

Notes to the summary financial statements

1 Significant accounting policies

This summary financial statements have been prepared from the audited financial statements of the Company and all its subsidiaries (the "Group") for the year ended 31 December 2004.

The same accounting policies adopted in the 2003 annual accounts have been consistently applied.

2 Remuneration of Members of the Board and the Executive Directorate

A Remuneration of Members of the Board and the Executive Directorate

(i) The aggregate emoluments of the Members of the Board and the Executive Directorate of the Company disclosed pursuant to section 161 of the Hong Kong Companies Ordinance were as follows:

<i>in HK\$ million</i>	2004	2003
Fees	3	2
Salaries, housing allowances and other benefits-in-kind	28	28
Variable remuneration related to performance	8	3
Retirement scheme contributions	3	4
	42	37

The above emoluments do not include realised gains on exercise of share options amounting to HK\$5.1 million (2003: HK\$8.7 million) in respect of certain Members of the Executive Directorate, which are disclosed under the paragraph "Board Members and Executive Directorate's Interest in Shares" of the Report of the Members of the Board.

Non-executive directors of the Company are not appointed for a specific term but are subject (save as those appointed pursuant to Section 8 of the Mass Transit Railway Ordinance (Chapter 556 of the Laws of Hong Kong)) to retirement by rotation and re-election at the Company's annual general meetings in accordance with Articles 87 and 88 of the Company's Articles of Association.

(ii) The gross emoluments (excluding share option benefit) of the Members of the Board and the Members of the Executive Directorate were within the following bands:

Emoluments	2004 Number	2003 Number
HK\$0 – HK\$500,000	9	8
HK\$500,001 – HK\$1,000,000	1	2
HK\$4,000,001 – HK\$4,500,000	–	3
HK\$4,500,001 – HK\$5,000,000	4	2
HK\$5,000,001 – HK\$5,500,000	2	1
HK\$6,000,001 – HK\$6,500,000	–	1
HK\$9,000,001 – HK\$9,500,000	1	–
	17	17

The information shown in the above table includes the five highest paid employees. The independent non-executive directors' emoluments are included in the first remuneration band except the non-executive Chairman, whose emolument is included in the second remuneration band. Emolument of the ex-Chairman, Jack C K So who resigned on 20 July 2003, is included under the highest remuneration band in 2003.

2 Remuneration of Members of the Board and the Executive Directorate (continued)

(iii) The remuneration details (excluding share option benefit) of the current members of the Executive Directorate are shown below:

<i>in HK\$ million</i>	2004		2003	
	Base pay, allowance, retirement scheme contribution and other benefits	Variable remuneration related to performance	Total	Total
Chief Executive Officer ("CEO")*	5.61	3.44	9.05	0.68
Finance Director	3.89	0.75	4.64	4.30
Human Resources Director	4.11	0.75	4.86	4.45
Legal Director and Secretary	4.26	0.75	5.01	4.67
Managing Director – Operations & Business Development	4.50	0.81	5.31	5.11
Project Director	4.10	0.77	4.87	4.65
Property Director	4.10	0.75	4.85	4.46
	30.57	8.02	38.59	28.32

* Appointed in December 2003

(iv) The CEO will be entitled to receive 700,000 shares in the Company (or their equivalent value in cash) on completion of his three-year contract (i.e. 30 November 2006). The final number of shares (or cash amount) delivered may be adjusted to reflect relevant changes (if any) in the Company's share capital after his appointment in order that the CEO's compensation is closely tied to the Company's longer-term performance and aligns his interests with those of shareholders. In certain limited circumstances, the CEO may be entitled to receive some or all of the shares (or the cash amount) prior to completion of his contract.

The restricted shares were offered in order to provide a competitive level of compensation and to enable the CEO's total pay to be closely tied to the performance of the Company.

