10
Interest capitalised	—	—	—	1	1
Balance at 30th June	<u>3,000</u>	<u>29,188</u>	<u>25,551</u>	<u>73</u>	<u>57,812</u>
Period ended 30th June, 1999 (unaudited):					
Balance at 1st January	32,188	—	16,865	58	49,111
Cash inflow from financing	—	—	5,705	12	5,717
Unrealised exchange loss.....	—	—	9	—	9
Balance at 30th June	<u>32,188</u>	<u>—</u>	<u>22,579</u>	<u>70</u>	<u>54,837</u>

33 Retirement scheme

The Company operates two occupational retirement schemes, being:

- the MTR Corporation Limited Retirement Scheme (the “Retirement Scheme”);
- and
- the MTR Corporation Limited Retention Bonus Scheme (the “RBS”).

The assets of these schemes are held under the terms of two separate trust arrangements. These trusts ensure that the assets are kept separate from those of the Company.

(a) Retirement Scheme

The Retirement Scheme was established under trust at the beginning of 1977. The Retirement Scheme contains both defined benefit and defined contribution elements. The Retirement Scheme was registered under the Occupational Retirement Schemes Ordinance (Cap. 426 of the Laws of Hong Kong) with effect from 31st October, 1994.

Membership is compulsory for all Company employees engaged on continuous terms of service. However, the Retirement Scheme with both defined benefit and defined contribution elements (the "Hybrid Benefit Section") was closed to new entrants as from 31st March, 1999, and a new schedule of benefits under the Retirement Scheme with benefits based mainly on defined contributions (the "Defined Contribution Benefit Section") was set up.

(i) The Hybrid Benefit Section

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 and are charged to the profit and loss account accordingly. At 30th June, 2000, the total membership was 7,084 (1999: 7,212, 1998: 8,432; 1997: 8,081). During the six months ended 30th June, 2000, members contributed HK\$39 million (1999: HK\$91 million; 1998: HK\$89 million; 1997: HK\$79 million) and the Company contributed HK\$129 million (1999: HK\$308 million; 1998: HK\$304 million; 1997: HK\$258 million) to the Hybrid Benefit Section. The net asset value of the Hybrid Benefit Section as at 30th June, 2000 was HK\$3,904 million (1999: HK\$3,934 million; 1998: HK\$3,360 million; 1997: HK\$2,901 million).

(ii) The Defined Contribution Benefit Section

On 1st April, 1999, the Hybrid Benefit Section under the Retirement Scheme was closed to new entrants. A new benefit section under the Retirement Scheme, providing benefits based on accumulated contributions with credited investment returns only, has since been offered to all new staff joining the Company. Promotees have the choice of either joining the new Defined Contribution Benefit Section or remaining under the Hybrid Benefit Section. The Defined Contribution Benefit Section offers a range of investment choices to members based on different risk and return profiles. Both members' and the Company's contributions to the Defined Contribution Benefit Section are based on fixed percentages of members' basic salary. At 30th June, 2000, the total membership under this Defined Contribution Benefit Section was 126 (1999: 79). During the six months ended 30th June, 2000, total members' contributions were HK\$0.8 million (1999: HK\$0.4 million) and the total contribution from the Company was HK\$1.7 million (1999: HK\$1.0 million). The net asset value was HK\$4 million at 30th June, 2000 (1999: HK\$1.4 million).

According to the terms of the trust deed, forfeitures are transferred to a reserve account to be utilised at the discretion of the Company.

Actuarial valuations are carried out annually by Watson Wyatt Hong Kong Limited (the "Actuary"), an independent firm of consulting actuaries. A full actuarial valuation of the Retirement Scheme was carried out at 31st December, 1997, 1998 and 1999, and 30th June, 2000 using an attained age method. The principal actuarial assumptions used for the 30th June, 2000 valuations were a long-term rate of investment return net of salary increases of 2% (1999: 2%; 1998: 2%; 1997: 2%) per annum, together with appropriate allowances for expected rates of mortality, turnover and retirements and an adjustment for salary increases expected over the short term. The Actuary was able to confirm that, at the valuation dates:

- the Retirement Scheme was solvent, with assets more than adequate to cover the aggregate value of members' vested benefits had all members left the Scheme; and
- the value of the Retirement Scheme assets, together with the future contributions recommended by the Actuary and adopted by the Board, will be sufficient to meet the accruing liabilities of the Retirement Scheme on an on-going basis.

(b) RBS

The RBS was established under trust as of 1st January, 1995. The RBS 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 RBS provides for benefits to be payable only in the event of redundancy and in respect of service accrued up to 31st December, 2002. The RBS was registered under the Occupational Retirement Schemes Ordinance (Cap. 426 of the Laws of Hong Kong) with effect from 1st December, 1995. As at 30th June, 2000, there were 789 (1999: 834; 1998: 811; 1997: 1,171) members under the RBS.

The 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 the six months ended 30th June, 2000, the Company's contributions amounted to HK\$7 million (1999: HK\$18 million; 1998: HK\$17 million; 1997: HK\$Nil). The net asset value of the RBS as at 30th June, 2000 was HK\$43 million (1999: HK\$35 million; 1998: HK\$31 million; 1997: HK\$31 million).

Actuarial valuations of the RBS are carried out annually by Watson Wyatt Hong Kong Limited (the "Actuary"). A full actuarial valuation of the RBS was carried out at 31st December, 1997, 1998 and 1999, and 30th June, 2000 using an attained age method. The principal actuarial assumptions used for the 30th June, 2000 valuation were a rate of investment return net of estimated rates of salary increases, equivalent to approximately 1.0% (1999: 1.5%; 1998: 2.5%; 1997: 0%) per annum, together with appropriate allowance for expected rates of redundancy.

The Actuary was able to confirm that, at the valuation dates:

- due to the nature of the RBS which provides for benefits only on redundancy, there was no aggregate vested liability, and thus the RBS was technically solvent; and

- the value of the RBS assets, together with the future contributions recommended by the Actuary and adopted by the Board of Directors, will be sufficient to meet the accruing liabilities of the RBS on an on-going basis.

34 Railway projects

(a) Airport Railway Project

The parameters for the design, construction and operation of the Tung Chung and Airport Express Lines, as well as the financing arrangements for the project, are set out in the Airport Railway Agreement between the Government and the Company signed on 5th July, 1995, as amended.

The Airport Railway Agreement requires the project to be completed within the cost estimate of HK\$35,100 million based on the defined scope of works and the railway opening date of June 1998. The financing of the project comprises Government equity of HK\$23,700 million and external borrowings of not more than HK\$11,400 million.

The Airport Railway Agreement also permits the Company to undertake commercial and residential developments at Hong Kong, Kowloon, Olympic, Tsing Yi and Tung Chung stations. The land available at these five sites totals 62.37 hectares.

The completion of the Airport Railway Project was signified by the opening ceremony held on 21st June, 1998. Service on the Tung Chung Line commenced on 22nd June, 1998 and service on the Airport Express commenced on 6th July, 1998 in conjunction with the opening of the new Hong Kong International Airport.

Upon the completion of the Airport Railway Project, total costs of HK\$35,100 million including provisions for outstanding contract payments and claims were transferred from railway construction in progress to fixed assets.

A number of claims has been lodged with the Company by various contractors in respect of extension of time and additional costs arising for unforeseeable reasons such as delay in handover of sites, unforeseeable ground conditions, late provision of drawings and design changes. These claims are being assessed and resolved as part of the normal process of managing a major construction project of the size and complexity of the Airport Railway Project. It is anticipated that, subject to unforeseen circumstances, the amount required to be paid will be covered by the provisions as described in Note 26.

(b) Tsung Kwan O Extension Project

The TKE Project Agreement between the Government and the Company for the design, construction, financing and operation of the Tseung Kwan O Extension was signed on 4th November, 1998.

Since the signing of the TKE Project Agreement, almost all major contracts of the project have been awarded and construction works are well underway. The project is on programme for completion by October 2002.

In view of most of the contracts being awarded at prices below the engineer's estimate, the Company reduced the budget for the project from the original HK\$30.5 billion to HK\$24 billion in 1999 and has further reduced it to HK\$21 billion in 2000. Under the TKE Project Agreement, the Company has undertaken to bear and finance the full amount of the capital cost.

The TKE Project Agreement also permits the Company to undertake commercial and residential property developments at the proposed development sites in Tseung Kwan O South Area 86, Tiu Keng Leng, Tseung Kwan O Town Centre and Hang Hau, with approximate site areas totalling 42.64 hectares.

At 30th June, 2000, the Company had incurred expenditure of HK\$6,903 million (1999: HK\$4,996 million; 1998: HK\$1,536 million; 1997: HK\$437 million) on the project and had authorised outstanding commitments on contracts totalling HK\$4,874 million (1999: HK\$6,121 million; 1998: HK\$2,502 million; 1997: HK\$367 million) related to the project.

35 Interests in jointly controlled operations

The Company has the following jointly controlled operations in respect of its property development projects as at 30th June, 2000.

<u>Location / Development Package</u>	<u>Land Use</u>	<u>Total Gross Floor Area (m²)</u>	<u>Actual or Expected Completion Date</u>
Hong Kong Station	Office / Retail / Hotel	415,900	By Phases from 1998—2004
Kowloon Station			
Package One	Residential	147,562	2000
Package Two	Residential	210,319	By Phases from 2002—2003
Package Three	Residential	100,000	2004
Package Four	Residential	128,845	2003
Olympic Station			
Package One	Residential / Office / Retail	295,850	By Phases from 1998—2000
Package Two	Residential / Retail	267,550	By Phases from 2001—2002
Package Three	Retail / Hotel	64,600	2001
Tsing Yi Station	Residential / Retail	291,870	By Phases from 1998—1999
Tung Chung Station			
Package One	Residential / Office / Retail / Hotel	346,460	By Phases from 1999—2003
Package Two	Residential / Retail	255,600	By Phases from 2001—2004
Package Three	Residential / Retail	412,300	By Phases from 2002—2004

Note:

The above figures exclude the area of GIC Facilities.

The Company's assets held in relation to these joint venture operations include various site foundation works and related staff and overhead costs. The costs incurred by the Company on each development package 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 16) as the case may be. As at 30th June, 2000, total property development in progress in respect of these jointly controlled operations was HK\$567 million (1999: HK\$583 million; 1998: HK\$526 million; 1997: HK\$7 million) and total deferred income was HK\$13,028 million (1999: HK\$13,776 million; 1998: HK\$15,970 million; 1997: HK\$16,705 million).

As the Company is not involved in the financing of the construction of the developments, the only financial liability in respect of these developments as at 30th June, 2000 was HK\$220 million (1999: HK\$246 million; 1998: HK\$388 million; 1997: HK\$192 million) in respect of accruals related to property enabling works.

During the period ended 30th June, 2000, profits of HK\$746 million (1999: HK\$2,030 million; 1998: HK\$1,419 million; 1997: HK\$276 million) were recognised in respect of these projects (Note 6).

36 Material related party transactions

The Company is wholly-owned by the Government. Transactions between the Company 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 Company, are considered to be related party transactions pursuant to Statement of Standard Accounting Practice 20 "Related party disclosures" and are identified separately in these financial statements.

The Members of the Board and Members of Executive Directorate, and parties related to them, are also considered to be related parties of the Company. 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 financial statements.

Major related party agreements entered into by the Company during the relevant period include:

- (a) The Company entered into the Airport Railway Agreement with the Government on 5th July, 1995 for the construction of the Tung Chung and Airport Express Line (Note 34(a)). In addition to specifying the parameters for the design, construction and operation of the Tung Chung and Airport Express Lines, the Airport Railway Agreement also included provisions for the granting of land to the Company for property development (Note 16).
- (b) The Company entered into the TKE Project Agreement with the Government on 4th 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 (Note 34(b)).
- (c) On the Appointed Day, 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 with the Government which detailed provisions for the design, construction, maintenance and operation of the railway under the franchise.

During the relevant period the Company has had the following material related party transactions:

- (d) In connection with the construction of the Tung Chung and Airport Express Lines and the Tseung Kwan O Extension, 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 31st December, 1997, 1998 and 1999, and 30th June, 1999 and 2000 are provided in Notes 15, 22 and 28 respectively.

(e) The Company has business transactions with its subsidiaries in the normal course of operations, details of which are disclosed in Notes 18 and 22.

(f) The Company has paid remuneration and granted loans to the Members of the Board and Members of the Executive Directorate during the relevant period, details of which are described in Note 5.

37 Commitments

(a) Capital Commitments

(i) Outstanding capital commitments not provided for in the accounts were as follows:

	Railway operations	Airport Railway Project	Tseung Kwan O Extension Project	Property development projects	Total
	(in HK\$ millions)				
At 31st December, 1997:					
Authorised but not yet contracted for ..	1,172	4,228	6	2,910	8,316
Authorised and contracted for.....	3,712	2,014	367	316	6,409
	<u>4,884</u>	<u>6,242</u>	<u>373</u>	<u>3,226</u>	<u>14,725</u>
At 31st December, 1998:					
Authorised but not yet contracted for ..	949	—	4	964	1,917
Authorised and contracted for.....	3,039	—	2,502	432	5,973
	<u>3,988</u>	<u>—</u>	<u>2,506</u>	<u>1,396</u>	<u>7,890</u>
At 31st December, 1999:					
Authorised but not yet contracted for ..	816	—	14,279	835	15,930
Authorised and contracted for.....	2,653	—	6,121	1,138	9,912
	<u>3,469</u>	<u>—</u>	<u>20,400</u>	<u>1,973</u>	<u>25,842</u>
At 30th June, 2000:					
Authorised but not yet contracted for ..	1,021	—	9,223	772	11,016
Authorised and contracted for.....	3,035	—	4,874	822	8,731
	<u>4,056</u>	<u>—</u>	<u>14,097</u>	<u>1,594</u>	<u>19,747</u>
At 30th June, 1999 (unaudited):					
Authorised but not yet contracted for ..	972	—	15,664	1,071	17,707
Authorised and contracted for.....	3,313	—	5,321	1,510	10,144
	<u>4,285</u>	<u>—</u>	<u>20,985</u>	<u>2,581</u>	<u>27,851</u>

(ii) The commitments under railway operations comprise the following:

	Improvement and enhancement works	Acquisition of property, plant and equipment	Total
	(in HK\$ millions)		
At 31st December, 1997:			
Authorised but not yet contracted for	768	404	1,172
Authorised and contracted for.....	3,496	216	3,712
	<u>4,264</u>	<u>620</u>	<u>4,884</u>
At 31st December, 1998:			
Authorised but not yet contracted for	724	225	949
Authorised and contracted for.....	2,721	318	3,039
	<u>3,445</u>	<u>543</u>	<u>3,988</u>
At 31st December, 1999:			
Authorised but not yet contracted for	624	192	816
Authorised and contracted for.....	2,283	370	2,653
	<u>2,907</u>	<u>562</u>	<u>3,469</u>
At 30th June, 2000:			
Authorised but not yet contracted for	602	419	1,021
Authorised and contracted for.....	1,745	1,290	3,035
	<u>2,347</u>	<u>1,709</u>	<u>4,056</u>
At 30th June, 1999 (unaudited):			
Authorised but not yet contracted for	841	131	972
Authorised and contracted for.....	3,024	289	3,313
	<u>3,865</u>	<u>420</u>	<u>4,285</u>

(iii) Commitments in respect of jointly controlled operations have been included in the commitments for property development projects referred to above and were as follows:

	At 31st December,			At 30th June,	
	1997	1998	1999	2000	1999
	(in HK\$ millions)				
Authorised but not yet contracted for	1,853	630	480	521	488
Authorised and contracted for.....	169	324	28	41	220
	<u>2,022</u>	<u>954</u>	<u>508</u>	<u>562</u>	<u>708</u>

(b) Operating lease commitments

The Company had operating leases on office buildings and staff quarters as at each period end. The commitments payable within one year analysed according to the period in which the leases expire, and in subsequent years, are as follows:

	At 31st December,			At 30th June,	
	1997	1998	1999	2000	1999 (unaudited)
	(in HK\$ millions)				
Payable within one year					
Leases expiring within one year ..	16	16	7	4	12
Leases expiring between one to five years	36	21	8	9	14
	<u>52</u>	<u>37</u>	<u>15</u>	<u>13</u>	<u>26</u>
Payable after one but within five years.....	<u>18</u>	<u>10</u>	<u>12</u>	<u>10</u>	<u>16</u>
	<u><u>70</u></u>	<u><u>47</u></u>	<u><u>27</u></u>	<u><u>23</u></u>	<u><u>42</u></u>

The above includes HK\$9 million (1999: HK\$21 million; 1998: HK\$30 million; 1997: HK\$44 million) in respect of the office accommodation and quarters for construction project staff. The majority of the leases are subject to rent reviews.

(c) Liabilities and commitments in respect of property management contracts

The Company 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 Company retained the right to manage these properties after their completion. The Company, 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 Company 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 30th June, 2000, the Company had total outstanding liabilities and contractual commitments of HK\$287 million (1999: HK\$271 million; 1998: HK\$250 million; 1997: HK\$162 million) in respect of these works and services. Cash funds totalling HK\$375 million (1999: HK\$314 million; 1998: HK\$261 million; 1997: HK\$247 million) obtained through monthly payments of management service charges from the managed properties are held by the Company on behalf of those properties for settlement of works and services provided.

B. DIRECTORS' REMUNERATION

Save as disclosed herein, no remuneration has been paid or is payable in respect of the relevant period by the Company to the Members of the Board and Members of the Executive Directorate of the Company. Under the arrangements presently in force,

the estimated aggregate amount of emoluments of the Members of the Board and Members of the Executive Directorate of the Company payable for the year ending 31st December, 2000 is not more than HK\$36 million.

C. SUBSEQUENT EVENTS

Pursuant to resolutions passed by the shareholders of the Company on 12th September, 2000, the authorised share capital of the Company was reduced from HK\$33 billion to HK\$6.5 billion by the cancellation of 26.5 billion ordinary shares of HK\$1.00 each. On the same day, a sum of HK\$2 billion standing to the credit of the capital reserve account was capitalised and applied in paying up in full 2 billion shares of HK\$1.00 each which were allotted and issued to the Financial Secretary Incorporated on trust for the Government in accordance with Article 132(e), as amended, of the Company's Articles of Association, in anticipation of the listing of the shares of the Company on the Stock Exchange.

D. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared for the Company in respect of any period subsequent to 30th June, 2000.

Yours faithfully

KPMG

Certified Public Accountants
Hong Kong

The following is a general summary of the significant differences between Hong Kong GAAP and US GAAP as applicable to the Company and the adjustments to restate profit and shareholder funds in accordance with US GAAP. The information set out in this Appendix does not form part of the Accountants' Report prepared by KPMG, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, as set out in Appendix I, and is included for reference purposes only.

The financial information for each of three years ended 31st December, 1999 and as at 31st December, 1997, 1998 and 1999 are extracted from the audited financial statements included in the Company's Form 20-F as filed with the United States Securities and Exchange Commission. The financial information for the period ended 30th June, 1999 and as at 30th June, 1999 are extracted from the unaudited financial statements included in the Company's Form 6-K as filed with the United States Securities and Exchange Commission. The financial information for the period ended 30th June, 2000 and as at 30th June, 2000 are derived from the Company's accounting records.

The Company's financial statements are prepared in accordance with Hong Kong GAAP, which differ in certain significant respects from generally accepted accounting principles applicable in the United States. The significant differences relate principally to the following items, and the adjustments considered necessary to restate profit ("net income") and shareholder funds ("shareholder equity") in accordance with US GAAP are shown in the tables set out below.

(a) Revenue recognition on property developments

Under Hong Kong GAAP, where the Company 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 Company in connection with the development. Also under Hong Kong GAAP, where the Company receives a distribution of the assets of the development upon completion of construction, profit is recognised based on the fair value of such assets at the time of receipt. Under US GAAP, such profits would be recognised during construction of the property on a percentage-of-completion basis.

(b) Telford headquarters redevelopment

Under Hong Kong GAAP, the redeveloped headquarters building retained by the Company was recorded as an addition of land and buildings at open market value. The shopping centre and cash received from the developer, net of related costs, were recognised as property development profits. Under US GAAP, the redevelopment would be accounted for as a non-monetary transaction and such redevelopment would be recorded at historical cost with no profit recognition thereon.

(c) Asset revaluations and depreciation

Under Hong Kong GAAP, investment properties are stated on the basis of appraised value, and depreciation expense is not provided on such properties. Also under Hong Kong GAAP, self-occupied office land and buildings are stated at their open market values on the basis of their existing use at the date of revaluation less any subsequent accumulated depreciation. Under US GAAP, such revaluations are not permitted. Accordingly, for the purposes of the reconciliation between Hong Kong and US GAAP, the properties of the Company, which are stated at appraised or open market value, have been restated at historical cost less accumulated depreciation. Depreciation has been based on the historical cost of the properties and a useful life of 50 years. The approximate gross historical cost of investment properties subject to depreciation under US GAAP which are not depreciated under Hong Kong GAAP amounted to HK\$963 million, HK\$2,863 million, HK\$2,978 million and HK\$3,022 million at 31st December, 1997, 1998 and 1999, and 30th June, 2000 respectively.

(d) Depreciation of certain fixed assets

Prior to 1995, under Hong Kong GAAP, the historical cost of the Company's tunnel lining and underground civil structures was not depreciated. Under established industry practice in the United States for similar costs, depreciation is provided for financial accounting purposes over extended periods. For US GAAP purposes, the Company has depreciated such costs over a 100-year period.

With effect from 1st January, 1995, under Hong Kong GAAP, the Company re-appraised the estimated useful life of the tunnel lining and underground civil structures. In accordance with such re-appraisal, such costs are being depreciated over the number of years remaining using an original life of 100 years. Such change in useful life was accounted for prospectively, with no cumulative adjustment recognised in 1995.

Additionally, prior to 1995 under Hong Kong GAAP, the cost of leasehold land was not amortised, based on assumed extensions of the leases. Under US GAAP, the amortisation of the historical cost of leasehold land is provided over the life of the leases, without any consideration of renewals.

With effect from 1st January, 1995, under Hong Kong GAAP, all leasehold land is amortised over the unexpired terms of the leases. This change in accounting policy under Hong Kong GAAP was applied prospectively, with no cumulative adjustment recognised in 1995.

(e) Pension costs

Under Hong Kong GAAP, the provision for the defined benefit element of the MTR Corporation Limited Retirement Scheme (the "Retirement Scheme") is generally based on the contributions made to the Scheme. Such contributions are determined by the Executive Directorate with reference to an actuarial valuation. Under US GAAP, the defined benefit element of the Retirement Scheme is recognised as a charge to income over the employees' approximate service period, in accordance with United States Statement of Financial

Accounting Standards (“SFAS”) No. 87, “Employers’ Accounting for Pensions”. SFAS No. 87 focuses on the Retirement Scheme’s benefit formula as the basis for determining the benefit earned, and therefore the cost incurred, in each year. The determination of the benefit earned is actuarially determined and includes components for service cost, time value of money, return on plan assets and gains or losses from changes in previous assumptions.

(f) Income taxes

The Company’s deferred taxation is provided using the liability method in respect of the taxation effect arising from all material timing differences which are expected with reasonable probability to become payable in the foreseeable future. With respect to deferred tax assets (a net deferred tax debit), Hong Kong GAAP includes recognition criteria providing for net deferred tax assets which are probable of recovery in the foreseeable future, with assurance beyond a reasonable doubt that taxable income will be generated in the future. Based on these recognition criteria, as disclosed in Note 12(b) to the financial statements contained in Appendix I, the Company had an unrecognised net deferred tax liability at 30th June, 2000, which is not expected with reasonable probability to become payable.

US GAAP requires that full provision be made for all deferred taxes as they arise, except that a valuation allowance is provided on deferred tax assets to the extent that it is not “more likely than not” that such deferred tax assets will be realised. Under US GAAP, “more likely than not” is defined as a likelihood of more than 50 percent.

(g) Capitalisation of certain costs

Under Hong Kong GAAP, certain costs of a non-incremental nature are capitalised relative to the Airport Railway Project and other capital projects. Under US GAAP, it is not permissible to capitalise these non-incremental costs. The preponderance of the capitalised costs relating to the Airport Railway Project and other capital projects is incremental in nature and accordingly, is properly capitalised under both Hong Kong GAAP and US GAAP.

(h) Interest

Under Hong Kong GAAP, interest earned on funds obtained by the Company specifically for the construction of the Tung Chung and Airport Express Lines prior to the date of expenditure for such purpose is credited to railway construction in progress related to the Airport Railway Project. Interest earned for this purpose includes notional interest on funds temporarily applied by the Company for purposes other than related to the construction of the Tung Chung and Airport Express Lines. Under US GAAP, actual interest earned is included in the determination of profit for such period, and notional interest on funds temporarily applied is not recognised.

(i) Others

Other adjustments primarily represent the net effect of costs deferred under Hong Kong GAAP which are required to be recognised as expenses under US GAAP, and certain anticipated expenses recognised under Hong Kong GAAP which are not recognised as expenses under US GAAP until the related goods or services are received or provided.

(j) Dividends

Under Hong Kong GAAP, dividends to the Government are recognised in the period during which the income from which the dividend is to be declared was earned. Under US GAAP, dividends are recognised in the period in which they are declared.

(k) Staff separation payments

Under Hong Kong GAAP, employee separation expenses are not included as part of operating expenses and are reported as a separate line caption in the profit and loss account. Under US GAAP, expenses relating to employee separation arrangements are included as part of operating expenses and are not reported as a separate caption in the profit and loss account.

(l) Recently issued accounting standards

In June 1998, the United States Financial Accounting Standards Board issued SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities". SFAS No. 133 requires companies to adopt its provisions for all fiscal quarters of all fiscal years beginning after 15th June, 2000, as deferred by SFAS No. 137. Earlier application of all of the provisions of SFAS No. 133 is permitted, but the provisions cannot be applied retroactively to financial statements of prior periods. SFAS No. 133, as amended by SFAS No. 138, standardises the accounting for derivative instrument by requiring that an entity recognise those items as assets or liabilities in the balance sheet and measure at fair value. The Company has not yet assessed the impact of the adoption of SFAS No. 133 on its financial position or results of operations under US GAAP.

(m) Reconciliation of net income to US GAAP

	Year ended 31st December,				Six months ended 30th June,		
	1997	1998	1999	1999 ⁽¹⁾	2000	2000 ⁽¹⁾	1999
	HK\$	HK\$	HK\$	US\$	HK\$	US\$	HK\$
	(In millions)						
Profit for the period in accordance with Hong Kong GAAP	2,783	2,819	2,116	272	1,051	135	1,148
Adjustments required under US GAAP							
Revenue recognition on property developments	1,445	(816)	635	82	674	86	(365)
Depreciation on revalued properties and redevelopment	(4)	—	(54)	(7)	(26)	(3)	(18)
Depreciation on certain fixed assets	11	13	(2)	—	5	1	7
Difference in periodic pension cost	(162)	(34)	36	5	(5)	(1)	(30)
Deferred tax accounting	(452)	(372)	(49)	(6)	(114)	(15)	(22)
Capitalisation of certain costs	(258)	(190)	(159)	(21)	(32)	(4)	(80)
Interest	150	(13)	(21)	(3)	(10)	(1)	(10)
Other	21	(21)	19	2	—	—	9
Tax effect of above adjustments	(199)	170	(72)	(9)	(97)	(13)	78
Net income for the period in accordance with US GAAP	<u>3,335</u>	<u>1,556</u>	<u>2,449</u>	<u>315</u>	<u>1,446</u>	<u>185</u>	<u>717</u>

(n) Reconciliation of shareholder equity to US GAAP

	At 31st December,				At 30th June,		
	1997	1998	1999	1999 ⁽¹⁾	2000	2000 ⁽¹⁾	1999
	HK\$	HK\$	HK\$	US\$	HK\$	US\$	HK\$
	(in millions)						
Shareholder funds in accordance with Hong Kong GAAP.....	41,815	42,601	45,115	5,803	47,239	6,059	43,749
Adjustments required under US GAAP							
Revenue recognition on property developments	1,255	439	1,074	138	1,748	224	74
Accumulated depreciation on revalued properties and redevelopment.....	(123)	(123)	(177)	(23)	(203)	(26)	(141)
Asset revaluation reserves.....	(7,117)	(5,084)	(5,482)	(705)	(6,555)	(841)	(5,084)
Accumulated depreciation on certain fixed assets.....	(812)	(799)	(801)	(103)	(796)	(102)	(792)
Difference in periodic pension cost...	(495)	(529)	(493)	(63)	(498)	(64)	(559)
Deferred tax accounting.....	(762)	(1,134)	(1,183)	(152)	(1,297)	(166)	(1,156)
Capitalisation of certain costs	(608)	(798)	(957)	(123)	(989)	(127)	(878)
Interest	752	739	718	92	708	91	729
Other	37	16	35	5	35	4	25
Tax effect of above adjustments.....	(68)	102	30	4	(67)	(8)	180
Dividend	1,252	—	—	—	—	—	—
Shareholder equity in accordance with US GAAP	<u>35,126</u>	<u>35,430</u>	<u>37,879</u>	<u>4,873</u>	<u>39,325</u>	<u>5,044</u>	<u>36,147</u>

(o) Statement of Cash Flows

Under Hong Kong GAAP, the Company presents its cash flow for: (a) operating activities; (b) servicing of finance and returns on investments; (c) investing activities; and (d) financing activities. Under US GAAP, only three categories of cash flow activities are presented: (a) operating; (b) investing; and (c) financing. For the periods presented, cash flows from servicing of finance and returns on investments shown herein would be included as operating activities under US GAAP, except for dividends paid, which would be reflected in financing activities. Additionally, Hong Kong GAAP includes bank overdrafts and investment in unlisted debt securities within the definition of cash and cash equivalents, whereas US GAAP classifies bank overdrafts as financing activities and investment in unlisted debt securities as investing activities. Summarised cash flow data by operating, investing and financing activities in accordance with US GAAP are set out below:

	Year ended 31st December,				Six months ended 30th June,		
	1997	1998	1999	1999 ⁽¹⁾	2000	2000 ⁽¹⁾	1999
	HK\$	HK\$	HK\$	US\$	HK\$	US\$	HK\$
	(in millions)						
Net cash provided/(used) by:							
Operating activities	3,147	3,060	1,924	247	979	125	1,081
Investing activities	(7,051)	(11,777)	(8,937)	(1,149)	(3,382)	(434)	(4,040)
Financing activities	1,527	4,757	6,273	807	2,406	309	5,708
Change in cash and cash equivalents .	(2,377)	(3,960)	(740)	(95)	3	—	2,749
Cash and cash equivalents at beginning of period.....	7,145	4,768	808	104	68	9	808
Cash and cash equivalents at end of period.....	4,768	808	68	9	71	9	3,557

Note:

- (1) For the convenience of readers, the US dollar equivalent was translated at HK\$7.7740 and HK\$7.7960 respectively which were the noon buying rates in New York City for cable transfer in Hong Kong dollars as certified for customs purposes by the Federal Reserve Bank of New York on 31st December, 1999 and 30th June, 2000 respectively.

APPENDIX III
ADDITIONAL FINANCIAL INFORMATION

The information set out in this Appendix does not form part of the Accountants' Report prepared by KPMG, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, as set out in Appendix I, and is included for reference purposes only.

The financial information as at 31st December, 1999 are extracted from the Company's 1999 Form 20-F as filed with the United States Securities and Exchange Commission.

The tables below provide information, by maturity date, on the Company's interest rate sensitive and foreign currency sensitive financial instruments and derivative financial instruments, respectively. For debt obligations, the tables present principal cash flows and related weighted average interest rates by expected maturity dates. For interest rate and cross currency swaps, and foreign exchange forward contracts and options, the tables present notional amounts and weighted average interest or contract rates by expected maturity dates.

INTEREST RATE RISK

		December 1999						December 1998			
		Expected Maturity Dates						Aggregate Fair Value	Total	Aggregate Fair Value	
		2000	2001	2002	2003	2004	Thereafter				Total
(HK\$ equivalent, in millions)											
On-balance sheet											
financial instruments											
A. Capital Market											
Instruments:											
	Currency										
I. Fixed Rate Notes	US\$	1,166	—	—	—	—	8,627	9,793	9,657	3,951	4,093
Average Interest											
Rate (%).....		6.00	—	—	—	—	7.48	7.30	—	7.01	—
Fixed Rate Notes.....	HK\$	1,450	1,050	—	2,830	665	—	5,995	6,066	5,325	5,495
Average Interest											
Rate (%).....		7.46	8.97	—	7.93	7.45	—	7.94	—	8.13	—
Fixed Rate Notes.....	Yen	—	1,143	—	—	—	—	1,143	1,207	1,025	1,103
Average Interest											
Rate (%).....		—	4.75	—	—	—	—	4.75	—	4.75	—
II. Variable Rate Notes..	US\$	—	—	—	723	—	350	1,073	1,073	914	914
Average Interest											
Rate (%).....		—	—	—	7.87	—	7.93	7.89	—	6.17	—
B. Bank Loans:											
I. Fixed Rate	Yen	457	—	—	—	—	—	457	459	1,281	1,295
Average Interest											
Rate (%).....		3.53	—	—	—	—	—	3.53	—	5.03	—
Fixed Rate	US\$	—	—	—	—	—	92	92	82	—	—
Average Interest											
Rate (%).....		—	—	—	—	—	5.45	5.45	—	—	—
II. Variable Rate	HK\$	667	667	1,567	—	—	—	2,901	2,901	2,810	2,810
Average Interest											
Rate (%).....		7.76	7.88	7.86	—	—	—	7.84	—	7.36	—
Variable Rate	Yen	—	—	—	381	—	—	381	381	342	342
Average Interest											
Rate (%).....		—	—	—	1.84	—	—	1.84	—	2.49	—

APPENDIX III

ADDITIONAL FINANCIAL INFORMATION

INTEREST RATE RISK—Continued

		December 1999						December 1998			
		Expected Maturity Dates						Aggregate Fair Value ⁽¹⁾	Aggregate Fair Value ⁽¹⁾		
		2000	2001	2002	2003	2004	Thereafter	Total	Total	Total	
(HK\$ equivalent, in millions)											
Off-balance sheet financial instruments											
C. Cross Currency & Interest Rate Swaps: Currency											
I. Variable to Fixed											
Notional pay amount	HK\$	800	1,232	—	233	—	—	2,265	2	2,465	(42)
Notional receive amount.....	US\$	802	1,238	—	233	—	—	2,273	—	2,465	—
Interest pay rate (%).....		7.16	6.79	—	7.71	—	—	7.02	—	7.06	—
Interest receive rate (%).....		6.45	6.53	—	6.68	—	—	6.52	—	4.82	—
II. Fixed to Variable											
Notional pay amount	US\$	425	1,124	—	—	—	—	1,549	121	1,854	(21)
Notional receive amount.....	Yen	457	1,143	—	—	—	—	1,600	—	1,722	—
Interest pay rate (%).....		7.42	7.33	—	—	—	—	7.36	—	5.46	—
Interest receive rate (%).....		3.53	4.75	—	—	—	—	4.40	—	4.47	—
Notional pay amount	HK\$	310	—	—	—	—	4,261	4,571	(316)	1,857	111
Notional receive amount.....	US\$	311	—	—	—	—	4,275	4,586	—	1,859	—
Interest pay rate (%).....		6.90	—	—	—	—	8.85	8.72	—	7.01	—
Interest receive rate (%).....		6.00	—	—	—	—	7.45	7.36	—	7.04	—
Notional pay amount	HK\$	—	—	—	—	—	151	151	—	—	—
Notional receive amount.....	Euro	—	—	—	—	—	133	133	—	—	—
Interest pay rate (%).....		—	—	—	—	—	7.13	7.13	—	—	—
Interest receive rate (%).....		—	—	—	—	—	4.34	4.34	—	—	—
III. Variable to Variable											
Notional pay amount	US\$	—	—	—	330	—	—	330	47	329	5
Notional receive amount.....	Yen	—	—	—	381	—	—	381	—	342	—
Interest pay rate (%).....		—	—	—	8.01	—	—	8.01	—	6.30	—
Interest receive rate (%).....		—	—	—	1.84	—	—	1.84	—	2.49	—
Notional pay amount	HK\$	400	500	—	721	233	—	1,854	—	900	3
Notional receive amount.....	US\$	401	503	—	723	233	—	1,860	—	900	—
Interest pay rate (%).....		7.42	7.52	—	7.46	9.21	—	7.69	—	6.98	—
Interest receive rate (%).....		6.66	6.81	—	6.93	8.77	—	7.07	—	5.07	—
IV. Fixed to Fixed											
Notional pay amount	HK\$	—	—	—	—	—	—	—	—	500	88
Notional receive amount.....	Yen	—	—	—	—	—	—	—	—	583	—
Interest pay rate (%).....		—	—	—	—	—	—	—	—	8.97	—
Interest receive rate (%).....		—	—	—	—	—	—	—	—	5.75	—
D. Interest Rate Swaps and Options:											
I. Variable to Fixed											
Notional amount	HK\$	2,350	1,300	150	1,000	—	—	4,800	(36)	3,000	(125)
Interest pay rate (%).....		6.61	7.43	7.63	7.81	—	—	7.12	—	7.80	—
Interest receive rate (%).....		7.20	7.32	7.41	7.53	—	—	7.31	—	6.86	—
II. Fixed to Variable											
Notional amount	US\$	855	—	—	—	—	777	1,632	(86)	852	17
Interest pay rate (%).....		6.43	—	—	—	—	8.94	7.63	—	4.79	—
Interest receive rate (%).....		6.00	—	—	—	—	7.50	6.71	—	6.00	—
Notional amount	HK\$	500	1,050	—	1,200	600	—	3,350	24	2,450	114
Interest pay rate (%).....		7.18	7.39	—	8.29	8.47	—	7.87	—	7.03	—
Interest receive rate (%).....		7.30	8.97	—	7.61	7.46	—	7.96	—	8.26	—
III. Variable to Variable											
Notional amount	HK\$	2,699	—	—	—	—	—	2,699	4	500	3
Interest pay rate (%).....		7.25	—	—	—	—	—	7.25	—	6.92	—
Interest receive rate (%).....		7.20	—	—	—	—	—	7.20	—	7.17	—

Note:

(1) Fair values for off-balance sheet financial instruments represent the amounts the Company would receive/(pay) to close out the transactions.

APPENDIX III

ADDITIONAL FINANCIAL INFORMATION

CURRENCY RISK

		December 1999						December 1998			
		Expected Maturity Dates						Aggregate Fair Value	Aggregate Fair Value		
		2000	2001	2002	2003	2004	Thereafter				Total
(HK\$ equivalent, in millions)											
On-balance sheet financial instruments											
A. Capital Market Instruments:	Currency										
I. Fixed Rate Notes	US\$	1,166	—	—	—	—	8,627	9,793	9,657	3,951	4,093
Average Interest Rate (%)...		6.00	—	—	—	—	7.48	7.30	—	7.01	—
Variable Rate Notes.....	US\$	—	—	—	723	—	350	1,073	1,073	914	914
Average Interest Rate (%)...		—	—	—	7.87	—	7.93	7.89	—	6.17	—
II. Fixed Rates Notes	Yen	—	1,143	—	—	—	—	1,143	1,207	1,025	1,103
Average Interest Rate (%)...		—	4.75	—	—	—	—	4.75	—	4.75	—
B. Bank Loans:											
I. Fixed Rates Loans.....	Yen	457	—	—	—	—	—	457	459	1,281	1,295
Average Interest Rate (%)...		3.53	—	—	—	—	—	3.53	—	5.03	—
Variable Rate Loans	Yen	—	—	—	381	—	—	381	381	342	342
Average Interest Rate (%)...		—	—	—	1.84	—	—	1.84	—	2.49	—
II. Fixed Rates Loans.....	US\$	—	—	—	—	—	92	92	82	—	—
Average Interest Rate (%)...		—	—	—	—	—	5.45	5.45	—	—	—

APPENDIX III

ADDITIONAL FINANCIAL INFORMATION

CURRENCY RISK

	Currency	December 1999						December 1998			
		Expected Maturity Dates						Aggregate		Aggregate	
		2000	2001	2002	2003	2004	Thereafter	Total	Fair Value ⁽¹⁾	Total	Fair Value ⁽¹⁾
(HK\$ equivalent, in millions)											
Off-balance sheet financial instruments											
C. Cross Currency & Interest Rate Swaps:											
I. Yen to US\$											
Fixed to Variable											
Notional pay amount.....	US\$	425	1,124	—	—	—	—	1,549	121	1,854	(21)
Notional receive amount.....	Yen	457	1,143	—	—	—	—	1,600	—	1,722	—
Interest pay rate (%).....		7.42	7.33	—	—	—	—	7.36	—	5.46	—
Interest receive rate (%).....		3.53	4.75	—	—	—	—	4.40	—	4.47	—
Variable to Variable											
Notional pay amount.....	US\$	—	—	—	330	—	—	330	47	329	5
Notional receive amount.....	Yen	—	—	—	381	—	—	381	—	342	—
Interest pay rate (%).....		—	—	—	8.01	—	—	8.01	—	6.30	—
Interest receive rate (%).....		—	—	—	1.84	—	—	1.84	—	2.49	—
II. Yen to HK\$											
Fixed to Fixed											
Notional pay amount.....	HK\$	—	—	—	—	—	—	—	—	500	88
Notional receive amount.....	Yen	—	—	—	—	—	—	—	—	583	—
Interest pay rate (%).....		—	—	—	—	—	—	—	—	8.97	—
Interest receive rate (%).....		—	—	—	—	—	—	—	—	5.75	—
III. US\$ to HK\$											
Fixed to Variable											
Notional pay amount.....	HK\$	310	—	—	—	—	4,261	4,571	(316)	1,857	111
Notional receive amount.....	US\$	311	—	—	—	—	4,275	4,586	—	1,859	—
Interest pay rate (%).....		6.90	—	—	—	—	8.85	8.72	—	7.01	—
Interest receive rate (%).....		6.00	—	—	—	—	7.45	7.36	—	7.04	—
Variable to Variable											
Notional pay amount.....	HK\$	400	500	—	721	233	—	1,854	—	900	3
Notional receive amount.....	US\$	401	503	—	723	233	—	1,860	—	900	—
Interest pay rate (%).....		7.42	7.52	—	7.46	9.21	—	7.69	—	6.98	—
Interest receive rate (%).....		6.66	6.81	—	6.93	8.77	—	7.07	—	5.07	—
Variable to Fixed											
Notional pay amount.....	HK\$	800	1,232	—	233	—	—	2,265	2	2,465	(42)
Notional receive amount.....	US\$	802	1,238	—	233	—	—	2,273	—	2,465	—
Interest pay rate (%).....		7.16	6.79	—	7.71	—	—	7.02	—	7.06	—
Interest receive rate (%).....		6.45	6.53	—	6.68	—	—	6.52	—	4.82	—
IV. Euro to HK\$											
Fixed to Variable											
Notional pay amount.....	HK\$	—	—	—	—	—	151	151	—	—	—
Notional receive amount.....	Euro	—	—	—	—	—	133	133	—	—	—
Interest pay rate (%).....		—	—	—	—	—	7.13	7.13	—	—	—
Interest receive rate (%).....		—	—	—	—	—	4.34	4.34	—	—	—
D. Interest Rate Swaps and Options:											
I. Fixed to Variable											
Notional amount.....	US\$	855	—	—	—	—	777	1,632	(86)	852	17
Interest pay rate (%).....		6.43	—	—	—	—	8.94	7.63	—	4.79	—
Interest receive rate (%).....		6.00	—	—	—	—	7.50	6.71	—	6.00	—
E. Foreign Exchange Forward Contracts:											
I. French Franc (in millions).....		6	1	1	—	—	—	8	(2)	35	(2)
Weighted Average Contract Rate (vs HKD).....		1.5146	1.5857	1.6787	—	—	—	1.5387	—	1.4682	—
II. Euro (in millions).....		10	12	4	2	—	—	28	(11)	—	—
Weighted Average Contract Rate (vs HKD).....		8.3779	8.6625	9.0945	9.3524	8.3963	9.1973	8.6652	—	—	—
III. British Pounds (in million).....		—	—	—	—	—	—	—	—	25	1
Weighted Average Contract Rate (vs HKD).....		—	—	—	—	—	—	—	—	1.6008	—

Note:

(1) Fair values for off-balance sheet financial instruments represent the amounts the company would have to receive/(pay) to close out the transactions.

