Summary financial report 2005

This Summary Financial Report 2005 only gives a summary of the information and particulars of MTR's 2005 Annual Report from which this Summary Financial Report is derived. Both documents are available (in both English and Chinese versions) in electronic form on the Company's website at www.mtr.com.hk

You may obtain a printed copy of the 2005 Annual Report free of charge by writing to the Company's share registrar, Computershare Hong Kong Investor Services Limited, or our Corporate Relations Department. Their details are set out on page 51 of this Summary Financial Report.

(Stock Code: 66)

地鐵公司
MTR Corporation

Contents

Vision

To be a world class enterprise, growing in Hong Kong and beyond, focusing on rail, property and related businesses

Mission

Provide excellent value to our Customers, enhancing their quality of life, and contributing to development of the communities in which we operate

Provide opportunities for employees to grow and prosper with the Company and reward our investors

Develop the rail network as the backbone of public transport in Hong Kong

Grow in Mainland China and capture opportunities in Europe by building on our core competencies

You may at any time choose to receive summary financial reports or annual reports in printed form or to rely on their versions posted on the Company's website. You may also at any time choose to receive (a) summary financial reports or annual reports in place of the other and (b) the English version only, the Chinese version only or both the English and the Chinese versions of the Company's summary financial reports or annual reports. You may make the above choices notwithstanding any wish to the contrary has previously been conveyed to the Company. You may change your choice on these matters by writing to the Company's share registrar, Computershare Hong Kong Investor Services Limited, whose details are set out on page 51.

If you have already chosen to rely on the versions of the summary financial reports and annual reports posted on the Company's website or have difficulty in having access to those documents, you will, promptly upon written request, be sent those documents in printed form free of charge. Please send your request to the Company's share registrar, Computershare Hong Kong Investor Services Limited.

Key figures

Financial highlights *in HK$ million*	**2005**	2004	% Increase/(Decrease)
Revenue			
– Fare	**6,282**	5,932	5.9
– Non-fare	**2,871**	2,419	18.7
Operating profit from railway and related operations before depreciation	**5,101**	4,529*	12.6
Profit on property developments	**6,145**	4,568	34.5
Operating profit before depreciation	**11,246**	9,097*	23.6
Profit attributable to equity shareholders	**8,450**	6,543*	29.1
Profit attributable to equity shareholders (excluding change in fair value of investment properties and related deferred tax)	**6,140**	4,492*	36.7
Total assets	**113,666**	106,674	6.6
Loans, obligations under finance leases and bank overdrafts	**28,264**	30,378	(7.0)
Total equity attributable to equity shareholders	**69,875**	61,892*	12.9
Financial ratios *in %*			
Operating margin	**55.7**	54.2*	1.5% pt.
Gross debt-to-equity ratio	**40.4**	49.1*	(8.7)% pt.
Return on average equity attributable to equity shareholders	**12.8**	11.0*	1.8% pt.
Return on average equity attributable to equity shareholders (excluding change in fair value of investment properties and related deferred tax)	**9.3**	7.5	1.8% pt.
Interest cover *in times*	**7.6**	6.1	24.6
Interest cover (excluding impact of change in fair value of derivative instruments) *in times*	**7.7**	6.1	26.2
Share information			
Basic earnings per share *in HK$*	**1.55**	1.23*	26.0
Basic earnings per share (excluding change in fair value of investment properties and related deferred tax) *in HK$*	**1.13**	0.84	34.5
Dividend per share *in HK$*	**0.42**	0.42	–
Share price at 31 December *in HK$*	**15.25**	12.45	22.5
Market capitalisation at 31 December *in HK$ million*	**83,598**	67,105	24.6
Operations highlights			
Total passenger boardings			
– MTR Lines *in millions*	**858.0**	833.6	2.9
– Airport Express Line *in thousands*	**8,493**	8,015	6.0
Average number of passengers *in thousands*			
– MTR Lines *weekday*	**2,497**	2,403	3.9
– Airport Express Line *daily*	**23.3**	21.9	6.4
Fare revenue per passenger *in HK$*			
– MTR Lines	**6.67**	6.50	2.6
– Airport Express Line	**66.09**	64.25	2.9
Proportion of franchised public transport boardings *in %*			
– All movements	**25.2**	24.8	0.4% pt.
– Cross-harbour movement	**61.2**	59.6	1.6% pt.
Proportion of transport boardings travelling to/from the airport *in %*			
– Airport Express Line	**22**	21	1% pt.