B Share options

Options exercised and outstanding in respect of each Member of the Executive Directorate as at 31 December 2004 are set out under the paragraph "Board Members and Executive Directorate's Interest in Shares" of the Report of the Members of the Board. Details of the options granted to Members of the Executive Directorate are as follows:

(i) Pre-Global Offering Share Option Scheme

Under the Company's Pre-Global Offering Share Option Scheme ("Pre-IPO Option Scheme"), Jack C K So (ex-Chairman) and each of the other Members of the Executive Directorate, except C K Chow and Lincoln K K Leong, were granted options on 20 September 2000 to acquire 1,599,000 and 1,066,000 shares respectively. C K Chow and Lincoln K K Leong joined the Company on 1 December 2003 and 1 February 2002 respectively and are not beneficiaries of the Pre-IPO Option Scheme.

Under the vesting terms of the Pre-IPO Option Scheme, each eligible Member of the Executive Directorate must continue to beneficially own (i) at all times after 26 October 2001, at least 40,000 shares in the case of the ex-Chairman and at least 23,000 shares in the case of other Members of the Executive Directorate; and (ii) at all times after 26 October 2002, at least 80,000 shares in the case of the ex-Chairman and at least 46,000 shares in the case of other Members 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).

(ii) New Joiners Share Option Scheme

Under the New Joiners Share Option Scheme ("New Option Scheme"), Lincoln K K Leong, a Member of the Executive Directorate, was granted options to acquire 1,066,000 shares on 1 August 2003.

Under the vesting terms of the New Option Scheme, the grantee must continue to beneficially own (i) at all times on and after 4 August 2004, at least 23,000 shares; and (ii) at all times on and after 4 August 2005, at least 46,000 shares, up to and including the date on which he has exercised his option in full or the date on which his option lapses (whichever is earlier).

3 Segmental information

The results of major business activities are summarised below:

in HK\$ million	Turnover		Contribution to profit	
	2004	2003	2004	2003
Railway operations	5,932	5,489	674	345
Station commercial and other businesses	1,311	1,117	879	657
	7,243	6,606	1,553	1,002
Property ownership and management	1,108	988	897	786
	8,351	7,594	2,450	1,788
Property developments			4,568	5,369
			7,018	7,157
Unallocated corporate expenses			(1,866)	(1,982)
Share of profit of non-controlled subsidiary			44	23
Income tax			(700)	(748)
Profit for the year			4,496	4,450

No geographical analysis is shown as substantially all the principal activities of the Company and its subsidiaries are carried out in Hong Kong throughout the reporting periods.

4 Fixed assets and railway construction in progress

A Fixed assets

in HK\$ million	Investment properties	Leasehold land and buildings	Civil works	Plant and equipment	Assets under construction	Total
Cost or Valuation						
At 1 January 2004	14,169	1,598	45,740	54,319	940	116,766
Additions	32	–	–	49	3,245	3,326
Capitalisation adjustments*	–	–	(124)	(156)	–	(280)
Disposals / Write-offs	–	–	(1)	(172)	(4)	(177)
Surplus on revaluation (Note 6)	2,486	311	–	–	–	2,797
Write back of revaluation deficit	–	69	–	–	–	69
Reclassification	–	–	82	(82)	–	–
Other assets commissioned	–	–	7	1,123	(1,130)	–
At 31 December 2004	16,687	1,978	45,704	55,081	3,051	122,501
At Cost	–	732	45,704	55,081	3,051	104,568
At 31 December 2004 Valuation	16,687	1,246	–	–	–	17,933
Aggregate depreciation						
At 1 January 2004	–	98	2,705	17,042	–	19,845
Charge for the year	–	33	392	2,107	–	2,532
Capitalisation adjustments*	–	–	(3)	(17)	–	(20)
Written back on disposal	–	–	(1)	(148)	–	(149)
Written back on revaluation (Note 6)	–	(20)	–	–	–	(20)
At 31 December 2004	–	111	3,093	18,984	–	22,188
Net book value at 31 December 2004	16,687	1,867	42,611	36,097	3,051	100,313
Net book value at 31 December 2003	14,169	1,500	43,035	37,277	940	96,921

* Capitalisation adjustments relate to certain railway assets capitalised at time of commissioning based on contractors' claimed values. Such assets' final values have been adjusted downward following finalisation of contract claims with contractors at lower final contract values during the year.