The disclosures on market risk mandated by the Securities and Exchange Commission require that all financial instruments, as defined by Statement of Financial Accounting Standards (“SFAS”) No. 107, “Disclosures about Fair Value of Financial Instruments”, should be included in the quantitative disclosure calculation. Leases are not required to be disclosed by SFAS No. 107, and have not been presented in the tables above. Additionally, deposits and short-term borrowings (including overdrafts) have been omitted from the tables.

The expected maturity dates represent the Company’s estimate of the timing of required cash flows. The interest rate risk table assumes interest rates based on an implied forward yield curve at year end. Although certain liabilities may have similar maturities or periods to repricing, they may not react correspondingly to changes in market interest rates. Also, the interest rates on certain types of assets and liabilities may fluctuate with changes in market interest rates, while interest rates on other types of assets may lag behind changes in market rates. Actual future market conditions may differ materially from such assumptions.

The forecast of the Members of the Board and the Members of the Executive Directorate of the Company's profit after taxation but before extraordinary items for the Company for the year ended 31st December, 2000 is set out in the paragraph headed "Profit forecast and dividends" in the section headed "Financial Information".

(A) BASES AND ASSUMPTIONS

The Company was incorporated on 26th April, 2000. The Members of the Board and the Members of the Executive Directorate have prepared the forecast of profit after taxation but before extraordinary items for the Company for the year ending 31st December, 2000 on the basis of the Company's audited financial statements for the six months ended 30th June, 2000, and a forecast of the Company's results for the remaining six months ending 31st December, 2000. The Members of the Board and the Members of the Executive Directorate have made this forecast on the basis of accounting policies consistent in all material respects with those adopted by the Company as summarised in the Accountants' Report contained in Appendix I.

The Members of the Board and the Members of the Executive Directorate have adopted the following bases and assumptions in the preparation of the profit forecast:

- (i) there will be no material change in existing political, legal, fiscal, market or economic conditions in Hong Kong that may adversely affect the Company's operations and business;
- (ii) there will be no changes in legislation, regulations or rules in Hong Kong which may adversely affect the Company's operations and business;
- (iii) there will be no material change in the bases or rates of taxation in Hong Kong;
- (iv) there will be no material changes in interest rates or foreign currency exchange rates associated with US dollars;
- (v) the Company's operations and business will not be severely interrupted by any unforeseeable factor or for any unforeseeable reason that is beyond the control of the Board of Directors, including the occurrence of natural disaster or catastrophe;
- (vi) the Company will retain the franchise granted to it under the new MTR Ordinance, without any significant changes thereto, to operate the existing Mass Transit Railway; and
- (vii) the patronage and revenue will be as forecast by the independent traffic consultant as set out in the "Letter from the Traffic Consultant" contained in Appendix VI (as to which, your attention is drawn to the paragraph in bold on page VI-1).

(B) LETTERS

Set out below are texts of letters received by the Members of the Board and Members of the Executive Directorate from the Company's auditors and reporting accountants, KPMG, and from the Joint Sponsors in connection with the profit forecast, in each case prepared for inclusion in this prospectus:

(I) Letter from KPMG

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

25th September, 2000

The Members of the Board and the Members of the Executive Directorate
MTR Corporation Limited
Goldman Sachs (Asia) L.L.C.
HSBC Investment Bank Asia Limited
UBS Warburg Asia Limited

Dear Sirs

We have reviewed the accounting policies and calculations adopted in arriving at the forecast of the profit after taxation but before extraordinary items of MTR Corporation Limited (the "Company") for the year ending 31st December, 2000 (the "Forecast") for which the Members of the Board and the Members of the Executive Directorate are solely responsible, as set out in the prospectus of the Company dated 25th September, 2000 (the "Hong Kong Prospectus"). The Forecast has been prepared by the Members of the Board and the Members of the Executive Directorate of the Company based on the audited accounts for the six months ended 30th June, 2000 and a forecast of the results of the Company for the remaining six months ending 31st December, 2000.

In our opinion, so far as the accounting policies and calculations are concerned, the Forecast has been properly compiled on the bases and assumptions adopted by the Members of the Board and the Members of the Executive Directorate as set out in section (A) in Appendix IV to the Hong Kong Prospectus and is presented on a basis consistent in all material respects with the accounting policies adopted by the Company as set out in our Accountants' Report dated 25th September, 2000, the text of which is set out in Appendix I to the Hong Kong Prospectus.

Yours faithfully

KPMG
Certified Public Accountants
Hong Kong

(II) Letter from the Joint Sponsors



25th September, 2000

The Members of the Board and the Members of the Executive Directorate
MTR Corporation Limited

Dear Sirs

We refer to the forecast of the profit after taxation but before extraordinary items of MTR Corporation Limited (the "Company") for the year ending 31st December, 2000 (the "Profit Forecast") as set out in the prospectus issued by the Company dated 25th September, 2000.

We understand that the Profit Forecast has been prepared by the Members of the Board and the Members of the Executive Directorate based on the results of the Company for the six months ended 30th June, 2000 and a forecast of the Company's results for the remaining six months of the year ending 31st December, 2000.

We have discussed with you the bases upon which the Profit Forecast has been made. We have also considered, and relied upon, the letter dated 25th September, 2000 addressed to yourselves and ourselves from KPMG regarding the accounting policies and calculations upon which the Profit Forecast has been made.

On the basis of the information comprising the Profit Forecast and on the bases and assumptions of the accounting policies and calculations adopted by you and reviewed by KPMG, we are of the opinion that the Profit Forecast, for which you are solely responsible, has been made after due and careful enquiry.

Yours faithfully,
For and on behalf of
Goldman Sachs (Asia) L.L.C.
Michael Yao
Executive Director

Yours faithfully,
For and on behalf of
HSBC Investment Bank
Asia Limited
Mark Broadley
Corporate Finance Director

Yours faithfully,
For and on behalf of
UBS Warburg Asia Limited
Philippe Espinasse
Executive Director

The following is the text of a letter, summary of values and valuation certificate dated 25th September, 2000 prepared for the purpose of incorporation in this prospectus received from Brooke International (China) Limited, an independent property valuer, in connection with their valuation as at 31st July, 2000 of the property interests of the Company. As described in the section headed "Documents Delivered and Available for Inspection" in Appendix X, a copy of the report of the independent property valuer is available for inspection.

Brooke International

Real Estate Advisors Worldwide 

8/F Sun Hung Kai Centre, 30 Harbour Road, Hong Kong
Tel: (852) 2879 1188 Fax: (852) 2827 8118
E-Mail: info@BrookeInternational.com
Website: www.BrookeInternational.com

25th September, 2000

The Members of the Board and Members of the Executive Directorate
MTR Corporation Limited
MTR Tower, Telford Plaza
33 Wai Yip Street
Kowloon
Hong Kong

Dear Sirs,

In accordance with your instructions to value the property interests of MTR Corporation Limited (the "Company"), we confirm that we have carried out inspections, made relevant enquiries and obtained such further information as we consider necessary for providing you with our opinion of the open market values of such property interests as at 31st July, 2000 for the purpose of incorporation in the prospectus to be issued in connection with the proposed listing of the Company's shares on The Stock Exchange of Hong Kong Limited.

Basis of Valuation

Our valuations of the property interests are our opinion of the open market value which we would define as our opinion as to the "best price at which the sale of an interest in a property would have been completed unconditionally for cash consideration on the date of valuation, assuming:

- (a) a willing seller;
- (b) that, prior to the date of valuation, there had been a reasonable period (having regard to the nature of the property and the state of the market) for the proper marketing of the interest, for the agreement of price and terms and for the completion of the sale;
- (c) that the state of the market, level of values and other circumstances were, on any earlier assumed date of exchange of contracts, the same as on the date of valuation;

- (d) that no account is taken of any additional bid by a prospective purchaser with a special interest; and
- (e) that both parties to the transaction had acted knowledgeably, prudently and without compulsion.”

Property Categorisation

For the purpose of our valuation, the portfolio of properties held by the Company are categorised into the following groups:

- Group I — Property interests held for investment
- Group II — Property interests held for owner-occupation
- Group III — Property interests held for development (packages awarded)
- Group IV — Property interests held for development (packages to be awarded) and property interests held for future development
- Group V — Other property interests

The Railway Properties are not required to be valued as no meaningful valuation figures can be determined given the legal restrictions on use and assignment.

Valuation Methodology

Group I

In valuing the property interests under Group I which are held for investment by the Company, we have adopted (a) the Investment Approach by taking into account the net present value of the capitalisation of the net income derived from the existing tenancies (with due allowance for any reversionary potential, where appropriate); or (b) the Direct Comparison Approach assuming a sale of the relevant property interest in its existing state with the benefit of immediate vacant possession, making reference to comparable sales transactions as are available in the relevant market. The portions, which are currently vacant, have been valued in a similar manner assuming hypothetical and reasonable rents, typical lease terms and the reversionary income potential of the tenancies in question.

Group II

In valuing the property interests under Group II which are owner-occupied by the Company, we have valued each of these property interests on an open market basis by the Direct Comparison Approach assuming sale of the property in its existing state on a strata-titled basis with the benefit of vacant possession, making reference to comparable sales evidence as available in the relevant market.

Group III

1. In the case of properties held for development, where development packages have been awarded, the development parameters which have been adopted in our valuation are based upon the Government Land Grant documents and the Master Layout Plans approved by the Town Planning Board.

2. The valuation of these properties has been prepared on the basis of the estimated open market value of the portion of such properties which is to be allocated to the Company or the present value of any estimated residual surplus proceeds to be shared by the Company as a result of disposal or leasing of the development properties, in accordance with the terms stipulated within the respective development agreements between the Company and the developers. The deferred income balance of HK\$13,028 million relating to upfront payments already received by the Company will not contribute towards the future cashflow relating to the properties. For details of the deferred income balance for properties in Kowloon Station, Olympic Station and Tung Chung Station as at 30th June, 2000, please refer to note 11 on page V-32 of this appendix.
3. The basis of valuation is the Direct Comparison Approach with the benefit of vacant possession assuming sale or lease on a strata-title basis (if appropriate) of the properties with reference to comparable sales and leasing evidence as available in the relevant market. The open market rental value of the development properties to be disposed of by leasing has been capitalised at the appropriate market yield in order to arrive at an appropriate capital value.
4. The surplus proceeds to be shared by the Company have been assessed by deducting all development costs associated with the project, which are defined as deductible costs in the development agreement, from the disposal proceeds generated from the disposal of the development properties. The assessment of the disposal proceeds from each project reflects the actual status of the disposal programme in each instance as at the date of valuation and it has been assumed that all unsold or unleased development properties will be disposed of within a reasonable timeframe.
5. The Company has two relatively new shopping centres located at Olympic Package One and at Tung Chung Package One. Though the respective development schemes of which the two shopping centres form part have not yet been completed in their entirety, leasing of each of the centres commenced in 1998. The current rental amounts passing in respect of each of the Shopping Centres have, accordingly, been heavily discounted to reflect the fact that each of respective development schemes has been completed in part only. The relevant leases contain provisions which allow for an increase in rental amounts each year (as the surrounding development schemes are completed). The current rental amounts passing as required to be stated by paragraph 34(2)(h) ("Paragraph 34(2)(h)") of the Third Schedule to the Companies Ordinance are not reflective of the true market value of the Company's interest in the two Shopping Centres and have not been used for the purposes of determining the current capital value of these properties. For these reasons, the Company has applied to the Securities and Futures Commission for a waiver from compliance with Paragraph 34(2)(h) and the Securities and Futures Commission has granted such waiver for those reasons.

Group IV

1. The development parameters which have been adopted for properties where packages have not yet been awarded are based upon the Land Grant or draft Land Grant documents prepared by the Government and the Master Layout Plans approved by the Town Planning Board.

2. The development parameters which have been adopted in the case of properties held for future development have been provided by the Company, which are based upon the TKE Project Agreement, the planning briefs that have been drawn up by the Company and its advisors, the relevant Town Planning Board Approval where this has been secured from the Town Planning Board and draft Land Grant documents, where these are available.
3. In assessing the disposal proceeds to be derived from each project the Direct Comparison Approach has been adopted assuming sale or lease on a strata-titled basis (if appropriate) of the properties with reference to comparable sales and leasing evidence as available in the market. The future market rental values of those properties which are to be leased rather than sold has been capitalised at the appropriate market yield in order to arrive at an appropriate capital value.
4. The valuation of these properties has been prepared on the basis of the present value of the estimated future surplus proceeds to be shared by the Company as a result of disposal or leasing of the development properties, with reference to the profit sharing arrangements agreed as part of recently awarded development packages except where these arrangements have already been agreed. The surplus proceeds are assessed by deducting all development costs associated with the project, which are defined as deductible costs in the already awarded development agreements, from the disposal proceeds to be generated from the disposal of the development properties. Furthermore, it has been assumed that the Company will accept and take-up the Land Grant.
5. For the purposes of assessing the land premium that is likely to be payable in respect of each development package, we have had regard to the draft of Clause 6.3 of the new Operating Agreement as set out in the paragraph headed "Land Premium Amounts" in Appendix VII.

Group V

In valuing the property interests under Group V, we are of the opinion that they have no commercial value either because of their non-assignability in the open market or the lack of marketable and substantial profit rents.

Valuation Assumptions

General Assumptions

In valuing the Company's property interests, we have reflected the provisions contained under the Basic Law of the Hong Kong Special Administrative Region of the People's Republic of China and the New Territories Leases (Extension) Ordinance (Cap. 150 of the laws of Hong Kong) under which any leases expiring prior to 30th June, 1997 will be extended without any additional payment of premium until 30th June, 2047, but that an annual rent equivalent to 3% of the rateable value will be charged from the date of the extension.

Our valuations have been made on the assumption that the Company will sell the properties on the open market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement which would serve to increase

the value of such properties. In addition, no account has been taken of any option or right of pre-emption concerning or affecting sale of the properties and no forced sale situation in any manner is assumed in our valuations.

We have valued the properties on the basis that each of them is considered individually. We have not allowed for any discount for the properties to be sold to a single party nor taken into account any effect on the values if the properties are to be offered for sale at the same time, as a portfolio.

In the course of our valuation, we have assumed that all the interests in land granted to the Company are alienable and that unless otherwise stated, any premium payable has already been fully paid. We have also assumed that all consents, approvals and licences from the relevant Government departments for the properties under development and for future development have been granted without any onerous conditions or undue time delay which might affect their values.

Additional Assumptions for Development Properties

1. All relevant Government approvals required in connection with the planning application, land grant application and construction of the development properties are assumed to be secured from the Government in accordance with the proposed development programme.
2. The development programme and construction costs in connection with the implementation and construction of the development properties have been provided by the Company and adopted in the valuation, which are considered to be reasonable.
3. The discount rate adopted in the assessment of the present value of the share of the interests held by the Company relating to the development properties has been assumed with reference to the market risk associated with each of the proposed development packages.
4. In the assessment of the surplus proceeds to be shared between the Company and the joint venture developers for those awarded and unawarded development packages, the deductible cost items are assumed to include: (i) land premia payable to the Government; (ii) up-front payments (inclusive of, and in certain circumstances, consisting only of mandatory payments for enabling works carried out by the Company) payable to the Company; (iii) construction costs for development and structural works as stipulated in the development agreement; and (iv) other costs including professional fees relating to the development as stipulated in the development agreement, marketing costs, finance fees and interest costs. These deductible costs and the associated interest rates have been provided by the Company or assessed by us by adopting reasonable assumptions.
5. All residential units and carparking spaces for residential units are assumed to be sold in the open market.
6. With regard to the assessment of the land premia yet to be paid to the Government no account has been taken of any benefits associated with the presence of an MTR Station, as well as direct accessibility to the Mass Transit Railway.

Title Investigation

We have been provided with the searches made at the relevant Land Registry and in some instances we have been provided with extracts of title documents. However, we have not examined the original documents of title to verify the ownership or amendments thereto.

Inspections

We have inspected the exterior and, wherever possible, the interior, of the properties valued. During the course of our inspections, we did not note any serious defects. However, no structural survey has been made and we are therefore unable to report as to whether the properties are free from rot, infestation or other defects. No tests were carried out on any of the services.

Moreover, we have not carried out investigations on site to determine the suitability of the ground conditions and the services etc. for any future development. Our valuation has been prepared on the assumption that these aspects are satisfactory and that no extraordinary expense or delays will be incurred in the construction period.

We have relied to a considerable extent on the information provided by the Company and have accepted the Company's advice on such matters as planning approvals, statutory notices, easements, tenures, completion dates of buildings, particulars of occupancy, lettings, joint-venture agreements, development schemes, construction costs expended, estimated outstanding construction costs, site and floor areas and all other relevant matters in the identification of the properties in which the Company has valid interests.

Dimensions, measurements and areas included in the valuation certificates are based on information contained in the documents provided to us by the Company and are therefore only approximations.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Company. We were also advised by the Company that no material factors have been omitted from the information to reach an informed view, and have no reason to believe that any material information has been withheld.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on any of the properties valued nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature which could affect their values.

Limiting Conditions

Our valuation has been prepared under the generally accepted valuation procedures and in compliance with the Listing Rules.

Our valuations have been prepared in accordance with the Hong Kong Guidance Notes on the Valuation of Property Assets (2nd Edition) published by the Hong Kong Institute of Surveyors in March 2000. Our valuation certificates have been prepared with reference to assumptions, definitions and limiting conditions as set out in our General Principles of Valuation.

Apart from that, our valuation services have been executed in accordance with our Quality Management System, which conforms with the ISO9001:1994 standard, and which has received accreditation from our Certification Body, Lloyd's Register Quality Assurance.

Remarks

Unless otherwise stated, all monetary sums stated in our valuation certificates are in Hong Kong dollars.

Valuation Certificate

Our summary of values and the valuation certificates are enclosed herewith.

Yours faithfully,
For and on behalf of
BROOKE INTERNATIONAL (CHINA) LIMITED
Charles Nicholas Brooke *FRICS FHKIS RPS*
Chairman

Note: Mr. C.N. Brooke is a Chartered Surveyor and has over 20 years' experience in valuing properties in Hong Kong.

SUMMARY OF VALUES

Group I — Property Interests Held for Investment

No.	Property	Open Market Value in Existing State as at 31st July, 2000 (HK\$)	Interest Attributable to the Company(%)	Open Market Value in Existing State Attributable to the Company as at 31st July, 2000 (HK\$)
1.	Telford Plaza I including shopping arcade, podium shops, recreational facilities, cinema, school, market and various carparking spaces, Telford Gardens, No. 33 Wai Yip Street, Kowloon Bay, Kowloon	4,310,600,000	100%	4,310,600,000
2.	Telford Plaza II including shopping arcade and various carparking spaces, Telford Gardens, No. 33 Wai Yip Street, Kowloon Bay, Kowloon	1,252,700,000	50%	626,350,000
3.	Luk Yeung Galleria including shopping arcade, podium shops and supermarket together with various carparking spaces, Luk Yeung Sun Chuen, Tsuen Wan, New Territories	1,128,640,000	100%	1,128,640,000
4.	Heng Fa Chuen Shopping Centre on the podium and market stalls, LP gas storage compound, club house and associated recreational facilities and 415 private carparking spaces in the West Carpark Block, Heng Fa Chuen, No. 100 Shing Tai Road, Chai Wan, Hong Kong	1,369,500,000	100%	1,369,500,000
5.	Maritime Square including shopping arcade, kindergarten, cinemas and various car and motor cycle parking spaces, Tierra Verde, No. 33 Tsing King Road, Tsing Yi, New Territories	2,282,000,000	100%	2,282,000,000
6.	Ground Floor of No. 308 Nathan Road, Yau Ma Tei, Kowloon	21,700,000	100%	21,700,000
7.	Ground Floor of No. 783 Nathan Road, Mong Kok, Kowloon	4,200,000	100%	4,200,000

APPENDIX V
PROPERTY VALUATION REPORT

No.	Property	Open Market Value in Existing State as at 31st July, 2000 (HK\$)	Interest Attributable to the Company(%)	Open Market Value in Existing State Attributable to the Company as at 31st July, 2000 (HK\$)
8.	Kindergarten on Podium Level and Car Park Nos. 1-126, New Kwai Fong Gardens, Nos. 12-20 Kwai Yi Road, Kwai Chung, New Territories	45,300,000	100%	45,300,000
9.	136 private carparking spaces within International Finance Centre, No. 1 Harbour View Street, Central, Hong Kong	122,400,000	51%	62,424,000
10.	292 carparking spaces on Car Park Floors P1, P2 & P3 at Section B of Phase 1 Carparking Spaces, No. 10 Hong Yue Street, Kornhill, Quarry Bay, Hong Kong	87,600,000	100%	87,600,000
11.	Neon light sign on the roof of Tower 1, Admiralty Centre, No. 18 Harcourt Road, Admiralty, Hong Kong	28,000,000	100%	28,000,000
12.	Shop Nos. 44, 85 to 93 on 1st Floor of the Commercial Podium of Admiralty Centre, No. 18 Harcourt Road, Admiralty, Hong Kong	30,900,000	50%	15,450,000
13.	Indoor Sports Hall at Island Harbourview in Site C (Phase I) of Olympic Station Development, No. 11 Hoi Fai Road, Tai Kok Tsui, Kowloon	45,500,000	100%	45,500,000
Sub-total:				10,027,264,000
Group II — Property Interests Held for Owner-occupation				
14.	Office No. 2101 on 21st Floor of World-Wide House, No. 19 Des Voeux Road Central, Central, Hong Kong	15,700,000	100%	15,700,000
15.	MTR Tower at Telford Plaza and 52 carparking spaces at Telford Gardens, No. 33 Wai Yip Street, Kowloon Bay, Kowloon	843,800,000	100%	843,800,000
16.	Levels 2, Mezzanine, 8 to 10 and 23 of Hang Seng Tower at Telford Gardens, No. 33 Wai Yip Street, Kowloon Bay, Kowloon	241,000,000	100%	241,000,000
Sub-total:				1,100,500,000

APPENDIX V

PROPERTY VALUATION REPORT

<u>No.</u>	<u>Property</u>	<u>Open Market Value of Property Interest Attributable to the Company as at 31st July, 2000 (HK\$)</u>	
Group III — Property Interests Held for Development (Packages Awarded)			
17.	Airport Railway Property Development		
	(a) Hong Kong Station, Central, Hong Kong		4,785,300,000
	(b) Kowloon Station Packages One to Four, 1 Austin Road West, Kowloon		4,679,100,000
	(c) Olympic Station, Tai Kok Tsui, Kowloon		2,146,290,000
	(d) Tung Chung Station, Tung Chung Town Centre, Lantau Island		755,000,000
Sub-total:			12,365,690,000
Group IV — Property Interests Held for Development (Packages to be Awarded) and Property Interests held for Future Development			
18.	Airport Railway Property Development Package Five, Six and Seven of Kowloon Station Development, 1 Austin Road West, Kowloon		
19.	Tseung Kwan O Extension Property Development at Tiu Keng Leng Station; Tseung Kwan O (Town Centre) Station, Area 55b, Area 56 and Area 57a; Hang Hau Station; Area 86, Tseung Kwan O		
20.	Residential/Commercial Development with Park and Ride and Public Transport Interchange, Clear Water Bay Road, Choi Hung, Kowloon		
Sub-total:			8,270,130,000
Group V — Other Property Interests of the Company			
		<u>Open Market Value in Existing State as at 31st July, 2000 (HK\$)</u>	<u>Open Market Value in Existing State Attributable to the Company as at 31st July, 2000 (HK\$)</u>
21.	Various Lorry Parking Spaces at Transport Interchange Building of Tsing Yi Station, No. 31 Tsing King Road, Tsing Yi, New Territories	No Commercial Value	No Commercial Value
22.	Leased Office Premises on the Second Floor of Chestnut Field, Regent Place, Rugby, United Kingdom	No Commercial Value	No Commercial Value
Sub-total :			—
TOTAL:			31,763,584,000

VALUATION CERTIFICATE

Group I — Property Interests Held for Investment

No.	Property	Description and Tenure	Particulars of Occupancy	Open Market Value in Existing State as at 31st July, 2000
1	<p>Telford Plaza I including shopping arcade, podium shops, recreational facilities, cinema, school, market and various carparking spaces, Telford Gardens, No. 33 Wai Yip Street, Kowloon Bay, Kowloon</p> <p>Portion of New Kowloon Inland Lot No. 5744</p>	<p>Telford Plaza I is part of Telford Gardens (the "Development") which is a large scale self-contained private residential estate comprising 41 blocks of high-rise residential buildings built over a 2-storey shopping arcade together with ancillary residential and commercial carparking facilities over the Kowloon Bay Mass Transit Railway Depot.</p> <p>The subject property comprises 3 levels of retail accommodation and a total of 993 carparking spaces of Telford Plaza I of the Development completed in 1980.</p> <p>The total lettable area of the retail accommodation is approximately 38,310 square metres (412,369 square feet).</p> <p>The property is held from the Government under Conditions of Grant No. 11083 for a term of 99 years from 1st July, 1898 less the last 3 days and has been extended until 30th June, 2047. The current Government rent payable for the property is an amount equivalent to 3% of the rateable value for the time being of the property per annum.</p>	<p>The retail accommodation is let on internal repairing leases and is currently fully occupied. The majority of the lease terms are for three years. The total rental receivable as at June 2000, is HK\$24,230,104 per month exclusive of rates and management fees.</p> <p>The carparking facilities are currently licensed on monthly or hourly basis.</p>	<p>HK\$4,310,600,000</p> <p>100% interest attributable to the Company: HK\$4,310,600,000</p>

Notes:

- (1) The registered owner of the property is MTR Corporation Limited.
- (2) The tenants are generally independent third parties for all relevant properties.
- (3) Under an internal repairing lease the tenant is responsible for all internal repairs and insurance.

No.	Property	Description and Tenure	Particulars of Occupancy	Open Market Value in Existing State as at 31st July, 2000
2	Telford Plaza II including shopping arcade and various carparking spaces, Telford Gardens, No. 33 Wai Yip Street, Kowloon Bay, Kowloon	Telford Plaza II being the extension of Telford Gardens (the "Development") comprises twin office towers built over a 4-level retail podium, a transport interchange, 3 levels of carpark and the Kowloon Bay Mass Transit Railway Depot completed in 1996.	The retail accommodation is let on internal repairing leases and is currently approximately 97% occupied. The majority of the lease terms are for three years. The total rental receivable is HK\$10,549,471 per month exclusive of rates and management fees as at June 2000.	HK\$1,252,700,000 50% interest attributable to the Company: HK\$626,350,000
	Portion of New Kowloon Inland Lot No. 6201 and New Kowloon Inland Lot No. 5744	The property comprises 4 levels of retail accommodation and a total of 136 carparking spaces of Telford Plaza II of the Development. The total lettable area of the retail accommodation is approximately 19,612 square metres (211,103 square feet). The property is held from the Government under Conditions of Exchange No. 12289 from 12th January, 1994 until 30th June, 2047 and Conditions of Grant No. 11083 for a term of 99 years from 1st July, 1898 less the last 3 days and has been extended until 30th June, 2047. The current Government rent payable for the property is an amount equivalent to 3% of the rateable value for the time being of the property per annum.	The carparking spaces are currently licensed on monthly or hourly basis.	

Notes:

- (1) The registered owner of the property is MTR Corporation Limited.
- (2) According to the joint development agreement between the Company and the developer of Telford Plaza II (referred to as the "Developer"), the Developer was responsible for discharging all development expenditure (referred to as the "Deductible Costs") and was required to make a certain payment to the Company. The Developer shall be initially entitled to reimburse itself from the sale and rental proceeds the full amount of the Deductible Costs before sharing the interest of the retail accommodation with the Company.
- (3) In the course of our valuation, we have taken into account the total outstanding Deductible Costs as at the date of valuation and the estimated operating expenditure, both of which are provided by the Company.
- (4) The tenants are generally independent third parties for all relevant properties.
- (5) Under an internal repairing lease the tenant is responsible for all internal repairs and insurance.

No.	Property	Description and Tenure	Particulars of Occupancy	Open Market Value in Existing State as at 31st July, 2000
3	Luk Yeung Galleria including shopping arcade, podium shops and supermarket together with various carparking spaces, Luk Yeung Sun Chuen, Tsuen Wan, New Territories Portion of and in Tsuen Wan Town Lot No. 256	<p>Luk Yeung Sun Chuen (the "Development") is a large-scale residential development comprising 17 blocks of residential towers, a 3-storey commercial podium and provisions of various carparking spaces and recreational facilities. The Development was completed in 1983.</p> <p>The property comprises various shop units, a kindergarten, a supermarket and market stalls within the 3-storey commercial podium of the Development together with a total of 651 carparking spaces.</p> <p>The total lettable area of the property (excluding the carparking spaces) is approximately 10,383 square metres (111,763 square feet).</p> <p>The subject lot is held from the Government under New Grant No. 5955 for a term of 99 years from 1st July, 1898 less the last 3 days which has been extended until 30th June, 2047. The current Government rent payable for the property is an amount equivalent to 3% of the rateable value for the time being of the property per annum.</p>	<p>The property (excluding the carparking spaces) is let on internal repairing leases and is currently fully leased under various tenancies with the majority of the lease terms for 3 years at an aggregate monthly rent of HK\$6,365,143 (exclusive of rates and management fees) as at June 2000.</p> <p>The carparking spaces are currently leased on a monthly basis at charging rates per month of HK\$1,500 to HK\$1,750 for open carparks and HK\$2,050 for covered carparks.</p>	<p>HK\$1,128,640,000</p> <p>100% interest attributable to the Company: HK\$1,128,640,000</p>

Notes:

- (1) The registered owner of the property is MTR Corporation Limited.
- (2) The tenants are generally independent third parties for all relevant properties.
- (3) Under an internal repairing lease the tenant is responsible for all internal repairs and insurance.

No.	Property	Description and Tenure	Particulars of Occupancy	Open Market Value in Existing State as at 31st July, 2000
4	<p>Heng Fa Chuen Shopping Centre on the podium and market stalls, LP gas storage compound, club house and associated recreational facilities and 415 private carparking spaces in the West Carpark Block, Heng Fa Chuen, No. 100 Shing Tai Road, Chai Wan, Hong Kong</p> <p>Portion of the Remaining Portion of and in Chai Wan Inland Lot No. 121</p>	<p>Heng Fa Chuen (the "Development") is a large-scale self-contained private residential estate fully completed in about 1989. The Development comprises a total of 48 blocks of high-rise apartment buildings, two multi-storey commercial/carport podia, one 2-storey clubhouse building together with the associated recreational facilities.</p> <p>The property comprises a 3-level shopping arcade, a clinic and a restaurant at road level and 3 kindergartens (together referred to as the "Shopping Centre"), a LP gas storage compound (referred to as the "LP Gas Compound"), a 2-storey clubhouse building and associated recreational facilities, which include a swimming pool, gymnasium, restaurant, function rooms, badminton courts, squash courts, tennis courts, golf driving range, sauna room, etc. (together referred to as the "Clubhouse") and a total of 415 private carparking spaces on the first to third floors of a multi-storey commercial podium (referred to as the "Car Park") of the Development.</p> <p>The lettable area of the Shopping Centre is approximately 19,625 square metres (211,244 square feet).</p> <p>The LP Gas Compound has a site area of approximately 173.76 square metres (1,870 square feet); whereas the Clubhouse has a covered area of approximately 2,072 square metres (22,303 square feet).</p> <p>The property is held from the Government under Conditions of Grant No. 11789 for a term of 75 years from 3rd April, 1985 renewable for a further term of 75 years. The current Government rent payable for the whole lot is HK\$1,000 per annum.</p>	<p>The Shopping Centre is let on internal repairing leases and is currently approximately 95% occupied, the majority of which are leased for a term of three years. The total rental receivable is HK\$7,049,159 per month exclusive of rates and management fees as at June 2000.</p> <p>The LP Gas Compound has been granted to Shell Developments (HK) Limited under an agreement for supply of liquefied petroleum gas on a rent free basis with exclusive use for a term of 15 years from 13th March, 1990.</p> <p>The Clubhouse is operated under the name of "Heng Fa Chuen Club" and exclusively serves residents of the Development and their bona fide guests only. The total net income was approximately HK\$651,000 for the period from 1st January, 2000 to 30th April, 2000.</p> <p>The Car Park is currently licensed on monthly or hourly basis.</p>	<p>HK\$1,369,500,000</p> <p>100% interest attributable to the Company: HK\$1,369,500,000</p>

Notes:

- (1) The registered owner of the property is MTR Corporation Limited.
- (2) The tenants are generally independent third parties for all relevant properties.
- (3) Under an internal repairing lease the tenant is responsible for all internal repairs and insurance.

No.	Property	Description and Tenure	Particulars of Occupancy	Open Market Value in Existing State as at 31st July, 2000											
5	Maritime Square including shopping arcade, Kindergarten, cinemas and various car and motor cycle parking spaces, Tierra Verde, No. 33 Tsing King Road, Tsing Yi, New Territories 91429/935384th equal and undivided shares of and in Tsing Yi Town Lot No. 132	<p>Tierra Verde (the "Development") is a large scale self-contained private residential development fully completed in 1999.</p> <p>The Development comprises 12 blocks of high-rise residential buildings built over a 6-storey commercial/carpark podium. A 2-storey plus roof level clubhouse with various kinds of recreational facilities are provided within the Development.</p> <p>The property comprises a 4-level shopping arcade, 109 carparking spaces and 50 motor cycle parking spaces on ground floor and 111 carparking spaces on mezzanine floor and a kindergarten on the ground floor and mezzanine floor of a 6-storey retail/carparking space podium (more particularly named as Maritime Square) completed in 1998 within the Development.</p> <p>The lettable areas of the shopping arcade and the kindergarten property are listed as follows:</p> <table border="1"> <thead> <tr> <th rowspan="2">Use</th> <th colspan="2">Lettable Floor Area</th> </tr> <tr> <th>Square metres</th> <th>Square feet</th> </tr> </thead> <tbody> <tr> <td>Shopping arcade on G/F to L3</td> <td>28,197</td> <td>303,512</td> </tr> <tr> <td>Kindergarten on G/F and M/F</td> <td>925</td> <td>9,957</td> </tr> </tbody> </table> <p>The property is held from the Government under a Government lease for a term commencing from 7th March, 1996 and expiring on 30th June, 2047. The current Government rent payable for the property is an amount equivalent to 3% of the rateable value for the time being of the property per annum.</p>	Use	Lettable Floor Area		Square metres	Square feet	Shopping arcade on G/F to L3	28,197	303,512	Kindergarten on G/F and M/F	925	9,957	<p>The shopping arcade is let on internal repairing leases and is currently fully let, the majority of which are leased for a term of three years. The total rental receivable as at June 2000 is HK\$11,625,927 per month exclusive of rates and management fees.</p> <p>The kindergarten is leased to ESF Educational Services Limited for a term of 3 years from 1st July, 1999 to 30th June, 2002 at a monthly rental of HK\$60,000 for the 1st year, HK\$80,000 for the 2nd year and HK\$90,000 for the 3rd year exclusive of rates and management fees with an option to renew for a further term of 3 years upon the expiry of the lease.</p> <p>The carparking spaces are currently licensed on monthly or hourly basis.</p>	<p>HK\$2,282,000,000</p> <p>100% interest attributable to the Company: HK\$2,282,000,000</p>
Use	Lettable Floor Area														
	Square metres	Square feet													
Shopping arcade on G/F to L3	28,197	303,512													
Kindergarten on G/F and M/F	925	9,957													

Notes:

- (1) The registered owner of the property is MTR Corporation Limited.
- (2) The tenants are generally independent third parties for all relevant properties.
- (3) Under an internal repairing lease the tenant is responsible for all internal repairs and insurance.

No.	Property	Description and Tenure	Particulars of Occupancy	Open Market Value in Existing State as at 31st July, 2000
6	Ground Floor of No. 308 Nathan Road, Yau Ma Tei, Kowloon Portion of and in Kowloon Inland Lot No. 10620	<p>The property comprises one single-storey shop unit situated immediately adjacent to the vent shaft of the Jordan Mass Transit Railway station and was completed in about 1976.</p> <p>The lettable area of the property is approximately 70 square metres (753 square feet).</p> <p>The subject lot is held from the Government under Conditions of Grant No. 11423 for a term of 75 years commencing from 14th September, 1914 renewable for a further term of 75 years. The current Government rent payable for the lot is HK\$28,800 per annum.</p>	<p>The property is currently leased to Madam Nea Lee on an internal repairing lease for a term of 3 years commencing from 8th December, 1998 and expiring on 7th December, 2001 at a monthly rent of HK\$126,000 for the 1st year, HK\$132,300 for the 2nd year and HK\$138,915 for the 3rd year or a turnover rent calculated at 15% of the monthly gross turnover in each month of the corresponding term, whichever is the greater (exclusive of rates and management fees).</p>	<p>HK\$21,700,000</p> <p>100% interest attributable to the Company: HK\$21,700,000</p>

Notes:

- (1) The registered owner of the property is MTR Corporation Limited.
- (2) As advised by the Company, the tenant is an independent third party.
- (3) Under an internal repairing lease the tenant is responsible for all internal repairs and insurance.

No.	Property	Description and Tenure	Particulars of Occupancy	Open Market Value in Existing State as at 31st July, 2000
7	Ground Floor of No. 783 Nathan Road, Mong Kok, Kowloon Portion of and in Kowloon Inland Lot No. 10634	<p>The property comprises one single-storey shop unit situated immediately adjacent to the vent shaft of the Prince Edward Mass Transit Railway Station and was completed in about 1979.</p> <p>The lettable area of the property is approximately 36 square metres (388 square feet).</p> <p>The subject lot is held from the Government under Conditions of Grant No. 10634 for a term of 75 years commencing from 2nd February, 1931 renewable for a further term of 75 years. The current Government rent payable for the lot is HK\$1,000 per annum.</p>	<p>The property is currently leased to Miss Choi Li Li Lily on an internal repairing lease for a term of 3 years commencing from 16th May, 1998 and expiring on 15th May, 2001 at a monthly rent of HK\$33,320 for the 1st year, HK\$36,652 for the 2nd year and HK\$40,317 for the 3rd year (exclusive of rates and management fees).</p>	<p>HK\$4,200,000</p> <p>100% interest attributable to the Company: HK\$4,200,000</p>

Notes:

- (1) The registered owner of the property is MTR Corporation Limited.
- (2) As advised by the Company, the tenant is an independent third party.
- (3) Under an internal repairing lease the tenant is responsible for all internal repairs and insurance.

No.	Property	Description and Tenure	Particulars of Occupancy	Open Market Value in Existing State as at 31st July, 2000
8	Kindergarten on Podium Level and Car Park Nos. 1-126, New Kwai Fong Gardens, Nos. 12-20 Kwai Yi Road, Kwai Chung, New Territories 232/20410th equal and undivided shares of and in Kwai Chung Town Lot No. 375	<p>New Kwai Fong Gardens (the "Development") is a small-scale private residential estate comprising 5 blocks of high-rise residential buildings commonly erected over a three-storey commercial/carport/transport terminal podium. The Development was completed in about 1983.</p> <p>The property comprises a kindergarten on Podium Level and 126 carparking spaces on Mezzanine Floor.</p> <p>The lettable area of the kindergarten of the property is approximately 540 square metres (5,813 square feet).</p> <p>The property is held from the Government under New Grant No. 5975 for a term of 99 years from 1st July, 1898 less the last 3 days and has been extended to 30th June, 2047. The current Government rent payable is an amount equivalent to 3% of the rateable value for the time being of the property per annum.</p>	<p>The kindergarten is currently leased to Madam Ho Yi Mei and Mr. Mok Hason on an internal repairing lease for a term of 3 years from 16th June, 1999 to 15th June, 2002 at a monthly rent of HK\$58,130 exclusive of rates and management fees.</p> <p>The 126 carparking spaces are currently licensed on monthly and hourly basis. The average monthly licence fee for the period from 1st January, 2000 to 30th June, 2000 is approximately HK\$250,000.</p>	<p>HK\$45,300,000</p> <p>100% interest attributable to the Company: HK\$45,300,000</p>

Notes:

- (1) The registered owner of the property is MTR Corporation Limited.
- (2) As advised by the Company, the tenant is an independent third party.
- (3) Under an internal repairing lease the tenant is responsible for all internal repairs and insurance.