* Restated to include retrospective adjustments due to change in accounting policies

Chairman's letter

Dear Stakeholders,

I am pleased to present to you the annual results of MTR Corporation for 2005, which again reflected good performance by the Company with strong growth in all of our businesses. These results demonstrated not only our ability to leverage off the continued strength in the Hong Kong economy through strategies developed over the last few years to generate growth, but also the enduring success of our well proven "rail and property" business model.

For the year, we benefited from the buoyant economy to increase our total revenue to HK$9,153 million, 9.6% above 2004, and to achieve underlying profit, excluding revaluation of investment properties, of HK$6,140 million, 36.7% better than the previous year. Including investment property revaluation, our net profit attributable to equity shareholders was HK$8,450 million and earnings per share were HK$1.55, respectively 29.1% and 26.0% increases over 2004. Your Board of Directors has recommended a final dividend of HK$0.28, which is the same as in 2004.

There are two issues which I would highlight this year; firstly our growth strategy, and secondly our emphasis on sustainability, corporate social responsibility (CSR) and community involvement.

Strategy for growth

MTR Corporation's strategy for growth covers both Hong Kong and overseas, with the latter focused on the Mainland of China and Europe. Within our home base of Hong Kong, we aim to achieve growth through extension of our existing network, enhancement of income from our non-fare and other businesses as well as creating opportunities for our property development business. In each of these areas the strategy is taking hold.

In 2005 MTR Corporation opened the Disneyland Resort Line (DRL) and the AsiaWorld-Expo Station at the end of the Airport Express Line (AEL). Discussions with the Government continue on the West

Within our home base of Hong Kong, we aim to achieve growth through extension of our existing network, enhancement of income from our non-fare and other businesses as well as creating opportunities for our property development business.

Island Line (WIL), an extension of the Island Line to the west of Hong Kong. Strong political and local support has been received for WIL and the Executive Council of the Hong Kong SAR Government has asked MTR Corporation to proceed with the preliminary planning and design. The South Island Line (East) still awaits a Government decision, but there is strong community support for a rail service to Ocean Park and the Southern District of Hong Kong Island.

In the past two years, we have maximised the growth of our non-fare revenue through the introduction of new advertising formats, the redevelopment of MTR stations and expansion of our portfolio of investment properties in Hong Kong. Over the next three years, based on our "rail and property" business model we will receive and add two more shopping centres to our property portfolio: The Edge in Tseung Kwan O in 2006 and Elements, our majority owned eighty-three thousand square metre high-end shopping centre in Union Square, Kowloon Station, in 2007.

Property development is the cornerstone of this successful business model, which aims to maximise value for shareholders by integrating property development with railway construction and through prudent weighing of risk and return. In this regard, in January 2005 and January 2006, we successfully awarded the tenders for the development of Package One and Package Two of Tseung Kwan O Area 86.

On the possible merger of MTR Corporation and Kowloon-Canton Railway Corporation (KCRC), after submission of the joint report with KCRC, MTR Corporation has been in bilateral discussions with the Government on the financial terms and structure. Those negotiations continue. We remain convinced that on acceptable terms, a merger would benefit all stakeholders.

In our growth strategy outside Hong Kong, I am pleased that during the year the Company has achieved a number of major milestones, particularly in the Mainland of China.

We are delighted that the Beijing Metro Line 4 project received Central Government approval in September, and that the private-public partnership (PPP) company in which we own 49% has, in January 2006, completed all registration requirements necessary to begin commercial operations.

In Shenzhen, substantial progress has also been made on Metro Line 4, with initialling of the Concession Agreement with the Shenzhen Municipal Government and submission of feasibility study report to the National Development and Reform Commission (NDRC) in May. Whilst project approval from NDRC is still pending, we are excited about the prospect of providing an efficient mass transit service to the residents of Shenzhen and of facilitating the development of neighbourhoods along the railway based on our Hong Kong "rail and property" business model.

The development potential for mass transit systems in the Mainland of China is substantial because of rapidly expanding urban populations, heightened environmental concerns and limitations to the expansion of road networks. To harness this potential and achieve a better economy of scale for our investments in this market, it is important for us to look beyond the two projects in Beijing and Shenzhen, and study other investment opportunities in these and other key cities.

In Europe, we are disappointed that our team's hard work did not result in success for our bids for the two train operating franchises in the UK, the Integrated Kent Franchise and the Thameslink / Great Northern Franchise, and one other franchise in Scandinavia. We are nonetheless confident that with the valuable experience gained during the bid process and a first class management team on the ground, the Company is well positioned to take advantage of the continuing liberalisation of the rail market in Europe to achieve market entry.