Depreciation charge for the year was HK\$2,512 million, comprising depreciation for the year of HK\$2,532 million less adjustments for the capitalisation of HK\$20 million.

4 Fixed assets and railway construction in progress (continued)

B Railway construction in progress

<i>in HK\$ million</i>	Balance at 1 Jan 2004	Transferred from deferred expenditure	Expenditure/ (Government grant)	Costs written off to profit and loss account	Balance at 31 Dec 2004
Tseung Kwan O Extension Further Capital Works Project	44	–	12	(49)	7
Disneyland Resort Line Project	883	–	526	–	1,409
Government grant	(883)	–	(48)	–	(931)
	–	–	478	–	478
Tung Chung Cable Car Project	137	–	307	–	444
AsiaWorld-Expo Station Project	–	3	30	–	33
Total	181	3	827	(49)	962

Costs written off to profit and loss account relates to certain station design costs in respect of the future Tseung Kwan O South Station, which became abortive following the submission of a revised station design plan and its approval by the Town Planning Board during the year.

During the year, HK\$37 million (2003: HK\$675 million) cash dividends were waived by the Government. Such amount (2003: HK\$664 million), together with HK\$11 million (2003: Nil) brought forward from previous year, have been offset against the construction costs of Disneyland Resort Line Project (previously known as Penny's Bay Rail Link Project).

5 Bonds and notes issued and redeemed

Bonds and notes issued during the year ended 31 December 2003 and 2004 comprise:

<i>in HK\$ million</i>	2004		2003	
	Principal amount	Net consideration received	Principal amount	Net consideration received
Debt issuance programme notes	5,158	5,109	3,099	3,091

The net proceeds from the above issues were used for general working capital, refinancing or other corporate purposes.

During the year, the Group redeemed HK\$4,415 million (2003: HK\$500 million) unlisted Hong Kong dollar notes upon maturity.

None of the Group's listed debt securities was redeemed during the year ended 31 December 2004.

6 Reserves

<i>in HK\$ million</i>	Share premium	Capital reserve	Investment property revaluation reserve	Fixed asset revaluation reserve	Retained profits	Total
2004						
Balance as at 1 January 2004	2,609	27,188	6,682	18	15,506	52,003
Employee share options exercised	60	–	–	–	–	60
Shares issued under Scrip Dividend Schemes	1,022	–	–	–	–	1,022
Dividends paid	–	–	–	–	(2,231)	(2,231)
Surplus on revaluation (Note 4A), net of deferred tax	–	–	2,486	273	–	2,759
Profit for the year	–	–	–	–	4,496	4,496
Balance as at 31 December 2004	3,691	27,188	9,168	291	17,771	58,109
2003						
Balance as at 1 January 2003	1,563	27,188	6,406	24	13,234	48,415
Employee share options exercised	78	–	–	–	–	78
Shares issued under Scrip Dividend Schemes	968	–	–	–	–	968
Dividends paid	–	–	–	–	(2,178)	(2,178)
Surplus/(Deficits) on revaluation, net of deferred tax	–	–	276	(6)	–	270
Profit for the year	–	–	–	–	4,450	4,450
Balance as at 31 December 2003	2,609	27,188	6,682	18	15,506	52,003

7 Other information

This summary financial statements is only a summary of information in the Group's 2004 Annual Accounts. It is not the Group's statutory financial statements and it does not contain sufficient information to allow as full an understanding of the results and state of affairs of the Group as would be provided by the full Annual Report and Accounts. The full 2004 Annual Report is available in electronic form on the Company's website at www.mtr.com.hk. A printed copy of the 2004 Annual Report can be obtained free of charge by writing to the Company's share registrar or the Company's Corporate Relations Department. Their details are listed on page 32 of this Summary Report.