No.	Property	Description and Tenure	Particulars of Occupancy	Open Market Value in Existing State as at 31st July, 2000
9	136 private carparking spaces within International Finance Centre, No. 1 Harbour View Street, Central, Hong Kong Portion of Site A of Inland Lot No. 8898	International Finance Centre is a modern commercial development comprising a high-rise office tower erected over a multi-storey shopping/carpark podium. The building was completed in 1998. The property comprises 136 private carparking spaces on Basement levels 3 and 4 within the development. The subject lot is held from the Government under Conditions of Grant No. 12459 for a term commencing from 21st May, 1997 and expiring on 30th June, 2047. The current Government rent payable for the property is an amount equivalent to 3% of the rateable value for the time being of the property per annum.	103 carparking spaces are currently licensed on a monthly basis at a monthly rate of HK\$4,500 per space whereas the remaining 33 carparking spaces are licensed on an hourly basis at hourly rates of HK\$12 from 23:01 to 07:00 and HK\$20 from 07:01 to 23:00 per space. The total net revenue received for the period from 1st January, 2000 to 30th April, 2000 was HK\$2,041,000.	HK\$122,400,000 51% interest attributable to the Company: HK\$62,424,000

Notes:

- (1) The registered owner of the property is MTR Corporation Limited.
(2) The licensees are generally independent third parties for all relevant properties.

No.	Property	Description and Tenure	Particulars of Occupancy	Open Market Value in Existing State as at 31st July, 2000
10	<p>292 carparking spaces on Car Park Floors P1, P2 & P3 at Section B of Phase 1 Carparking Spaces, No. 10 Hong Yue Street, Kornhill, Quarry Bay, Hong Kong</p> <p>292/700000th equal and undivided shares of and in the Remaining Portion of Inland Lot No. 8566</p>	<p>Kornhill (the "Development") is a large-scale residential development with comprehensive provisions of commercial, recreational, communal and carparking facilities. Carparking facilities are provided in two locations of the Development, one in Kornhill Plaza at Kornhill Road and the other in a 4-level carpark ("the Subject Car Park") within a 7-storey building at Hong Yue Street and Hong Shing Street. The Development was completed in 1987.</p> <p>The property comprises 134 carparking spaces at P1, 129 carparking spaces at P2 and 29 carparking spaces at P3 amounting to a total of 292 carparking spaces within the Subject Car Park.</p> <p>The subject lot is held from the Government under Conditions of Exchange No. 11728 for a term of 75 years commencing from 27th April, 1984 renewable for a further term of 75 years. The current Government rent payable for the lot is HK\$1,000 per annum.</p>	<p>134 carparking spaces on P1 and 129 carparking spaces on P2 are currently licensed on monthly basis at monthly rates of HK\$2,000 per space and HK\$2,200 per space respectively whereas the remaining 29 carparking spaces on P3 are licensed on an hourly basis at an hourly rate of HK\$15 per space.</p>	<p>HK\$87,600,000</p> <p>100% interest attributable to the Company: HK\$87,600,000</p>

Notes:

- (1) The registered owner of the property is MTR Corporation Limited.
- (2) The licensees are generally independent third parties for all relevant properties.

No.	Property	Description and Tenure	Particulars of Occupancy	Open Market Value in Existing State as at 31st July, 2000
11	Neon light sign on the roof of Tower 1, Admiralty Centre, No. 18 Harcourt Road, Admiralty, Hong Kong 22/227600th equal and undivided shares of and in Inland Lot No. 8423	<p>The property comprises a neon light sign on the rooftop of a 29-storey office building erected over a 4-storey commercial podium completed in 1980.</p> <p>The dimensions of the property are approximately 39.0 metres by 6.1 metres, equivalent to an area of approximately 238 square metres (2,561 square feet).</p> <p>The property is held from the Government under Conditions of Grant No. 11226 for a term of 75 years from 18th August, 1978 renewable for a further term of 75 years. The current Government rent payable for the whole lot is HK\$1,000 per annum.</p>	<p>The property is licensed to Senkosha Advertising Company Limited for a term of 5 years from 7th March, 1998. The current licence fee is HK\$3,800,000 per annum exclusive of government rates, government licence and electricity charges for the lighting of the advertising space.</p>	<p>HK\$28,000,000</p> <p>100% interest attributable to the Company: HK\$28,000,000</p>

Notes:

- (1) The registered owner of the property is MTR Corporation Limited.
(2) As advised by the Company, the licensee is an independent third party.

No.	Property	Description and Tenure	Particulars of Occupancy	Open Market Value in Existing State as at 31st July, 2000
12	Shop Nos. 44, 85 to 93 on 1st Floor of the Commercial Podium of Admiralty Centre, No. 18 Harcourt Road, Admiralty, Hong Kong 263/227600th equal and undivided shares of and in Inland Lot No. 8423	<p>Admiralty Centre (the "Development") is a high-rise commercial development erected over the Admiralty Mass Transit Railway Station. It comprises two blocks of high-rise office buildings all built over a 4-storey commercial podium on Ground, 1st to 3rd Floors. The Development was completed in 1980.</p> <p>The property comprises 10 shop units on the 1st Floor of the commercial podium of the Development.</p> <p>The total lettable area of the property is approximately 286 square metres (3,079 square feet).</p> <p>The subject lot is held from the Government under Conditions of Grant No. 11226 for a term of 75 years commencing from 18th August, 1978 renewable for a further term of 75 years. The current Government rent payable for the lot is HK\$1,000 per annum.</p>	The 10 shop units are currently leased to Maxim's on an internal repairing lease for a term of 6 years from 1st January, 1995 and expiring on 31st December, 2000 at a monthly rent of HK\$195,000 for the 1st to 3rd years and HK\$245,000 for the 4th to 6th years or a turnover rent calculated at 20% of monthly gross turnover in each month of the corresponding term, whichever is the greater (exclusive of rates and management fees).	HK\$30,900,000 50% interest attributable to the Company: HK\$15,450,000

Notes:

- (1) The registered owner of the property is MTR Corporation Limited.
- (2) As advised by the Company, the tenant is an independent third party.
- (3) Under an internal repairing lease the tenant is responsible for all internal repairs and insurance.

No.	Property	Description and Tenure	Particulars of Occupancy	Open Market Value in Existing State as at 31st July, 2000																				
13	Indoor Sports Hall at Island Harbourview in Site C (Phase I) of Olympic Station Development, No. 11 Hoi Fai Road, Tai Kok Tsui, Kowloon 150708/3980030th equal and undivided shares of and in Kowloon Inland Lot No. 11074	<p>Site C (Phase I) of Olympic Station Development (the "Development") is a mixed commercial and residential development comprising a total of nine blocks of high-rise residential towers, a high-rise Grade A office building and a commercial/carport podium, scheduled to be fully completed in 2000.</p> <p>The property comprises the indoor sports hall located on the 2nd and 3rd floors together with the rooftop within the 6-storey commercial/carport podium of the Development which has been completed in 1999.</p> <p>The facilities provided within the property include golf driving ranges, sand bunkers, putting green, multi-purpose hall, tennis courts, viewing gallery, activity rooms, children play area, outdoor play area for basketball, volley ball and tennis.</p> <p>The lettable area of the property is approximately 13,219 square metres (142,295 square feet) which comprises the following:</p> <table border="1"> <thead> <tr> <th></th> <th>Indoor Square metres</th> <th>Outdoor Square metres</th> <th>Mechanical and Electrical Rooms Square metres</th> </tr> </thead> <tbody> <tr> <td>2/F</td> <td>2,437</td> <td>6,582</td> <td>845</td> </tr> <tr> <td>3/F</td> <td>1,160</td> <td>373</td> <td>6</td> </tr> <tr> <td>Rooftop</td> <td>Nil</td> <td>1,816</td> <td>Nil</td> </tr> <tr> <td>Total</td> <td>3,597</td> <td>8,771</td> <td>851</td> </tr> </tbody> </table> <p>The property is held from the Government under Conditions of Grant No. 12375 for a term from 31st January, 1996 until 30th June, 2047. The current Government rent payable for the property is an amount equivalent to 3% of the rateable value for the time being of the property per annum.</p>		Indoor Square metres	Outdoor Square metres	Mechanical and Electrical Rooms Square metres	2/F	2,437	6,582	845	3/F	1,160	373	6	Rooftop	Nil	1,816	Nil	Total	3,597	8,771	851	<p>The property is currently operated under the name of Waterfall Golf-Gym Sports World as a golf and sports club. It is subject to an operation agreement for a term of 5 years from 1st March, 2000 at a current monthly rate of HK\$100,000.</p>	<p>HK\$45,500,000</p> <p>100% interest attributable to the Company: HK\$45,500,000</p>
	Indoor Square metres	Outdoor Square metres	Mechanical and Electrical Rooms Square metres																					
2/F	2,437	6,582	845																					
3/F	1,160	373	6																					
Rooftop	Nil	1,816	Nil																					
Total	3,597	8,771	851																					

Notes:

- (1) The registered owner of the property is MTR Corporation Limited.
- (2) As advised by the Company, the operator is an independent third party.
- (3) Under the operation agreement, the operator is responsible for all internal repairs and insurance in respect of the property.

Group II—Property Interests Held for Owner-occupation

No.	Property	Description and Tenure	Particulars of Occupancy	Open Market Value in Existing State as at 31st July, 2000
14	Office No. 2101 on 21st Floor of World-Wide House, No. 19 Des Voeux Road Central, Central, Hong Kong 369/123000th equal and undivided shares of and in Inland Lot No. 8432	World-Wide House is a high-rise commercial development comprising a 24-storey office tower erected over a 4-storey shopping podium. The building was completed in 1981. The property comprises one office unit on the 21st Floor of the building. The lettable area of the property is approximately 225 square metres (2,422 square feet). The subject lot is held from the Government under Conditions of Grant No. 11187 for a term of 75 years commencing from 15th April, 1978 renewable for a further term of 75 years. The current Government rent payable for the lot is HK\$1,000 per annum.	The property is currently owner-occupied by the Company as office premises.	HK\$15,700,000 100% interest attributable to the Company: HK\$15,700,000

Note:

The registered owner of the property is MTR Corporation Limited.

No.	Property	Description and Tenure	Particulars of Occupancy	Open Market Value in Existing State as at 31st July, 2000
15	MTR Tower at Telford Plaza and 52 carparking spaces at Telford Gardens, No. 33 Wai Yip Street, Kowloon Bay, Kowloon Portions of and in New Kowloon Inland Lot No. 6201 and New Kowloon Inland Lot No. 5744	MTR Tower comprises a 15-storey office tower erected over a 4-storey shopping podium and the Kowloon Bay Mass Transit Railway Depot. It was completed in 1996. The property comprises the whole of the building which includes Levels 7 to 12, 15 to 23 together with Levels 7 and 8 of the Annex immediately above part of the shopping podium. The carparking spaces are located on levels L1B and L2. The gross saleable area of the property (excluding the carparking spaces) is approximately 28,516 square metres (306,946 square feet). The property is held from the Government under Conditions of Exchange No. 12289 for a term from 12th January, 1994 until 30 June, 2047 and Conditions of Grant No. 11083 for a term of 99 years from 1st July, 1898 less the last 3 days which has been extended until 30th June, 2047. The current Government rent payable for the property is an amount equivalent to 3% of the rateable value for the time being of the property per annum.	The property is currently owner-occupied by the Company as office premises and for carparking purposes respectively.	HK\$843,800,000 100% interest attributable to the Company: HK\$843,800,000

Notes:

- (1) The registered owner of the property is MTR Corporation Limited.
- (2) "Gross Saleable Area", as contained in the information provided by the Company, means "the aggregate of the Gross Built Area of the Property and the apportioned Gross Built Common Area attributable to the Property. The Gross Built Common Area shall be apportioned to Levels 7 to 23 of Tower 1 of the Building in the same portion that the respective Gross Built Area of each level shall bear to the total Gross Built Area of the offices at Levels 7 to 23 of Tower 1 of the Building."

"Gross Built Area" in respect of each of Level 7 to 23 (inclusive), as contained in the information provided by the Company, means "the area measured from the exterior of the enclosing walls of each such level which shall include the whole thickness of the enclosing walls except where such enclosing walls abut on Tower 2 in which case the measurement shall be taken to the middle of those walls and in each case shall include the internal partitions, columns and space within enclosing walls."

"Gross Built Common Area", as contained in the information provided by the Company, means "the common areas at Levels 2 to 6 (both inclusive) of Tower 1 and Tower 1 Annex of the Building The area of the Gross Built Common Areas shall be measured from the exterior of the enclosing walls of such level and shall include the whole thickness of the enclosing wall and shall include the internal partitions and columns (if any) within the enclosing walls."

Towers 1 and 2 stated in the aforesaid definitions refer to MTR Tower and Hang Seng Tower respectively.

No.	Property	Description and Tenure	Particulars of Occupancy	Open Market Value in Existing State as at 31st July, 2000
16	Levels 2, Mezzanine, 8 to 10 and 23 of Hang Seng Tower at Telford Gardens, No. 33 Wai Yip Street, Kowloon Bay, Kowloon	Hang Seng Tower comprises a 15-storey office tower erected over a 4-storey shopping podium. It was completed in 1996.	The property is currently owner-occupied by the Company as office premises.	HK\$241,000,000
	Portions of and in New Kowloon Inland Lot No. 6201 and New Kowloon Inland Lot No. 5744	The property comprises Levels 2, Mezzanine, 8 to 10 and 23 of the building. The gross saleable area of the property is approximately 8,500 square metres (91,494 square feet). The property is held from the Government under Conditions of Exchange No. 12289 for a term from 12th January, 1994 until 30th June, 2047 and Conditions of Grant No. 11083 for a term of 99 years from 1st July, 1898 less the last 3 days which has been extended until 30th June, 2047. The current Government rent payable for the property is an amount equivalent to 3% of the rateable value for the time being of the property per annum.		100% interest attributable to the Company: HK\$241,000,000

Notes:

- (1) The registered owner of the property is MTR Corporation Limited.
- (2) "Gross Saleable Area", as contained in the information provided by the Company, means "the aggregate of the Gross Built Area of the Property and the apportioned Gross Built Common Area attributable to the Property. The Gross Built Common Area shall be apportioned to Levels 7 to 23 of Tower 1 of the Building in the same portion that the respective Gross Built Area of each level shall bear to the total Gross Built Area of the offices at Levels 7 to 23 of Tower 1 of the Building."

"Gross Built Area" in respect of each of Level 7 to 23 (inclusive), as contained in the information provided by the Company, means "the area measured from the exterior of the enclosing walls of each such level which shall include the whole thickness of the enclosing walls except where such enclosing walls abut on Tower 2 in which case the measurement shall be taken to the middle of those walls and in each case shall include the internal partitions, columns and space within enclosing walls."

"Gross Built Common Area", as contained in the information provided by the Company, means "the common areas at Levels 2 to 6 (both inclusive) of Tower 1 and Tower 1 Annex of the Building The area of the Gross Built Common Areas shall be measured from the exterior of the enclosing walls of such level and shall include the whole thickness of the enclosing wall and shall include the internal partitions and columns (if any) within the enclosing walls."

Towers 1 and 2 stated in the aforesaid definitions refer to MTR Tower and Hang Seng Tower respectively.

Group III—Property Interests Held for Development (Packages Awarded)

No.	Property	Description and Tenure	Particulars of Occupancy	Open Market Value of the Property Interest Attributable to the Company as at 31st July, 2000																												
17	Airport Railway Property Development (a) Hong Kong Station, Central, Hong Kong Inland Lot No. 8898 Conditions of Grant No. 12459 Town Planning Zoning: Comprehensive Development Area	<p>The property comprises a site with an area of approximately 57,100 square metres (614,624 square feet) adjoining the station. The site is scheduled to be developed into a mixed use commercial/retail/hotel development comprising approximately 415,900 square metres (4,476,747 square feet) of office, retail and hotel, and 1,344 carparking spaces.</p> <p>The total gross floor area of the property is set out as follows:</p> <table border="1" style="margin-left: 20px;"> <thead> <tr> <th style="text-align: left;">Use</th> <th colspan="2" style="text-align: center;">Gross Floor Area</th> <th style="text-align: center;">Parking Spaces</th> </tr> <tr> <td></td> <th style="text-align: center;"><i>square metres</i></th> <th style="text-align: center;"><i>square feet</i></th> <th style="text-align: center;">(No.)</th> </tr> </thead> <tbody> <tr> <td>Office</td> <td style="text-align: right;">254,190</td> <td style="text-align: right;">2,736,101</td> <td style="text-align: center;">-</td> </tr> <tr> <td>Retail</td> <td style="text-align: right;">59,460</td> <td style="text-align: right;">640,027</td> <td style="text-align: center;">-</td> </tr> <tr> <td>Hotel</td> <td style="text-align: right;">102,250</td> <td style="text-align: right;">1,100,619</td> <td style="text-align: center;">-</td> </tr> <tr> <td>Carpark</td> <td style="text-align: center;">-</td> <td style="text-align: center;">-</td> <td style="text-align: right;">1,344</td> </tr> <tr> <td>Total</td> <td style="text-align: right;">415,900</td> <td style="text-align: right;">4,476,747</td> <td style="text-align: right;">1,344</td> </tr> </tbody> </table> <p>The land premium and construction costs are paid by the developer solely and are not borne by the Company. The Company will receive a portion of the office space and carpark as its share of the profits upon completion. The developer has a beneficial interest in, and is entitled to receive the disposal proceeds from, the remaining portions of the development site.</p>	Use	Gross Floor Area		Parking Spaces		<i>square metres</i>	<i>square feet</i>	(No.)	Office	254,190	2,736,101	-	Retail	59,460	640,027	-	Hotel	102,250	1,100,619	-	Carpark	-	-	1,344	Total	415,900	4,476,747	1,344	<p>Construction started in 1997 and as at 30th June, 2000, approximately 72,880 square metres (784,480 square feet) and 12,183 square metres (131,138 square feet) of office and retail, respectively, and 136 carparking spaces had been completed on the South Site. All these buildings were completed in 1998. Construction work for the core walls and basement of the remaining office and retail on the North Site and the hotel is currently in progress.</p> <p>The retail on the South Site is currently leased to the developer for a period of 12 years from 21st December, 1998 at a rent of \$1 per annum. The offices on the South Site are currently leased to various tenants generally on typical leases for 3 years or longer.</p> <p>As advised by the Company, the whole development is scheduled for completion by 2004.</p>	HK\$4,785,300,000
Use	Gross Floor Area		Parking Spaces																													
	<i>square metres</i>	<i>square feet</i>	(No.)																													
Office	254,190	2,736,101	-																													
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Open Market Value of
the Property Interest
Attributable to the
Company as at
31st July, 2000

No.	Property	Description and Tenure	Particulars of Occupancy	Open Market Value of the Property Interest Attributable to the Company as at 31st July, 2000																																																							
17	(b) Kowloon Station Packages One to Four, 1 Austin Road West, Kowloon Kowloon Inland Lot No. 11080 Conditions of Grant No. 12397 Town Planning Zoning: Comprehensive Development Area	The property is part of a site with an area of approximately 135,400 square metres (1,457,446 square feet), which also includes Packages Five to Seven, above and adjoining the station. The property is scheduled to be developed into a residential development comprising approximately 586,726 square metres (6,315,519 square feet) of residential and 4,193 carparking spaces. The total gross floor area of the property is set out as follows:	Construction started in 1996 and as at 30th June, 2000, the construction of Package One was completed with finishes in progress. Pre-sale of the residential space commenced in May 1999. The remaining part of Package One is scheduled to be completed by late 2000. As advised by the Company, the pilecaps construction is in progress for Package Two and the development is scheduled to be completed by phases between 2002 and 2003. Site investigation is in progress for Package Three with the development scheduled for completion in 2004. Construction of the foundations for Package Four is in progress with the development scheduled for completion in 2003.	HK\$4,679,100,000																																																							
		<table border="1"> <thead> <tr> <th rowspan="2">Use</th> <th colspan="2">Gross Floor Area</th> <th>Parking</th> </tr> <tr> <th>square metres</th> <th>square feet</th> <th>Spaces (No.)</th> </tr> </thead> <tbody> <tr> <td>Residential:</td> <td></td> <td></td> <td></td> </tr> <tr> <td>(i) Package One (Site A)</td> <td>147,562</td> <td>1,588,357</td> <td>—</td> </tr> <tr> <td>(ii) Package Two (Site B)</td> <td>210,319</td> <td>2,263,874</td> <td>—</td> </tr> <tr> <td>(iii) Package Three (Site C)</td> <td>100,000</td> <td>1,076,400</td> <td>—</td> </tr> <tr> <td>(iv) Package Four (Site D)</td> <td>128,845</td> <td>1,386,888</td> <td>—</td> </tr> <tr> <td>Carpark:</td> <td></td> <td></td> <td></td> </tr> <tr> <td>(i) Package One</td> <td>—</td> <td>—</td> <td>1,332</td> </tr> <tr> <td>(ii) Package Two</td> <td>—</td> <td>—</td> <td>1,313</td> </tr> <tr> <td>(iii) Package Three</td> <td>—</td> <td>—</td> <td>684</td> </tr> <tr> <td>(iv) Package Four</td> <td>—</td> <td>—</td> <td>864</td> </tr> <tr> <td>Total</td> <td>586,726</td> <td>6,315,519</td> <td>4,193</td> </tr> <tr> <td>Cross Border Bus* Terminus Package Three</td> <td>5,886</td> <td>63,357</td> <td>—</td> </tr> </tbody> </table> <p>* The Cross Border Bus Terminus will be wholly owned by the Company</p> <p>The total land premium paid for the property is HK\$10,502,730,000. The total estimated construction cost for the project (excluding the cost of enabling works) as advised by the Company is HK\$9,747,210,000 excluding professional fees, marketing and finance costs, etc. The Company's share of the residual surplus proceeds is in the range of 10-45%.</p> <p>For Package Two the Company will receive a portion of the residential space and carparks as its share of profits upon completion. The developer has a beneficial interest in, and is entitled to receive any disposal proceeds from, the remaining portions of Package Two.</p>	Use	Gross Floor Area		Parking	square metres	square feet	Spaces (No.)	Residential:				(i) Package One (Site A)	147,562	1,588,357	—	(ii) Package Two (Site B)	210,319	2,263,874	—	(iii) Package Three (Site C)	100,000	1,076,400	—	(iv) Package Four (Site D)	128,845	1,386,888	—	Carpark:				(i) Package One	—	—	1,332	(ii) Package Two	—	—	1,313	(iii) Package Three	—	—	684	(iv) Package Four	—	—	864	Total	586,726	6,315,519	4,193	Cross Border Bus* Terminus Package Three	5,886	63,357	—		
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Open Market Value of
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Attributable to the
Company as at
31st July, 2000

No.	Property	Description and Tenure	Particulars of Occupancy			Open Market Value of the Property Interest Attributable to the Company as at 31st July, 2000
17	(c) Olympic Station, Tai Kok Tsui, Kowloon	The property comprises 4 sites with a total area of approximately 160,200 square metres (1,724,393 square feet) adjoining the station. The site is scheduled to be developed into a mixed use commercial/retail/residential/hotel development comprising approximately 628,000 square metres (6,759,792 square feet) of office, retail, residential and hotel and 2,481 carparking spaces.	Construction started in 1995 and as at 30th June, 2000, approximately 83,000 square metres (893,412 square feet) and 14,900 square metres (160,384 square feet) of office and retail and 2,314 residential units, respectively and 1,263 carparking spaces in respect of Package One had been completed. The office and retail were completed in 1998 and 2000 respectively. The residential units were completed in 2000. The remaining office tower is scheduled for completion in September 2000. Pre-sale of the residential units commenced in November 1998. Leasing of the retail accommodation at Site B of Package Two and Site C of Package One was first launched in mid-1998. The tenants of the leased space are generally independent third parties, and have generally leased the premises on typical 3 year leases.			HK\$2,146,290,000
	Site A Kowloon Inland Lot No. 11068 Conditions of Grant No. 12349 Town Planning Zoning: Comprehensive Development Area	The total gross floor area of the property is set out as follows:				
	Site B Kowloon Inland Lot No. 11090 Conditions of Grant No. 12434 Town Planning Zoning: Comprehensive Development Area					
	Site C Kowloon Inland Lot No. 11074 Conditions of Grant No. 12375 Town Planning Zoning: Comprehensive Development Area					
	Site D Kowloon Inland Lot No. 11104 Conditions of Grant No. 12529 Town Planning Zoning: Comprehensive Development Area					
		Use	Gross Floor Area		Parking Spaces	
			<i>square metres</i>	<i>square feet</i>	<i>(No.)</i>	
		Office:				
		(i) Package One (Site A and C)	111,000	1,194,804	—	
		(ii) Package Two (Site B)	—	—	—	
		(iii) Package Three (Site D)	—	—	—	
			111,000	1,194,804	—	
		Retail:				
		(i) Package One	14,900	160,384	—	
		(ii) Package Two	47,500	511,290	—	
		(iii) Package Three	2,600	27,986	—	
			65,000	699,660	—	
		Residential:				
		(i) Package One	169,950	1,829,342	—	
		(ii) Package Two	220,050	2,368,618	—	
		(iii) Package Three	—	—	—	
			390,000	4,197,960	—	
		Hotel:				
		(i) Package One	—	—	—	
		(ii) Package Two	—	—	—	
		(iii) Package Three*	62,000	667,368	—	
			62,000	667,368	—	
		*The Town Planning Board has approved the change of use of Package Three from hotel to residential development and the Company is currently negotiating with the Government to agree on such change of use.				
		Carpark:				
		(i) Package One	—	—	1,380	
		(ii) Package Two	—	—	932	
		(iii) Package Three	—	—	169	
		Total	628,000	6,759,792	2,481	
		Market:** Package Two	1,100	11,840	—	
		**The market is wholly owned by the Company				
		The total land premium paid for the property is HK\$11,729,740,000. The total estimated construction cost for the project (excluding the cost of enabling works) as advised by the Company is HK\$8,908,000,000 excluding professional fees, marketing and finance costs, etc. The Company's share of the residual surplus proceeds is in the range of 20-40%.				

Open Market Value of
the Property Interest
Attributable to the
Company as at
31st July, 2000

No.	Property	Description and Tenure	Particulars of Occupancy			Open Market Value of the Property Interest Attributable to the Company as at 31st July, 2000
17	(d) Tung Chung Station, Tung Chung Town Centre, Lantau Island Tung Chung Town Lot No. 1 New Grant No. 7973 Town Planning Zoning: Comprehensive Development Area Tung Chung Town Lot No. 2 New Grant No. 7984 Town Planning Zoning: Comprehensive Development Area Tung Chung Town Lot No. 3 New Grant No. 8015 Town Planning Zoning: Comprehensive Development Area Tung Chung Town Lot No. 4 New Grant No. 8082 Town Planning Zoning: Comprehensive Development Area Tung Chung Town Lot No. 5 New Grant No. 8102 Town Planning Zoning: Comprehensive Development Area	The property comprises 5 sites with a total area of approximately 217,000 square metres (2,335,788 square feet) adjoining the station. The sites are scheduled to be developed into a mixed use commercial/retail/residential/hotel development comprising approximately 1,014,360 square metres (10,918,570 square feet) of office, retail, residential and hotel and approximately 3,955 carparking spaces. The total gross floor area of the property is set out as follows:	Construction started in 1995 and as at 30th June, 2000, approximately 15,000 square metres (161,460 square feet) and 46,000 square metres (495,144 square feet) of office and retail and 2,158 residential units, respectively and 1,645 carparking spaces in respect of Site 1 and 2 in Package One had been completed. The office and retail in TCTL 2 were completed in 1999 and 2000, respectively. The residential units and retail in TCTL 1 were completed in 1999. Pre-sale of the residential space commenced in January 1999. Leasing of the retail accommodation at Site 1 and 2 of Package One was first launched in late 1998. The tenants of the leased space are generally independent third parties, and have generally leased the premises on typical 3 year leases. As advised by the Company, the foundations of the hotel on Site 2 had been completed and construction of Site 3 had been built up to commencement of superstructure stage, with the development in respect of Package One being scheduled to be completed by phases between 2000 and 2003. Construction of Phase 1 of Package Two is now up to typical floors level, with the development of Package Two scheduled for completion by phases between 2001 and 2004. Foundation works are in progress for Package Three with the development scheduled for completion by phases between 2002 and 2004.			HK\$755,000,000
		Use	Gross Floor Area		Parking Spaces	
			<i>square metres</i>	<i>square feet</i>	<i>(No.)</i>	
		Office:				
		(i) Package One (TCTL 1 to 3—Site 1, 2 and 3)	15,000	161,460	—	
		(ii) Package Two (TCTL 4—Site 4)	—	—	—	
		(iii) Package Three (TCTL 5—Site 5)	—	—	—	
			15,000	161,460	—	
		Retail:				
		(i) Package One	48,500	522,054	—	
		(ii) Package Two	2,500	26,910	—	
		(iii) Package Three	5,000	53,820	—	
			56,000	602,784	—	
		Residential:				
		(i) Package One*	260,960	2,808,973	—	
		(ii) Package Two	253,100	2,724,368	—	
		(iii) Package Three	407,300	4,384,177	—	
			921,360	9,917,518	—	
		Hotel:				
		(i) Package One	22,000	236,808	—	
		(ii) Package Two	—	—	—	
		(iii) Package Three	—	—	—	
			22,000	236,808	—	
		Carpark:				
		(i) Package One	—	—	2,002	
		(ii) Package Two	—	—	738***	
		(iii) Package Three	—	—	1,215	
		Total	1,014,360	10,918,570	3,955	
		Wet Market**				
		Package Three	550	5,920	—	
		Kindergarten				
		(i) Package One	700	7,535	—	
		(ii) Package Two	350	3,767	—	
		(iii) Package Three	350	3,767	—	
			1,400	15,069	—	

* The Town Planning Board has approved an increase in the residential gross floor area to be allocated to Package One and the Company is currently negotiating with the Government to agree on such a change.

** The wet market will be wholly owned by the Company.

*** This falls within the range of 632-745 as stipulated in the latest approved master layout plan.

The total land premium paid for the property is HK\$11,145,880,000 and the total estimated construction cost for the project (excluding the cost of enabling works) as advised by the Company is HK\$14,853,000,000 excluding professional fees, marketing and finance costs, etc. The Company's share of the residual surplus proceeds is in the range of 20-50%.

Notes (all apply to properties 17(a) to (d) inclusive unless otherwise stated):

- (1) The Town Planning Board has approved the change of land use from hotel to residential development of 103,152 m² and 252 carparking spaces for Olympic Station Site D. Discussions are currently being held with the Government on the lease modification for this proposed change of use (applies to property 17(c) only).
- (2) Relevant statutory consents have been granted.
- (3) The Government rent for all properties is 3% of the rateable value for the time being of the property per annum.
- (4) The development costs are borne by the developer and not by the Company.
- (5) The valuation excludes the costs of enabling works carried out by the Company which are fully refunded.
- (6) The valuation represents the right to receive a share of the future development profits or the estimated open market value of the portion of such properties to be allocated to the Company.
- (7) The value of the cross-border bus terminus is included in the value of Kowloon Station Package Three (applies to property 17(b) only).
- (8) The Government Land Grants in respect of the respective properties have been granted in favour of MTR Corporation Limited as follows:

<u>Name of Station</u>	<u>Lot No.</u>	<u>Leases Term</u>
Hong Kong Station	IL No. 8898	From 21st May, 1997 until 30th June, 2047
Kowloon Station Package One	KIL No. 11080	From 8th July, 1996 until 30th June, 2047
Kowloon Station Package Two	KIL No. 11080	From 8th July, 1996 until 30th June, 2047
Kowloon Station Package Three	KIL No. 11080	From 8th July, 1996 until 30th June, 2047
Kowloon Station Package Four	KIL No. 11080	From 8th July, 1996 until 30th June, 2047
Olympic Station Package One	Site A: KIL No. 11068	From 8th May, 1995 until 30th June, 2047
	Site C: KIL No. 11074	From 31st January, 1996 until 30th June, 2047
Olympic Station Package Two	Site B: KIL No. 11090	From 10th January, 1997 until 30th June, 2047
Olympic Station Package Three	Site D: KIL No. 11104	From 25th February, 1999 until 30th June, 2047
Tung Chung Station Package One	Site 1: TCTL No. 1	From 16th August, 1995 until 30th June, 2047
	Site 2: TCTL No. 2	From 27th September, 1995 until 30th June, 2047
	Site 3: TCTL No. 3	From 1st May, 1996 until 30th June, 2047
Tung Chung Station Package Two	Site 4: TCTL No. 4	From 26th March, 1997 until 30th June, 2047
Tung Chung Station Package Three	Site 5: TCTL No. 5	From 26th June, 1997 until 30th June, 2047

- (9) Whilst the legal title of the property is vested in MTR Corporation Limited, the beneficial interest in the development is shared between MTR Corporation Limited and the relevant developer in accordance with the profit share in respect of the relevant development.
- (10) Development packages in respect of the respective properties have been awarded to various developer consortia as follows:

<u>Name of Station</u>	<u>Name of Development Consortium Members</u>
<u>Hong Kong Station</u>	(a) Sun Hung Kai Properties Limited (b) Henderson Land Development Company Limited (c) The Hong Kong & China Gas Company Limited (d) Bank of China Group Investment Limited
<u>Kowloon Station</u>	
(i) Package One	(a) Wing Tai Holdings Limited (b) Temasek Holdings (Pte) Limited (c) Singapore Land Limited (d) Keppel Land Limited (e) Lai Sun Development Company Limited (f) World-wide Investment Company (Bermuda) Limited
(ii) Package Two	(a) The Wharf (Holdings) Limited (b) Wheelock and Company Limited (c) New Asia Realty and Trust Company, Limited (d) Realty Development Corporation Limited (e) Harbour Centre Development Limited
(iii) Package Three	Sun Hung Kai Properties Limited
(iv) Package Four	Amoy Properties Limited
<u>Olympic Station</u>	
(i) Package One	(a) Sino Land Company Limited (b) Bank of China Group Investment Limited (c) Kerry Properties Limited (d) China Overseas Land and Investment Limited (e) DBS Land Limited

<u>Name of Station</u>	<u>Name of Development Consortium Members</u>
(ii) Package Two	(a) Sino Land Company Limited (b) Kerry Properties Limited (c) Bank of China Group Investment Limited (d) China Overseas Land and Investment Limited
(iii) Package Three <u>Tung Chung Station</u>	Sun Hung Kai Properties Limited
(i) Package One	(a) Hang Lung Development Company Limited (b) Henderson Land Development Company Limited (c) New World Development Company Limited (d) Sun Hung Kai Properties Limited (e) Swire Properties Limited
(ii) Package Two	(a) HKR International Limited (b) Hong Leong Holdings Limited (c) Recosia Pte Limited (d) Lippo China Resources Limited
(iii) Package Three	(a) Cheung Kong (Holdings) Limited (b) Hutchison Whampoa Limited

(11) As at 31st July, 2000, the Company had received up-front payments of approximately HK\$21 billion (inclusive of mandatory payments for enabling works) in aggregate from the respective developers in connection with developments relating to the respective properties. Part of the up-front payments had already been included in the Company's deferred income balance. As at 30th June, 2000, the deferred income balance for the properties in Kowloon Station, Olympic Station and Tung Chung Station totalled HK\$13,028 million.

	HK\$ million
Kowloon Station	1,559
Olympic Station	2,445
Tung Chung Station	9,024
	<u>13,028</u>

The deferred income balance relates to up-front payments already received by the Company and will not contribute towards the future cashflow relating to the property.

Group IV—Property Interests Held for Development (Packages to be Awarded) and Property Interests Held for Future Development

No.	Property	Description and Tenure	Particulars of Occupancy	Open Market Value of the Property Interest Attributable to the Company as at 31st July, 2000																																																																																																																				
18	Airport Railway Property Development Package Five, Six and Seven of Kowloon Station Development, 1 Austin Road West, Kowloon Kowloon Inland Lot No. 11080 Conditions of Grant No. 12397 Town Planning Zoning: Comprehensive Development Area	<p>The property is part of a site with an area of approximately 135,400 square metres (1,457,446 square feet) adjoining the station, which also includes Packages One to Four. The property is scheduled to be developed into a mixed use commercial/retail/residential/hotel development comprising approximately 503,300 square metres (5,417,521 square feet) of office, retail, residential and hotel and 1,974 carparking spaces.</p> <p>The total gross floor area of the property is set out as follows:</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;">Use</th> <th colspan="2" style="text-align: center;">Gross Floor Area</th> <th style="text-align: center;">Parking Spaces</th> </tr> <tr> <td></td> <th style="text-align: center;"><i>square metres</i></th> <th style="text-align: center;"><i>square feet</i></th> <th style="text-align: center;">(No.)</th> </tr> </thead> <tbody> <tr> <td colspan="4">Office:</td> </tr> <tr> <td>(i) Package Five</td> <td style="text-align: center;">—</td> <td style="text-align: center;">—</td> <td style="text-align: center;">—</td> </tr> <tr> <td>(ii) Package Six*</td> <td style="text-align: center;">83,778</td> <td style="text-align: center;">901,786</td> <td style="text-align: center;">—</td> </tr> <tr> <td>(iii) Package Seven</td> <td style="text-align: center;">152,000</td> <td style="text-align: center;">1,636,128</td> <td style="text-align: center;">—</td> </tr> <tr> <td></td> <td style="text-align: center;"><u>235,778</u></td> <td style="text-align: center;"><u>2,537,914</u></td> <td style="text-align: center;">—</td> </tr> <tr> <td colspan="4">Retail:</td> </tr> <tr> <td>(i) Package Five</td> <td style="text-align: center;">70,000</td> <td style="text-align: center;">753,480</td> <td style="text-align: center;">—</td> </tr> <tr> <td>(ii) Package Six</td> <td style="text-align: center;">—</td> <td style="text-align: center;">—</td> <td style="text-align: center;">—</td> </tr> <tr> <td>(iii) Package Seven</td> <td style="text-align: center;">12,750</td> <td style="text-align: center;">137,241</td> <td style="text-align: center;">—</td> </tr> <tr> <td></td> <td style="text-align: center;"><u>82,750</u></td> <td style="text-align: center;"><u>890,721</u></td> <td style="text-align: center;">—</td> </tr> <tr> <td colspan="4">Residential:</td> </tr> <tr> <td>(i) Package Five</td> <td style="text-align: center;">21,300</td> <td style="text-align: center;">229,273</td> <td style="text-align: center;">—</td> </tr> <tr> <td>(ii) Package Six*</td> <td style="text-align: center;">68,472</td> <td style="text-align: center;">737,033</td> <td style="text-align: center;">—</td> </tr> <tr> <td>(iii) Package Seven</td> <td style="text-align: center;">—</td> <td style="text-align: center;">—</td> <td style="text-align: center;">—</td> </tr> <tr> <td></td> <td style="text-align: center;"><u>89,772</u></td> <td style="text-align: center;"><u>966,306</u></td> <td style="text-align: center;">—</td> </tr> <tr> <td colspan="4">Hotel:</td> </tr> <tr> <td>(i) Package Five</td> <td style="text-align: center;">30,750</td> <td style="text-align: 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style="text-align: center;">—</td> <td style="text-align: center;">740</td> </tr> <tr> <td></td> <td style="text-align: center;"><u>503,300</u></td> <td style="text-align: center;"><u>5,417,521</u></td> <td style="text-align: center;"><u>1,974</u></td> </tr> <tr> <td colspan="4">Kindergarten:</td> </tr> <tr> <td>Package Five</td> <td style="text-align: center;">1,050</td> <td style="text-align: center;">11,302</td> <td style="text-align: center;">—</td> </tr> </tbody> </table>	Use	Gross Floor Area		Parking Spaces		<i>square metres</i>	<i>square feet</i>	(No.)	Office:				(i) Package Five	—	—	—	(ii) Package Six*	83,778	901,786	—	(iii) Package Seven	152,000	1,636,128	—		<u>235,778</u>	<u>2,537,914</u>	—	Retail:				(i) Package Five	70,000	753,480	—	(ii) Package Six	—	—	—	(iii) Package Seven	12,750	137,241	—		<u>82,750</u>	<u>890,721</u>	—	Residential:				(i) Package Five	21,300	229,273	—	(ii) Package Six*	68,472	737,033	—	(iii) Package Seven	—	—	—		<u>89,772</u>	<u>966,306</u>	—	Hotel:				(i) Package Five	30,750	330,993	—	(ii) Package Six	—	—	—	(iii) Package Seven	64,250	691,587	—		<u>95,000</u>	<u>1,022,580</u>	—	Carpark:				(i) Package Five	—	—	767	(ii) Package Six	—	—	467	(iii) Package Seven	—	—	740		<u>503,300</u>	<u>5,417,521</u>	<u>1,974</u>	Kindergarten:				Package Five	1,050	11,302	—	<p>The property is currently a vacant development site.</p> <p>As advised by the Company, the development in respect of Package Five and Package Six is scheduled to start in 2001 and is expected to be completed by phases between 2003 and 2004 and the development of Package Seven is scheduled for completion by phases between 2005 and 2007.</p>	
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		<p>* This falls within the range of 231,778 to 235,778 square metres for offices and 68,472 to 72,472 square metres for serviced apartments as stipulated in the latest approved master layout plan.</p> <p>The land premium and construction costs are paid by the developer. The Company will receive a portion of the retail space, kindergarten and carpark as its share of the profits. The developer has a beneficial interest in, and is entitled to receive the disposal proceeds from the remaining portions of the development site.</p>																																																																																																																						

Notes:

- (1) Relevant statutory consents have been granted.
- (2) The Government rent for all properties is 3% of the rateable value for the time being of the property per annum.
- (3) The development costs are borne by the developer and not by the Company.
- (4) The valuation excludes the costs of enabling works carried out by the Company.
- (5) A Land Grant has been granted in favour of MTR Corporation Limited as follows:

<u>Name of Station</u>	<u>Lot No.</u>	<u>Lease Term</u>
Kowloon Station Package Five, Six and Seven	KIL No. 11080	From 8th July, 1996 until 30th June, 2047

- (6) Whilst the legal title of the property is vested in MTR Corporation Limited, the beneficial interest in the development is assumed to be shared between MTR Corporation Limited and the relevant developer in accordance with the profit share in respect of the relevant development.
- (7) As at 31st July 2000, this development package had not been awarded. However, the proposed basis upon which tenders relating to the development package were to be invited has been reflected in the valuation. The development package has subsequently been awarded on 6th September 2000.