CSR and community involvement

An important characteristic of MTR Corporation is the very broad context in which we see our role in Hong Kong and the world, and the commitment of our efforts to creating a sustainable growth path.

During the year we facilitated the establishment, and became a founding member, of Hong Kong's first CSR Charter. We published the first MTR CSR Guideline and established a Sustainability and CSR Steering Committee. We also continued our work internationally through our chairmanship of the International Association of Transport Providers' (UITP) Commission on Sustainable Development. It is important to recognise that only competitive and profitable enterprises are able to make a long-term contribution to sustainable development by generating wealth and jobs without compromising the social and environmental needs of society.

These efforts to formalise sustainability have been rewarded in recent years by a deepening engagement with stakeholders. For example, the working consultation group for WIL is now using the findings of an extensive 2003 consultation in considering the final design of the project. At MTR Corporation, we have established a Community Rail programme which looks to develop a network of rail-linked community centres and involves local communities in consultation on any proposed new railway.

We are always reminded by our Mission and Vision of our obligation to help enhance the quality of life and development of our community. In 2005, we helped initiate a new employee volunteering programme "More Time Reaching Community". Built on the existing Community Involvement Team, also formed by volunteering employees, the programme was launched to provide advice, logistic support and funding to staff members who come up with a good idea for voluntary community work. We are proud of this programme and our other initiatives, such as the "From the Heart" campaign and the continuing Art in Stations programme, which help to care for the less fortunate among us or otherwise enrich the lives of those with whom we come into contact.

In April, we co-organised with the Hong Kong Amateur Athletic Association the inaugural "MTR Hong Kong Race Walking 2005", to encourage people to walk more as a form of daily exercise. The largest event of its kind in Hong Kong, it raised more than HK$900,000 to fund local health educational activities. This was followed up by a series of related activities at our managed estates to promote race walking as a means to achieve better health.

I would like to extend my special thanks to Mr. Philip Gaffney, who retired as Managing Director – Operations & Business Development in December after over 28 years of distinguished service to the Company. All of us are indebted to him for his contribution, and MTR would not be as strong a railway today had it not been for his dedicated service and strong leadership. I welcome to the Executive Directorate team Mr. Andrew McCusker as Operations Director and Dr. Francois Lung as China and International Business Director.

I would also like to take this opportunity to thank my fellow directors, the senior management and all of our staff for their contributions during 2005. MTR Corporation has enjoyed an excellent year and with their and other stakeholders' continued support will carry on succeeding in 2006.

Dr. Raymond Ch'ien Kuo-fung, *Chairman*
Hong Kong, 7 March 2006

CEO's review of operations and outlook

MTR Corporation seeks profitable growth outside of Hong Kong by pursuing metro investment opportunities in the Mainland of China and 'asset light' railway operating franchises in Europe.

Dear Stakeholders,

The strategy of MTR Corporation is to create value by seeking growth both in Hong Kong and overseas. I am pleased to report that MTR Corporation achieved strong financial results in 2005 with contributions from all our businesses. We were also encouraged to see that our international expansion strategy has begun to take root and achieved a number of important milestones. For the year, MTR Corporation generated revenue of HK$9,153 million, 9.6% higher than the previous year, while net profit attributable to equity shareholders, excluding revaluation of investment properties, rose 36.7% to HK$6,140 million. As I noted in last year's annual report, a number of new accounting standards were introduced in Hong Kong effective 1 January 2005. One of these new standards requires the revaluation of our investment properties to be recognised as a profit or loss in the year. In 2005, investment property revaluation yielded a profit of HK$2,800 million pre-tax (HK$2,310 million post tax). Including investment property revaluation, net profit attributable to equity shareholders of MTR Corporation has therefore increased by 29.1% to HK$8,450 million with earnings per share increasing 26.0% to HK$1.55. The Board has recommended a final dividend of HK$0.28 which when combined with the interim dividend of HK$0.14 brings the full year dividend to HK$0.42, which is the same as last year.

Operational review

In Hong Kong, MTR Corporation benefited from a buoyant economy and an active property market.

Hong Kong railway operations

It is MTR Corporation's mission to provide world class rail services to the people of Hong Kong. The year 2005 drew to a close with record patronage for MTR. On 23 December 2005, 2.81 million passengers rode on MTR, the highest number of passenger trips the Company has ever recorded on a single, regular 19-hour service day since we began operations 26 years ago.