<u>No.</u>	<u>Property</u>	<u>Description and Tenure</u>	<u>Particulars of Occupancy</u>	<u>Open Market Value of the Property Interest Attributable to the Company as at 31st July, 2000</u>																								
19	Tseung Kwan O Extension (a) Tiu Keng Leng Station Town Planning Zoning: Other Specified Uses (Commercial/Residential development with Public Transport Interchange)	The property comprises a site with an area of approximately 31,100 square metres (334,760 square feet) adjoining the station. The site is scheduled to be developed into a mixed use residential/retail development comprising approximately 250,852 square metres (2,700,171 square feet) of residential and retail and 686 carparking spaces. The total gross floor area of the property is set out as follows:	The property is currently a vacant development site. As advised by the Company, the whole development is scheduled to start in 2002 and is expected to be completed by phases between 2004 and 2007.																									
		<table border="1"> <thead> <tr> <th style="text-align: center;"><u>Use</u></th> <th colspan="2" style="text-align: center;"><u>Gross Floor Area</u></th> <th style="text-align: center;"><u>Parking Spaces</u></th> </tr> <tr> <td></td> <th style="text-align: center;"><i>square metres</i></th> <th style="text-align: center;"><i>square feet</i></th> <th style="text-align: center;"><i>(No.)</i></th> </tr> </thead> <tbody> <tr> <td>Residential</td> <td style="text-align: right;">237,852</td> <td style="text-align: right;">2,560,239</td> <td style="text-align: center;">—</td> </tr> <tr> <td>Retail</td> <td style="text-align: right;">13,000</td> <td style="text-align: right;">139,932</td> <td style="text-align: center;">—</td> </tr> <tr> <td>Carpark</td> <td style="text-align: center;">—</td> <td style="text-align: center;">—</td> <td style="text-align: center;">686</td> </tr> <tr> <td>Total</td> <td style="text-align: right;"><u>250,852</u></td> <td style="text-align: right;"><u>2,700,171</u></td> <td style="text-align: center;"><u>686</u></td> </tr> </tbody> </table>	<u>Use</u>	<u>Gross Floor Area</u>		<u>Parking Spaces</u>		<i>square metres</i>	<i>square feet</i>	<i>(No.)</i>	Residential	237,852	2,560,239	—	Retail	13,000	139,932	—	Carpark	—	—	686	Total	<u>250,852</u>	<u>2,700,171</u>	<u>686</u>		
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Total	<u>250,852</u>	<u>2,700,171</u>	<u>686</u>																									
		The total estimated construction cost for the project (excluding the cost of enabling works) as advised by the Company is HK\$3,171,000,000 including professional fees, but excluding marketing, finance and other costs.																										

No.	Property	Description and Tenure	Particulars of Occupancy	Open Market Value of the Property Interest Attributable to the Company as at 31st July, 2000																												
19	(b) Tseung Kwan O (Town Centre) Station, Area 55b, Area 56 and Area 57a Town Planning Zoning as follows: Area 55b Commercial/ Residential Area 56 Other Specified Uses (Commercial development with Public Transport Interchange) Area 57a Commercial/ Residential	<p>The property comprises three sites with a total area of approximately 55,500 square metres (597,402 square feet) adjoining the station. The site is scheduled to be developed into a mixed use commercial/residential/retail development comprising approximately 289,569 square metres (3,116,921 square feet) of office, residential and retail and 1,633 carparking spaces.</p> <p>The total gross floor area of the property is set out as follows:</p> <table border="1"> <thead> <tr> <th style="text-align: left;">Use</th> <th colspan="2" style="text-align: center;">Gross Floor Area</th> <th style="text-align: center;">Parking Spaces</th> </tr> <tr> <td></td> <th style="text-align: center;"><i>square metres</i></th> <th style="text-align: center;"><i>square feet</i></th> <th style="text-align: center;"><i>(No.)</i></th> </tr> </thead> <tbody> <tr> <td>Office</td> <td style="text-align: right;">103,130</td> <td style="text-align: right;">1,110,091</td> <td style="text-align: center;">—</td> </tr> <tr> <td>Residential</td> <td style="text-align: right;">110,925</td> <td style="text-align: right;">1,193,997</td> <td style="text-align: center;">—</td> </tr> <tr> <td>Retail</td> <td style="text-align: right;">75,514</td> <td style="text-align: right;">812,833</td> <td style="text-align: center;">—</td> </tr> <tr> <td>Carpark</td> <td style="text-align: center;">—</td> <td style="text-align: center;">—</td> <td style="text-align: right;">1,633</td> </tr> <tr> <td>Total</td> <td style="text-align: right;"><u>289,569</u></td> <td style="text-align: right;"><u>3,116,921</u></td> <td style="text-align: right;"><u>1,633</u></td> </tr> </tbody> </table> <p>The total estimated construction cost for the project (excluding the cost of enabling works) as advised by the Company is HK\$5,464,000,000 including professional fees, but excluding marketing, finance and other costs.</p>	Use	Gross Floor Area		Parking Spaces		<i>square metres</i>	<i>square feet</i>	<i>(No.)</i>	Office	103,130	1,110,091	—	Residential	110,925	1,193,997	—	Retail	75,514	812,833	—	Carpark	—	—	1,633	Total	<u>289,569</u>	<u>3,116,921</u>	<u>1,633</u>	<p>The property is currently a vacant development site.</p> <p>As advised by the Company, the whole development is scheduled to start in 2001 and is expected to be completed by phases between 2003 and 2005.</p> <p>On 7th July, 2000 the Company entered into a development agreement with a developer consortium in relation to the development of Area 57a at Tseung Kwan O Station. The development consists of a three-level podium including carparking spaces and retail space and 46 residential floors above the podium on a site area of approximately 3,600 square metres which is expected to be completed in 2003.</p>	
Use	Gross Floor Area		Parking Spaces																													
	<i>square metres</i>	<i>square feet</i>	<i>(No.)</i>																													
Office	103,130	1,110,091	—																													
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19	(c) Hang Hau Station Town Planning Zoning: Other Specified Uses (Commercial/Residential development with Public Transport Interchange)	<p>The property comprises a site with an area of approximately 17,700 square metres (190,523 square feet) adjoining the station. The site is scheduled to be developed into a mixed use residential/retail development comprising approximately 142,152 square metres (1,530,124 square feet) of residential and retail and 381 carparking spaces.</p> <p>The total gross floor area of the property is set out as follows:</p> <table border="1" style="margin-left: 40px;"> <thead> <tr> <th style="text-align: left;"><u>Use</u></th> <th colspan="2" style="text-align: center;"><u>Gross Floor Area</u></th> <th style="text-align: center;"><u>Parking Spaces</u></th> </tr> <tr> <td></td> <th style="text-align: center;"><i>square metres</i></th> <th style="text-align: center;"><i>square feet</i></th> <th style="text-align: center;"><i>(No.)</i></th> </tr> </thead> <tbody> <tr> <td>Residential</td> <td style="text-align: right;">138,652</td> <td style="text-align: right;">1,492,450</td> <td style="text-align: center;">—</td> </tr> <tr> <td>Retail</td> <td style="text-align: right;">3,500</td> <td style="text-align: right;">37,674</td> <td style="text-align: center;">—</td> </tr> <tr> <td>Carpark</td> <td style="text-align: center;">—</td> <td style="text-align: center;">—</td> <td style="text-align: center;">381</td> </tr> <tr> <td>Total</td> <td style="text-align: right;"><u>142,152</u></td> <td style="text-align: right;"><u>1,530,124</u></td> <td style="text-align: center;"><u>381</u></td> </tr> </tbody> </table>	<u>Use</u>	<u>Gross Floor Area</u>		<u>Parking Spaces</u>		<i>square metres</i>	<i>square feet</i>	<i>(No.)</i>	Residential	138,652	1,492,450	—	Retail	3,500	37,674	—	Carpark	—	—	381	Total	<u>142,152</u>	<u>1,530,124</u>	<u>381</u>	<p>The property is currently a vacant development site.</p> <p>As advised by the Company, the whole development is scheduled to start in 2002 and is expected to be completed by phases between 2004 and 2005.</p>	
<u>Use</u>	<u>Gross Floor Area</u>		<u>Parking Spaces</u>																									
	<i>square metres</i>	<i>square feet</i>	<i>(No.)</i>																									
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Retail	3,500	37,674	—																									
Carpark	—	—	381																									
Total	<u>142,152</u>	<u>1,530,124</u>	<u>381</u>																									
		<p>The total estimated construction cost for the project (excluding the cost of enabling works) as advised by the Company is HK\$1,702,000,000 including professional fees, but excluding marketing, finance and other costs.</p>																										

No.	Property	Description and Tenure	Particulars of Occupancy	Open Market Value of the Property Interest Attributable to the Company as at 31st July, 2000
19	(d) Area 86, Tseung Kwan O Town Planning Zoning: Comprehensive Development Area	The property comprises a site with an area of approximately 322,100 square metres (3,467,084 square feet) adjoining the station. The site is scheduled to be developed into a mixed use residential/retail development comprising 50 residential towers with about 21,500 units and ancillary facilities totalling approximately 1,652,500 square metres (17,787,510 square feet) of residential and retail, and 4,329 carparking spaces.	The property is currently a vacant development site. As advised by the Company, the whole development is scheduled to start in 2001 and is expected to be completed by phases between 2004 and 2012.	

The total gross floor area of the property is set out as follows:

Use	Gross Floor Area		Parking Spaces
	<i>square metres</i>	<i>square feet</i>	(No.)
Residential	1,612,500	17,356,950	—
Retail	40,000	430,560	—
Carpark	—	—	4,329
Total	<u>1,652,500</u>	<u>17,787,510</u>	<u>4,329</u>

The total estimated construction cost for the project (excluding the cost of enabling works) as advised by the Company is HK\$25,392,000,000 including professional fees, but excluding marketing, finance and other costs.

Notes:

- (1) Relevant statutory consents have been granted.
- (2) The Government rent for all properties is 3% of the rateable value of the property for the time being per annum.
- (3) The development costs are borne by the developer and not by the Company.
- (4) The valuation excludes the costs of enabling works carried out by the Company which are fully refunded.
- (5) The valuation represents the right to receive a share of the future development profits and not a capital value.
- (6) The Land Grants relating to sites situated over and above stations upon the Tseung Kwan O Extension have yet to be executed but are assumed to be for similar terms as for those for the other packages.
- (7) Whilst the legal title of the property is to be vested in MTR Corporation Limited (in accordance with the Project Agreement for the Design, Construction, Financing and Operation of the Tseung Kwan O Extension executed on 4th November, 1998 between the Secretary for Transport for and on behalf of the Government and the Company (as amended and restated on 30th June, 2000)), the beneficial interest in the development is assumed to be shared between MTR Corporation Limited and the relevant developer in accordance with the profit share in respect of the relevant development.

No.	Property	Description and Tenure	Particulars of Occupancy	Open Market Value of the Property Interest Attributable to the Company as at 31st July, 2000																												
20	Residential/ Commercial Development with Park and Ride and Public Transport Interchange, Clear Water Bay Road, Choi Hung, Kowloon Town Planning Zoning: Government Institution/ Community	<p>The property comprises a site with an area of approximately 3,251 square metres (34,994 square feet) adjoining the station. The site is scheduled to be developed into a mixed use residential/retail development with "park and ride" facilities comprising approximately 17,409 square metres (187,391 square feet) of residential and retail and 501 carparking spaces.</p> <p>The total gross floor area of the property is set out as follows:</p> <table border="1" style="margin-left: 20px;"> <thead> <tr> <th style="text-align: left;">Use</th> <th colspan="2" style="text-align: center;">Gross Floor Area</th> <th style="text-align: center;">Parking Spaces</th> </tr> <tr> <th></th> <th style="text-align: center;"><i>square metres</i></th> <th style="text-align: center;"><i>square feet</i></th> <th style="text-align: center;">(No.)</th> </tr> </thead> <tbody> <tr> <td>Residential</td> <td style="text-align: center;">15,009</td> <td style="text-align: center;">161,557</td> <td style="text-align: center;">—</td> </tr> <tr> <td>Retail</td> <td style="text-align: center;">2,400</td> <td style="text-align: center;">25,834</td> <td style="text-align: center;">—</td> </tr> <tr> <td>Carpark</td> <td style="text-align: center;">—</td> <td style="text-align: center;">—</td> <td style="text-align: center;">51</td> </tr> <tr> <td>Public Carpark</td> <td style="text-align: center;">—</td> <td style="text-align: center;">—</td> <td style="text-align: center;">450</td> </tr> <tr> <td>Total</td> <td style="text-align: center;"><u>17,409</u></td> <td style="text-align: center;"><u>187,391</u></td> <td style="text-align: center;"><u>501</u></td> </tr> </tbody> </table> <p>The total estimated construction cost advised by the Company is HK\$436,280,000 excluding professional fees, marketing, finance and other costs.</p>	Use	Gross Floor Area		Parking Spaces		<i>square metres</i>	<i>square feet</i>	(No.)	Residential	15,009	161,557	—	Retail	2,400	25,834	—	Carpark	—	—	51	Public Carpark	—	—	450	Total	<u>17,409</u>	<u>187,391</u>	<u>501</u>	<p>The property is currently partly vacant and partly occupied as a public transport interchange.</p> <p>As advised by the Company, the whole development is scheduled to start in 2001 and is expected to be completed by 2004.</p>	
Use	Gross Floor Area		Parking Spaces																													
	<i>square metres</i>	<i>square feet</i>	(No.)																													
Residential	15,009	161,557	—																													
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Carpark	—	—	51																													
Public Carpark	—	—	450																													
Total	<u>17,409</u>	<u>187,391</u>	<u>501</u>																													

Total HK\$8,270,130,000*

* The Company's share of development profits for all property interests held for future development is assumed to be in the range of 25% to 35%.

Group V—Other Property Interests of the Company

No.	Property	Description and Tenure	Particulars of Occupancy	Open Market Value in Existing State Attributable to the Company as at 31st July, 2000
21	<p>Various Lorry Parking Spaces at Transport Interchange Building of Tsing Yi Station, No. 31 Tsing King Road, Tsing Yi, New Territories</p> <p>Tsing Yi Town Lot No. 135 New Grant No. 7040 Town Planning Zoning: Government Institution/Community</p>	<p>The property comprises 110 spaces for the parking of goods vehicles on the ground floor of a 2-storey transport interchange building, with a site area of approximately 1.53 hectares.</p> <p>The legal title of the property is vested in MTR Corporation Limited, but the beneficial interest is owned by the developer.</p>	<p>The Company has an option to buy at market value or actual construction cost, whichever the higher.</p>	<p>No Commercial Value</p>
22	<p>Leased Office Premises on the Second Floor of Chestnut Field, Regent Place, Rugby, United Kingdom</p>	<p>The property comprises an office suite with a lettable area of 88 square metres on the second floor of a low rise office building with associated parking located in Rugby, United Kingdom. The building was completed in 1982.</p> <p>The property is held under a lease for 15 years commencing from 18th December, 1990 at a current rent of £7,750 per year.</p>	<p>The property is currently occupied by the Company as office premises.</p>	<p>No Commercial Value</p>

The following is the text of a letter, prepared for the purposes of incorporation in this prospectus received from MVA Hong Kong Limited, an independent traffic consultant, outlining its report on the patronage and revenue forecasts for the Mass Transit Railway.

The letter set out below contains a summary of the findings of the Patronage and Revenue Study (as defined below) which was completed by MVA (as defined below) on 28th July, 2000. The Patronage and Revenue Study includes projections made over a long-term horizon which are based on a number of assumptions. One major assumption is population growth. The population growth assumption used for the Patronage and Revenue Study is directly based on the Government's current planning assumptions (as further described in paragraph 4 of the letter set out below) and is in line with the population growth assumptions used for RDS-2 which was commissioned by the Government and whose key findings were used as the basis upon which the Government formulated its Railway Development Strategy 2000 (published in May 2000). The Government currently uses a range of population growth scenarios in its planning work to reflect uncertainty in this area. Since the completion by MVA of its Patronage and Revenue Study, the Census and Statistics Department of the Government made a technical revision to the method of compiling population figures of Hong Kong in August 2000 (as further described in paragraph 6.3 of the letter set out below). This technical revision has not yet been used in any transport or planning study or report published by the Government. Had this technical revision been made prior to the completion by MVA of its Patronage and Revenue Study, the assumptions on population growth adopted therefor, and the findings of the Patronage and Revenue Study, would have been different. The sensitivity of patronage and revenue to population changes can be gauged from the sensitivity test result on population as indicated in paragraph 5.5 of the letter set out below.

As described in the section headed "Documents Delivered and Available for Inspection" in Appendix X, the original copy of this letter is available for inspection.



3rd Floor
East Town Building
41 Lockhart Road
Wanchai
Hong Kong

25th September, 2000

The Members of the Board and the Members of the Executive Directorate
MTR Corporation Limited
MTR Tower
Telford Plaza
Kowloon Bay
Hong Kong

Goldman Sachs (Asia) L.L.C.
HSBC Investment Bank Asia Limited
UBS Warburg, a business group of UBS AG
(together the "JGCs")

Dear Sirs,

Mass Transit Railway Patronage and Revenue Study

MVA Hong Kong Limited ("MVA") was appointed in June 2000 by MTR Corporation Limited (the "Company") to prepare independent rail patronage and revenue forecasts to the year 2016 for the Mass Transit Railway (the "Patronage and Revenue Study"), for the purposes of the proposed initial public offering and the listing of its shares on The Stock Exchange of Hong Kong Limited.

The terms defined in the prospectus of the Company dated 25th September, 2000 (the "Prospectus") shall have the same meanings when used in this letter unless the context otherwise requires.

A summary of the findings of the Patronage and Revenue Study, which was completed by MVA on 28th July, 2000, is set out below.

1. Scope of Services

1.1 The objective of the Patronage and Revenue Study has been to provide the Company and the JGCs with an independent examination of the rail patronage and revenue projections of the Mass Transit Railway ("MTR") to the year 2016.

1.2 The scope of services provided by MVA comprised the following:

- provide research, analysis and Base Case forecasts of MTR patronage and revenue for the Company's existing, committed and potential future rail projects for the base year 1999 and the benchmark forecast years of 2004, 2006, 2008, 2011 and 2016, with intermediate years produced by interpolation between the benchmark forecasts;
- carry out sensitivity tests on changes in economic activities and transport network assumptions to examine the robustness of the Base Case forecasts;
- prepare an independent report on the rail patronage and revenue forecasts over the period 2000 to 2016 inclusive; and
- provide a summary of the Patronage and Revenue Study for inclusion in the Prospectus.

2. Mass Transit Railway

MTR Lines

2.1 Following the opening of the first section of the MTR, the Modified Initial System, on 1st October, 1979, the Company presently operates a system comprising of the four main MTR Lines (Tsuen Wan, Kwun Tong, Island and Tung Chung Lines) and the Airport Express Line ("AEL"). The services on the MTR Lines have very similar standards and cover a large part of the metropolitan area of Hong Kong comprising Hong Kong Island, Kowloon and Tsuen Wan New Town (the "Metropolitan Area") and Lantau Island, while the AEL provides direct express services between the Hong Kong International Airport (the "Airport") at Chek Lap Kok and the Metropolitan Area.

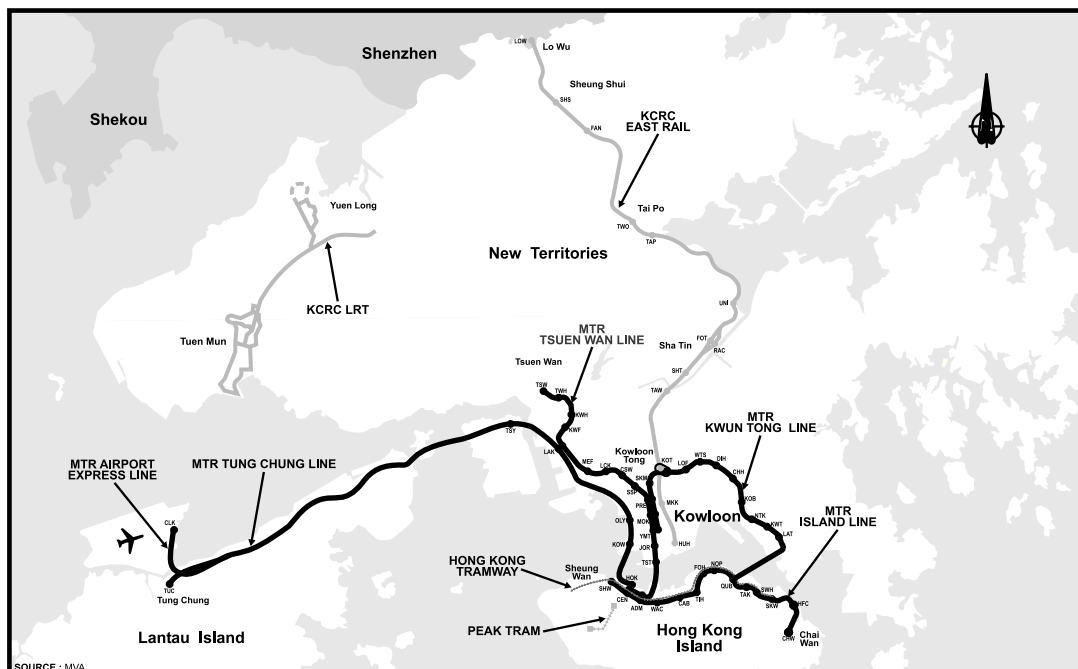


Figure 1 EXISTING RAILWAYS

MTR Committed Extension Projects

2.2 The Company is currently constructing two committed extension projects, namely, the Quarry Bay Congestion Relief Works (“QBR”) and Tseung Kwan O Line (“TKOL”). The TKOL will link Tseung Kwan O New Town into the MTR network and provide direct access to the employment and social activities in the Metropolitan Area of Hong Kong. The TKOL will replace the segment of the Kwun Tong Line through the Eastern Harbour Crossing to Hong Kong Island, initially running via Quarry Bay to a new terminus at North Point, which is being built as part of QBR, to interchange with the Island Line. The other committed railway projects, which are at different stages of implementation, are being undertaken by the Kowloon-Canton Railway Corporation (“KCRC”), namely, West Rail (“WR”), Tsim Sha Tsui Extension (“TSTE”), Ma On Shan Line (“MOSL”) and Lok Ma Chau Spur Line (“LMC”). For the purposes of the Patronage and Revenue Study, the QBR is assumed to be completed and operational on 1st October, 2001, and the TKOL on 1st October, 2002. The KCRC committed projects are assumed to be completed and operational on 1st January, 2004.

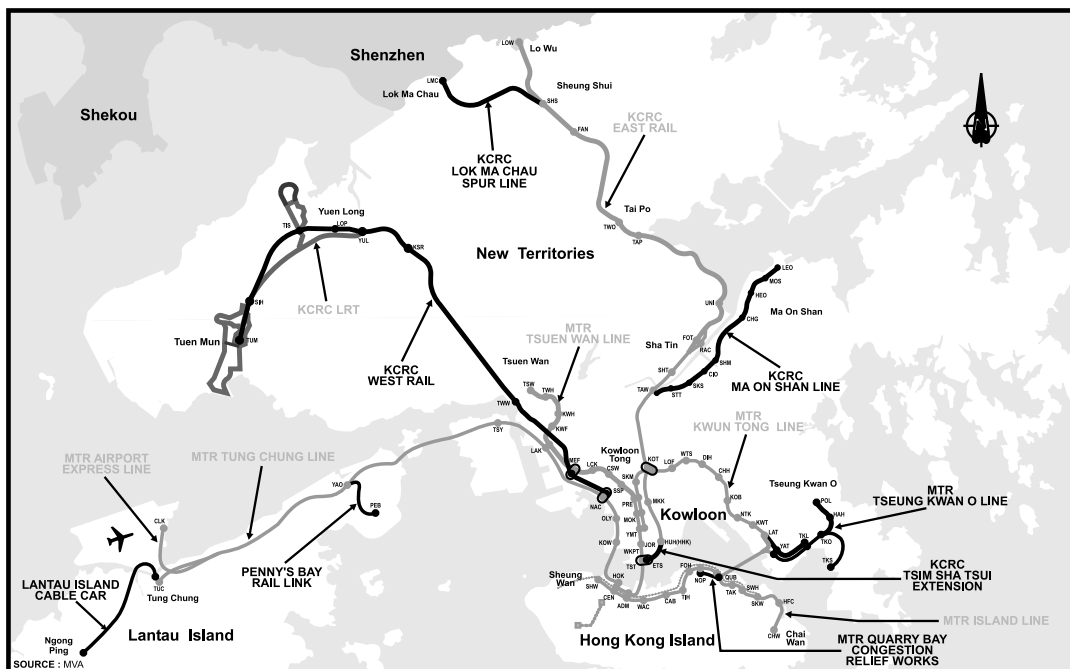


Figure 2 COMMITTED RAILWAYS



2.3 In addition, the Penny's Bay Rail Link (“PBRL”), for which the Company is currently in discussions with the Government on the terms on which such project would be undertaken by the Company, is planned to be built in time for the opening of the proposed Disney theme park. The PBRL will connect the theme park to the Tung Chung Line via a new station at Yam O. For the purposes of the Patronage and Revenue Study, the PBRL is assumed to be completed and operational on 1st January, 2005. The revenues on the PBRL itself have been separately identified from the projected revenues of the MTR lines; the incremental revenues on the MTR network generated by the PBRL have however been included in the MTR patronage and revenue figures.

Potential Projects

2.4 Six new passenger rail corridors have been identified in the Government's Railway Development Strategy 2000 published in May 2000, which used the recently completed Second Railway Development Study ("RDS-2") as a basis for strategy formulation. The new corridors and rail schemes are as follows:

- an east-west corridor from Chai Wan to Tung Chung formed by the existing Island Line, a new *North Hong Kong Island Line* ("NIL") and the existing Tung Chung Line. The NIL is required to relieve the overloading of the Island Line projected by RDS-2 to occur sometime in the period between 2006 and 2011;
- a second east-west corridor from Tseung Kwan O to Kennedy Town formed by the committed TKOL, the existing Island Line and a new *West Hong Kong Island Line* ("WIL"). The WIL will serve the development needs of the Western District in Hong Kong Island;
- a north-south corridor which, depending on the operator, could run direct from either Tai Wai or Ma On Shan to Hong Kong Island via Southeast Kowloon. This new rail scheme, the *Shatin to Central Link* ("SCL"), will provide relief to the projected heavy volumes through the East Rail Beacon Hill Tunnel, and connect Shatin with Hong Kong Island by combining the new Tai Wai to Diamond Hill Link ("TDL"), the East Kowloon Line ("EKL"), and the Fourth Rail Harbour Crossing ("FHC") into one project. Two alternative routings of the FHC have been put forward on Hong Kong Island. The most direct route to Central runs via Exhibition and Admiralty, and terminating in a station at Central West ("CEW") (the "EXH/ADM Option"). The alternative route to CEW runs via stations at Victoria Park, Leighton Hill, Wanchai South and Hong Kong Park (the "VIP Option"). It is Government's position that the SCL, irrespective of whether it is constructed by the Company or KCRC, should be completed within the completion window of 2008 to 2011. The Government considers that the Company and KCRC are equally capable of delivering the project within such a timeframe;
- a *Kowloon Southern Link* ("KSL") that will provide convenient connection between the existing East Rail ("ER") and committed WR via the Kowloon peninsula;
- a *Northern Link* ("NOL") that will connect the existing ER and committed WR project in the northern part of the New Territories; and
- the *Regional Express Line* ("REL") that will provide express rail transport between the boundary with mainland China and the Metropolitan Area.

In addition, a potential Port Rail Line is planned from Lo Wu to the Kwai Chung Port via either the ER or WR.

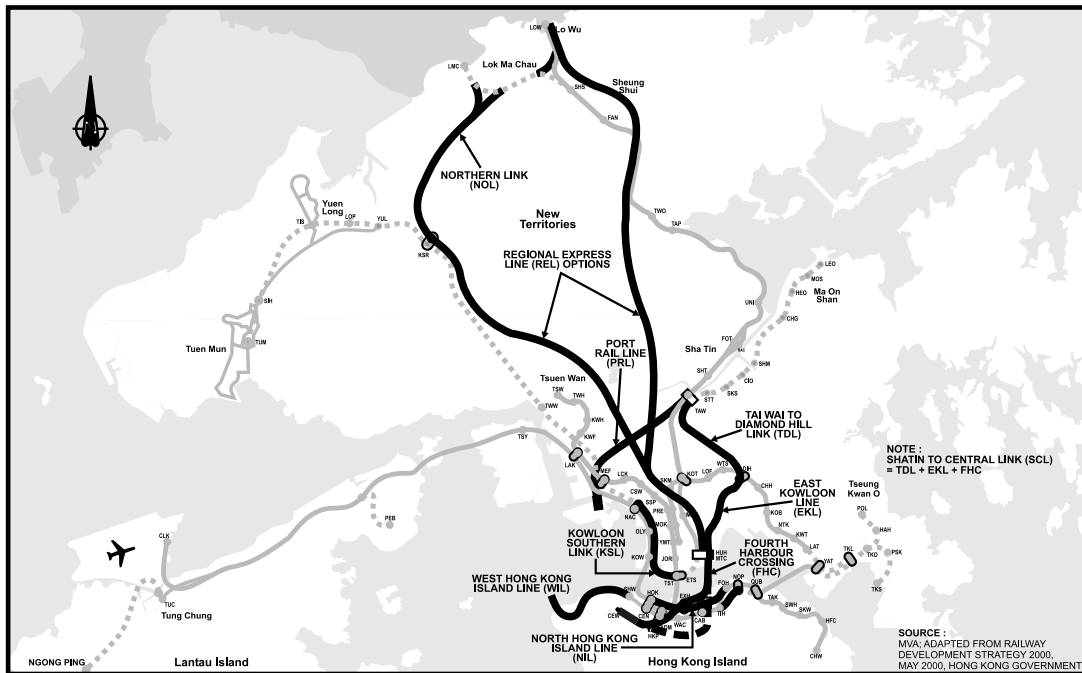


Figure 3 RAILWAY DEVELOPMENT STRATEGY 2000



Base Case Assumptions

2.5 For the purposes of the Patronage and Revenue Study in relation to the above potential rail projects, the following have been assumed to be operated by the Company in the Base Case forecasts with opening dates as advised by the Company:

- NIL, with an assumed opening in mid 2008;
- the SCL via ADM/EXH routing, with Tai Wai to Admiralty assumed to be opened in mid 2009, and Admiralty to Central West in mid 2010; and
- WIL, with an assumed opening on 1st January, 2012.

The KSL and NOL have been assumed to be developed and operated by KCRC. REL has not been included in the Base Case definition for two reasons. Firstly, its time frame is unknown and as a large construction project it would require a long period for implementation. Secondly, it would be targeted at serving cross-boundary travel rather than urban travel within Hong Kong, which is the primary market for the existing, committed and potential future MTR lines.

2.6 An alternative Base Case forecast has also been produced where KCRC builds and operates the SCL, with the line coming on stream on 1st January, 2011. Under this alternative, the SCL has been assumed to adopt the VIP Option. Whilst it would have a higher capital cost, it would divert more patronage and revenue from the MTR compared to the EXH/ADM Option.

2.7 For ease of reference, the above Base Case scenario where the Company develops and operates the SCL is referred to as the Base Case (SCL MTR Variant), and the other where KCRC develops and operates the SCL is known as the Base Case (SCL KCRC Variant).

2.8 Table 2.1 below provides a summary of the assumed phasing of the committed and potential new rail lines.

Table 2.1 Assumed Phasing of Committed and Potential New Railways for Base Case Forecasts

Year ⁽¹⁾		SCL MTR Variant	SCL KCRC Variant
2001	(The committed MTR relief works commence operation)	QBR (October 2001)	QBR (October 2001)
2002	(A committed MTR extension commences operation)	TKOL (October 2002)	TKOL (October 2002)
2004	(The four committed KCRC lines commence operation)	WR+TSTE+MOSL+LMC	WR+TSTE+MOSL+LMC
2005	(The proposed MTR extension commences operation)	PBRL ⁽²⁾	PBRL ⁽²⁾
2008	(A new MTR line starts operation)	NIL (mid 2008)	NIL (mid 2008)
2009	(The proposed new MTR Shatin to Central Link starts operation from TAW to ADM)	SCL (mid 2009)	—
2010	(The final leg of the proposed MTR Shatin to Central Link from ADM to CEW commences operation)	SCL (mid 2010)	—
2011	(The proposed KCRC Shatin to Central Link starts operation)	—	SCL
2011	(The proposed KCRC line commences operation)	KSL	KSL
2012	(The proposed MTR line starts operation)	WIL	WIL
2016	(The proposed KCRC line commences operation)	NOL	NOL

Notes:

(1) Service operations commence on 1st January of year unless otherwise noted.

(2) Revenues on PBRL itself have been separately identified from the projected revenues of the MTR lines.

Source: MVA

3. Forecasting methodology

3.1 The Base Case patronage and revenue forecasts have been based on conventional methods widely adopted for rail studies in Hong Kong and elsewhere in Asia. Specifically, the forecasts have been prepared using a set of forecasting tools developed over a period of years by MVA and include the following:

- MVCTS—the MVA version of the Comprehensive Transport Study models, which provide Hong Kong-wide forecasts of travel by all modes including rail. MVCTS is a standard four-stage model, but specifically developed for Hong Kong, based on extensive surveys and cross-checked against observed highway and public transport usage for a number of years and in a number of transport and planning studies. The model has been used for the RDS-2;
- MVCTS—Rail Sub-Model, a specially designed rail sub-model to assess travel by rail in detail (company, lines, stations, interchanges etc) and taking as input MVCTS forecasts;
- Airport Express Line Model—a specifically designed forecasting tool for travel by mode to the Airport (including AEL, Tung Chung Line, bus, coach, taxi and car) for air passengers, well-wishers/greeters, airport workers and visitors; and
- Special Generator Models—including that for the Disney theme park and for the Lantau Island cable car between Ngong Ping and Tung Chung.

4. Major model/analytical assumptions

4.1 This section sets out the major assumptions adopted in the Base Case forecasts.

Gross Domestic Product (“GDP”) Growth

4.2 For the purposes of the Patronage and Revenue Study, it has been assumed that GDP would grow in real terms at 7.25%, 3.9% and 4.0% per annum in 2000, 2001 and from 2002 onwards respectively; these are in line with industry sources’ assumptions.

Inflation

4.3 For the purposes of the Patronage and Revenue Study, the underlying inflation rates representing growth per annum of 1.0%, 2.5% and 3.75% in 2001, 2002 and from 2003 onwards respectively have been assumed; these are in line with industry sources’ assumptions.

Population

4.4 The Government currently uses a range of population growth scenarios in its planning work to reflect uncertainty in this area. The population totals for each of three scenarios are summarised in Table 4.1 below.

Table 4.1 Summary of Hong Kong Population Forecasts (thousands)

	<u>2006</u>	<u>2011</u>	<u>2016</u>
Scenario 1	7,358	7,774	8,184
Scenario 2	7,736	8,338	8,934
Scenario 3	—	—	10,130

Source: Hong Kong Government Planning Department, May 1998.

4.4.1 The recent increases in population indicated that the Scenario 2 version, which is in the middle of the range, could be achieved in the medium term. Accordingly, the population assumptions adopted for the Base Case have been directly based on Government's current planning assumptions, namely, Scenario 2.

Table 4.1.1 Population Growth Assumptions

	<u>1999</u>	<u>2006</u>	<u>2011</u>	<u>2016</u>
Hong Kong Island.....	1,396,000	1,332,000	1,361,000	1,433,000
Kowloon	2,121,000	2,399,000	2,448,000	2,577,000
New Territories & Islands	3,285,000	4,005,000	4,529,000	4,924,000
Total.....	<u>6,802,000</u>	<u>7,736,000</u>	<u>8,338,000</u>	<u>8,934,000</u>

Source: 1999—used in Hong Kong Government transport planning studies for 1999.

2006, 2011 & 2016—Hong Kong Government Planning Department, Scenario 2, August 1999.

Employment

4.5 In terms of employment, MVA has taken the cautious view that employment in the longer term (2012 to 2016) will follow the Government's Scenario 2 projections, but that short to medium term projections (2006, 2011) may lag in two important aspects:

- in terms of total job creation, it has been assumed that there would be a slowdown compared to the Government's planning figures to reflect the recent pace in economic activities as well as a gradual recovery in the longer term towards the use of the potential labour resource of the population in Hong Kong; and
- it has also been assumed that the rapid build-up in employment assumed in Scenario 2 on Hong Kong Island north shore would be delayed.

Table 4.2 Employment Growth Assumptions

	<u>1999</u>	<u>2006</u>	<u>2011</u>	<u>2016</u>
Hong Kong Island.....	856,000	997,000	1,199,000	1,336,000
Kowloon	1,131,000	1,234,000	1,338,000	1,487,000
New Territories & Islands	1,010,000	1,269,000	1,423,000	1,549,000
Total.....	<u>2,997,000</u>	<u>3,500,000</u>	<u>3,960,000</u>	<u>4,372,000</u>

Source: MVA estimates; Figures for 1999 adapted from published sources, and future years adapted from Hong Kong Government Planning Department Scenario 2 projections, August 1999.

Strategic Highways

4.6 The strategic highway assumptions for the Base Case follow the latest Government assumptions. It has been assumed that between 2000 and 2006 there would be no new major domestic routes in the rail corridors, although there would be some additional roads in Tsing Yi and North West New Territories as indicated in Table 4.3. In the 5-year period up to 2011 a number of major new routes are anticipated to be opened, which would facilitate express bus services and improve road journey time. However in the longer term up to 2016 the latest available information implies there is likely to be less investment in highway infrastructure than assumed in RDS-2. As a consequence, the long-term network is expected to be more congested, as it would still be required to support the same land use patterns and development as assumed in RDS-2. The use of the bus-cut-off speeds would therefore constitute a critical “compensating” variable in this aspect, and this has been incorporated in the Base Case forecasts to ensure that bus speeds are “sensible”; this is further discussed in paragraphs 4.7 to 4.9 below.

Table 4.3 Strategic Highway Network Assumptions

Year	Major Highway Schemes
By 2006	Tsing Yi North Coastal Road Tuen Mun Foothills Bypass Shenzhen Western Corridor
By 2011	Central and Wanchai Bypass Route 7 : Sandy Bay to Kennedy Town (dual 2-lane) Route 7 : Aberdeen to Sandy Bay (dual 2-lane) Tseung Kwan O Western Coast Road (dual 2-lane) Route 10 Northern Section : Lantau to Yuen Long Highway Road P1 on North Lantau (Tung Chung to Yam O) Sai Kung Highway Route 9 : West Kowloon to Shatin Route 9 : Tsing Ma Bridge to West Kowloon Expressway Central Kowloon Route (dual 2-lane)
By 2016	No new strategic highway investments

Source: MVA; adapted from RDS-2 and recent Government planning studies.

Public Transport

4.7 The Government’s policy is to encourage the use of public transport, first and foremost rail, but also high capacity bus services. The Government has provided strong support to the railway corporations for the development of railways, and also to the franchised bus companies who are not required to pay road taxes, fuel or import duties. At the same time, the Government wishes to foster healthy competition within the public transport industry as a whole in order to provide incentives to operators to provide high quality services and to protect the public interest. In this regard, the expanding railway network will increase the direct rail/road competition. To date, the Government has not required bus operators to reduce bus services that compete with new railways. Instead operators have been allowed to adjust services in line with market demands through their annual Route Development Programme.

- 4.8 In the Base Case forecasts, it has been assumed that the bus network would continue to be developed to serve areas with population growth, take advantage of new roads and provide direct competition to the growing railway network; however in the urban area, which covers the major market for the MTR, no new bus routes have otherwise been assumed. Bus operating speeds are affected by general traffic conditions, and recent road developments in the western part of Hong Kong have produced significant travel time savings to buses and raised their competitiveness. Future road traffic growth is likely to lead to falling road speeds and may adversely affect bus operating speeds and reliability. However, in line with Government policy, it has been assumed in the Base Case scenario that appropriate priorities and measures would be taken by the Government to ensure that bus operating speeds are maintained at reasonable levels, for example, through the introduction of bus priority schemes to protect buses from congestion or road improvements to relieve congestion along the bus routes.
- 4.9 This has been reflected in the forecasting modelling procedures by setting the minimum bus cut-off speed at 18 km/h for all trunk roads and primary distributors for the period from 2011 to 2016. In addition, the inclusion of future new bus routes has been based on the following considerations:
- growth of population in New Town areas whereby new routes are required to cater to the demand (assuming a continuation of “free” competition between rail and bus);
 - the introduction of new highway schemes; and
 - the introduction of new railway stations, with new bus services introduced mainly as local feeder services.

Rail Fares

4.10 In terms of fares, the key assumptions have been as follows:

- it has been assumed that the existing fare structures of the MTR Lines would be retained and extended to the MTR extension projects and potential new lines. This implies that the recent 10 cents addition for MTR Lines’ Octopus users for recovery of the investments in the platform screen doors (effective 3rd July, 2000) would be maintained throughout the forecasting period;
- the present discount level on the AEL (effective 3rd July, 2000) for single journey fares has been assumed to be phased out by mid 2001;
- it has been assumed that the KCRC ER structures would be retained but that ER extensions in the urban areas would adopt fare structures more in line with the MTR;
- it has been assumed that the WR fares would be as assumed for the financing studies for the project;
- other new KCRC lines included in Railway Development Strategy 2000 would have fare structures in line with the MTR fare scales; and
- there would be no integration of fares between the Kowloon-Canton Railway and the MTR, with the full boarding charge on both systems retained for transferring passengers.

Bus Fares

4.11 The existing bus fare structures have been assumed to be maintained, with surcharges for air-conditioned buses. The bus fleet in Hong Kong is expected to be fully air-conditioned by 2006.

Fare Increases

4.12 It is normal convention that fares are held constant in real terms for the purposes of forecasting i.e. they increase in line with inflation. This approach has been adopted for both bus and rail fares in the Base Case forecasts; in determining the MTR revenues, its fares have been assumed to increase on 1st July each year based on the prevailing inflation estimate for the calendar year.

4.13 To this end, it should be noted that rail fares historically have been kept broadly in line with inflation, although the deflation of the past two years has interrupted this trend. In the case of buses, it is expected that there will be greater cost driven pressure on bus fares than rail because there are limited productivity savings left for bus operators as road speeds are currently good and vehicle sizes are probably at a maximum. Indeed, bus operators are reducing the numbers of seats in the interests of comfort.

5. Conclusion

5.1 The MVCTS model (a multi-modal forecasting model developed by MVA) used in the Patronage and Revenue Study has originally been calibrated for 1992 and re-checked against bi-census information in 1996, and cross-checked in 1998 for RDS-2. For the purposes of this Study, it has been further cross-checked against the 1999 observed public transport movements. The AEL model, which has been developed for the Company, has recently been updated and recalibrated in 1999 based on actual travel data for the different modes of travel to the Airport. MVA believes that these forecasting models and the above assumptions provide a reasonable basis for projecting the future rail patronage and revenue of the MTR.

5.2 The anticipated future MTR annual patronage is summarised below in Table 5.1 for the Base Case under both the SCL MTR Variant and SCL KCRC Variant, and illustrated graphically in Figure 4.

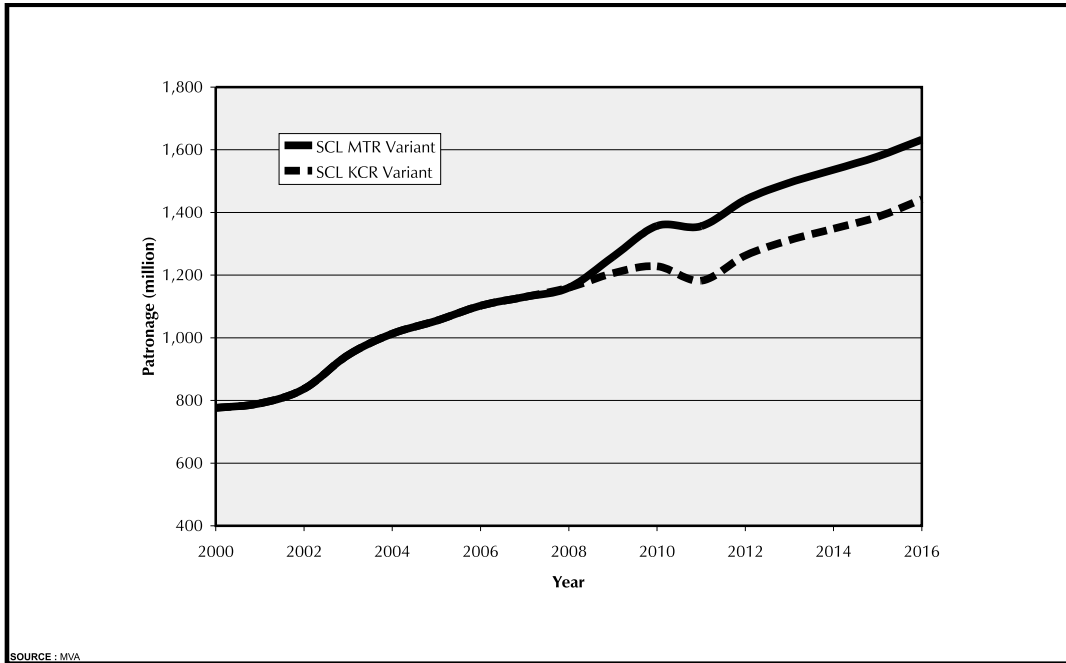


Figure 4 BASE CASE MTR PATRONAGE FORECASTS, 2000 TO 2016



Table 5.1 Summary of Base Case Forecasts—Annual MTR Patronage (million passengers)

Year	MTR—Domestic Lines			Total MTR		PBRL
	SCL MTR Variant	SCL KCRC Variant	MTR—AEL	SCL MTR Variant	SCL KCRC Variant	
2000	766	766	10	776	776	—
2001	781	781	10	791	791	—
2002	827	827	10	837	837	—
2003	934	934	11	945	945	—
2004	1,001	1,001	12	1,013	1,013	—
2005	1,041	1,041	13	1,054	1,054	9
2006	1,088	1,088	14	1,102	1,102	10
2007	1,115	1,115	15	1,130	1,130	10
2008	1,144	1,144	16	1,160	1,160	10
2009	1,241	1,189	17	1,258	1,206	12
2010	1,339	1,210	18	1,357	1,228	13
2011	1,337	1,163	19	1,356	1,182	14
2012	1,420	1,242	20	1,440	1,262	14
2013	1,473	1,290	22	1,495	1,312	15
2014	1,513	1,325	23	1,536	1,348	15
2015	1,554	1,361	25	1,579	1,386	15
2016	1,606	1,416	26	1,632	1,442	15
Annual Growth						
2000 to 2016	4.7%	3.9%	6.1%	4.8%	3.9%	n/a
2000 to 2006	6.0%	6.0%	5.9%	6.0%	6.0%	n/a
2006 to 2011	4.2%	1.3%	6.0%	4.2%	1.4%	7.6% ⁽¹⁾
2011 to 2016	3.7%	4.0%	6.6%	3.8%	4.1%	0.9%

Notes:

(1) 2005-2011

(2) The estimates of the incremental impacts of NIL, SCL and WIL on MTR-wide patronage of the domestic lines are set out in Attachment A.

Source: MVA

5.3 The anticipated future MTR annual revenues in money-of-the-day (“MOD”) terms are summarised in Table 5.2 and Table 5.3, and shown in the form of a line graph in Figure 5.

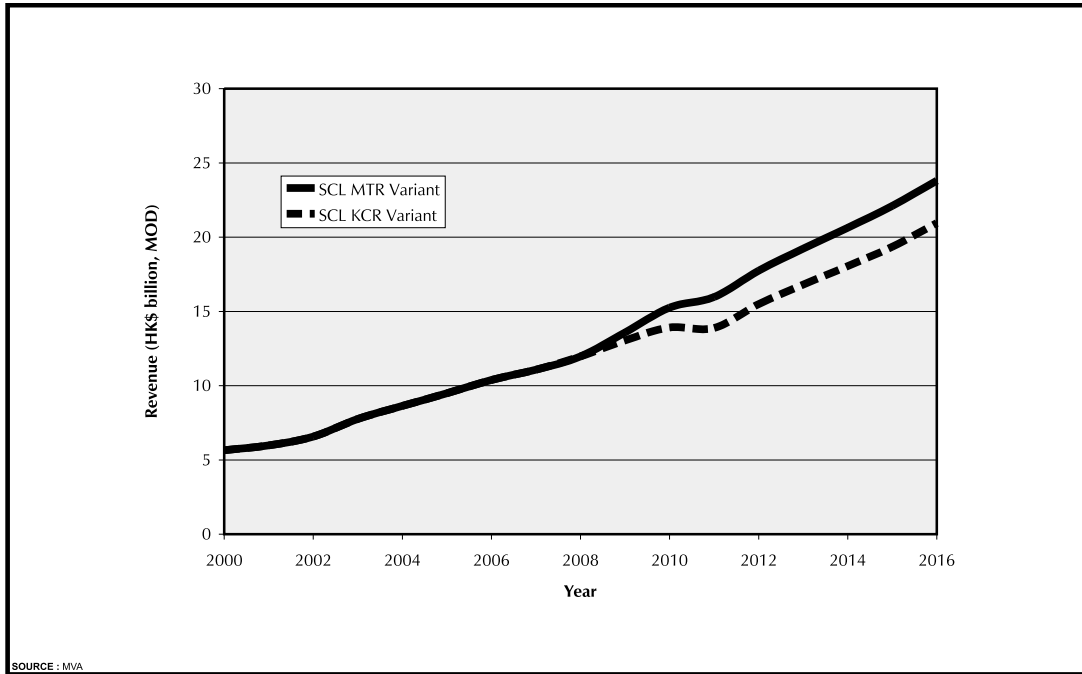


Figure 5 BASE CASE MTR REVENUE FORECASTS, 2000 TO 2016



Table 5.2 Summary of Base Case Forecasts (SCL MTR Variant)—Annual MTR Revenues (MOD)

Year	MTR—Domestic Lines		MTR—AEL		Total MTR	PBRL
	Revenue (HK\$ billion)	Average Fare (HK\$ per passenger)	Revenue (HK\$ billion)	Average Fare (HK\$ per passenger)	Revenue (HK\$ billion)	Revenue (HK\$ million)
2000	5.15	6.73	0.50	49.0	5.65	—
2001	5.41	6.92	0.57	59.5	5.98	—
2002	5.93	7.17	0.64	62.7	6.57	—
2003	7.05	7.55	0.71	64.4	7.76	—
2004	7.85	7.84	0.79	66.5	8.64	—
2005	8.57	8.23	0.92	69.4	9.49	53
2006	9.36	8.61	1.03	72.0	10.39	57
2007	9.94	8.91	1.14	74.9	11.08	62
2008	10.70	9.35	1.27	78.2	11.97	66
2009	12.18	9.81	1.40	81.1	13.58	78
2010	13.72	10.24	1.54	84.5	15.26	90
2011	14.30	10.70	1.67	87.6	15.97	103
2012	15.89	11.19	1.86	91.1	17.75	108
2013	17.16	11.66	2.07	94.7	19.23	113
2014	18.34	12.12	2.29	98.5	20.63	119
2015	19.58	12.60	2.53	102.4	22.11	124
2016	21.01	13.08	2.80	106.5	23.81	130
Annual Growth						
2000 to 2016	9.2%	4.2%	11.4%	5.0%	9.4%	n/a
2000 to 2006	10.5%	4.2%	12.8%	6.6%	10.7%	n/a
2006 to 2011	8.8%	4.4%	10.1%	4.0%	9.0%	11.7% ⁽¹⁾
2011 to 2016	8.0%	4.1%	10.9%	4.0%	8.3%	4.8%

Notes:

(1) 2005-2011

(2) The estimates of the incremental impacts of NIL, SCL and WIL on MTR-wide revenues of the domestic lines are set out in Attachment B.

Source: MVA

Table 5.3 Summary of Base Case Forecasts (SCL KCRC Variant)—Annual MTR Revenues (MOD)

Year	MTR—Domestic Lines		MTR—AEL		Total MTR	PBRL
	Revenue (HK\$ billion)	Average Fare (HK\$ per passenger)	Revenue (HK\$ billion)	Average Fare (HK\$ per passenger)	Revenue (HK\$ billion)	Revenue (HK\$ million)
2000	5.15	6.73	0.50	49.0	5.65	—
2001	5.41	6.92	0.57	59.5	5.98	—
2002	5.93	7.17	0.64	62.7	6.57	—
2003	7.05	7.55	0.71	64.4	7.76	—
2004	7.85	7.84	0.79	66.5	8.64	—
2005	8.57	8.23	0.92	69.4	9.49	53
2006	9.36	8.61	1.03	72.0	10.39	57
2007	9.94	8.91	1.14	74.9	11.08	62
2008	10.70	9.35	1.27	78.2	11.97	66
2009	11.65	9.80	1.40	81.1	13.05	78
2010	12.38	10.23	1.54	84.5	13.92	90
2011	12.21	10.50	1.67	87.6	13.88	103
2012	13.63	10.97	1.86	91.1	15.49	108
2013	14.74	11.43	2.07	94.7	16.81	113
2014	15.76	11.89	2.29	98.5	18.05	119
2015	16.83	12.36	2.53	102.4	19.36	124
2016	18.15	12.81	2.80	106.5	20.95	130
Annual Growth						
2000 to 2016	8.2%	4.1%	11.4%	5.0%	8.5%	n/a
2000 to 2006	10.5%	4.2%	12.8%	6.6%	10.7%	n/a
2006 to 2011	5.5%	4.0%	10.1%	4.0%	6.0%	11.7% ⁽¹⁾
2011 to 2016	8.3%	4.1%	10.9%	4.0%	8.6%	4.8%

Notes:

(1) 2005-2011

(2) The estimates of the incremental impacts of NIL, SCL and WIL on MTR-wide revenues of the domestic lines are set out in Attachment B.

Source: MVA

5.4 The key pointers of the above Base Case forecasts are as follows:

MTR — Domestic Lines

- The MTR experienced very strong growth in patronage and revenue through the 1980s and early 1990s. Growth has since levelled off and since 1997 there has been a small decline in ridership. There are a number of reasons for this including:
 - the development of strongly competitive bus services alongside a number of rail corridors, with additional routes and improved service standards such as modern vehicles providing air-conditioned comfort;
 - the provision of the highways included in the Airport Core Programme such as the Western Harbour Crossing and the Route 3 corridors, which have eased congestion and provided effective routings for new bus services; and
 - the downturn in the economy affecting the number of trips and the economic activity in areas served by the MTR.

- Such decrease in ridership is forecast to continue into 2000, and a small drop in ridership of the MTR Lines of 1.7% is projected for 2000 as a whole compared to 1999. Revenue is expected to remain close to 1999 levels due to the fare adjustment implemented on 3rd July, 2000.
- A small increase in ridership is forecast for 2001 as the economy is expected to continue to recover, and the recent increases in GDP begin to work through in terms of increased activity leading to increases in road traffic and public transport demand. This is expected to be supported by the opening of the QBR in October 2001, and the economic recovery is expected to continue into 2002.
- The TKOL is expected to start operation in October 2002. The congestion and the limited access roads to the New Town—Tseung Kwan O Tunnel and Po Lam Road—prior to the opening of the TKOL are expected to ensure that the MTR attracts a large share of the travel demand with the opening of the TKOL, bringing some 6% increase in MTR ridership for 2002 as a whole. The MTR patronage is forecast in 2003 to increase by 13% and revenue by 19%, with the first full year impact of the TKOL.
- In 2004, the MTR is expected to continue to experience underlying growth, but this is expected to be supplemented by the continuing impact of the TKOL, together with the impact of the four additional KCRC extensions. The KCRC lines, especially WR, are expected to serve the outlying New Towns and bring commuters into the urban area where in general they may interchange to the MTR to “distribute” throughout the urban areas.
- Growth is projected to continue into 2008 when the NIL is expected to start operation in the middle of that year. The NIL would provide a better “distribution” in Hong Kong Island for passengers on the Tung Chung Line and TKOL. As a result, it would encourage usage of the MTR system and in the process attract longer trips to the MTR. MTR patronage is forecast to grow by 3% and revenues by 8% compared to 2007.
- For the MTR SCL Variant:
 - the SCL is expected to start operation in mid-2009 between Tai Wai and Admiralty, with the final leg between Admiralty and Central West beginning operation a year later in mid-2010. This, together with the first full year of operation of the NIL, is expected to lead to an increase of around 8% in patronage and 14% in revenue in 2009 compared to 2008. The impact is expected to continue to be felt in 2010;
 - in 2011, there is expected to be no growth in patronage; the underlying growth is expected to be negated by the loss of ridership due to the opening of the KCRC KSL. By linking up the KCRC lines (ER & WR), it is expected that the need for KCR passengers to interchange into MTR services to “distribute” throughout the urban areas would be reduced;
 - together with background growth, the opening of the WIL in 2012 is expected to increase overall MTR patronage by 6% and revenue by 11% compared to 2011; and

- growth is expected to continue for the MTR system up to 2016; the opening of the KCRC NOL is expected to have a small positive impact on MTR revenues.
- Where the KCR crosses the harbour under the SCL KCRC Variant, the forecasts are identical to the SCL MTR Variant until 2008. Thereafter, the MTR revenue under the SCL KCRC Variant is expected to be about HK\$0.5 billion (or 4%) less in 2009 and HK\$1.3 billion (or 10%) less in 2010 compared to the SCL MTR Variant. The revenue difference is expected to increase to HK\$2.1 billion in 2011, the first full year of operation of the SCL KCRC Variant. This is expected to continue through the period 2012 to 2016 with lower revenues for the Company under the SCL KCRC Variant compared to the SCL MTR Variant of between HK\$2.3 billion to HK\$2.9 billion per annum.

MTR—AEL

- The AEL opened in July 1998 together with the start of the Airport operation at Chek Lap Kok. In the first full year of operation in 1999, the AEL recorded annual revenue of about HK\$445 million and patronage of 10.4 million. The fares charged incorporated a 30% discount on single journeys compared to the planned original fares.
- The patronage for the first six months of 2000 was 5.3 million, which represents a 6% increase over the corresponding period during the previous year. The reduction of the discount to 10% from 3rd July, 2000 is expected to reduce patronage. MVA has projected that patronage for the year as a whole is expected to be marginally lower than in 1999, but that revenue is expected to be some 12% higher.
- Similarly, the anticipated elimination of the remaining 10% discount in mid-2001 is expected to slightly reduce patronage for the year as a whole compared to 2000. Revenue, however, is expected to be some 14% higher.
- AEL patronage is expected to increase in line with the growth of the Airport and the local economy. This is expected to translate into over 6% per annum growth over the period 2000 to 2016.

PBRL

- If revenue on the PBRL itself is included as part of the MTR system, the total MTR revenue is expected to be increased by HK\$53 million in 2005, increasing to HK\$130 million by 2016.

5.5 Various sensitivity tests have been carried out to examine the robustness of the Base Case forecasts. The results have revealed the following findings:

MTR—AEL

- there may be some scope to enhance the revenue of the AEL, in particular in the medium to longer term, through the elimination of the discounts presently accorded for same-day and 1-month return journeys and to airport workers. This is expected to increase AEL revenue by just over 1% in 2006, increasing to 6% by 2016.

MTR—Domestic Lines

- economic growth and recovery as represented by changes in value of time and income levels are expected to have little impact on the Company's revenues;
- the economic recovery is expected to have a more significant impact on attracting people to live and work in Hong Kong. If employment were to increase by 250,000 over and above the figure assumed in the Base Case for 2006, revenues would increase by about 4%. This could arise from sustained and strong economic growth. Conversely, if employment were to increase slower than currently anticipated, revenues are expected to be 3% to 4% less;
- the in-flow of population into Hong Kong will also reflect economic pressures. A 5 % gain in population above the Base Case is expected to lead to a 2% to 3% gain in revenue. Conversely, a decline in population by 5% compared to the assumption adopted in the Base Case forecast is expected to lead to a 2.5% drop in revenue;
- the timing of the implementation of the potential new railway lines included in the Base Case is expected to have an impact on revenues:
 - delaying the KSL to post 2011 is expected to increase MTR revenue in 2011 by over 2% for the SCL MTR Variant and around 4% for the SCL KCRC Variant
 - delaying the NIL to post 2009 is expected to lead to a reduction in MTR revenue under the SCL KCRC Variant of some 3% in 2009 (a full year) and 1% in 2008 (a half year); and
- for illustration purposes, if the level of bus competition were to increase such that there would be both a 5% reduction in travel time and fare levels compared to those assumed for the Base Case, the MTR revenue is expected to be reduced by 6% to 7%. However, it is to be noted that this reduction in both travel time and fare would be difficult to achieve without some assistance or initiatives from the Government given the underlying demand for road space, and the current slowdown foreseen in public sector expenditure on highway construction.

6. Limitations of the analysis/forecasts

- 6.1 Current professional practices, procedures and best estimates available at the time of this Patronage and Revenue Study have been used in the development of the findings. However, as projections have been made over a long-term horizon, the actual outcome could vary from those forecast, caused by events and circumstances beyond the reasonable anticipation of MVA, and these differences could be material.
- 6.2 MVA has endeavoured to carry out as rigorous a testing as possible of all relevant forecasting model runs permitted within the time frame available for this Patronage and Revenue Study.
- 6.3 The population growth assumptions adopted for the current Patronage and Revenue Study are directly based on Government's current planning assumptions, namely, Scenario 2, and constitute Government's latest available population projections based on the extended de facto method. In addition, these projections are based on definitions that are consistent with the last population census in 1991 and the population by-census in

1996, and such census information has been used to cross-check the MVCTS model used in producing the present Base Case forecasts. Subsequent to the completion of the Patronage and Revenue Study, the Census and Statistics Department of the Hong Kong Government announced a technical revision to the method of compiling population figures of Hong Kong in August 2000. The use of the “resident population” method instead of the “extended de facto” method can better reflect the underlying residency and mobility pattern of Hong Kong Permanent Residents. It is MVA’s understanding that the revised population projections based on this new method have not yet been used in any transport or planning study or report published by the Government, and that the Government’s latest available population projections remain based on the “extended de facto” method. In the event, however, that this recent change in population definition is accompanied by a revision by the Government of its future growth assumptions on population such that the current growth assumptions under the “extended de facto” method need to be changed, there would be a corresponding impact on the current forecasts. The sensitivity of patronage and revenue to population changes can be gauged from the sensitivity test result on population as indicated in paragraph 5.5 above.

Yours faithfully,
For and on behalf of
MVA Hong Kong Limited

Fred N Brown

Managing Director

Eddie KL Soong

Executive Director

Geoffrey A Rogers

Executive Director

MVA is a leading transport planning and market research consultancy practice in Asia, having first established its Asia headquarters in Hong Kong in 1978. Besides Hong Kong, the MVA Group of companies presently practice from its head office and three other offices in the United Kingdom; from Paris in France; and from Beijing, Manila, Bangkok, Kuala Lumpur and project offices in other major cities in the Asia region. MVA has advised on infrastructure developments, investments and operations in Hong Kong, other major cities in Asia and internationally, providing support at all levels covering strategic/policy/institutional planning, economic/financial appraisal, demand forecasting, comprehensive multi-modal transport design and operation, and traffic engineering.

Attachment A: Estimated Incremental Impacts of NIL, SCL and WIL on MTR-wide Domestic Line Patronage (million passengers)

Year	Existing MTR Lines plus QBR and TKOL ⁽¹⁾	Incremental Impacts on MTR-wide Domestic Line Patronage due to				
		NIL	SCL		WIL	
			MTR Variant	KCRC Variant	Under SCL MTR Variant	Under SCL KCRC Variant
2000	766					
2001	781					
2002	827					
2003	934					
2004	1,001					
2005	1,041					
2006	1,088					
2007	1,115					
2008	1,135	+ 10				
2009	1,163	+ 26	+ 52			
2010	1,183	+ 27	+ 129			
2011	1,159	+ 38	+ 141	- 34		
2012	1,187	+ 42	+ 145	- 35	+ 46	+ 48
2013	1,212	+ 46	+ 150	- 36	+ 64	+ 68
2014	1,240	+ 51	+ 153	- 39	+ 70	+ 74
2015	1,266	+ 55	+ 156	- 40	+ 78	+ 80
2016	1,302	+ 56	+ 163	- 30	+ 85	+ 88

Note:

(1) The MTR patronage figures presented in this column are based on a rail network which also includes the KCRC existing and committed (2004) lines plus KSL (2011) and NOL (2016).

Source: MVA

Attachment B: Estimated Incremental Impacts of NIL, SCL and WIL on MTR-wide Domestic Line Revenues (HK\$ billion, money-of-the-day)

Year	Existing MTR Lines plus QBR and TKOL ⁽¹⁾	Incremental Impacts on MTR-wide Domestic Line Revenues due to				
		NIL	SCL		WIL	
			MTR Variant	KCRC Variant	Under SCL MTR Variant	Under SCL KCRC Variant
2000	5.15					
2001	5.41					
2002	5.93					
2003	7.05					
2004	7.85					
2005	8.57					
2006	9.36					
2007	9.94					
2008	10.59	+ 0.12				
2009	11.29	+ 0.36	+ 0.52			
2010	11.99	+ 0.39	+ 1.34			
2011	12.22	+ 0.67	+ 1.42	- 0.68		
2012	12.98	+ 0.77	+ 1.53	- 0.74	+ 0.61	+ 0.61
2013	13.80	+ 0.86	+ 1.61	- 0.80	+ 0.89	+ 0.88
2014	14.63	+ 0.96	+ 1.72	- 0.85	+ 1.03	+ 1.01
2015	15.52	+ 1.08	+ 1.83	- 0.92	+ 1.15	+ 1.14
2016	16.54	+ 1.18	+ 1.96	- 0.87	+ 1.33	+ 1.30

Note:

(1) The MTR revenue figures presented in this column are based on a rail network which also includes the KCRC existing and committed (2004) lines plus KSL (2011) and NOL (2016).

Source: MVA

This Appendix contains a brief description of the manner in which the transportation industry in Hong Kong is regulated and a summary of each of the new MTR Ordinance and the Operating Agreement. The principal objective is to provide potential investors with an overview of the regulatory framework for the transportation industry in Hong Kong and of the principal provisions contained in the new MTR Ordinance and the Operating Agreement. Because the information contained below is in summary form, it does not contain all of the information that may be important to potential investors. As described in the section headed “Documents Delivered and Available for Inspection” in Appendix X, a copy of each of the new MTR Ordinance and the Operating Agreement is available for inspection.

REGULATION

Administrative framework

The Government has stated that its policy objective is to provide a safe, efficient and reliable transport system which meets the economic, social and recreational needs of the community, and is capable of supporting sustainability and the further development of Hong Kong. It has further stated that its targets in pursuing this policy objective are:

- to expand and improve the transport infrastructure network;
- to improve the quality and co-ordination of public transport services;
- to actively manage road use, reduce congestion and promote safety; and
- to seek and support environmental improvement measures in transport-related areas.

The Transport Bureau of the Government Secretariat, headed by the Secretary for Transport who is a Director of the Company, is responsible for overall policy formulation, direction and co-ordination of land transport and ferry services. The Secretary for Transport is assisted by the Transport Advisory Committee, which advises the Chief Executive in Council on major transport policies and issues. The Transport Bureau also has regular dialogue with the Legislative Council’s Panel on Transport. On local transport matters, the Government is advised by the District Councils, and their traffic and transport committees.

The Transport Bureau is supported by the Transport Department, which is headed by the Commissioner for Transport who is a Director of the Company. The Transport Department is the authority for administering the Road Traffic Ordinance (Chapter 374 of the Laws of Hong Kong) and legislation regulating public transport operations. Its responsibilities cover transport planning, road traffic management, Government road tunnels, car-parks and metered parking spaces, and the regulation of internal roads and waterborne public transport. The Commissioner for Transport is also the authority for the licensing of drivers and the registration, licensing and inspection of vehicles.

The Transport Department also operates an Emergency Transport Co-ordination Centre which provides a focal point for liaison with public transport operators on traffic and transport arrangements during serious traffic and transport disruptions, rainstorms and typhoons.

Regulation

The various modes of transport in Hong Kong are regulated in different ways.

Railways

The two railway operators in Hong Kong, the Company and KCRC, are regulated principally by the new MTR Ordinance and the KCRC Ordinance, respectively. The Company's railway operations are also regulated by the Operating Agreement. In addition, before any person can commence construction of a railway, it must comply with the procedure contained in the Railways Ordinance (Chapter 519 of the Laws of Hong Kong). This Ordinance provides, amongst other things, that if the Secretary for Transport considers that the construction of a proposed railway or the modification, improvement or extension of a railway is not minor, the Secretary for Transport must prepare or cause to be prepared a scheme (the "**Scheme**") which sets out the general nature and effects of the railway and includes a plan. The Secretary for Transport must deposit the Scheme at the Land Registry and must publish a notice of the deposit within a specific period. Once the Scheme is deposited at the Land Registry, if the Building Authority is of the opinion that, amongst other things, building works on land described in the Scheme would be incompatible with the Scheme, the Building Authority has the power to refuse to give consent to any plan or to the commencement of building works. Objections to the Scheme can be made within a specified period after publication of the notice and the Secretary for Transport may authorise the Scheme after the expiry of the objection period and there has been no objection during that period. Subject to objections raised, the Secretary for Transport may, within a specified period, submit the Scheme to the Chief Executive in Council who may authorise the Scheme. After the Chief Executive in Council has authorised the Scheme, the Secretary for Transport may then authorise a person to carry out the construction of the Scheme to the extent authorised and subject to any modifications or conditions imposed by the Chief Executive in Council.

Each of the new MTR Ordinance and the KCRC Ordinance provides that an inspector may be appointed, broadly, for the purposes of ensuring the safety of, and for investigating an accident on, the Mass Transit Railway or the KCR, as the case may be. The powers of the inspector are set out in the new MTR Ordinance and the KCRC Ordinance, respectively and include the power of entry and inspection and the power to require the provision of information. In addition, where the condition of a part of the Mass Transit Railway or the KCR, as the case may be, or the manner in which it is operated is such as to cause or to be likely to cause a risk of injury to any person, each of the Company and KCRC may be required, under the new MTR Ordinance and the KCRC Ordinance, as the case may be, to carry out works or to take steps to ensure that the condition or the manner of operation will cease to cause or to constitute any such risk.

There are a number of other Ordinances which, in some way, regulate the operation of railways, including environmental-related Ordinances such as the Noise Control Ordinance (Chapter 400 of the Laws of Hong Kong), the Air Pollution Control Ordinance (Chapter 311 of the Laws of Hong Kong), the Ozone Layer Protection Ordinance (Chapter 403 of the Laws of Hong Kong), the Waste Disposal Ordinance (Chapter 354 of the Laws of Hong Kong), the Water

Pollution Control Ordinance (Chapter 358 of the Laws of Hong Kong) and the Environmental Impact Assessment Ordinance (Chapter 499 of the Laws of Hong Kong) and construction-related Ordinances such as the Buildings Ordinance (Chapter 123 of the Laws of Hong Kong).

Buses

The operation of public bus services in Hong Kong may be carried out under a franchise granted under the Public Bus Services Ordinance (Chapter 230 of the Laws of Hong Kong) or a passenger service licence granted under the Road Traffic Ordinance. A franchisee's operations are regulated principally by the Public Bus Services Ordinance and the franchise granted to that operator under that Ordinance. Under the Public Bus Services Ordinance, the Chief Executive in Council may grant to any company the right to operate a public bus service on such routes as he specifies. The operation of non-franchised buses is principally regulated under the Road Traffic Ordinance. The operator has to obtain a passenger service licence issued by Transport Department before operating the service. In providing a bus service under such a licence, the operator has to comply with the terms and conditions of the licence and all applicable legislation. The Road Traffic Ordinance stipulates that the Transport Department shall have regard to a number of factors (such as need for the services to be provided by the applicant) in deciding whether or not to grant a licence.

Whilst the Transport Bureau is responsible for overall policy formulation, direction and coordination of land transport and ferry services, the Transport Department is responsible for the implementation of Government transport policy in relation to buses and, in particular, oversees bus franchises and the development of the bus network in Hong Kong. Bus franchises are granted on a fixed term basis, usually ten years, and in respect of an approved framework for its route network.

It has been a policy of the Government since the 1970s to grant franchises to bus operators to run fixed bus routes rather than to operate bus services in designated districts. In addition, it has also been a policy of the Government since 1995 to grant rights to operate franchised bus routes on a non-exclusive rather than exclusive basis.

During the period of a bus franchise, the route network of a franchise operator is subject to modification. Every year, each franchise operator conducts a review of its route network and puts forward proposals to the Transport Department in respect of its proposed route network for the following year. In evaluating such proposals, the Transport Department takes into account the broad policy framework, views exchanged with the franchise operator and those expressed by District Councils where bus services may be affected by the proposals. The Transport Department takes into account the impact of the proposals on the other public transport services including competitors, although the latter would not be directly consulted on individual proposals.

The Chief Executive has the right to appoint two additional directors onto the board of directors of the franchisee. The Chief Executive in Council may determine the fare scale chargeable by a franchisee.

Ferries

The operation of ferry services in Hong Kong which involve the operation of vessels may be carried out only under a franchise or a licence granted under the Ferry Services Ordinance (Chapter 104 of the Laws of Hong Kong). A franchisee's operations are regulated principally by the Ferry Services Ordinance and the franchise granted to that operator under that Ordinance. Under the Ferry Services Ordinance, the Chief Executive in Council may grant to any person the right to operate a ferry service between such points as he specifies. The Chief Executive has the right to appoint two additional directors onto the board of directors of the franchisee. The Chief Executive in Council may determine the maximum fares chargeable by a franchisee and the maximum rate of increase which may be permitted by the Commissioner for Transport.

THE NEW MTR ORDINANCE**Preamble**

The principal objectives of the new MTR Ordinance include: (i) granting the franchise to the Corporation of the right to operate the Mass Transit Railway and to construct and operate any extension thereof; (ii) vesting in the Corporation all of the property, rights and liabilities of MTRC; and (iii) regulating the operation of the Mass Transit Railway, including all aspects of safety on the Mass Transit Railway.

Grant and extension of the franchise

The Corporation is granted the franchise to operate the Mass Transit Railway, including any extensions, and construct extensions to it for an initial period of fifty years from the Appointed Day, subject to the terms and conditions set out in the Operating Agreement.

The franchise may be extended upon application by the Corporation to the Chief Executive in Council at any time prior to five years before its expiry. The Chief Executive in Council may approve an extension of the franchise if he is satisfied that the Corporation is capable of maintaining a proper and efficient service under the new MTR Ordinance and the Operating Agreement.

The Corporation is prohibited from transferring its franchise without the approval of the Chief Executive in Council.

The Chief Executive may appoint not more than three persons as additional directors of the Corporation who can be removed only by the Chief Executive. In other respects, these directors are treated in the same way as other directors of the Corporation.

Performance under the franchise***Corporation to maintain proper and efficient service***

The Corporation is required to maintain a proper and efficient service at all times during the franchise period in accordance with the new MTR Ordinance and the Operating Agreement.

Secretary for Transport may obtain information

The Secretary for Transport may require the Corporation to afford sufficient facilities for obtaining information with respect to the business and affairs of the Corporation in connection with the franchise. The Corporation is also required to keep specific types of records in respect of matters relating to the Mass Transit Railway. The Corporation may be required to furnish these records to the Secretary for Transport.

Chief Executive in Council may give directions

The Chief Executive in Council may, if he considers the public interest so requires, and after consultation between the Secretary for Transport and the Corporation, give directions to the Corporation in relation to any matter concerning the franchise. The Corporation must comply with the directions, unless they are inconsistent with the new MTR Ordinance. The Government is liable to compensate the Corporation for loss or damage of any kind (including consequential loss and including loss or damage arising from or attributable to the Corporation's compliance with a direction that is contrary to prudent commercial principles) attributable to the Corporation's compliance with any direction.

Chief Executive in Council may impose financial penalty

The Chief Executive in Council may impose financial penalties on the Corporation for substantial and persistent failures to comply with the new MTR Ordinance or the Operating Agreement or directions, specifications or requirements given under them. The Corporation must first be given a reasonable opportunity to remedy the failure (where the obligation is one of a continuing nature) and to make representations to the Chief Executive in Council. For a particular failure by the Company, the first imposition of a fine cannot exceed HK\$10,000; for the second imposition of a fine it cannot exceed HK\$25,000; for the third or subsequent imposition of a fine it cannot exceed HK\$50,000; and for any failure which is continuing, the imposition of a fine cannot exceed HK\$10,000 for each day on which the failure continues.

Suspension, revocation and expiry of the franchise***Suspension of franchise***

The Chief Executive in Council may, following a reference from the Secretary for Transport, and if he considers that it is in the public interest to do so, suspend the franchise (in whole or part) where he considers that an emergency exists or is likely to exist or if there is or is likely to be a substantial breakdown in the operation of the Mass Transit Railway other than a breakdown that appears capable of being remedied within a reasonable period. Before making a reference to the Chief Executive in Council, the Secretary for Transport shall, as far as practicable, consult the Corporation and must bring to the attention of the Chief Executive in Council any representations made by the Corporation. Upon suspension, the Government or a person designated by the Government may take possession of and use property used or kept by the Corporation in relation to the franchise. The Government must compensate the Corporation for the use of, loss of or damage to any such property and for loss or damage of any kind (including consequential loss) sustained by the Corporation as a result of the suspension of the franchise.

Default

The Corporation is in default under the franchise if: (i) there has been a substantial failure by the Corporation to discharge an obligation under the Operating Agreement; or (ii) the Corporation has failed or there is a likelihood of its failing substantially to operate the Mass Transit Railway in accordance with the new MTR Ordinance, and the failure (or likely failure) results in or is likely to result in: (a) a substantial breakdown of the service; (b) the safety of persons travelling on the Mass Transit Railway or being on the railway premises being endangered in a manner likely to result in serious injury to those persons; or (c) serious injury to or the death of persons travelling on the Mass Transit Railway or being on the railway premises. The Corporation is also in default if a voluntary winding up of the Corporation is commenced or a winding up order in respect of the Corporation is made.

Where it appears to the Secretary for Transport that a default is capable of remedy, the Secretary for Transport may serve on the Corporation a notice calling on the Corporation to remedy the default (a “**Remedy Notice**”).

Revocation of franchise

Where the Secretary for Transport reports to the Chief Executive in Council that the Corporation has failed to comply with a Remedy Notice or it appears to the Chief Executive in Council that the Corporation is in default and the Secretary for Transport has reported that it is not a default that is capable of remedy, the Chief Executive in Council may direct the Secretary for Transport to serve on the Corporation a notice requiring the Corporation to show cause why a revocation order should not be made. Before making a revocation order, the Chief Executive in Council shall consider representations made by the Corporation. Where the Chief Executive in Council is of the opinion that sufficient cause has not been shown as to why a revocation order should not be made, he may if it appears to him that the default is one which was capable of being remedied, in certain circumstances, direct the Secretary for Transport to serve a Remedy Notice or a further Remedy Notice or in any other case of default, if it appears to him just and reasonable to do so, he may revoke the franchise. In exercising this power, the Chief Executive in Council must take into consideration the extent to which the default was or is occasioned by circumstances beyond the control of the Corporation.

Use of railway property

Where the franchise is revoked or expires, the Government or a person designated by the Government may take possession of and use any property used or kept by the Corporation in connection with the franchise. Property taken possession of may be returned to the Corporation or may be disposed of in a manner the Chief Executive in Council may think fit. The Government is not entitled to return the property to the Corporation if the Corporation informs the Government that it does not wish the property to be returned to it. The Government is liable to pay compensation for the use of, loss of or damage to property taken possession of and the amount of compensation is to be calculated in accordance with the relevant provisions contained in the Operating Agreement.

Where there has been an exercise of the power to take possession of property used or kept by the Corporation in connection with the franchise, the Corporation may request the Government to take possession of any other property which Government or a person designated by the Government was entitled to take possession of, but did not take possession of and, except in specified circumstances, Government shall take possession of that property. The Government is liable to pay compensation for the use of, loss of or damage to property taken possession of and the amount of compensation is to be calculated in accordance with the relevant provisions contained in the Operating Agreement.

The Government or a person designated by the Government may enter upon railway property where it is reasonably necessary for the purposes of taking possession of property following a suspension or revocation.

Compensation

Where there is a dispute between the Corporation and the Government as to the amount of compensation payable to the Corporation, the compensation is to be determined by arbitration under the Arbitration Ordinance (Chapter 341 of the Laws of Hong Kong). Pending determination by the arbitrator, the Government may make a provisional payment to the Corporation.

Any compensation payable bears interest from the date on which the sum becomes payable until it is paid.

Safety of railway

Inspectors

The Secretary for Transport may appoint an inspector who is conferred with powers, including the power to enter railway premises at all reasonable times, carry out tests and inspections which the inspector considers to be expedient and require the provision of information and documents relating to the Mass Transit Railway. These powers may be exercised only for the purpose of ensuring the safety of the Mass Transit Railway or railway premises or for investigating certain accidents.

Secretary for Transport may require the Corporation to carry out safety works

Where in the opinion of the Secretary for Transport: (i) the condition of the Mass Transit Railway or of any machinery, plant or equipment; or (ii) the manner in which the Mass Transit Railway is being operated, is such as to cause, or to be likely to cause, a risk of injury to any person, he may require the Corporation to carry out work or to take steps to ensure that the condition or manner of operation in question will cease to cause or to be likely to cause any such risk.

Offence of negligent act or omission by an employee

An employee of the Corporation commits a criminal offence and is liable to a fine, and, in some cases, imprisonment, if, in connection with his duty, he negligently does or omits to

do anything in relation to the condition or operation of the Mass Transit Railway or railway premises and, by that act or omission, the safety of a person is endangered or is likely to be endangered.

Offence of wilfully endangering safety

Any person commits a criminal offence and is liable to a fine or imprisonment if he wilfully does or omits to do anything in relation to the Mass Transit Railway or railway premises and, by that act or omission the safety of a person is endangered or is likely to be endangered.

Transport interchanges

The Corporation is required to set aside any area, space or building it considers necessary or expedient for effecting and facilitating interchange between the Mass Transit Railway and any other mode of transport.

Regulations and bylaws

Regulations

The Secretary for Transport may make regulations for anything that is necessary for the effective carrying out of the new MTR Ordinance, including for the purposes of controlling and regulating the maintenance, operation and use of the Mass Transit Railway, providing for the obtaining of information and for the keeping of records, providing for the safety of persons, for the investigation of accidents, controlling and regulating the use of transport interchanges and providing for anything which, under the new MTR Ordinance, is or may be prescribed.

Bylaws

The Corporation may make bylaws, consistent with the new MTR Ordinance and regulations made under the new MTR Ordinance and subject to the approval of the Legislative Council, in respect of a number of specified matters, including prescribing the terms and conditions for use of its service, controlling and regulating the conduct of members of the public using the Mass Transit Railway or on railway premises, a system for evidencing the payment of fares, protecting its property and in relation to transport interchanges.

Further powers in relation to regulations and bylaws

Regulations and bylaws may confer authority on employees of the Corporation to detain persons and vehicles and request personal particulars from persons in certain circumstances. The regulations and bylaws may provide that contravention of specific provisions constitutes a criminal offence and may prescribe penalties.

Vesting provisions and transitional arrangements***Vesting***

The new MTR Ordinance provides that on the Appointed Day, all the property, rights and liabilities to which MTRC was entitled or subject immediately before that day become the property, rights and liabilities of the Corporation. The Appointed Day occurred on 30th June, 2000.

For this purpose, “property, rights and liabilities” of MTRC refers to: (i) property and assets of every description (whether tangible or intangible) and rights and liabilities of every description (whether present or future, actual or contingent); (ii) property wherever situated or rights and liabilities under the law of any place; and (iii) all property, rights and liabilities, whether or not capable of being transferred or assigned by MTRC. It is further provided that any agreement made, transaction effected or other thing done by, to or in relation to MTRC which is in force or effective immediately before the Appointed Day shall have effect as from that day as if made, effected or done by, to or in relation to the Corporation, in all respects as if the Corporation were the same person in law as MTRC. Accordingly, references to MTRC in any agreement made, transaction effected or other thing done by, to or in relation to MTRC is taken as from the Appointed Day as referring to the Corporation.

The vesting applies to, for example, all agreements and transactions affecting MTRC, any security held by MTRC, or by a person as nominee of, agent of, or trustee for, MTRC, any legal rights or liabilities of MTRC and all contracts of employment with MTRC.