For the year as a whole, total patronage on the MTR Lines reached a record high of 858 million, an increase of 2.9% over 2004. It is pleasing to see that, under intense competition, MTR Corporation's share of the total franchised public transport market has increased to 25.2% from 24.8% in 2004, and our cross-harbour market share to 61.2% from 59.6% in 2004.

Patronage on AEL also increased by 6.0% to 8.5 million due to higher numbers of air passenger arrivals and departures at the Hong Kong International Airport, boosting the average daily patronage to 23,300.

For the sixth year in a row, our customer service performance surpassed both the Government's minimum requirement under the Operating Agreement, and our own more stringent Customer Service Pledges. During the year, train service delivery was 99.9%, making MTR one of the most reliable rail systems in the world. In line with our continuous improvement culture, MTR Corporation has taken on board all the recommendations to enhance asset management contained in the Lloyd's Register Rail Report issued in February 2005, with 12 out of the 16 recommendations completed within the year.

Our network expanded in 2005 with the opening of DRL in August. It connects Hong Kong Disneyland with the MTR network via the interchange station at Sunny Bay on the Tung Chung Line. With its creative design, this theme train quickly became a favourite of Disneyland visitors. In December the AsiaWorld-Expo Station on AEL was opened, providing direct service to and from Hong Kong's newest and largest exhibition facility. The programme to retrofit platform screen doors in MTR underground stations was substantially completed at the end of 2005, providing a better station environment for our passengers. Final completion of the programme is expected in the first quarter of 2006.

The Company was again recognised for providing high quality service by a number of external organisations. Locally, these included the Public Transport Category award in *East Week Magazine's* first ever "Quality Living Award HK 2005", and for the seventh year in a row, the "Top Service Award 2005" – Public Transport Category from *Next Magazine*. We won our first major award in China – the "2005 China National Quality Management Award" from the China Association for Quality. MTR Corporation was also named runner-up in the global "Robert W. Campbell Award" for demonstrating leadership and excellence in integrating safety, health and the environment into operations. On a lighter note, one of the Company's 25th Anniversary TV Commercial "MTR – Metro News Version" received the "Most Delightful TV Commercial" award at the 11th Annual Most Popular TV Commercial Award Presentation organised by ATV in Hong Kong.

I would like to pay tribute to those colleagues who kept Hong Kong moving in the week of the World Trade Organisation Hong Kong Ministerial Conference in December 2005. Through their meticulous planning and implementation, MTR Corporation was able to provide continuous service for the people of Hong Kong during that turbulent week.

Station commercial and other businesses

Accelerating the growth of non-fare revenue is an important part of MTR Corporation's strategy. Our station commercial and other businesses registered 18.6% revenue growth to HK$1,555 million during the year on the back of a strong economy, improved consumer spending and higher consultancy revenue.

In advertising, we continued to enhance the attraction of our advertising venues through format refinement and innovation. During the year, audio advertising, platform bunting in stations, lit-up billboards above station entrances and enlarged advertising cards in trains running on the MTR Lines were introduced in our system. MTR Corporation is the leader in the outdoor advertising market in Hong Kong. In 2005, revenue from advertisement grew by 9.2% to HK$510 million. In telecommunications, our entire network was upgraded to achieve full 3G coverage in October. Station retail rental income benefited from a combination of increased patronage, strong consumer spending, higher rentals and expanded retail floor space brought about by the renovation of stations. In 2005, we completed renovation of the retail zones at 20 stations, which allowing for the repossession of retail area of 1,690 square metres in Kowloon Station to facilitate integration works with Union Square, added 353 net square metres of commercial space and a total of 99 new shops. Revenue from station retail rental grew by 15.4% to HK$344 million.

In our external consultancy business, our strategy is to develop opportunities for our overseas investment business utilising core capabilities of the Company. In 2005, this business continued to grow, with revenue reaching HK$211 million. In the Mainland of China, several new consulting and training contracts were signed in cities including Beijing, Changchun, Shanghai, Tianjin, Guangzhou and Zhuzhou for local as well as multinational organisations. The project consultancy work for Line 9 of Shanghai Rail Transit is progressing well. In Hong Kong, we secured a renewal of the maintenance contract for the Automated People Mover system at the Hong Kong International Airport, and have begun work on the extension of the system to SkyPlaza and the SkyPier. Overseas, more than 30 new projects were secured. Major milestones were reached on existing work in Macau, Taiwan, the UK and the Netherlands.