Matters relating to the Corporation as a company

The new MTR Ordinance provides that on the Appointed Day, the Corporation shall issue shares to the Financial Secretary Incorporated to be held in trust on behalf of the Government. These shares shall be of such par value as the Financial Secretary directs, be issued at par as fully paid, be treated as if they had been paid up in cash as to the par value, and have an aggregate par value of not more than the aggregate par value of the issued shares of MTRC immediately before the Appointed Day. On the Appointed Day, the Company issued 2,999,999,998 shares of HK\$1.00 each to the Financial Secretary Incorporated.

Accounts

The new MTR Ordinance provides that for the purposes of any accounts of the Corporation prepared for the purposes of the Companies Ordinance, on and from the Appointed Day, the Corporation shall be treated as though it were a continuation of MTRC, the value of any asset and the amount of any liability of MTRC vested in the Corporation is taken to be the value assigned to that asset or the amount assigned to that liability in the audited accounts of MTRC for the year ended 31st December, 1999 and the amount to be included in respect of any item is determined as if anything done by MTRC had been done by the Corporation. The new Ordinance further provides that, on and from the Appointed Day, all profits and losses of MTRC earned or incurred after the beginning of 1st January, 2000 are treated as profits or losses of the Corporation and that for the purposes of the accounts of the Corporation prepared for the purposes of the Companies Ordinance, the vesting in the Corporation is taken to have been effected immediately after the end of 31st December, 1999.

Distribution of dividend

For the purposes of a distribution made by the Corporation during the financial year of the Corporation during which the Appointed Day occurs or at any time before any accounts are laid or filed in respect of that year, certain provisions of the Companies Ordinance are to have effect as if reference in the provisions to a company's accounts is a reference to the accounts of the MTRC and reference in the provisions to a company's last annual accounts or to the initial accounts of a company is a reference to the accounts of MTRC prepared in accordance with section 16 of the MTRC Ordinance.

Taxation and revenue matters

For the purposes of the Inland Revenue Ordinance (Chapter 112 of the Laws of Hong Kong), on and from the Appointed Day, the Corporation is treated as if it were the continuation of and the same person in law as MTRC and the amount of losses sustained by MTRC which are capable of but have not been carried forward and set off against assessable profits of MTRC as at the end of the financial year ended of 31st December, 1999 are deemed to be losses of the Corporation and available for set off against the assessable profits of the Corporation.

No stamp or other duty is payable in respect of the vesting.

Interests in land

The new MTR Ordinance contains provisions which address the vesting in the Corporation of an interest in land, including provisions providing that the vesting in the Corporation of an interest in land does not constitute an acquisition, disposal, assignment, transfer or parting with possession of that interest for certain purposes nor operate as a breach of covenant against alienation.

Perfection of vesting of foreign property, rights and liabilities

MTRC and the Corporation are required to take all steps to secure that the vesting in the Corporation of MTRC's foreign property, right or liability is effective under the relevant foreign law. Until the vesting of any foreign property, right or liability of MTRC in the Corporation becomes effective under the relevant foreign law, MTRC shall hold that property or right for the benefit of, and discharge that liability on behalf of, the Corporation.

Waiver of prohibition of vesting

A provision in any document to which MTRC is a party prohibiting the vesting or to the effect that a default occurs or that a right or liability ceases, as a result of the vesting, is deemed to be waived.

MTRC to continue in existence until dissolved

MTRC continues in existence after the Appointed Day until it is dissolved by the Secretary for Transport. As soon as the Secretary for Transport is satisfied that nothing further remains to be done by MTRC under the new MTR Ordinance, and after consulting MTRC and the Corporation, the Secretary for Transport may dissolve MTRC.

Miscellaneous***Appeal to Chief Executive in Council***

The Corporation is entitled to appeal to the Chief Executive in Council if it is aggrieved by certain decisions, directions or requirements of the Secretary for Transport or the Commissioner for Transport (or any person authorised by either of them).

Application of certain laws to the Corporation

Certain provisions of the Public Health and Municipal Services Ordinance (Chapter 132 of the Laws of Hong Kong) do not apply in relation to the Corporation and, in relation to provisions of the Buildings Ordinance (Chapter 123 of the Laws of Hong Kong), the Building Authority may, in certain circumstances, exempt works connected with the operation or construction of the Mass Transit Railway.

Corporation may prosecute in its own name

Prosecutions for an offence under the new MTR Ordinance may be brought in the name of the Corporation.

No civil liability for breach of statutory duty

No breach of any duty of the Corporation created by the new MTR Ordinance gives rise to any civil liability but this does not affect any civil liability of the Corporation for negligence or otherwise which arises independently of a breach of any duty of the Corporation created by the new MTR Ordinance.

Proceeds from sale of Government's shares in the Corporation

Expenses incurred by the Financial Secretary Incorporated in connection with the acquisition, holding, sale, other dealing or listing of shares in the Corporation may be defrayed from the monies received by the Financial Secretary Incorporated from the sale of the shares in the Corporation before the sales proceeds form part of the Government's general revenue.

Securities of the Corporation as authorised investment

For the purposes of certain provisions of the Trustee Ordinance (Chapter 29 of the Laws of Hong Kong), the Corporation is deemed to have paid a dividend in the calendar year in which the Appointed Day falls (whether or not the Corporation does in fact pay a dividend in that year) and in each of the five years immediately preceding that year. In addition, debt securities issued by MTRC, or by the Corporation during any period for which the Government beneficially owns more than half in nominal value of the issued share capital of the Corporation, is deemed to be a debt security which satisfies certain requirements of the Trustee Ordinance.

Repeal

The MTRC Ordinance and any subsidiary legislation made under the MTRC Ordinance are repealed from the Appointed Day. Subject to specified modifications, regulations, bylaws, and notices made under the MTRC Ordinance and subsisting immediately before the Appointed Day are adopted.

Consequential amendments

The new MTR Ordinance makes certain amendments to other legislation, including by repealing references in other legislation to MTRC and substituting references to the Corporation.

THE OPERATING AGREEMENT

The Operating Agreement contains the detailed provisions for the design, construction, maintenance and operation of the Mass Transit Railway by the Corporation under the franchise. It was made between the Secretary for Transport on behalf of the Government and the Corporation, and became effective on, 30th June, 2000. In particular, the Operating Agreement covers the matters set out below.

Franchise

The Operating Agreement provides that an application by the Company to extend the franchise shall be submitted to the Secretary for Transport who will recommend an extension of the franchise to the Chief Executive in Council if either:

- a project agreement has been signed in relation to a major new railway project with an estimated capital cost in excess of HK\$10 billion;
- the Board of Directors has approved certain capital works with a total estimated capital cost of at least HK\$10 billion (“**Major Capital Works**”) and the Secretary for Transport has notified the Company that the capital works qualify as Major Capital Works; or
- the Company has incurred certain capital expenditure of at least HK\$10 billion in relation to the franchise in the preceding ten years.

In making his recommendation, the Secretary for Transport must take account of all reasonable representations from the Company as to why, and from which date, the franchise should be extended.

If the franchise is extended, the franchise will run for a further period of 50 years. No payment is required from the Company in relation to the extended franchise and the terms of the franchise will not be altered unless either the Company and the Secretary for Transport agree to an amendment or the Secretary for Transport informs the Company that material circumstances have changed such that it is inappropriate for the franchise extension to be on the same terms.

Upon extension of the franchise and subject to the Government's prevailing land policy on the date on which the franchise is extended and the Chief Executive in Council's approval is given, certain consequential amendments will be made to all agreements between the Government and the Company in relation to the Mass Transit Railway.

Design, construction and maintenance of the railway

The Operating Agreement provides certain requirements that the Corporation must meet in connection with the design, construction and maintenance of the Mass Transit Railway.

The Company must make provision for and maintain more than one source of electric power, take all proper precautions in the use of such power and all reasonable precautions in constructing, placing, maintaining and operating its electrical equipment.

The Company must provide and maintain control centres, manned by trained personnel, for the safe regulation, control and direction of trains and persons using or employed in the operation of the Mass Transit Railway. Similarly, adequate depot services and equipment must be provided by the Company to maintain full services, and arrangements made for the maintenance and repair of all property used in connection with the operation of the Mass Transit Railway.

A number of environmental conditions, such as noise levels, air quality and temperature, must be monitored by the Company and the Company is also required to provide adequate lighting and ventilation for its employees and members of the public using the railway.

The Company shall provide adequate accommodation, facilities and means of communication for members of the Hong Kong Police Force, as well as providing access to the Company's closed circuit television monitors in its control centres and MTR Stations. The Government has agreed to procure that the Hong Kong Police Force continues to provide a police service for the Mass Transit Railway.

Railway passenger services

Disruptions to train services

The Operating Agreement provides that the Company must inform the Commissioner for Transport and Commissioner of Police of the emergency closure, or anticipated emergency closure, of any part of the railway premises and any interruption or delay which may affect the safe and efficient conveyance of passengers.

Train service arrangements

The Company is required to provide a minimum level of service in terms of the hours of its railway operations and the capacity of the service it provides. These minimum levels are prescribed in the Operating Agreement. Where the Company proposes to modify the level of service it provides in a material way, it can only do so if the Commissioner for Transport has not objected.

The Operating Agreement imposes obligations on the Company in regards to:

- keeping the Mass Transit Railway in a clean and sanitary state;
- providing a comfortable passenger environment;
- providing and maintaining adequate and efficient communication facilities between control centres and, for example, trains in operation, stations, police facilities and transport co-ordination centres;
- ensuring that noise and vibration is kept to a minimum;
- ensuring efficient and effective collection of fares;
- ensuring that ticket and cash handling facilities are safe and secure; and
- providing escalators and lifts for efficient and effective transportation of passengers.

Performance requirements

General

The Company will be required to meet certain performance thresholds (“**Performance Requirements**”) in relation to the railway-related services it provides. These Performance Requirements cover the following matters:

- *train service delivery* which is a measure of the actual train trips run by the Company against the train trips scheduled to run by the Company;
- *passenger journeys on time* which is a measure of passengers journeys which are delayed by at least five minutes;
- *train punctuality* which is a measure of train trips delayed by at least five minutes in the case of the Airport Express Line and by at least two minutes in the case of the other lines;
- *add value machine reliability* which is a measure of the total operating hours of add value machines;
- *ticket issuing machine reliability* which is a measure of the total operating hours of ticket issuing machines;
- *ticket gate reliability* which is a measure of the total operating hours of ticket gates;
- *escalator reliability* which is a measure of the total operating hours of escalators; and
- *passenger lift reliability* which is a measure of the total operating hours of passenger lifts.

Each year, the Company’s railway operations for the previous year will be measured against the Performance Requirements and the Company is required to explain failures to comply with the Performance Requirements to the Commissioner for Transport and provide information on the actions it has taken, or is proposing to take, to improve its performance. In addition, the Company must forewarn the Commissioner for Transport of any likely failure to meet a Performance Requirement.

The Company will not be regarded as having failed to meet a Performance Requirement if the failure results (whether directly or indirectly and whether in whole or in part) from the occurrence of certain exemption events, including war, hostilities, natural disasters, disorder, industrial action, loss or diminution of power supply, disruption caused by any member of the public or any other cause or event beyond the control of the Company unless that event occurred as a result of a breach of contract or negligence, or was caused or contributed to, by or on the part of the Company. However, the Company must use its reasonable endeavours to prevent the occurrence of these events, to mitigate their effects and to take steps to remedy them.

Review of Performance Requirements

The Operating Agreement contains provisions which allow for the adjustment of the Performance Requirements. Each year, the Company and the Commissioner for Transport are required jointly to review the Performance Requirements, taking into account the results of customer surveys covered in reports carried out by the Company and other relevant circumstances, and may agree that the Performance Requirements, or their application, may be changed temporarily.

In addition, the Company can request an additional joint review of the Performance Requirements in certain circumstances, such as upon introduction of new or substantially modified passenger train designs, new or substantially revised methods of automatic train control and following substantial alterations, extensions, additions or modifications to any material infrastructure, plant or equipment.

New railway projects and new technology

Where the Company introduces a new railway project and the introduction of that new railway project is likely materially to affect the Company's ability to meet any Performance Requirement, then in determining whether the Company has met any Performance Requirement, no account shall be taken of any new railway project during the period of introduction of that new railway project and for two years from the commencement of operations on that new railway project.

Where new or substantially changed technology (the purpose of which is to assist in improving or maintaining the Mass Transit Railway) is introduced by the Company in connection with the operation of the railway ("**New Technology**") and the introduction of that New Technology is likely materially to affect the Company's ability to meet any Performance Requirement in respect of the operation of that or any other part of the Mass Transit Railway (the "**Relevant Part of the Railway**") during the period when that New Technology is being introduced, then, in determining whether the Company has met any Performance Requirement no account shall be taken of the operation of the Relevant Part of the Railway for two years from the date of the introduction of that New Technology.

Before the commencement of operations on any new railway project or the introduction of any New Technology, the Company is required to establish to the reasonable satisfaction of the Commissioner for Transport specific performance requirements for:

- that new railway project (“**New Project Requirements**”); and
- the operation of the Relevant Part of the Railway (“**New Technology Requirements**”),

and those New Project Requirements or New Technology Requirements will be applicable in respect of that new railway project or the operation of the Relevant Part of the Railway for two years from the commencement of operations on that new railway project or the date of the introduction of that New Technology. The Company is required to base those New Project Requirements or New Technology Requirements on the best information available to the Company, including the outcome of any performance trials and relevant contract specifications.

Customer services pledges

The Operating Agreement requires the Company to establish, publish annually and strive to meet customer service pledges (“**Customer Service Pledges**”), which relate to the same matters as the Performance Requirements (namely train service delivery, passenger journeys on time, train punctuality, add value machine reliability, ticket issuing machine reliability, ticket gate reliability, escalator reliability and passenger lift reliability) as well as the following additional matters:

- train reliability;
- ticket reliability;
- temperature and ventilation levels; and
- railway cleanliness.

The Company is required to publish data which measures its actual performance against the Customer Services Pledges on a quarterly basis.

Unlike the Performance Requirements, the Customer Service Pledges are merely voluntary targets established by the Company itself and do not themselves constitute contractual obligations relating to performance.

Other matters relating to railway passenger services

To further enhance the railway service provided by the Company, it must take steps to measure customer satisfaction, handle passengers complaints and suggestions and provide signage and information to its customers.

The Commissioner for Transport may request the Company to review its service arrangements and to consider suggestions for service changes. The Company is required to comply with all such requests for review and to give due consideration to all such suggestions.

Safety***General***

The Operating Agreement contains provisions as to safety management in connection with the operation of the Mass Transit Railway, so that all aspects of the provision of railway services by the Company are handled with due regard to the safety of the Mass Transit Railway and of persons using or employed on the Mass Transit Railway.

The Company must establish a system to review, control and minimise safety risks as far as reasonably practicable, to be reviewed every three years by an independent expert.

Instruction manuals

Any documentation the Company produces which relates to safety, emergency and security matters must be provided to the inspector (the “**Inspector**”) appointed under the new MTR Ordinance. Any revision of instruction manuals can only be made following consultation with the Inspector, the Commissioner of Police and the Director of Fire Services.

Rescue and breakdown equipment

The Company must provide adequate vehicles and equipment for the safe and speedy recovery of defective trains and equipment and for the rescue of passengers and persons employed on the Mass Transit Railway. Such vehicles and equipment must be effective and maintained in an efficient working condition and, if necessary, attended and operated by trained personnel.

Maintenance procedures

Facilities, systems and trains used in connection with the Mass Transit Railway must be maintained by competent personnel to minimise safety risks and, to achieve this, the Company must establish effective maintenance schedules and procedures with reference to manufacturers’ recommendations in line with operational experience.

Provision of railway staff

The Company must have on duty staff in such numbers and with such training and experience as will ensure the proper control and operation of the Mass Transit Railway and the safety of persons using or employed on it.

Opening of the railway and new railway projects

Under the Operating Agreement, the Company shall not:

- open any new part of the Mass Transit Railway;
 - commence operations on any new railway project or open any station or junction;
- or

- bring into use any additional or modified major facilities, equipment, systems or trains or introduce New Technology which have, or are likely to have, an impact on the safety of the Mass Transit Railway or on the safety of persons using or employed on the Mass Transit Railway,

until the Inspector confirms in writing to the Secretary for Transport that the same is safe to be used for the conveyance of passengers and their luggage and goods. In order for the Inspector to make this confirmation to the Secretary for Transport, the Company shall:

- establish, operate and maintain a safety management system to review, control and minimise safety risks in any works being carried out;
- demonstrate to the Inspector that safety risks have been appropriately addressed in the design, construction and commissioning stages of the works and that appropriate facilities, procedures and competent staff are in place for the safe operation and maintenance of the Mass Transit Railway;
- provide information reasonably required by the Inspector during the design, construction and commissioning stages;
- perform tests reasonably requested by the Inspector and forward all test results to the Inspector; and
- at such reasonable times as the Inspector may request permit the Inspector to carry out inspections, examinations or tests he considers expedient and provide resources and assistance to enable him to carry out such inspections, examinations and tests.

Contingency plans

The Company is required under the Operating Agreement to develop and maintain contingency plans to be implemented in the event of a breakdown, accident or emergency on the Mass Transit Railway or railway premises.

Land

Land for new railway projects and property development rights

For any new railway project, the Government and Company will agree the detailed terms upon which the land required for the construction and operation of that new railway project will be provided to the Company at a land premium in accordance with the Government's land policy at the relevant time. The Government and the Company will also agree the detailed terms relating to what property development rights should be provided to the Company in order to implement any new railway project.

Land premium amounts

The land premium amounts referred to above will be assessed, subject to any change by the Government of its land policy, at "full market value" ignoring the presence of the Mass Transit Railway for the first land grants made by the Government for property development rights in relation to each new railway project and, if applicable, for the first premium amount

payable for property development rights in relation to each development phase of a new railway project (in each case, other than for depot sites). For this purpose, “ “full market value” basis ignoring the presence of the railway” means the full market value as assessed by the Government without having regard to any effect the presence of the Mass Transit Railway may have on the site being valued. For railway depot use at depot sites, the land premium amounts will be assessed on an “industrial use” basis with a minimum plot ratio of 1 and for the sites of running lines and stations, the land premium amounts will be assessed at nominal premium.

New railway projects

Under the Operating Agreement, the Government has agreed that it will ensure that there is a level playing field for the award of future railway projects and a clear framework for those awards. In addition, the Government has acknowledged in the Operating Agreement that the Company will require an appropriate commercial rate of return on its investment in any future railway project and that, in order for particular railway projects to earn a commercial rate of return for the Company and in order for the Company to maintain its financial standing and profile, financial and other support for those railway projects from the Government may be required. The Government has also agreed that it will not require the Company to construct and operate any future railway project (subject to its ability to give directions under the new MTR Ordinance in respect of which it must pay compensation to the Company).

For future railway projects that are not natural extensions of the Mass Transit Railway, the Government has agreed in the Operating Agreement that:

- it will not discriminate between the Company and other persons in awarding those new railway projects on the basis of the Government’s holding of shares or other economic interests in the Company and such other persons;
- it may invite the Company and any other persons to submit a tender or proposal, on the same basis, for those new railway projects;
- it will evaluate those submissions objectively on their merits;
- in evaluating any submission made by a person that is wholly or partially owned by the Government, it will assume that a commercial rate of return must be earned by that person;
- where support from the Government may be required by the Company for those new railway projects that may be awarded to the Company, the Government and the Company will seek to reach agreement on terms for appropriate financial or other support before those new railway projects are awarded to the Company; and
- where the Company has made a submission in respect of a particular future railway project and Government awards that future railway project to a person other than the Company, it will as soon as reasonably practicable, inform the Company of, and the reasons for, its decision but will have no obligation to inform the Company of any commercially sensitive information.

For future railway projects that are natural extensions of the Mass Transit Railway, the Government has agreed in the Operating Agreement that:

- the Company will be invited, on an exclusive basis, to submit a proposal for those new railway projects;
- if the Company submits a proposal to the Government, the Government and the Company will commence negotiations on an exclusive basis as soon as reasonably practicable thereafter with a view to agreeing the terms upon which the Company will construct and operate that future railway project (including the nature and terms of any appropriate financial and other support the Government may provide to the Company); and
- if an agreement cannot be reached within a reasonable time period, the Government may cease negotiations with the Company and invite other persons to undertake that future railway project.

Under the Operating Agreement, the Company has acknowledged that, for future railway projects that are natural extensions of another railway system, the Government may, in its absolute discretion, award those future railway projects to the operator of that other railway system without inviting the Company to submit a tender or proposal.

Fare regulation

The Company has autonomy to set its own fares but, prior to implementing any changes, the Company must consult the Transport Advisory Committee and the Panel on Transport of the Legislative Council, as well as consider the level of public acceptance of any proposed change, based on passenger surveys. The Transport Advisory Committee and the Panel on Transport of the Legislative Council must also be formally notified and a public announcement of any new fare must be made before a fare change is implemented.

The consultation and notification procedure does not apply to fare changes which reduce fares, are of a promotional nature and are intended by the Company to last for up to 12 months, or a modification to such a promotional arrangement, to the extent that after such modification the arrangement remains a promotional arrangement. However, the Company is required to notify the Commissioner for Transport seven days in advance of any such promotional arrangements.

Compensation

The Operating Agreement contains the detailed terms for the calculation of compensation that is payable by the Government to the Company for the use of, loss of or damage to any property taken possession of where the Company's franchise is revoked or has expired. Compensation payable for the loss of the relevant property will be equal to the higher of: (i) the fair value of the relevant property (assuming a willing buyer and seller and taking into account the earnings potential of the relevant property); and (ii) the depreciated book value of the relevant property, as determined by an independent valuer. The independent valuer will also determine the amount of any compensation payable to the

Company for the use of the relevant property. The amount of compensation payable to the Company for damage to any relevant property that is returned to the Company will be calculated by reference to the reasonable cost of remedying that damage.

Dispute settlement

The process for settling disputes between the Government and the Company must begin with informal negotiation. If the dispute is not resolved, the parties may agree to submit the dispute to arbitration, although neither the Company nor the Government is bound to do so.

Assistance in ensuring continuity

The Company has an obligation to ensure that the continuity of railway services is not disrupted during the implementation of any revocation procedure or during the period beginning five years before the expiry of the franchise.

Review of terms of Operating Agreement

There is a procedure for a joint review of the terms of the Operating Agreement every five years in order to maintain a rate of technological and technical progress for the management and operation of the Mass Transit Railway commensurate with good international practice and passengers' needs having regard to the costs that would be incurred, the financial resources of the Company and prudent commercial principles. A joint review will also be carried out if either the Government or the Company requests that such a joint review be carried out. Where both parties agree, the terms of the Operating Agreement may be amended.

Furnishing of records

The Company must maintain records relating to the Performance Requirements, Customer Service Pledges and passenger complaints and suggestions which may be inspected by the Secretary for Transport and the Commissioner for Transport.

External audit

Each year, an audited report prepared by the Company's external auditors must be submitted to the Commissioner for Transport showing whether the Company had internal controls and procedures in place which were adequate to enable the Company to measure and record, in all material respects, its compliance with the Performance Requirements and Customer Services Pledges.

Regulations

The Government must consult the Company and take account of all reasonable representations made by the Company, before the Secretary for Transport introduces regulations under the new MTR Ordinance.

Miscellaneous***Disclosure of information***

There are limitations imposed on the Government which prevent it from disclosing certain information (“**Restricted Information**”) relating to the Mass Transit Railway before it consults the Company. Restricted Information is information furnished to the Government, the Secretary for Transport, the Commissioner for Transport, the Inspector or any other person acting for or on behalf of the Government by the Company under the new MTR Ordinance or under the terms of the Operating Agreement, which is specified by the Company to be unpublished commercially sensitive information.

New MTR Ordinance

The Company is not obliged under the Operating Agreement to conduct its business in any manner or to do anything which is incompatible with any provision of the new MTR Ordinance.

Law

The Operating Agreement is governed by Hong Kong law.

This Appendix contains a summary of the Articles of Association. The principal objective is to provide potential investors with an overview of the Articles of Association. Because the information contained below is in summary form, it does not contain all of the information that may be important to potential investors. As stated in the paragraph headed "Documents Available for Inspection" in Appendix X, a copy of the Articles of Association is available for inspection.

The existing Articles of Association of the Company were adopted on 26th April, 2000 and were amended on 29th June, 2000 and 12th September, 2000. The following is a summary of certain provisions of the Articles of Association. The powers conferred or permitted by the Articles of Association are subject to the provisions of the Companies Ordinance, other Ordinances, subsidiary legislation and the Listing Rules.

CHANGES IN CAPITAL

The Company may issue shares which can be redeemed. This can include shares redeemable at the election of the holders, as well as shares redeemable at the election of the Company.

The Company may purchase or contract to purchase its own shares (including any redeemable shares) at any price except where the purchase of a redeemable share is not being made through the market or by tender in which case there will be a maximum price. Neither the Company nor the Board of Directors will be required to select the shares to be purchased in any particular manner.

The Company may, by ordinary resolution, increase its authorised share capital, and such resolution will fix the amount of the increase and the nominal amount of the new shares.

The Company may, by ordinary resolution:

- (i) consolidate, or consolidate and then divide, all or any of its share capital into shares of a larger nominal value than its existing shares;
- (ii) divide some or all of its shares into shares of a smaller nominal value and provide that as between the holders of the divided shares different rights and restrictions which the Company can apply to new shares may apply to those divided shares; and
- (iii) cancel any shares which at the date of the passing of the resolution have not been taken or agreed to be taken by any person, and reduce the amount of its share capital by the amount of the shares so cancelled.

The Directors have the power to decide how to deal with any shares of the Company which have not been issued. The Directors may, for instance, offer for sale, grant options for the acquisition of, allot or dispose in any other way any shares of the Company which have not been issued, and in doing so the Directors are free to decide whom they deal with, when they deal with the shares and the terms on which they deal with the shares.

The Company may by special resolution reduce its share capital.

CAPITAL RESERVE

The Articles of Association require the establishment of a special reserve called the “capital reserve” which contains a sum equal to the amount of the difference between the aggregate par value of the Shares issued to the Selling Shareholder on the Appointed Day under Section 42 of the new MTR Ordinance and the aggregate par value of the issued shares of MTRC immediately before the Appointed Day. The Articles of Association further require the Company to apply the capital reserve only in paying up in full unissued Shares to be allotted and distributed, credited as fully paid bonus shares. Otherwise, the capital reserve cannot be capitalised or utilised by the Company for any other purpose. The number of Shares issued to the Selling Shareholder in accordance with this Article was 2,000,000,000 Shares. The amount standing to the capital reserve at the date of this prospectus is HK\$27,188,000,000.

MODIFICATION OF RIGHTS

If at any time the capital of the Company is divided into different classes of shares, the rights attached to any class may be changed or abrogated either with the consent in writing of the holders of at least three-quarters of the issued shares of that class or by a special resolution passed at a separate meeting of the holders of the shares of that class.

The provisions of the Articles of Association relating to general meetings apply to any such class meeting, but the quorum is two persons present in person or by proxy who own at least one-third in nominal value of the issued shares of that class, and any holder of the shares of the class present in person or by proxy may demand a poll. On a poll every shareholder present in person or by proxy has one vote for every share of that class he owns, subject to any special rights or restrictions attached to any class of shares within the class.

TRANSFERS OF SHARES

All transfers of shares must be effected by transfer in writing either in the usual standard form or in such other form as the Board of Directors may approve. The instrument of transfer of any share must be executed by or on behalf of the transferor and, where the share is not fully paid, by the transferee. The transferor is deemed to remain the holder of the share until the name of the transferee is entered in the register.

All instruments of transfer will be retained by the Company if the Board of Directors decides to register the share transfer. The Board of Directors may, without giving any reason, refuse to register a transfer of any share which is not fully paid.

In addition, a transfer will not be registered if:

- it purports to transfer more than one class of shares;
- it is in favour of more than four joint holders;
- it is not delivered to the registered office of the Company or to any other place decided on by the Board of Directors;
- it is not accompanied by the relevant share certificate, unless the Company was not required to, and did not, send a share certificate to the transferor; or
- it is not accompanied by evidence reasonably asked for by the Board of Directors to show the entitlement of the transferor to make the transfer.

VOTING AT MEETINGS

Subject to any special rights or restrictions as to voting attached to any class of shares, at any general meeting on a show of hands every member who is present in person has one vote, and on a poll every member present in person or by proxy has one vote for every share which he holds.

Unless the Directors decide otherwise, a shareholder may not vote at any meeting of the Company if he has not paid all amounts relating to those shares which are due at the time of the meeting.

A member may authorise such person or persons as it thinks fit to act as its proxy or proxies at any meeting of the Company or at any meeting of any class of members of the Company. However, proxies may not vote on a show of hands. A resolution put to the vote at any general meeting of the Company will be decided on a show of hands unless a poll is demanded.

QUALIFICATION OF DIRECTORS

No Director is required to hold any qualification shares. No person is required to vacate office or is ineligible for re-election or re-appointment as a Director, and no person is ineligible for appointment as a Director, by reason only of his having attained any particular age.

BORROWING POWERS

The Board of Directors may exercise all the powers of the Company to borrow money and to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital. The Board of Directors may issue debentures and other securities of the Company and give securities for any debt, liability or obligation of the Company or any third party. These provisions, in common with the Articles of Association of the Company in general, can be varied by a special resolution.

DIRECTORS' REMUNERATION AND PENSIONS

The total fees paid to the Directors for performing their services as directors must not exceed HK\$3 million each year or any greater amount fixed by an ordinary resolution passed at a general meeting. Unless an ordinary resolution which fixes the fees says otherwise the Directors, upon the recommendation of the remuneration committee, will decide the way in which the total fees will be divided. If the Directors do not make such a decision, the fees will be divided equally, except that in the event of any Director holding office for less than the whole of the relevant period for which the fees are paid, he will only receive part of this amount in proportion to the amount of time he has been a Director.

The Directors are entitled to be repaid all reasonable travel, hotel and incidental expenses incurred in attending and returning from board meetings, committee meetings or general meetings which that Director is entitled to attend, as well as all other expenses properly and reasonably incurred in connection with the Company's business or in the performance of his duties as a Director. The Board of Directors, upon the recommendation of the remuneration committee, may grant special pay to any Director who performs any

special or extra services. Such special pay may be paid to a Director in addition to or in substitution for his ordinary pay, and may be paid by way of lump sum, salary or a combination or in any other way.

The Board of Directors or any committee authorised by the Board of Directors may decide to provide pensions or other benefits to any Director or former Director, or any of their relations or dependants. While the Financial Secretary Incorporated holds 50% or more of the voting power of the Company and the chairman concurrently holds the office of the chief executive officer or fulfils any other executive function, the provision of pensions or other benefits to the chairman, or any of his relations or dependants, shall be determined by the Financial Secretary Incorporated.

If the Directors want to provide a benefit to a Director or former Director who has not held an executive post or place of profit in the Company or in a subsidiary or former subsidiary of the Company or in any former owner of the business of the Company or any subsidiary of the Company, the Company must also pass an ordinary resolution to approve the payment.

DIRECTORS' INTERESTS

If the legislation allows and he has disclosed the nature and extent of his interest, a Director may do any of the following:

- have any interest in any existing or proposed contract, transaction or arrangement with or involving the Company or involving another company in which the Company has some interest;
- alone, or through some firm with which he is associated, do paid professional work for the Company (other than as auditor);
- hold any other position (other than auditor) in the Company as well as being a Director; and
- hold any position within, or be a shareholder of, any company in which the Company has an interest.

In such cases, the Director may retain any benefit he receives.

The Directors cannot vote or be counted in the quorum in regards to any contract, transaction, arrangement or any other kind of proposal in which they have a material interest. For this purpose, interests of persons connected with the Director are treated as the interest of the Director himself, but interests purely as a result of an interest in the Company's shares, debentures or other securities are disregarded. However, the restriction from voting and being counted in the quorum does not apply if the only material interest the Director has is included in the following list:

- a resolution about giving him any security or indemnity for any money lent or obligations incurred by him, or any other person, at the request, or for the benefit, of the Company or any of its subsidiaries;
- a resolution about giving any security or indemnity to any other person for a debt or obligation which is owed by the Company or any of its subsidiaries, to the other person, if the Director has taken responsibility for some or all of that debt or obligation by giving a guarantee, indemnity or security;

- a resolution about an offer of shares, debentures or other securities for subscription or purchase by the Company or any other entity which the Company may promote or be interested in where the Director is to take part in the underwriting or sub-underwriting of the offer;
- a resolution about any proposal involving any other company in which the Director is interested whether directly or indirectly, provided that he, together with any of his associates (as defined in the Listing Rules), does not hold more than 5% of either: (i) a class of equity share capital in that company or in a third company through which his interest is derived; or (ii) the voting rights in that company;
- any arrangement concerning the benefit of employees of the Company or its subsidiaries including the adoption, modification or operation of: (i) any employees' share scheme, or any share incentive or share option scheme (which shall include, without limitation, the Pre-Global Offering Share Option Scheme) under which the Director may benefit; or (ii) a pension fund or retirement, death or disability benefits scheme which relates both to Directors and employees of the Company or any of its subsidiaries and which only gives the Director benefits which are also given to the employees to whom the arrangement relates; or
- any arrangement in which the Director is interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue of his interest in shares or debentures or other securities of the Company.

Subject to legislation, the Company may, by ordinary resolution, suspend or relax these provisions or ratify any contract which has not been properly authorised in accordance with the relevant article.

If the Board of Directors is considering proposals about appointing two or more Directors to positions with the Company or any company in which the Company is interested or the Directors are considering setting or changing the terms of their appointments, each Director can vote and be included in the quorum for each resolution, except the one concerning him. However, a Director cannot vote if the resolution relates to the appointment of another Director to a position with a company which the Company is interested in if that Director has an interest of 1% or more in that company.

DIVIDENDS

The Company's shareholders can declare dividends by passing an ordinary resolution which may not exceed the amount recommended by the Directors. All dividends or other amounts payable on a share may be invested or otherwise made use of by the Directors for the benefit of the Company until claimed and the Company will not be a trustee or be liable to pay interest in respect thereof. If a dividend has not been claimed for six years after being declared or becoming due for payment, it will be forfeited and will revert to the Company. The Directors can offer ordinary shareholders the right to choose to receive extra ordinary shares, which are credited as fully paid up, instead of some or all of their cash dividend. Before they can do this, shareholders must have passed an ordinary resolution authorising the Directors to make this offer.

1. FURTHER INFORMATION ABOUT THE COMPANY**(A) Incorporation**

The Company was incorporated in Hong Kong under the Companies Ordinance as a limited liability company on 26th April, 2000 under the name of MTR Corporation Limited (地鐵有限公司) with an authorised share capital of HK\$33 billion divided into 33,000,000,000 shares of HK\$1.00 each, one of which was issued and credited as fully paid to the Selling Shareholder and one of which was issued and credited as fully paid to Denise Yue Chung Yee. The Company's registered office is at MTR Tower, Telford Plaza, Kowloon Bay, Kowloon, Hong Kong.

(B) Changes in share capital

On the Appointed Day, 2,999,999,998 Shares were issued to the Selling Shareholder and credited as fully paid in accordance with the determination made by the Financial Secretary under section 42 of the new MTR Ordinance. On 12th September, 2000, the authorised share capital of the Company was reduced from HK\$33 billion divided into 33,000,000,000 Shares to HK\$6.5 billion divided into 6,500,000,000 Shares. On the same day, all of the shareholders of the Company resolved to issue 2,000,000,000 Shares to the Selling Shareholder, credited as fully paid. As at the date of this prospectus, the authorised share capital of the Company is HK\$6.5 billion, divided into 6,500,000,000 Shares of HK\$1.00 each, 5,000,000,000 of which are issued. Other than pursuant to the exercise of any options which may be granted under the Pre-Global Offering Share Option Scheme there is no present intention to issue any of the authorised but unissued share capital of the Company and, without the prior approval of the members in general meeting, no issue of Shares will be made which would effectively alter the control of the Company.

Save as disclosed herein and in the paragraph headed "Written resolutions of all the shareholders of the Company" below, there has been no alteration in the Company's share capital since its incorporation.

(C) Written resolutions of all the shareholders of the Company

Pursuant to a resolution in writing passed by all of the shareholders of the Company on 29th June, 2000, Article 132 was amended in a manner requiring:

- (i) the Company to establish on the Appointed Day a special reserve called the "capital reserve" containing a sum equal to the amount of the difference between the aggregate par value of the Shares issued to the Selling Shareholder on the Appointed Day under Section 42 of the new MTR Ordinance and the aggregate par value of the issued shares of MTRC immediately before the Appointed Day;
- (ii) the Company to apply the capital reserve only in paying up in full unissued Shares to be allotted and distributed, credited as fully paid bonus Shares, to the Selling Shareholder prior to the listing of the Shares on the Stock Exchange; and
- (iii) the balance of the capital reserve remaining after such application to be an undistributable reserve of the Company which cannot be capitalised or utilised by the Company for any other purpose.

Pursuant to resolutions in writing passed by all of the shareholders of the Company on 12th September, 2000, the shareholders of the Company resolved:

- (i) to reduce the Company's authorised share capital from HK\$33 billion divided into 33,000,000,000 Shares to HK\$6.5 billion divided into 6,500,000,000 Shares and that the Shares which represent the difference be cancelled;
- (ii) that, pursuant to Article 132(e), the Company's capital reserve shall be applied by the Company (in accordance with Article 132(a)) in paying up in full 2,000,000,000 unissued Shares (the "**FSI Bonus Shares**") and approved the grant to the Board of Directors to exercise all the powers of the Company to allot, issue and distribute and deal with such 2,000,000,000 FSI Bonus Shares, credited as fully paid bonus shares to the Selling Shareholder, in accordance with Article 132(e);
- (iii) to amend the Articles in order to:
 - (a) include a definition of "clearing house";
 - (b) modify Article 4 to reflect the reduction in the Company's authorised share capital (as described in paragraph (i) above);
 - (c) modify Article 17 with the effect that share certificates shall be issued under seal or in such other manner as the Board of Directors may authorise, having regard to the terms of the issue, legislation and/or the Listing Rules;
 - (d) modify Article 35 to clarify the manner in which transfers of Shares must be made;
 - (e) modify Article 36(a) to clarify the manner in which share transfer forms may be signed or executed;
 - (f) modify Article 67 to clarify the manner in which polls may be demanded at general meetings of the Company;
 - (g) include a new Article 81A to address the appointment by clearing houses of representative(s) or proxy(ies);
 - (h) modify Article 88(a) to clarify the manner in which the mechanism for retirement by rotation of Directors will operate so that the timing of any retirement by rotation will be determined by reference to the date on which the Directors' respective appointments to the board of MTRC would have otherwise expired had MTRC continued in existence and not been replaced by the Corporation;
 - (i) modify Article 100 to clarify the quorum requirements for meetings of the Board of Directors;
 - (j) modify Article 120 to clarify certain matters in relation to the Company Secretary; and
 - (k) modify Article 132 further so that, at any time, the Company is entitled to apply the capital reserve only in paying up in full unissued Shares to be allotted and distributed, credited as fully paid bonus shares to shareholders of the Company;

- (iv) that the rules of the Pre-Global Offering Share Option Scheme were conditionally approved and adopted and the Board of Directors or a duly authorised committee thereof were authorised to grant options thereunder to subscribe for shares and to allot, issue, distribute and deal with shares pursuant to the exercise of options granted under the rules of the Pre-Global Offering Share Option Scheme;
- (v) that, subject to paragraphs (a) and (b) below, the Board of Directors shall be entitled generally and unconditionally to exercise, during the Relevant Period, all of the powers of the Company to allot, issue, distribute and otherwise deal with additional shares and to make, issue or grant offers, agreements, options and warrants which will or might require shares to be allotted, issued, distributed or otherwise dealt with during or after the end of the Relevant Period;
- (a) the aggregate nominal amount of share capital allotted issued, distributed or otherwise dealt with or agreed conditionally or unconditionally to be allotted issued, distributed or otherwise dealt with (whether pursuant to an option or otherwise) by the Board of Directors pursuant to the approval in this paragraph (v) otherwise than pursuant to: (A) a Rights Issue; or (B) any option scheme or similar arrangement for the time being adopted for the grant or issue to the Members of the Executive Directorate and/or officers and/or employees of the Company and/or any of its subsidiaries of shares or rights to acquire shares, including pursuant to the rules of the Pre-Global Offering Share Option Scheme; or (C) any scrip dividend or similar arrangement pursuant to the Articles from time to time, shall not exceed the aggregate of: (1) 20% of the aggregate nominal amount of the share capital of the Company in issue as at the date on which dealings in the shares commence on the Stock Exchange; and (2) the aggregate nominal amount of share capital which may be repurchased by the Company subsequent to the passing of the resolution (up to a maximum equivalent to 10% of the aggregate nominal amount of the share capital of the Company in issue as at the date on which dealings in the shares commence on the Stock Exchange); and
- (b) for the purpose of paragraph (iv) above, this paragraph (v) and paragraph (vi) below:
- (A) “**Relevant Period**” means the period from the passing of the resolution until the earlier of:
- (1) the conclusion of the first annual general meeting of the Company;
 - (2) the expiration of the period within which the first annual general meeting of the Company is required by the Articles or by law to be held; and
 - (3) the revocation or variation of the authority given under this resolution by an ordinary resolution of the shareholders of the Company in general meeting;
- (B) “**Rights Issue**” means an offer of shares open for a period fixed by the Board of Directors to holders of Shares on the register of members on a fixed record date in proportion to their then holdings of such Shares (or

such class of shares in the Company) subject to such exclusions or other arrangements as the Board of Directors may deem necessary or expedient in relation to fractional entitlements or having regard to any legal or practical restrictions or obligations under the laws of, or the requirements of, any recognised regulatory body or any stock exchange in any territory applicable to the Company); and

- (C) “**shares**” means shares of all classes in the capital of the Company and warrants and other securities which carry a right to subscribe or purchase shares of the Company;
- (vi) (a) that, subject to paragraph (b) below, the Board of Directors shall be entitled generally and unconditionally to exercise, during the Relevant Period, all of the powers of the Company to purchase shares on the Stock Exchange or any other stock exchange recognised for this purpose by the Securities and Futures Commission and the Stock Exchange in accordance with all applicable laws, including the Hong Kong Code on Share Repurchases and the Listing Rules; and
- (b) that the aggregate nominal amount of shares which may be purchased or agreed conditionally or unconditionally to be purchased by the Board of Directors pursuant to the approval in this paragraph (vi) shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue as at the date on which dealings in the shares commence on the Stock Exchange;
- (vii) that, conditional on the Stock Exchange granting the listing (the “**Listing**”) of, and permission to deal in, the ordinary shares in the share capital of the Company on the Stock Exchange, the Listing is approved; and
- (viii) that, conditional on the Stock Exchange granting the listing of, and permission to deal in, the Shares, the Global Offering is noted and approved.

2. SUBSIDIARIES

(A) Investments in subsidiaries

Details relating to the Company’s subsidiaries, Creative Star, Fasttrack Insurance, MTR Engineering and MTR Travel, are contained in Note 18 to the financial statements in the Accountants’ Report in Appendix I. The Company has another subsidiary, MTR (Estates Management) Limited, which is dormant. Each of the Company’s subsidiaries is a private company. The principal establishment of each of the Company’s subsidiaries is at MTR Tower, Telford Plaza, Kowloon Bay, Kowloon, Hong Kong except for Fasttrack Insurance whose principal establishment is in Bermuda.

(B) Changes in share capital

Creative Star was incorporated on 29th June, 1993 with an authorised share capital of HK\$10,000 divided into 10,000 ordinary shares of HK\$1.00 each. On 18th April, 2000, Creative Star increased its authorised share capital by an ordinary resolution to HK\$60 million

by the creation of an additional 59,990,000 ordinary shares of HK\$1.00 each. On the same day, Creative Star issued an additional 28,475,322, 10,373,753, 1,259,970, 587,986 and 1,301,969 ordinary shares of HK\$1.00 each to the Company, KCRC, KMB, CTB and The Hongkong and Yaumati Ferry Company Limited, respectively, in consideration of HK\$1.00 per ordinary share.

Except as disclosed in this prospectus, there has been no alteration in the share capital of any of the Company's subsidiaries within the two years preceding the date of this prospectus.

3. REPURCHASE OF THE COMPANY'S OWN SECURITIES

The Listing Rules permit companies with a primary listing on the Stock Exchange to repurchase their own securities on the Stock Exchange subject to certain restrictions, the more important of which are summarised below, together with certain other information required by the Stock Exchange to be included in this prospectus concerning the repurchase by the Company of its own securities.

(A) Shareholders' approval

All proposed repurchases of securities (which must be fully paid up in the case of shares) by a company with a primary listing on the Stock Exchange must be approved in advance by an ordinary resolution of the shareholders, either by way of general mandate or by specific approval of a particular transaction.

Pursuant to a resolution in writing passed by all of the Company's shareholders on 12th September, 2000, the Repurchase Mandate was given to the Board of Directors, further details of which are contained in the paragraph headed "Written resolutions of all of the shareholders of the Company" above.

The exercise in full of the Repurchase Mandate, on the basis of 5,000,000,000 Shares in issue immediately after the listing of the Shares, could accordingly result in up to 500,000,000 Shares being repurchased by the Company during the period in which the Repurchase Mandate remains in force.

(B) Source of funds

Repurchases must be funded out of funds legally available for the purpose in accordance with a company's memorandum of association, articles of association, the Listing Rules and the applicable laws of Hong Kong. A listed company may not repurchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange.

(C) Trading restrictions

The total number of shares which a company may repurchase on the Stock Exchange or another stock exchange recognised for this purpose by the Securities and Futures Commission under the Hong Kong Code on Share Repurchases is the number of shares representing up to a maximum of 10% of the aggregate number of shares in issue as at the

date on which the Repurchase Mandate is granted. A company may not issue or announce a proposed issue of new securities for a period of 30 days immediately following a repurchase (other than an issue of securities pursuant to an exercise of warrants, share options or similar instruments requiring the company to issue securities which were outstanding prior to such repurchase) without the prior approval of the Stock Exchange.

In addition, the repurchase of securities on the Stock Exchange in any calendar month is limited to a maximum of 25% of the trading volume of such securities on the Stock Exchange in the immediately preceding calendar month.

The Listing Rules also prohibit a company from repurchasing its securities on the Stock Exchange if the repurchase would result in the number of listed securities which are in the hands of the public falling below the relevant prescribed minimum percentage as required by the Stock Exchange.

A company is required to procure that the broker appointed by it to effect a repurchase of securities discloses to the Stock Exchange such information with respect to the repurchase as the Stock Exchange may require.

(D) Status of repurchased securities

All repurchased securities (whether effected on the Stock Exchange or otherwise) will be automatically delisted and the certificates for those securities must be cancelled and destroyed.

(E) Suspension of repurchase

A company may not make any repurchase of securities after a price sensitive development has occurred or has been the subject of a decision until such time as the price sensitive information has been made publicly available. In particular, during the period of one month immediately preceding either the preliminary announcement of a company's annual results or the publication of its interim report, a company (other than an investment company listed pursuant to the provisions of Chapter 21 of the Listing Rules) may not repurchase its securities on the Stock Exchange unless the circumstances are exceptional. In addition, the Stock Exchange may prohibit a repurchase of securities on the Stock Exchange if a company has breached the Listing Rules.

(F) Reporting requirements

Certain information relating to repurchases of securities on the Stock Exchange or otherwise must be reported to the Stock Exchange not later than 9.30 am (Hong Kong time) on the following business day (as defined in the Listing Rules). In addition, a company's annual report is required to disclose details regarding repurchases of securities made during the year, including a monthly analysis of the number of securities repurchased, the aggregate prices paid and the reasons of the directors for making such repurchases.

(G) Connected parties

A company is prohibited from knowingly repurchasing securities on the Stock Exchange from a "connected person", that is, a director, chief executive or substantial

shareholder of such company or any of its subsidiaries or any of their respective associates (as defined in the Listing Rules) and a connected person shall not knowingly sell his securities to the company on the Stock Exchange.

No connected person has notified the Company that he has a present intention to sell Shares to the Company, or has undertaken not to sell any of the Shares held by him to the Company, if the Repurchase Mandate is exercised.

(H) Reasons for repurchases

The Members of the Board believe that it is in the best interests of the Company and its shareholders for the Members of the Board to have general authority from the Company's shareholders to enable the Company to repurchase Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or earnings per Share and will only be made where the Members of the Board believe that such repurchases will benefit the Company and its shareholders.

On the basis of the Company's current financial position as disclosed in this prospectus and taking into account the Company's current working capital position, the Members of the Board consider that, if the Repurchase Mandate were to be exercised in full, it might have a material adverse effect on the Company's working capital and/or the Company's gearing position as compared with the position disclosed in this prospectus. However, the Members of the Board do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on the Company's working capital requirements or the gearing levels which, in the opinion of the Members of the Board, are from time to time appropriate for the Company.

(I) General

None of the Members of the Board or Members of the Executive Directorate nor, to the best of their knowledge having made all reasonable enquiries, any of their respective associates (as defined in the Listing Rules) currently intends to sell any Shares to the Company or its subsidiaries if the Repurchase Mandate is exercised.

The Members of the Board have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate only in accordance with the Listing Rules and the applicable laws of Hong Kong.

If, as a result of a repurchase of Shares, a shareholder's proportionate interest in the voting rights of the Company is increased, such increase will be treated as an acquisition for the purpose of the Hong Kong Code on Takeovers and Mergers (the "**Takeovers Code**"). Accordingly, a shareholder or a group of shareholders acting in concert could obtain or consolidate control of the Company and become obliged to make a mandatory offer in accordance with rule 26 of the Takeovers Code. The Members of the Board and Members of the Executive Directorate are not aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchases pursuant to the Repurchase Mandate.

4. FURTHER INFORMATION ABOUT THE BUSINESS

(A) Summary of material contracts

The Company or its subsidiaries has entered into the following contracts (not being contracts entered into in the ordinary course of business) within the two years preceding the date of this prospectus that are or may be material:

- (i) the Operating Agreement dated 30th June, 2000 (and the related memorandum on performance requirements dated 30th June, 2000 between the Commissioner for Transport, for and on behalf of the Government, and the Company), a summary of which is contained in Appendix VII;
- (ii) a letter from the Government dated 14th July, 2000, pursuant to which the Government has agreed to extend the period of certain of the Company's land interests, including interests under private treaty grants for railway sites where the Company is the sole grantee and interests in the land supporting the railway element of the Eastern Harbour Crossing, at nominal premium so that they are coterminous with the Company's initial 50-year franchise. For interests held by way of undivided shares and leases, sub-leases and licences with third parties, the Government has agreed to take such steps and render such assistance to the Company as considered appropriate, reasonable and practicable at the relevant time to facilitate the smooth operation of the Mass Transit Railway during the period of Company's franchise period. If the Company's initial 50-year franchise is extended, the Government has agreed that, subject to all necessary approvals being obtained, including those of the Chief Executive in Council, and also subject to the prevailing land policy at the time of extension of the franchise, the Government will amend the terms of the Running Line Leases and private treaty grants for railway sites where the Company is the sole grantee (excluding interests held by way of undivided shares and leases, sub-leases and licences with third parties) to make them coterminous with the extended franchise period and take certain steps to render assistance to the Company in accordance with the terms of the letter;
- (iii) the EHC Agreement, further details of which are contained in the paragraph headed "Railway properties" in the section headed "Business";
- (iv) the Amendment and Restatement Agreement dated 30th June, 2000 between the Secretary for Transport, for and on behalf of the Government, and the Company in respect of The Memorandum of Understanding relating to the Eastern Harbour Crossing, The Airport Railway Operating and Maintenance Terms, the Project Agreement for the Design, Construction, Financing and Operation of the Tseung Kwan O Extension and The Letter Agreement relating to the Quarry Bay Congestion Relief Works;
- (v) an indemnity agreement dated 22nd September, 2000 in respect of the Global Offering between the Company, the Members of the Board and the Members of the Executive Directorate and the Selling Shareholder whereby, among other things, the Selling Shareholder has agreed that it will in certain circumstances

indemnify the Company, the Members of the Board and the Members of the Executive Directorate in respect of certain liabilities in respect of the Global Offering; and

- (vi) the Hong Kong Underwriting Agreement.

(B) Commercially sensitive contracts

Under paragraph 17 (“**Paragraph 17**”) of the Third Schedule to the Companies Ordinance, the Company is required to include a statement that there has been delivered to the Registrar of Companies for registration every material contract, not being a contract entered into in the ordinary course of the business carried on or intended to be carried on by the Company or a contract entered into more than two years before the date of issue of this prospectus. In addition, under paragraph 53 (“**Paragraph 53**”) of Part A of Appendix I to the Listing Rules, the Company is required to include details of a reasonable period of time (being not less than 14 days) during which and a place in Hong Kong at which there may be inspected all material contracts (not being contracts entered into in the ordinary course of business) entered into by any member of the Company’s group within two years immediately preceding the issue of this prospectus.

The Company has applied to the Securities and Futures Commission for an exemption under Section 38A of the Companies Ordinance from strict compliance with Paragraph 17 and to the Stock Exchange for a waiver from strict compliance with Paragraph 53 in respect of the two contracts described below on the grounds that they are commercially sensitive. The Securities and Futures Commission has issued a certificate of exemption under Section 38A of the Companies Ordinance granting an exemption from strict compliance with Paragraph 17 for the reasons set out above; and the Stock Exchange has granted a waiver from strict compliance with Paragraph 53 for the reasons set out above.

The Company has entered into the following contracts which it regards as commercially sensitive (not being contracts entered into in the ordinary course of business) within the two years preceding the date of this prospectus that are or may be material:

- (i) the development agreement relating to the development of Kowloon Station Development Package Three (and related agreements and guarantee) dated 17th February, 2000 between the Company and Tamworth Development Limited (as developer) and Sun Hung Kai Properties Limited (as guarantor); and
- (ii) the development agreement relating to the development of Kowloon Station Development Package Four (and related agreements and guarantee) dated 7th April, 1999 between the Company and AP World Limited (as developer) and Amoy Properties Limited (as guarantor).

These development agreements contain similar terms. Each provides that the relevant developer is required to design and construct the development at its sole expense. In the case of the development agreement relating to the development of Kowloon Station Development Package Three, if instructed by the Company on or before 30th September, 2001, the developer is also required to design and fit certain works for the Cross Boundary Bus Terminus, the costs of which shall be borne by the Company. Each development

agreement requires the relevant developer to procure that the development works are carried out in a safe, good and workmanlike manner and indemnifies the Company against any loss which may arise as a result of a breach of this obligation. Each developer is also required to design and construct all GIC Facilities. Each developer is responsible for obtaining all requisite consents, approvals and licences for the execution of the development works. Any works contractor appointed by the relevant developer is required to provide warranties in favour of the Company. The Company is entitled exclusively to all advertising and estate management rights within the relevant developments and, in the case of the development at Kowloon Station Development Package Three, the Company is also entitled exclusively to all telecommunications rights. Each developer is entitled to recover certain costs (including the land premium, the up-front mandatory payment it is required to make to the Company, certain construction costs, professional fees, marketing costs, outgoings and other charges) from the proceeds arising from the disposal of the units located within the relevant development. These include proceeds from the sale of such units, rental income from such units and any monies received from the Government in respect of the GIC Facilities. Following the deduction of such costs and their recovery by the relevant developer, the balance of the disposal proceeds (if any) which remain (the “**Surplus Proceeds**”) are to be shared between the Company and the relevant developer in accordance with an agreed sharing ratio. Each development agreement contains a provision pursuant to which the parties agree that the relevant developer shall bear the full risk of financing the relevant development project. In addition, each development agreement contains a provision pursuant to which the Company gives no warranty that there will be any Surplus Proceeds. Each developer is responsible for the sale and lease of units located within the relevant development. In the event that, after a specified period, any units within the relevant development remain unsold, a mechanism in the development agreement enables the unsold units to be distributed in specie between the Company and relevant developer without payment (other than any payment that may be necessary to equalise the distributions to the parties). Each development agreement provides that, if certain events occur and the Company has complied with a specified procedure, the Company shall be entitled to re-enter and take back possession of the relevant development site under the relevant development agreement. These events include the breach of certain obligations under the development agreement and the insolvency of the relevant developer or the relevant guarantor. The Company has the absolute right to do all such acts which it considers necessary or expedient to ensure the operation of the Airport Express Line. Each development agreement is governed by the laws of Hong Kong.

The obligations of the developer under the development agreement relating to the development of Kowloon Station Development Package Three have been guaranteed by Sun Hung Kai Properties Limited in favour of the Company and the obligations of the developer under the development agreement relating to the development of Kowloon Station Development Package Four have been guaranteed by Amoy Properties Limited in favour of the Company.

(C) Proposed development agreement for Kowloon Station Development Packages Five, Six and Seven

On 6th September, 2000, the Company awarded to Super Jet Investments Limited (a company in the Sun Hung Kai Properties Limited (“**Sun Hung Kai**”) group of companies) Kowloon Station Development Packages Five, Six and Seven, the last of the Airport railway

property projects. One of the conditions of the award is that a development agreement shall be entered into between the Company, the developer and Sun Hung Kai (as guarantor of the obligations of the developer under the development agreement), within 21 days of the award, substantially on the following terms:

The developer is required to design and construct the development at its sole expense (excluding the works to be carried out by the Company in respect of the retail accommodation, the kindergarten and retail carparking spaces (the “**Retail Fitting-out Works**”)). The developer is also required to make a payment to the Company in respect of: (i) a sum of HK\$600 million for the enabling works carried out by the Company for the development; and (ii) a sum of HK\$1,250 million for the Retail Fitting-out Works and certain other expenses, and to pay the land premium charged by the Government. The developer is required to procure that the development works (excluding the Retail Fitting-out Works) are carried out in a safe, good and workmanlike manner and to indemnify the Company against any loss which may arise as a result of a breach of this obligation. The developer is required to obtain all requisite consents, approvals and licences for the execution of the development works (excluding the Retail Fitting-out Works). The principal works contractors appointed by the developer are required to provide warranties in favour of the Company. The Company expressly reserves for itself the advertising and telecommunication rights (except that in the case of the hotel accommodation and the office accommodation the developer is entitled to take an assignment of the corresponding telecommunication rights if such accommodation in each respective building is owned as a whole and the legal ownership has been transferred to the developer or its permitted nominee), and estate management rights. The developer is entitled to all disposal proceeds, including sales proceeds and rental income (excluding in respect of the retail accommodation, the kindergarten and the retail carparking spaces, which will be governed by a commercial management agreement). The developer shall bear the full risk of financing the development project and the risk of the developer expending more than the total disposal proceeds payable to the developer shall be borne by the developer. In consideration of the payments made by the developer to the Company in respect of the Retail Fitting-out Works and certain other expenses, the Company is required to enter into a commercial management agreement. Under the commercial management agreement, the Company would retain ownership of the retail accommodation, the kindergarten and the retail carparking spaces but would share the net profits generated therefrom with the developer and, in addition, the Company would receive a management fee. The Company will be entitled to a substantial majority percentage share of such net profits. The developer is responsible for the sale and lease of units located within the development (excluding in respect of the retail accommodation, the kindergarten and the retail carparking spaces). In the event that, after a specified period, any units within the development (excluding the retail accommodation, the kindergarten and the retail carparking spaces) remain unsold, there is a mechanism which enables the Company to require the developer to take an assignment of the unsold units without payment. If certain events occur and the Company has complied with a specified procedure, the Company shall be entitled to re-enter and take back possession of the development site under the development agreement. These events include the breach of certain obligations under the development agreement and the insolvency of the developer or the guarantor. The Company has the absolute right to do all such acts which it considers necessary or expedient to ensure the operation of the Airport Express Line. The governing laws are the laws of Hong Kong.

It is a requirement that the obligations of the developer under the development agreement relating to the development are guaranteed in favour of the Company by Sun Hung Kai. Sun Hung Kai has given an undertaking to provide such a guarantee.

(D) Intellectual property rights of the Company

The Company has registered, or has applied for the registration of, the following intellectual property rights:

<u>Intellectual Property</u>	<u>Renewal Date</u>	<u>Territory of registration</u>	<u>Class</u>	<u>Registration/ Application number</u>
MTRC	15-Aug-2003	Hong Kong	36	B3970/1999
MTRC	15-Aug-2003	Hong Kong	16	B3969/1999
MTRC	15-Aug-2003	Hong Kong	9	B7185/1999
MTR.....	15-Aug-2003	Hong Kong	39	4457/1999
MTR logo & expanding horizons in Chinese characters ..	16-Aug-2002	Hong Kong	39	7849/1997
MTR logo & expanding horizons in Chinese characters ..	16-Aug-2002	Hong Kong	36	7850/1997
MTR logo & expanding horizons.....	16-Aug-2002	Hong Kong	39	2358/1997
MTR logo & expanding horizons.....	16-Aug-2002	Hong Kong	36	2359/1997
Airport Express Line logo (II)	19-Sep-2001	Hong Kong	36	8848/1996
Airport Express Line logo (I)	19-Sep-2001	Hong Kong	39	10643/1998
Airport Express Line logo (I)	19-Sep-2001	Hong Kong	37	8013/1998
Airport Express Line logo (I)	19-Sep-2001	Hong Kong	36	8849/1996
Airport Express Line logo (II)	09-Sep-2001	Hong Kong	16	437/1996
Airport Express Line logo (I)	09-Sep-2001	Hong Kong	25	436/1996
Airport Express Line logo (I)	09-Sep-2001	Hong Kong	16	435/1996
Airport Express with Chinese characters & device.....	09-Sep-2001	Hong Kong	25	11064/1996
Airport Express with Chinese characters & device.....	09-Sep-2001	Hong Kong	16	B9087/1997
MTR.....	15-Aug-2003	Hong Kong	36	B3967/1999
MTR.....	15-Aug-2003	Hong Kong	16	B3968/1999
MTR.....	15-Aug-2003	Hong Kong	9	B3971/1999
Airport Express Line logo (II)	19-Sep-2001	Hong Kong	39	10642/1998
Airport Express Line logo (II)	19-Sep-2001	Hong Kong	37	8012/1998
MTR logo & expanding horizons in Chinese characters ..	17-Aug-2002	Hong Kong	42	3426/1998
MTR logo & expanding horizons in Chinese characters ..	17-Aug-2002	Hong Kong	37	4665/1999
MTR logo & expanding horizons.....	17-Aug-2002	Hong Kong	42	2360/1997
MTR logo & expanding horizons.....	17-Aug-2002	Hong Kong	37	4666/1999
Airport Express with Chinese characters & device.....	19-Sep-2001	Hong Kong	39	B9045/1999
Airport Express with Chinese characters & device.....	19-Sep-2001	Hong Kong	37	B6021/1997
Airport Express with Chinese characters & device.....	19-Sep-2001	Hong Kong	36	B6047/1998
Airport Express Line logo (II)	09-Sep-2001	Hong Kong	25	438/1996
AEL logo.....	27-Jan-2006	Hong Kong	39	B16977/1999
New logo (series)	15-Aug-2003	Hong Kong	39	7892A-B/1998
New logo (series)	15-Aug-2003	Hong Kong	16	10066(A-B)/1998
New logo (series)	15-Aug-2003	Hong Kong	9	10065(A-B)/1998
MTRC	15-Aug-2003	Hong Kong	39	4458/1999
MTR logo.....	08-Jun-2014	Hong Kong	36	3751/1995
MTR logo.....	02-Mar-2013	Hong Kong	39	3316/1993
MTR logo.....	16-Oct-2000	Hong Kong	16	1035/1980
MTR logo.....	16-Oct-2000	Hong Kong	28	1038/1980
MTR logo.....	16-Oct-2000	Hong Kong	18	1036/1980
MTR logo.....	16-Oct-2000	Hong Kong	25	1037/1980

Intellectual Property	Renewal Date	Territory of registration	Class	Registration/ Application number
Device mark (series) ⁽¹⁾	—	Hong Kong	39	2000 01569
Device mark (series) ⁽¹⁾	—	Hong Kong	36	2000 01570
MTR in Chinese characters ⁽¹⁾	—	Hong Kong	9	2000 04302
MTR in Chinese characters ⁽¹⁾	—	Hong Kong	16	2000 04301
MTR in Chinese characters ⁽¹⁾	—	Hong Kong	36	2000 04300
MTR in Chinese characters ⁽¹⁾	05-Nov-2000	Hong Kong	39	2000 04299
MTR Corporation in Chinese characters ⁽¹⁾	—	Hong Kong	9	2000 04304
MTR Corporation in Chinese characters ⁽¹⁾	—	Hong Kong	16	2000 04303
MTR Corporation in Chinese characters ⁽¹⁾	—	Hong Kong	36	2000 04306
MTR Corporation in Chinese characters ⁽¹⁾	05-Nov-2000	Hong Kong	39	2000 04305
MTR in Chinese characters ⁽¹⁾	—	Hong Kong	9	2000 05911
MTR in Chinese characters ⁽¹⁾	—	Hong Kong	36	2000 05909
MTR in Chinese characters ⁽¹⁾	—	Hong Kong	16	2000 05910
MTR in Chinese characters ⁽¹⁾	—	Hong Kong	42	2000 05908
MTR Corporation in Chinese characters ⁽¹⁾	—	Hong Kong	9	2000 05907
MTR Corporation in Chinese characters ⁽¹⁾	—	Hong Kong	16	2000 05906
MTR Corporation in Chinese characters ⁽¹⁾	—	Hong Kong	36	2000 05905
MTR Corporation in Chinese characters ⁽¹⁾	27-Nov-2000	Hong Kong	39	2000 05904
MTR property in Chinese characters ⁽¹⁾	—	Hong Kong	36	2000 05903
MTR property management in Chinese characters ⁽¹⁾	—	Hong Kong	36	2000 05902
Premier logo ⁽¹⁾	07-Feb-2001	Hong Kong	36	2000 09727
Airport Express Line logo (II).....	25-Sep-2006	Australia	37, 39	718324
Airport Express Line logo (I).....	25-Sep-2006	Australia	37, 39	718323
Airport Express Line logo (II) ⁽¹⁾	30-Sep-2000	Canada	37, 39	824644
Airport Express Line logo (I) ⁽¹⁾	30-Sep-2000	Canada	37, 39	824643
Airport Express with Chinese characters and device ⁽¹⁾	—	China	39	9900031230
Airport Express Line logo (II).....	06-Feb-2008	China	39	1149806
Airport Express Line logo (II).....	20-Jan-2008	China	37	1145958
Airport Express Line logo (I).....	06-Feb-2008	China	39	1149807
Airport Express Line logo (I).....	20-Jan-2008	China	37	1145959
MTR logo.....	06-Apr-2007	China	36	977871
MTR logo.....	06-Dec-2006	China	39	911894
Airport Express Line logo (I).....	12-Nov-2006	EC	37, 39	000406108
Airport Express Line logo (I).....	12-Nov-2006	EC	37, 39	000406165
Airport Express Line logo (I).....	25-Oct-2006	Indonesia	37	400379
Airport Express Line logo (I).....	25-Oct-2006	Indonesia	39	400378
Airport Express Line logo (II).....	25-Oct-2006	Indonesia	39	400377
Airport Express Line logo (II).....	25-Oct-2006	Indonesia	37	400380
Airport Express Line logo (II).....	28-May-2009	Japan	39	4278250
Airport Express Line logo (II).....	25-Sep-2008	Japan	36	4191635
Airport Express Line logo (I).....	28-May-2009	Japan	39	4278249
Airport Express Line logo (I).....	25-Sep-2008	Japan	36	4191634
MTR logo.....	07-May-2009	Japan	41	4270958
Airport Express Line logo (I).....	11-Jun-2009	Japan	37	4281288
Airport Express Line logo (II).....	11-Jun-2009	Japan	37	4281289
MTR logo.....	19-Mar-2009	Japan	39	4252156
MTR logo.....	31-Oct-2007	Japan	36	4077974
MTR logo ⁽¹⁾	—	Malaysia	36	97-20862
MTR logo ⁽¹⁾	—	Malaysia	39	97-20861
Airport Express Line logo (II) ⁽¹⁾	—	Philippines	39	115876
Airport Express Line logo (II) ⁽¹⁾	—	Philippines	37	115875
Airport Express Line logo (I) ⁽¹⁾	—	Philippines	39	115874
Airport Express Line logo (I) ⁽¹⁾	—	Philippines	37	115873

<u>Intellectual Property</u>	<u>Renewal Date</u>	<u>Territory of registration</u>	<u>Class</u>	<u>Registration/ Application number</u>
MTR logo	14-Jan-2020	Philippines	39	4-1995-105010
MTR logo	14-Jan-2020	Philippines	36	4-1995-105009
Airport Express Line logo (II)	25-Sep-2006	Singapore	37	T96/10304H
Airport Express Line logo (II)	25-Sep-2006	Singapore	39	T96/10305F
Airport Express Line logo (I) ⁽¹⁾	—	Singapore	39	10303/96
Airport Express Line logo (I)	25-Sep-2006	Singapore	37	10302/96
MTR logo	15-Jun-2005	Singapore	39	5430/95
MTR logo	15-Jun-2005	Singapore	36	5429/95
Airport Express Line logo (I)	20-Jul-2008	South Korea	39 (Local 112)	44154
Airport Express Line logo (II)	17-Aug-2008	South Korea	39 (Local 108)	45529
Airport Express Line logo (I)	10-Aug-2008	South Korea	39 (Local 108)	45161
Airport Express Line logo (I)	24-Sep-2008	South Korea	39 (Local 104)	47424
Airport Express Line logo (II)	24-Sep-2008	South Korea	37 (Local 104)	47425
Airport Express Line logo (II)	20-Jul-2008	South Korea	39 (Local 112)	44155
Airport Express Line logo (II)	15-Nov-2007	Taiwan	39	95887
Airport Express Line logo (II)	31-Oct-2007	Taiwan	37	95176
MTR logo	15-Jul-2006	Taiwan	39	83775
Airport Express Line logo (I)	15-Nov-2007	Taiwan	39	95877
Airport Express Line logo (I)	31-Oct-2007	Taiwan	37	95156
MTR logo	15-May-2006	Taiwan	36	82829
Airport Express Line logo (II)	12-Nov-2006	Thailand	37	BOR6677
Airport Express Line logo (I)	12-Nov-2006	Thailand	39	BOR6157
Airport Express Line logo (I)	12-Nov-2006	Thailand	37	BOR6678
Airport Express Line logo (II)	12-Nov-2006	Thailand	39	BOR6158
Airport Express Line logo (II)	07-May-2007	UK	16, 25, 36, 37, 39	2131894
Airport Express Line logo (I)	07-May-2007	UK	16, 25, 36, 37, 39	2131891
Airport Express Line logo (I) ⁽¹⁾	22-Dec-2000	USA	36, 39	75/326017
Airport Express Line logo (II) ⁽¹⁾	22-Dec-2000	USA	36, 39	75/326016

Note:

(1) Pending registration.

(E) Intellectual property rights of Creative Star

Creative Star has registered, or has applied for the registration of, the following intellectual property rights:

<u>Intellectual Property</u>	<u>Renewal Date</u>	<u>Territory of Registration</u>	<u>Class</u>	<u>Registration/ Application Number</u>
Octopus logo(I).....	26-Nov-2001	Hong Kong	36	10345/1996
OCTOPUS.....	16-Jul-2003	Hong Kong	36	11272/1997
OCTOPUS.....	16-Jul-2003	Hong Kong	9	11273/1997
OCTOPUS in Chinese characters	16-Jul-2003	Hong Kong	36	B03688/1998
OCTOPUS in Chinese characters	16-Jul-2003	Hong Kong	9	B09050/1998
Octopus logo ⁽¹⁾	—	Hong Kong	9	94 14155
Octopus logo(II) ⁽¹⁾	—	Hong Kong	9	2000 10127
Octopus logo(II) ⁽¹⁾	—	Hong Kong	36	2000 10128
Parking meter control ⁽²⁾	—	Hong Kong	—	00102 136-4

Notes:

(1) Pending registration.

(2) Short-term patent application.

5. DISCLOSURE OF INTERESTS**(A) Substantial shareholder**

So far as the Members of the Board and Members of the Executive Directorate are aware, immediately following the Global Offering (without adjustment), the following shareholder will be interested in more than 10% of the Shares then in issue:

<u>Name</u>	<u>If the Over-allotment Option is exercised</u>		<u>If the Over-allotment Option is not exercised</u>	
	<u>Number of Shares⁽²⁾</u>	<u>Voting Power (%)</u>	<u>Number of Shares⁽²⁾</u>	<u>Voting Power (%)</u>
The Financial Secretary Incorporated ⁽¹⁾	3,849,999,999	77	3,999,999,999	80

Notes:

(1) The Financial Secretary Incorporated holds these Shares on trust for the Government.

(2) Includes 7,413,177 Shares which is the maximum number of Shares the Selling Shareholder has agreed to transfer to employees of the Company, as described in the paragraph headed "Employee Share Grant" in the section headed "Members of the Board, Members of the Executive Directorate, Senior Management and Employees" and in this section.

(B) Particulars of service contracts

None of the Members of the Board or Members of the Executive Directorate has or is proposed to have a service contract with the Company or any of its subsidiaries other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation) (or, in the case of the Chairman, by the Selling Shareholder).

(C) Personal guarantees

None of the Members of the Board or the Members of the Executive Directorate has provided personal guarantees in favour of lenders in connection with banking facilities granted to the Company.

(D) Fees or commissions

The table below contains details in relation to the commissions paid or granted within the two years preceding the date of this prospectus in connection with the issue or sale and for the subscribing or agreeing to subscribe, or procuring or agreeing to procure subscriptions, for any capital in the Company:

<u>Year</u>	<u>Programme</u>	<u>Commission (rate in %)</u>	<u>Recipient</u>
1999	Global Bond	0.45	Goldman, Sachs & Co., Merrill Lynch, Pierce, Fenner & Smith Incorporated, Chase Securities Inc., HSBC Securities Inc., Lehman Brothers Inc., and J.P. Morgan Securities Inc.

Except as disclosed in this prospectus, no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any shares or loan capital of the Company or any of its subsidiaries within the two years ended on the date of this prospectus. HSBC Investment Bank Asia Limited is an indirect subsidiary of The Hongkong and Shanghai Banking Corporation Limited, which will receive a fee for its services as one of the receiving bankers to the Hong Kong Public Offering. HSBC Nominees (Hong Kong) Limited, a subsidiary of The Hongkong and Shanghai Banking Corporation Limited, will receive a fee for its services in connection with holding the application monies received pursuant to the Hong Kong Public Offering. HSBC Investment Bank Asia Holdings Limited has a 50% interest in Central Registration Hong Kong Limited, the Share Registrar of the Company.

(E) Related party transactions

During the two years preceding the date of this prospectus, the Company has engaged in the material related party transactions described in Note 36 to the financial statements in the Accountants' Report in Appendix I.

(F) Disclaimers

Except as disclosed in this prospectus:

- (i) none of the Members of the Board or Members of the Executive Directorate has any interest in any Shares in or debentures of the Company or any associated company within the meaning of SDI Ordinance, which will have to be notified to the Company and the Stock Exchange pursuant to section 28 of SDI Ordinance (including interests which he is taken or deemed to have under section 31 or Part I of the Schedule to, the SDI Ordinance) or which will be required, pursuant to section 29 of the SDI Ordinance, to be entered in the register referred to therein or which will be required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in each case once the Shares are listed;
- (ii) none of the Members of the Board, Members of the Executive Directorate or officers of the Company is at the date of this prospectus, a legal or beneficial owner of any of the Shares and the Company is not aware of any arrangement which may, at a subsequent date, result in a change of control of the Company;

- (iii) none of the Members of the Board, Members of the Executive Directorate or any of the parties listed in paragraph 9(D) of this Appendix is interested in the Company's promotion, or in any assets which have, within the two years immediately preceding the issue of this prospectus, been acquired or disposed of by or leased to the Company or its subsidiaries, or are proposed to be acquired or disposed of by or leased to the Company or its subsidiaries;
- (iv) none of the Members of the Board, Members of the Executive Directorate or any of the parties listed in paragraph 9(D) of this Appendix is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the Company's business or the respective businesses of its subsidiaries;
- (v) there is no family relationship between any of the Members of the Board or Members of the Executive Directorate or senior managers; and
- (vi) save in connection with the Underwriting Agreements, none of the parties listed in paragraph 9(D) of this Appendix:
 - (a) is interested legally or beneficially in any of the Shares or in any shares in any subsidiary of the Company; or
 - (b) has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in the Company or its subsidiaries.

6. PRE-GLOBAL OFFERING SHARE OPTION SCHEME

The following is a summary of the principal terms of the Pre-Global Offering Share Option Scheme conditionally approved and adopted by a written resolution of all of the Company's shareholders passed on 12th September, 2000:

(A) Who may join

The Directors (or any authorised committee thereof) may, at their discretion, offer to grant to: (i) any Member of the Executive Directorate; and (ii) any employee who holds any of the employee grades specified in the Pre-Global Offering Share Option Scheme (an "**Eligible Employee**"), options to subscribe for Shares. Upon acceptance of the option, the grantee must undertake to pay HK\$1.00 to the Company (on demand) by way of consideration for the grant.

(B) When options may be granted

The Directors (or any authorised committee thereof) may offer to grant options under the Pre-Global Offering Share Option Scheme between 12th September, 2000 and the date on which dealings commence in the Shares on the Stock Exchange (including the former but excluding the latter). No offer to grant any options under the Pre-Global Offering Share Option Scheme will be made on or after the date on which dealings commence in the Shares on the Stock Exchange.

(C) Maximum number of Shares

The maximum number of Shares in respect of which options may be granted (together with options exercised and options then outstanding) under the Pre-Global Offering Share Option Scheme will be 56,762,500 Shares which will represent 1.14% of the issued share capital of the Company immediately following the date on which dealings commence in the Shares on the Stock Exchange.

(D) Price of Shares

The subscription price of a Share in respect of any particular option granted or to be granted under the Pre-Global Offering Share Option Scheme is 90% of the Offer Price.

(E) Rights are personal to grantee

An option is personal to the grantee and shall not be assignable. No grantee may in any way sell, transfer, charge, mortgage or otherwise create any interest in favour of any third party over or in relation to any option.

(F) Time of exercise

An option may be exercised at any time on or after the period commencing six months after the date on which dealings in the Shares commence on the Stock Exchange up to and including 11th September, 2010 (the “**Option Period**”), subject to the provisions for early exercise or early termination contained in the Pre-Global Offering Share Option Scheme Rules.

Subject to the provisions for early exercise described in paragraphs (O), (P) and (Q) below and the restrictions on the right to exercise described in paragraph (G) below, the proportion of underlying Shares in respect of which an option granted under the Pre-Global Offering Share Option Scheme will vest will be as follows:

<u>Date</u>	<u>Proportion of underlying Shares in respect of which an option is vested</u>
Before the first anniversary of the date on which dealings in the Shares commence on the Stock Exchange (an “ Anniversary ”)	none
From the first Anniversary to the date immediately before the second Anniversary	one-third
From the second Anniversary to the date immediately before the third Anniversary	two-thirds
From the third Anniversary and thereafter	all

If, however, an option holder ceases to be an Eligible Employee in respect of any option granted to him:

- (i) for the reasons set out in paragraph (J) below, then his option shall vest in respect of all of the underlying Shares on the first day of the Option Period or on the date on which he so ceases, whichever is later;
- (ii) for the reasons set out in paragraph (K) below, then his option shall vest in respect of any underlying Shares (which have not yet vested in accordance with the above table on the date the option holder ceases to be an Eligible Employee, but which

are due to vest in accordance with the above table on the next Anniversary to occur after he so ceases (the “**Unvested Option Shares**”)) on the first day of the Option Period or on the date on which he so ceases, whichever is later; or

- (iii) for the reasons set out in paragraph (L) below, provided that the date he ceases to be an Eligible Employee is three months or more after the immediately preceding Anniversary, then his option shall vest in respect of any Unvested Option Shares on the first day of the Option Period or on the date on which he so ceases, whichever is later.

(G) Restrictions on the right to exercise applicable to all grantees

Except in the circumstances described in paragraphs (O), (P) and (Q) below, if, in accordance with the Pre-Global Offering Share Option Scheme, the Company issues a notice to grantees which confirms that the Company has failed to satisfy its obligations in respect of any of the performance requirements in relation to train service delivery, passenger journeys on time and train punctuality (each as defined in the Operating Agreement and details of which are contained in the paragraph headed “Performance requirements” in Appendix VII) (the “**Key Performance Requirements**”) for the most recently concluded operating period (as defined in the Operating Agreement), no option will be exercisable in respect of any underlying Shares (including, for the avoidance of doubt those that have already vested) unless and until the Company issues a subsequent notice to grantees confirming that the Company has satisfied its obligations in respect of all of the Key Performance Requirements for the relevant succeeding operating period.

(H) Additional conditions for Members of the Executive Directorate

The grant of any option to any Member of the Executive Directorate is conditional upon him submitting a **WHITE** Application Form applying to purchase at least the number of Shares listed against his name in the table below.

<u>Name of member of the Executive Directorate</u>	<u>Minimum number of Shares that must be applied for</u>
Jack So Chak Kwong	40,000
Russell John Black	23,000
William Chan Fu Keung	23,000
Philip Gaffney	23,000
Thomas Ho Hang Kwong	23,000
Clement Kwok King Man	23,000
Leonard Bryan Turk	23,000

In addition, each Member of the Executive Directorate must continue to beneficially own:

- (i) at all times on and after the date on which dealings commence in the Shares on the Stock Exchange, at least the number of Shares actually acquired by him pursuant to the **WHITE** Application Form submitted by him in accordance with this paragraph (H);
- (ii) at all times on and after the date which falls 21 days after the date on which the first-third of the underlying Shares in respect of his option become exercisable, at least 40,000 Shares (in the case of the Chairman) and at least 23,000 Shares (in the case of any other Member of the Executive Directorate); and

(iii) at all times on and after the date which falls 21 days after the date on which the second one-third of the underlying Shares in respect of his option become exercisable, at least 80,000 Shares (in the case of the Chairman) and at least 46,000 Shares (in the case of any other Member of the Executive Directorate),

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).

If a Member of the Executive Directorate fails to comply with these requirements (as evidenced by the register of directors interests maintained by the Company in accordance with section 29 of the SDI Ordinance together with any relevant records of the Company or the Company's share registrar), his option shall lapse and determine on the date he fails to beneficially own at least the number of Shares set out in sub-paragraphs (i) to (iii) above. For the purposes of this paragraph (H), a Member of the Executive Directorate will be deemed to beneficially own any Shares in respect of which an option has been exercised but which have not yet (by reason of time only) been allotted to such Member of the Executive Directorate.

(I) Rights of exercise on voluntary resignation or on expiry of employment contract (where an offer of renewal of such contract was made by the Company and declined by the grantee) or on dismissal

If the grantee ceases to be an Eligible Employee: (i) by termination of his employment on the grounds of misconduct or conviction of any criminal offence involving his integrity or honesty or on the grounds that he has committed any act of bankruptcy or has become insolvent or has made any arrangements or composition with his creditors generally; or (ii) by reason of voluntary resignation; or (iii) by reason of expiry of his employment contract (where an offer of renewal of such contract was made by the Company and declined by him), then in each case the option will thereupon lapse and determine.

(J) Rights of exercise on death

If the grantee ceases to be an Eligible Employee, by reason of death, then his personal representatives may exercise the option within twelve months of the first day of the Option Period or within twelve months of the date on which he so ceases, whichever is later, and, subject to paragraph (N) below, the option shall lapse and determine at the end of the relevant twelve month period.

(K) Rights of exercise on disability or on retirement

If the grantee ceases to be an Eligible Employee by reason of ill health, injury or disability (physical or mental) (all evidenced to the satisfaction of the Directors or an authorised committee thereof) rendering him unable to discharge the duties of his contract of employment or service or by reason of retirement in accordance with his contract of employment or service then he or (as the case may be) his personal representatives may exercise the option within twelve months of the first day of the Option Period or within twelve months of the date on which he so ceases, whichever is later, and, subject to paragraph (N) below, the option shall lapse and determine at the end of the relevant twelve month period.

(L) Rights of exercise on expiry of employment contract (where no offer of renewal of such contract was made by the Company) or on termination in accordance with his contract of employment (by reason of redundancy)

If the grantee ceases to be an Eligible Employee: (i) by reason of expiry of his employment contract (where no offer of renewal of such contract was made by the Company); or (ii) by termination of his contract of employment or service in accordance with the termination provisions of his contract of employment or service by the Company (by reason of redundancy) he or (as the case may be) his personal representatives, may exercise the option within three months of the first day of the Option Period or within three months of the date on which he so ceases, whichever is later, and the option shall lapse and determine at the end of the relevant three month period.

(M) Rights of exercise in any other circumstances

If the grantee ceases to be an Eligible Employee for any reason other than as described in Paragraphs (I) to (L) above then any option exercisable at the date he so ceases may be exercised to the extent then exercisable within three months of the date he so ceases, and otherwise shall lapse and determine.

(N) Circumstances where the period during which an option holder (who ceases to be an Eligible Employee under paragraphs (J) or (K)) may exercise his option can be extended

If at any time during the twelve month period stipulated in paragraphs (J) or (K), an option is not, or ceases to, be exercisable pursuant to paragraph (G) above, such period shall be extended such that the option holder (or, as the case may be, his personal representatives) may exercise his option (in respect of any underlying Shares which have vested pursuant to paragraph (F) above on the date he so ceases or on the first day of the Option Period (whichever is later)) at any time during a further period of twelve months from the date on which the option first subsequently becomes exercisable under paragraph (G) above, and the option shall lapse and determine at the end of such twelve month period.

(O) Rights on a general offer

If a general offer (whether by way of takeover offer, share repurchase offer or scheme of arrangement or otherwise in a like manner) is made to all shareholders of the Company (other than the offeror and/or any person controlled by the offeror and/or any person acting in association or concert with the offeror), the Company shall use its reasonable best efforts to procure that such offer is extended to all grantees (on the same terms, mutatis mutandis, and assuming that such grantees will become, by the exercise of the options granted to them (to the extent not already exercised), shareholders of the Company). If such offer, having been approved in accordance with applicable laws and regulatory requirements becomes or is declared unconditional, the grantee shall be entitled to exercise the option in respect of all of the underlying Shares (to the extent not already exercised) at any time within 14 days after the date on which the general offer becomes or is declared unconditional and any option not so exercised shall lapse and determine.

(P) Rights on a voluntary winding up

If notice of a general meeting of the Company is duly given to consider a proposed resolution to voluntarily wind-up the Company, every option shall be exercisable in respect of all of the underlying Shares in whole or in part (to the extent not already exercised) at any time thereafter until the resolution is duly passed or defeated or the general meeting concluded or adjourned indefinitely, whichever the earliest. The exercise of an option in these circumstances shall only be valid if the option shall not have lapsed and determined in accordance with the provisions of the Pre-Global Offering Share Option Scheme at the time the resolution to voluntarily wind-up the Company is passed. If such resolution is duly passed, all options shall, to the extent that they have not been exercised, thereupon lapse and determine.

(Q) Rights on a compromise or arrangement

If, under Section 166 of the Companies Ordinance, a compromise or arrangement between the Company and its members or creditors is proposed for the purposes of or in connection with a scheme for the reconstruction of the Company or its amalgamation with any other company or companies, the Company shall give notice thereof to all grantees on the same date as it dispatches the notice which is sent to each member or creditor of the Company summoning the meeting to consider such a compromise or arrangement.

Each grantee may immediately on that day and until two months thereafter, or until the date on which such compromise or arrangement is sanctioned by the Court (if earlier), be entitled to exercise his option in respect of all of the underlying Shares, but such exercise shall be conditional upon such compromise or arrangement being sanctioned by the Court and becoming effective.

Upon such compromise or arrangement becoming effective, all unexercised options shall lapse and determine. The Company may thereafter require each grantee to transfer or otherwise deal with the Shares issued as a result of the exercise of options in these circumstances so as to place the grantee in the same position as nearly as may be as would have been the case had such Shares been subject to such compromise or arrangement.

(R) Effect of alterations to capital

In the event of any alteration in the capital structure of the Company while any option remains exercisable, the Directors (having received a statement in writing from the Company's auditors, that in their opinion the adjustments proposed are fair and reasonable) may make such corresponding adjustment to, among other things:

- (i) the number or nominal amount of Shares comprised in each option; and/or
- (ii) the subscription price per Share of each outstanding option; and/or
- (iii) the minimum number of Shares that a Member of the Executive Directorate must own for the purposes of paragraph (H) above; and/or
- (iv) the maximum number or nominal amount of Shares in respect of which options may be granted.

The issue of Shares as consideration in a transaction is not to be regarded as a circumstance requiring any such adjustment.

(S) Ranking of the Shares

The Shares allotted upon the exercise of an option shall rank *pari passu* in all respects with the other Shares in issue on the date the option is exercised and will be subject to the Articles of Association for the time being in force, save that they will not rank for any dividend paid or proposed to be paid by reference to a record date falling before the date of exercise.

(T) Period of the Pre-Global Offering Share Option Scheme

Subject to earlier termination by the Directors (or any authorised committee thereof), the Pre-Global Offering Share Option Scheme shall be valid and effective for a period of ten years after the date on which it was adopted by the shareholders of the Company.

(U) Alteration of the Pre-Global Offering Share Option Scheme

The provisions of the Pre-Global Offering Share Option Scheme cannot be altered to extend the class of persons eligible for the grant of options and the provisions relating to, amongst other things, the following matters cannot be altered to the advantage of grantees (present or future), without the approval of the shareholders of the Company in general meeting:

- (i) the transferability of options as described in paragraph (E);
- (ii) the total amount of the Shares subject to the Pre-Global Offering Share Option Scheme;
- (iii) the restrictions on the exercise of options;
- (iv) the rights to be attached upon their issue to Shares issued upon the exercise of options;
- (v) the rights of grantees on the winding-up of the Company as described in paragraph (P) above;
- (vi) the basis for determining the subscription price;
- (vii) the provisions for adjustment of those matters as described in paragraph (R) above in the event of an alteration in the capital structure of the Company; and
- (viii) the duration of the Pre-Global Offering Share Option Scheme.

Any alterations to the terms and conditions of the Pre-Global Offering Share Option Scheme which are of a material nature, are conditional on the prior approval of the Stock Exchange, save where the amendment takes effect automatically under the provisions of the Pre-Global Offering Share Option Scheme.

(V) Conditions of Pre-Global Offering Share Option Scheme

The Pre-Global Offering Share Option Scheme is conditional upon Stock Exchange granting approval of such scheme and the grant of the options thereunder and granting the listing of, and permission to deal in, any Shares to be issued upon the exercise of the options on or before 31st October, 2000.

(W) Present status of the Pre-Global Offering Share Option Scheme

Application has been made to the Listing Committee of the Stock Exchange for the approval of the Pre-Global Offering Share Option Scheme, the granting of the options thereunder and for the listing of, and for the granting of permission to deal in, any Shares to be issued upon the exercise of the options.

As at the date of this document, options to subscribe for a maximum, in aggregate, of 56,762,500 Shares at an exercise price of 90% of the Offer Price have conditionally been offered by the Company under the Pre-Global Offering Share Option Scheme. The number of underlying Shares in respect of which each grantee will receive an option will be determined by reference to the approximate value set out in the table below divided by the higher of the Offer Price and the minimum Offer Price (being HK\$8.00) (rounded to the nearest board lot). The relevant employees have until 10th October, 2000 to accept the offer of these options. All these options have a duration of 10 years from 12th September, 2000. The business address of the grantees is MTR Tower, Telford Plaza, 33 Wai Yip Street, Kowloon Bay, Kowloon, Hong Kong. Particulars of the residential addresses of the Members of the Executive Directorate are contained in the section headed "Parties Involved in the Global Offering". Particulars of the options offered or granted to Members of the Executive Directorate and those employees who hold the employee grades of Executive Manager, PM4 Manager and PG3 Manager are set out below:

<u>Members of the Executive Directorate</u>	<u>Maximum number of underlying Shares in respect of which options may be awarded</u>	<u>Approximate value (in HK\$) of underlying Shares in respect of which options may be awarded</u>
Jack So Chak Kwong	1,875,000	15,000,000
Russell John Black	1,250,000	10,000,000
William Chan Fu Keung	1,250,000	10,000,000
Philip Gaffney	1,250,000	10,000,000
Thomas Ho Hang Kwong	1,250,000	10,000,000
Clement Kwok King Man	1,250,000	10,000,000
Leonard Bryan Turk	1,250,000	10,000,000
<u>Executive Managers</u>		
Geoffrey David Avery	312,500	2,500,000
Roger Francis Bayliss	312,500	2,500,000
Roger Charles Bettiss	312,500	2,500,000
Martin Charles Brown	312,500	2,500,000
Ian John Browning	312,500	2,500,000
Victor Chan Hin Fu	312,500	2,500,000
Terence Chan Pak Hang	312,500	2,500,000
Teresa Cheung Chi Ying	312,500	2,500,000
Geoffrey Stuart Daniel	312,500	2,500,000
Martin John Dunn	312,500	2,500,000
Franco Fabbian	312,500	2,500,000
Alan Malcolm Gibson	312,500	2,500,000
Roderic Mather Hockin	312,500	2,500,000
Jeffrey Hooley	312,500	2,500,000
Eric Hui Yip Hung	312,500	2,500,000
Mingo Kwan Sze Ming	312,500	2,500,000
Daniel Lai	312,500	2,500,000

Executive Managers

Henry Lam Hing Cheung	312,500	2,500,000
Jimmy Lau Chiu Chung	312,500	2,500,000
Adi Lau Tin Shing	312,500	2,500,000
Miranda Leung Chan Che Ming	312,500	2,500,000
Paul Lo Po Hing	312,500	2,500,000
Lo Tak Ping	312,500	2,500,000
Vincent Luk Kin Ping	312,500	2,500,000
Stephen Rigby Marshall	312,500	2,500,000
Andrew McCusker	312,500	2,500,000
Poon Kwok Kiu	312,500	2,500,000
David Sorton	312,500	2,500,000
Eric Tang Koon Hung	312,500	2,500,000
Ian Gordon Wilson	312,500	2,500,000
Jeny Yeung Mei Chun	312,500	2,500,000
Tony Yeung Sau On	312,500	2,500,000

PM4/PG3 Managers

Au Yan Shu	137,500	1,100,000
Michael Jeffrey Barker	137,500	1,100,000
Andrew Richard Blackburn	137,500	1,100,000
Henry Chan Hon Ning	137,500	1,100,000
Chan Kong Yau	137,500	1,100,000
Chan Kwok Yan	137,500	1,100,000
Ronald Cheng Kin Wai	137,500	1,100,000
Morris Cheung Siu Wa	137,500	1,100,000
Chin Poon Tak	137,500	1,100,000
Antonio Choi Fung Chung	137,500	1,100,000
James Chow So Hung	137,500	1,100,000
Lawrence Chung Kwok Leung	137,500	1,100,000
Robert Coates	137,500	1,100,000
David Downs	137,500	1,100,000
Jonathan James Dring	137,500	1,100,000
David John England	137,500	1,100,000
Oliver John Fried	137,500	1,100,000
Glenn Howard Frommer	137,500	1,100,000
Simon Fung Sai Ho	137,500	1,100,000
Barry Malcolm Hill	137,500	1,100,000
Ho Chi Ying	137,500	1,100,000
Ho Chun Wing	137,500	1,100,000
Raymond Ho Ping	137,500	1,100,000
Richard Ho Wun Fun	137,500	1,100,000
Nelson Hung Yat Keung	137,500	1,100,000
Jacob Kam Chak Pui	137,500	1,100,000
Richard Michael Keefe	137,500	1,100,000
Kenny Kong Kin Ping	137,500	1,100,000
George Lee Kai Wing	137,500	1,100,000
Lee Tze Man	137,500	1,100,000
Leung Chi Choi	137,500	1,100,000
Leung Chi Lap	137,500	1,100,000
Leung Hong Wing	137,500	1,100,000
Leung Kwok Yiu	137,500	1,100,000
Peter Leung Man Fat	137,500	1,100,000

PM4/PG3 Managers

Lo Shuet Keung	137,500	1,100,000
Ringo Lo Tze Shut	137,500	1,100,000
Lok Ka Sui	137,500	1,100,000
Sunny Lui Siu Sun	137,500	1,100,000
Alvin Luk Wing Kwok	137,500	1,100,000
Arnold John Luntz	137,500	1,100,000
Barry Robert Melbourne	137,500	1,100,000
Francis Mok Gar Lon	137,500	1,100,000
Raymond Ng Tsak Wai	137,500	1,100,000
Gareth John Page	137,500	1,100,000
Eddie So Chung Tat	137,500	1,100,000
Alex Sze Ping Chiu	137,500	1,100,000
Teresa Tang Sui Ching	137,500	1,100,000
Ian Kenneth Thornely	137,500	1,100,000
Andy Tong Sze Hang	137,500	1,100,000
Dennis Patrick Toomey	137,500	1,100,000
Cary Tu Chun Yuen	137,500	1,100,000
James Richard Walker	137,500	1,100,000
Mervyn Thomas Wilson	137,500	1,100,000
Robin Wong Koon Sang	137,500	1,100,000
Wong Lap Wai	137,500	1,100,000
Philip Yao Kwok Sang	137,500	1,100,000
Philip Yeung Chung Kei	137,500	1,100,000
Henry Francis Patrick Young	137,500	1,100,000
Keith Yuen Sze Fun	137,500	1,100,000
Yuen Wah Hi	137,500	1,100,000

<u>Other Employee Grades</u>	<u>Number of Incumbents</u>	
PM3/PG2/PM2 management grade	272	17,000,000
PM1/PG1 management grade	400	12,000,000
TOTAL		<u>56,762,500</u>

A total of seven Members of the Executive Directorate and 765 other employees will be offered to be granted or granted options under the Pre-Global Offering Share Option Scheme.

The Company has applied for a waiver from the Securities and Futures Commission from strict compliance with the disclosure requirements of paragraph 10 of Part 1 of the Third Schedule to the Companies Ordinance (“**Paragraph 10**”) in relation to the grantees and persons to whom options have been offered under the Pre-Global Offering Share Option Scheme on the ground that strict compliance with these requirements would be unduly burdensome. The Securities and Futures Commission has granted such a waiver under Section 38A of the Companies Ordinance subject to the following conditions:

- (i) that details of all options granted or offered to be granted by the Company under the Pre-Global Offering Share Option Scheme to Members of the Executive Directorate and those Eligible Employees who hold the employee grades of

- PM4/PG3 or above are disclosed in this prospectus, such details to include all the particulars required under Paragraph 10, save for individual residential addresses of those Eligible Employees who are not Members of the Executive Directorate;
- (ii) that for the purpose of stating the number of Shares underlying each option under Paragraph 10, it would be sufficient to state the maximum underlying Shares pertaining to each option offered by the Company as determined by reference to the minimum Offer Price (being HK\$8.00); and
 - (iii) that a list of all grantees who have been offered or granted options under the Pre-Global Offering Share Option Scheme (including the persons referred to in paragraph (i) above) containing all the particulars as required under Paragraph 10, save for individual residential addresses for those Eligible Employees who are not Members of the Executive Directorate, be made available for public inspection in accordance with the paragraph headed “Documents Available for Inspection” in Appendix X.

Save as disclosed above, no other options have been offered, granted or agreed to be granted by the Company under the Pre-Global Offering Share Option Scheme.

7. EMPLOYEE SHARE GRANT

The following is a summary of the principal terms of the Employee Share Grant.

(A) Who may participate

The Selling Shareholder and the Company have issued a letter (a “**Share Grant Letter**”) to each full time employee of the Company who is not eligible to participate in the Pre-Global Offering Share Option Scheme (the “**Employee**”) pursuant to which the Selling Shareholder undertakes to make a free transfer of a certain number of Shares (the “**Grant Shares**”) to such Employee on the terms and conditions set out therein.

In order to be entitled to the Grant Shares, the Employee must be a full time employee of the Company as at 11th September, 2000 and must remain so employed up to and including the first anniversary (the “**Relevant Date**”) of the date on which dealings commence in the Shares on the Stock Exchange. Notwithstanding the foregoing, an Employee will still be entitled to the Grant Shares under the terms of the Share Grant Letter if he ceases to be a full time employee of the Company prior to the Relevant Date by reason of:

- (i) death; or
- (ii) ill health, injury or disability (whether physical or mental) (all evidenced to the satisfaction of the Board of Directors or a duly authorised committee thereof); or
- (iii) retirement in accordance with his contract of employment or service; or
- (iv) termination of his employment contract by the Company by reason of redundancy.

(B) Number of Grant Shares

Subject to the terms and conditions of the Share Grant Letter, each Employee will be entitled to receive Shares with a value (determined on the basis of the higher of: (i) the Offer Price; and (ii) the minimum Offer Price of HK\$8.00) of HK\$5,000 or the equivalent to approximately half a month's basic salary (whichever is greater). Each Employee will be notified of the exact number of Grant Shares to which he will be entitled after the date on which dealings commence in the Shares on the Stock Exchange. The maximum number of Shares that will be transferred to Employees under the Employee Share Grant is, in aggregate, 7,413,177 Shares.

(C) Rights to dividends

If at any time on or after the date on which dealings commence in the Shares on the Stock Exchange, a dividend is to be or is proposed to be paid to holders of Shares and the Grant Shares have not been transferred to the Employee as at the record date in respect of any such dividend, the Selling Shareholder has agreed to elect to receive any dividend declared in respect of the Grant Shares in cash and has authorised the Company (and the Company has agreed) to pay an amount equal to such dividend in respect of the Grant Shares to the Employee.

(D) When the Grant Shares will be transferred

If the Employee is entitled to receive the Grant Shares under the terms of the Share Grant Letter, the Selling Shareholder has agreed to transfer the Grant Shares to the Employee (or, as the case may be, his personal representatives) within seven days of the Relevant Date. Any stamp duty payable in respect of such transfer will be paid by the Selling Shareholder.

(E) Rights are personal to grantee

The rights of the Employee under the Share Grant Letter are personal to the Employee and are not assignable. No grantee may in any way sell, transfer, charge, mortgage or otherwise create any interest in favour of any third party over or in relation to his rights under the Share Grant Letter.

(F) Circumstances in which rights of Employee lapse

If at any time on or after the date on which dealings commence in the Shares on the Stock Exchange, up to and including the Relevant Date, the Employee ceases to be a full time employee of the Company for any reason other than those set out in paragraph (A)(i) to (iv) above, all of the Employee's rights under the Share Grant Letter shall immediately lapse and determine.

(G) Condition of Employee Share Grant

The rights and obligations of the Employee, the Selling Shareholder and the Company under the Share Grant Letter are conditional upon dealings commencing in the Shares on the Stock Exchange on or before 31st October, 2000.

8. RESPONSIBILITY

- (A) On the terms set out in this prospectus, the Selling Shareholder accepts sole responsibility for the following information in this prospectus:
- (i) information consisting of statements as to actions taken or which will be taken (or, as the case may be, not taken or which will not be taken) by, or the intentions, views, expectations, preferences, opinions or policy of, the Government, the Selling Shareholder, the Secretary for Transport, and the Commissioner for Transport;
 - (ii) the information on the front page of this prospectus except for the Company's logo, the Company's name, the statement regarding incorporation and limited liability, the statement regarding the nominal value of the Shares, the statement regarding the stock code, the statement regarding the financial advisers to the Company, the Joint Sponsors and the paragraph beginning "A copy of this prospectus...";
 - (iii) the information in the section headed "Expected Timetable";
 - (iv) in the section headed "Summary":
 - (a) the information in the paragraph beginning "The Government can exert significant influence..." under the heading "Risks relating to the Company and its business";
 - (b) the information in the paragraph beginning "Sales of substantial number of Shares..." (except for the information relating to the Company's ability to raise capital) under the heading "Risks relating to the Shares, the ADSs and applications using an ESP";
 - (c) the information in the subsection headed "The Global Offering"; and
 - (d) the information in the subsection headed "Retail Incentives"; and
 - (e) the information in the subsection headed "Use of proceeds";
 - (v) the information in the section headed "Definitions" insofar as it relates to the definitions of Application Forms, Appointed Day, Bonus Shares, CCASS, CCASS Broker Participant, CCASS Custodian Participant, CCASS Investor Participant, CCASS Participant, Chief Executive, Chief Executive in Council, Commissioner for Transport, Companies Ordinance, East Kowloon Line, Eligibility Conditions, Employee Share Grant, ESP or eIPO Service Provider, **ESP** Application Form, Financial Secretary, Fourth Rail Harbour Crossing, GIC Facilities, Global Offering, Government, Government Gazette, HKMA, HKSCC Nominees, Hong Kong, Hongkong Clearing, Hong Kong Offer Shares, Hong Kong Public Offering, Hong Kong Public Offering Methods, International Offering, Island Line Extensions, Joint Global Coordinators, Joint Lead Managers or Joint Bookrunners, KCRC Ordinance, Kowloon Southern Link, Legislative Council, Loyalty Share Bonus, MTRC Ordinance, new MTR Ordinance, Northern Link, Offer Price, Offer Shares, Over-allotment Option, Port Rail Line or PRL, Price Determination Agreement, Price Determination Date, Railway Development Strategy 2000, RDS-2, Retail Discount, Retail Incentives, SDI Ordinance, Secretary for Transport, Securities and Exchange Commission, Securities Ordinance and Selling Shareholder;

- (vi) in the section headed “Risk Factors”:
 - (a) the information in the paragraphs headed “The Government can exert significant influence...” (except for the information relating to the Company competing with KCRC, Kowloon Motor Bus, New World First Bus and Citybus) in the subsection headed “Risks relating to the Company and its business”;
 - (b) the statements beginning “From 1st July, 1997...” and ending “...remain unchanged for 50 years.” in the paragraph headed “Economic, political and legal developments in Hong Kong could affect the Company’s business” in the subsection headed “Risks relating to Hong Kong”;
 - (c) the statements beginning “The HK dollar has been...” and ending “...linked exchange rate system.” in the paragraph headed “A devaluation in the HK dollar may...” in the subsection headed “Risks relating to Hong Kong”;
 - (d) the information in the paragraph headed “Sales or issues of substantial numbers of Shares...” (except for the information relating to the Company’s ability to raise capital) in the subsection headed “Risks relating to the Shares, the ADSs and applications using an ESP”; and
 - (e) the information in the paragraphs headed “Applications using an ESP are available for the first time...” in the subsection headed “Risks relating to the Shares, the ADSs and applications using an ESP”;
- (vii) the information in the section headed “Information about this Prospectus and the Global Offering” (except for the information in the subsections headed “Responsibility for the Contents of this Prospectus”, “Underwriting” and “Application for Listing on the Stock Exchange”);
- (viii) in the section headed “Parties involved in the Global Offering”:
 - (a) the information relating specifically to the Selling Shareholder;
 - (b) the information relating specifically to Denise Yue Chung Yee, the Secretary for Transport and the Commissioner for Transport in the subsection headed “Members of the Board of Directors”; and
 - (c) the information relating specifically to the Joint Global Coordinators, Joint Lead Managers and Joint Bookrunners, Co-Lead Managers in the International Offering, Senior Co-Lead Managers in the Hong Kong Public Offering, financial adviser to the Government, legal advisers to the Underwriters, legal adviser to the Government and receiving bankers in the subsection headed “Parties involved in the Global Offering”;
- (ix) the information in the section headed “Industry Background” except for information which:
 - (a) specifically refers to the Company, any subsidiaries of the Company or any person acting on behalf of any of them;

- (b) consists of statements as to actions taken or which will be taken (or, as the case may be, not taken or which will not be taken) by, or the intentions, views, expectations, preferences, opinions or policy of the Company and any of its subsidiaries;
 - (c) the Mass Transit Railway; and
 - (d) the table headed “Residential Price Index and Average Price (Index: 1st January, 1990=100)”;
- (x) in the section headed “Business”:
- (a) insofar as the information specifically refers to the Government, the Selling Shareholder or any person acting on their behalf; and
 - (b) insofar as the information consists of statements as to actions taken or which will be taken (or, as the case may be, not taken or which will not be taken) by, or the intentions, views, expectations, preferences, opinions or policy of, the Government or the Selling Shareholder,
except for the information:
 - (AA) in the statements beginning “On the same day...” and ending “...contained in Appendix VII” in the paragraph headed “Privatisation”;
 - (BB) in the paragraph headed “Arrangements under the Operating Agreement in relation to land for property development”;
 - (CC) in the paragraph headed “Railway Properties”; and
 - (DD) which specifically refers to legislation or regulation, including any information relating to the new MTR Ordinance;
- (xi) in the section headed “Members of the Board, Members of the Executive Directorate, Senior Management and Employees”:
- (a) the information which relates specifically to Denise Yue Chung Yee, the Secretary for Transport and the Commissioner for Transport; and
 - (b) the information in the paragraph beginning “The Chief Executive...” in the subsection headed “General”;
- (xii) in the section headed “Relationship with the Government”:
- (a) the information in the subsection headed “The Government as shareholder”, except for the information in the paragraphs beginning “In relation to Rule 8.08(1)...”, “Under the Articles...”, “In addition...” and “As a result, the Company...”, respectively;
 - (b) the information in the subsection headed “The Government as regulator”; and
 - (c) the information in the subsection headed “The Government’s relationship with competitors”;

- (xiii) the following statements in the section headed “Financial Information”:
 - (a) “However, if the Company were to seek to raise equity finance from shareholders, the Selling Shareholder on behalf of the Government would provide equity capital to the Company pro-rata to its shareholding in the Company where the Government considers it appropriate”;
 - (b) “Electricity tariffs are regulated by the Government”; and
 - (c) “The Selling Shareholder has agreed that, in respect of the final dividend for the financial year ending 31st December, 2000 and any dividends declared in respect of each of the three financial years ending 31st December, 2003, it will elect to receive all or part of its entitlement to dividends in the form of Shares 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 in the form of cash”;
- (xiv) the information in the section headed “Use of Proceeds”;
- (xv) the information in the subsection headed “Total expenses” in the section headed “Underwriting”;
- (xvi) the information in the section headed “Structure of the Global Offering”;
- (xvii) the information in the section headed “Retail Incentives”;
- (xviii) the information in the section headed “How to Apply for Hong Kong Offer Shares” except for information which specifically refers to the Main Lobby, Level 2, MTR Tower, Telford Plaza, Kowloon Bay, Kowloon;
- (xix) the information in the section headed “Terms and conditions of the Hong Kong Public Offering”;
- (xx) the information in the section headed “Prospectus, Application Forms and Results of Allocations” except for information which specifically refers to MTR Stations or the Reception Counter at the Main Lobby, Level 2, MTR Tower, Telford Plaza, Kowloon Bay, Kowloon;
- (xxi) the information in Appendix VII in the section headed “Regulation”; and
- (xxii) in Appendix IX:
 - (a) insofar as it relates to the Selling Shareholder, Denise Yue Chung Yee, the Secretary for Transport and the Commissioner for Transport (including statements of their beliefs, intentions and opinions), the information in paragraphs 3(I) (General), 5(A) (Substantial Shareholder), 5(C) (Personal Guarantees), 5(F) (i), (ii), (iii), (iv) and (v) (Disclaimers), 9(F) (No Material Adverse Change) and 9(G)(i) (Miscellaneous); and
 - (b) the information in paragraph 8(A) (Responsibility), 9(C) (Expenses) (except for the paragraph beginning “Under paragraph 15...” and the paragraph beginning “The Company has applied...”) and 9(E) (Taxation of Holders of Shares) (except for the sentence beginning “The Members of the Board...”).

- (B) On the terms set out in this prospectus, the Selling Shareholder, the Members of the Board and Members of the Executive Directorate accept joint responsibility for the following information in this prospectus:
- (i) in the section headed “Summary”:
 - (a) in the subsection headed “Risk Factors”:
 - (AA) the information in the paragraph beginning “The Company and the Selling Shareholder consider...” and ending “...as follows”; and
 - (BB) the information in the paragraph beginning “In certain circumstances...” under the heading “Risks relating to the Company and its business”; and
 - (b) the information in the subsection headed “Offer Statistics”;
 - (ii) the information in the section headed “Definitions” insofar as it relates to the definitions of Airport Railway Agreement, Hong Kong dollars or HK dollars or HK\$, Hong Kong Underwriters, Hong Kong Underwriting Agreement, International Underwriters, International Underwriting Agreement, Listing Rules, km, North Hong Kong Island Line or NIL, Operating Agreement, QBR Project Agreement, Regional Express Line or REL, route kilometre, Shatin to Central Link, Stock Exchange, TKE Project Agreement, US Securities Act, Underwriters and West Hong Kong Island Line or WIL;
 - (iii) in the section headed “Risk Factors”:
 - (a) the information in the paragraph beginning “In evaluating an investment...”;
 - (b) the information in the paragraphs beginning “In certain circumstances...” in the subsection headed “Risks relating to the Company and its business; and
 - (c) the information in the paragraphs beginning “If an active market...” in the subsection headed “Risks relating to the Shares, the ADSs and applications using an ESP”;
 - (iv) in the section headed “Information about this Prospectus and the Global Offering”, the information in the paragraphs headed “Responsibility for the Contents of this Prospectus” and “Underwriting”, respectively;
 - (v) in the section headed “Business”:
 - (a) the information in the statements beginning “On the same day...” and ending “...contained in Appendix VII” in the paragraph headed “Privatisation”;
 - (b) the information in the paragraph headed “Arrangements under the Operating Agreement in relation to land for property development”;
 - (c) the information in the paragraphs headed “Railway Properties”, except for the information in the paragraphs beginning:
 - (AA) “certain other interests which are held by way of assignments ...”;

- (BB) “There are retail sites ...”; and
- (CC) “The Railway Properties are stated ...”; and
- (d) the information which specifically refers to the new MTR Ordinance;
- (vi) in the section headed “Members of the Board, Members of the Executive Directorate, Senior Management and Employees”:
 - (a) the information in the paragraphs beginning “For so long as...” and “The chairman is entitled...”, respectively under the heading “Committees”; and
 - (b) the information in the paragraph beginning “Under the Articles...” under the heading “Compensation to Members of the Board and Members of the Executive Directorate”;
- (vii) the information in the section headed “Share Capital”;
- (viii) in the section headed “Relationship with the Government”:
 - (a) the information in the paragraphs beginning “Under the Articles...” and “In addition...”, respectively in the subsection headed “The Government as shareholder”; and
 - (b) the information in the subsection headed “The Government as contracting party” (except for the information in the paragraphs beginning “Transactions between the Company and Creative Star...” and “Transactions between KCRC and Creative Star...”, respectively);
- (ix) the following statement in the section headed “Financial Information”:

“The level of the Company’s indebtedness reflects a decision by the Government and the Company as to an appropriate ratio of debt to shareholder funds, which takes into account the Company’s cash requirements and the impact of additional indebtedness on the Company’s credit ratings and cost of debt financing.”;
- (x) the information in the section headed “Underwriting” (except for the information in the subsection headed “Total Expenses”);
- (xi) in Appendix VII:
 - (a) the information in the paragraph beginning “This Appendix contains...”; and
 - (b) the information in the sections headed “The new MTR Ordinance” and “The Operating Agreement”, respectively; and
- (xii) in Appendix IX, the information in paragraphs 4(A) (Summary of Material Contracts), 7 (Employee Share Grant) and 8(B) (Responsibility).

9. OTHER INFORMATION

(A) Litigation

- (i) The Company is currently in dispute with the Airport Authority (the “**Airport Authority**”) and such dispute, unless settled, could lead to arbitration proceedings.

Under an entrustment agreement dated 15th December, 1995, the Airport Authority carried out certain entrustment works for the Company at the Airport (the “**Entrustment Works**”) including the construction of the MTR station at the Airport station. The Entrustment Works were carried out by the Airport Authority’s contractor, Nishimatsu, and were only a proportion of the total works that Nishimatsu carried out at the Airport for the Airport Authority. Nishimatsu has lodged contract claims against the Airport Authority which total around HK\$2.9 billion in respect of the total amount of works they carried out at the Airport. The Airport Authority has claimed part of this amount from the Company. The basis for the Airport Authority’s claim against the Company arises from the terms of the entrustment agreement which provide that, unless either: (a) the claims from Nishimatsu can be shown to be 100% due to the requirements of one party; or (b) there is a default by the Airport Authority under the entrustment agreement, any payment of the claims is to be apportioned between the Airport Authority and the Company on the basis of 70% to be paid by the Company and 30% by the Airport Authority. Based on the Airport Authority’s assessment of the claims by Nishimatsu, the Company’s liability would be approximately HK\$568 million. However, the Company has rejected the assessment from the Airport Authority, after receiving professional advice, principally on the grounds that the Airport Authority is in breach of its obligations under the entrustment agreement: (a) in not performing its duties with reasonable skill and care; and (b) in not providing the information necessary to determine whether the claims arise from the requirements from one party or the other (the apportionment on the 70%/30% basis cannot apply until after such determination).

The Company has not been provided information, in order to assess the claim, to which it is entitled under the entrustment agreement. However, on the basis of the information available to date and professional advice received by the Company on this matter, the Members of the Board and the Members of the Executive Directorate do not believe that the Company will be liable to pay to the Airport Authority the full amount claimed by the Airport Authority.

- (ii) The Highways Department has claimed the sum of HK\$275.6 million in respect of amounts to be apportioned to the Company under various entrustment agreements entered into for carrying out related works associated with the Airport Railway Project. The Company expects to settle this claim with the Highways Department and based on professional advice received, the Company does not believe that it will be liable to pay the full amount claimed by the Highways Department. The Company has made no specific provision for the payment of any amount to Highways Department.

- (iii) Except as disclosed above, neither the Company nor any of its subsidiaries is involved in any material litigation, arbitration or administrative proceedings. So far as the Company is aware, no such litigation, arbitration or administrative proceedings are pending or threatened that would have a material effect on the Company's results of operation or financial condition or those of its subsidiaries.

(B) Joint Sponsors

The Joint Sponsors have made an application on the Company's behalf to the Listing Committee of the Stock Exchange for listing of, and permission to deal in, the Shares. All necessary arrangements have been made enabling the securities to be admitted into CCASS.

(C) Expenses

The amount of commissions and estimated expenses, after excluding certain expenses agreed to be paid by the Joint Global Coordinators and the Underwriters, of the issue and of the application for listing of the Shares on the Stock Exchange payable by the Selling Shareholder are approximately HK\$398 million (assuming the Over-allotment Option is not exercised in full and assuming an Offer Price of HK\$9.38 per Offer Share being the maximum Offer Price).

Under paragraph 15 (“**Paragraph 15**”) of the Third Schedule to the Companies Ordinance and paragraph 20(1) (“**Paragraph 20(1)**”) of Part A of Appendix 1 of the Listing Rules, the Company is required to include in this prospectus details in relation to the amount or estimated amount of preliminary expenses. Under paragraph 35 of the Third Schedule to the Companies Ordinance, Paragraph 15 (so far as it relates to preliminary expenses) shall not apply in the case of a prospectus issued more than two years after the date on which the Company began to carry on business.

The Company has applied to the Securities and Futures Commission for an exemption under Section 38A of the Companies Ordinance from strict compliance with Paragraph 15 and to the Stock Exchange for a waiver from strict compliance with Paragraph 20(1), on the grounds that the business carried on by the Company (having been vested from MTRC to the Corporation under the new MTR Ordinance) commenced more than two years before the date on which this prospectus is issued. The Securities and Futures Commission has issued a certificate of exemption under Section 38A of the Companies Ordinance granting an exemption from strict compliance with Paragraph 15 for the reasons set out above; and the Stock Exchange has granted a waiver from strict compliance with Paragraph 20(1) for the reasons set out above.

(D) Consents and qualification of parties

Goldman Sachs (Asia) L.L.C., HSBC Investment Bank Asia Limited and UBS Warburg Asia Limited, as Joint Sponsors, KPMG as the Company's independent auditors, Brooke International (China) Limited as the Company's property valuer and MVA Hong Kong Limited as the Company's traffic consultant have given and have not withdrawn their respective written consents to the issue of this prospectus with the inclusion of their reports and/or letters and/or valuation certificates and/or the references to their names included herein in the form and context in which they are respectively included.

The qualifications of the parties who have given opinions in this prospectus are as follows:

Name	Qualification
Goldman Sachs (Asia) L.L.C.....	Registered investment adviser under the Securities Ordinance
HSBC Investment Bank Asia Limited.....	Exempt dealer under the Securities Ordinance and licensed bank under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)
UBS Warburg Asia Limited.....	Registered investment adviser under the Securities Ordinance
KPMG	Certified public accountants
Brooke International (China) Limited.....	Professional valuers and surveyors
MVA Hong Kong Limited	Professional traffic consultants

(E) Taxation of holders of Shares

The Hong Kong Offer Shares are Hong Kong property for the purposes of the Estate Duty Ordinance (Chapter 111 of the Laws of Hong Kong) and, accordingly, Hong Kong estate duty may be payable in respect thereof on the death of an owner of Shares. The Members of the Board and the Members of the Executive Directorate have been advised that no material liability for estate duty under Hong Kong law would be likely to fall upon the Company or its subsidiaries.

The sale, purchase and transfer of Shares are subject to Hong Kong stamp duty the current rate of which is HK\$2.25 for every HK\$1,000 (or part thereof) of the consideration or, if higher, the fair value of the Shares being sold or transferred.

(F) No material adverse change

Except as disclosed in this prospectus, the Members of the Board and the Members of the Executive Directorate believe that there has been no material adverse change in the financial or trading position or prospects of the Company and its subsidiaries since 31st July, 2000.

(G) Miscellaneous

Except as disclosed in this prospectus:

- (i) none of the Members of the Board, Members of the Executive Directorate or their associates or any of the promoters has any interest in the Company's five largest suppliers;

- (ii) within the two years preceding the date of this prospectus, the Company has not issued nor agreed to issue any share or loan capital fully or partly paid either for cash or for a consideration other than cash;
- (iii) no share or loan capital of the Company is under option or is agreed conditionally or unconditionally to be put under option;
- (iv) neither the Company nor any of its subsidiaries has issued or agreed to issue any founder shares, management shares or deferred shares;
- (v) none of the equity and debt securities of the Company is listed or dealt with in any other stock exchange nor is any listing or permission to deal being or proposed to be sought; and
- (vi) the Company has no outstanding convertible debt securities.

APPENDIX X DOCUMENTS DELIVERED AND AVAILABLE FOR INSPECTION

1. DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were:

- (i) a copy of each of the **WHITE, BLUE, YELLOW** and **PINK** Application Forms;
- (ii) a copy of the **ESP** Application Form;
- (iii) the written consents referred to in paragraph 9(D) of Appendix IX;
- (iv) a copy of each of the material contracts referred to in paragraph 4(A) of Appendix IX; and
- (v) a list containing the name, address and a description of the Selling Shareholder.

2. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Slaughter and May at 27th Floor, Two Exchange Square, Central, Hong Kong during normal business hours up to and including 20th October, 2000:

- (i) the Memorandum of Association and Articles;
- (ii) the Accountants' Report prepared by KPMG, the text of which is set out in Appendix I;
- (iii) the letters relating to the profit forecast, the text of each of which is contained in Appendix IV;
- (iv) the letter dated 25th September, 2000 with valuation certificate relating to the Company's property interests and the full valuation report prepared by Brooke International (China) Limited, the texts of which are contained in Appendix V;
- (v) the letter dated 25th September, 2000 prepared by MVA Hong Kong Limited, the text of which is set out in Appendix VI;
- (vi) the material contracts referred to in paragraph 4(A) of Appendix IX;
- (vii) the following contracts in respect of Connected Transactions:
 - (a) the Running Line Lease dated 29th October, 1993 between the Government and the Company;
 - (b) the Running Line Lease dated 27th June, 1997 between the Government and the Company (in respect of the Tung Chung and Airport Express Line);
 - (c) the agreement for Hong Kong Housing Authority works entrusted to Mass Transit Railway Corporation (in respect of piled foundations for the Yau Tong Phase 4 public transport interchange development) between the Hong Kong Housing Authority and the Mass Transit Railway Corporation dated 11th December, 1998;

APPENDIX X DOCUMENTS DELIVERED AND AVAILABLE FOR INSPECTION

- (d) the agreement for Hong Kong Housing Authority works entrusted to Mass Transit Railway Corporation (in respect of site formation and foundations (part) of Housing blocks at Eastern Harbour Crossing site and shopping spine above Yau Tong station) between the Hong Kong Housing Authority and the Mass Transit Railway Corporation dated 10th April, 1999;
 - (e) the agreement for Government works entrusted to the Mass Transit Railway Corporation (in respect of infrastructure works adjacent to areas 45, 55, 56 and 57 in Tseung Kwan O town centre) between the Government and the Mass Transit Railway Corporation dated 26th May, 1999; and
 - (f) the entrustment agreement between the Mass Transit Railway Corporation and the Kowloon-Canton Railway Corporation (in respect of a new pedestrian subway link at Kowloon Tong station interchange) between Kowloon-Canton Railway Corporation and the Mass Transit Railway Corporation dated 29th June, 2000;
- (viii) the written consents referred to in paragraph 9(D) of Appendix IX;
- (ix) a list of the persons who have been granted or offered options to subscribe for Shares under the Pre-Global Offering Share Option Scheme (together with details of the number of underlying Shares in respect of which options have been offered or granted to each such person), further details of which are contained in the paragraph headed "Pre-Global Offering Share Option Scheme" in Appendix IX;
- (x) the rules of the Pre-Global Offering Share Option Scheme;
- (xi) the new MTR Ordinance and subsidiary legislation made or adopted thereunder; and
- (xii) the audited accounts of the Company for each of the three years ended 31st December, 1999 and for the six months ended 30th June, 2000 and the audited accounts of each of the Company's subsidiaries for each of the three years ended 31st December, 1999.

Joint Global Coordinators, Joint Lead Managers and Joint Bookrunners

**Goldman Sachs (Asia)
L.L.C.**

**HSBC Investment Bank Asia
Limited**

UBS Warburg

Joint Sponsors

**Goldman Sachs (Asia)
L.L.C.**

**HSBC Investment Bank Asia
Limited**

**UBS Warburg Asia
Limited**

Co-Lead Managers

BOCI Asia Limited

Chase JF

Co-Managers

Bank of East Asia

Celestial Capital Limited

Corporate Brokers Ltd

Dao Heng Securities Limited

Dresdner Kleinwort Benson

Get Nice Investment Limited

Hang Seng Securities

Indosuez W.I. Carr Securities

ING Barings

Ka Wah Capital Limited

Kim Eng Securities (Hong Kong) Limited

Lippo Securities Limited

Morgan Stanley Dean Witter

Prudential-Bache Securities

Roctec Securities Company Limited

Sanfull Securities Limited

SG Securities

Shenyin Wanguo Capital (H.K.) Limited

South China Securities Limited

Sun Hung Kai International Limited

Tai Fook Securities Company Limited

Vickers Ballas Capital Limited



Hong Kong SAR Government

MTR Privatisation Share Offer