New Hong Kong projects

With DRL and AsiaWorld-Expo Station successfully completed, our focus has turned to "Ngong Ping 360", which will be a world class tourist attraction in Hong Kong. It comprises a cable car ride starting from Tung Chung and passing over some of the most beautiful natural scenery in Lantau Island to a cultural theme village in Ngong Ping. Substantial progress was made during 2005 on this project, including work on the superstructures at the two terminals and two angle stations, installation of the electrical and mechanical equipment, as well as completion of all sections of rope pulling. Based on progress to date, "Ngong Ping 360" is expected to open in mid 2006.

Public support remains extremely strong for the construction of WIL which will extend the current MTR Island Line service to the Western District of Hong Kong Island. After the Government's decision in June to request the Company to proceed with further planning and preparation of this extension, we have begun preliminary design work and are in active discussions with the Government on detailed scope, cost and implementation, as well as funding. We shall work hard to commence the construction process as soon as final approvals from the Government are obtained in order to provide an efficient and high quality mass transit service for the 200,000 people living and working in the Western District.

Also under discussion with the Government is the South Island Line (East), which will provide much improved transport services between Central and the Southern part of Hong Kong Island and facilitate the rapid development of tourism and commercial activities in the Southern District. We shall work with the Government to develop this concept further as part of the overall planning review of tourism and commercial development in the Southern District of Hong Kong Island and the Ocean Park Re-development.

Property businesses

Our property businesses benefited from a strong economy and positive sentiment in the property market, albeit successive increase in interest rates had a moderating effect on the market towards the latter part of the year.

Taking advantage of favourable market conditions, we launched sales and pre-sales programmes for a number of residential developments along the Airport Railway and the Tseung Kwan O Line during the year. They included, along the Airport Railway, Harbour Green at Olympic Station, Carmel Cove at Caribbean Coast, Le Bleu at Coastal Skyline and The Arch at Kowloon Station and on the Tseung Kwan O Line, The Grandiose (Area 55b), Central Heights (Area 57a) and Phase I of Metro Town (Tiu Keng Leng Station). All of them met with strong responses.

Following the successful tender of Tseung Kwan O Area 86 Package One in January, invitation for the tender of Tseung Kwan O Package Two took place in December and the development right was awarded to Rich Asia Investments Limited, a subsidiary of Cheung Kong (Holdings) Limited, in January 2006. After evaluating market conditions and balancing reward and risk, in 2005 we decided to pay half of the land premium in return for a larger share of development profit for Package One, and in 2006 to extend a HK$4.0 billion interest free loan to the developer in return for an increased sharing in kind of the Package Two development.

Property development profit in 2005 was HK$6,145 million. It was recognised mainly from projects along the Airport Railway, which comprised profit sharing from The Arch, deferred income recognition and sharing in kind, mainly from the receipt of an additional retail shell area of 16,560 square metres gross at Elements in Union Square. From Tseung Kwan O Line developments, profit was primarily recognised from sharing in kind from The Lane and further proceeds from Residence Oasis, both at Hang Hau Station, and sale of the small retail podium at Central Heights (Area 57a).

In our investment property business, rental income increased by 19.0% to HK$1,183 million. Occupancy levels at all our shopping centres were maintained at 100%. The Lane, which opened in April, added 3,500 square metres gross of retail space and was fully let from the first day of operation. Rental income was also boosted by the increased share of income from Telford Plaza II, as a result of the commercial agreement with the other co-owner beginning in January 2005.

International marketing and pre-letting of Elements, our new flagship mall at Union Square, has met with a positive response, and pre-letting of The Edge, a new shopping centre at Tseung Kwan O Station, also saw good progress. Our 18 office floors at Two International Finance Centre remained fully let in 2005. In Beijing, we signed a long-term head lease with a Beijing developer for the operation and property management of Oriental Kenzo, a shopping centre of 31,000 gross square metres in the city's Dong Cheng district, with target re-opening in late 2006 after refurbishment.

The property management business saw steady growth in revenue during the year, with units added from Caribbean Coast, Le Bleu and Residence Oasis. As at the end of 2005, the number of residential units under MTR Corporation's management in Hong Kong rose to 54,358 flats, while commercial and office space increased to 562,296 square metres.

Overseas growth

MTR Corporation seeks profitable growth outside of Hong Kong by pursuing metro investment opportunities in the Mainland of China and 'asset light' railway operating franchises in Europe.

Mainland of China

In the Mainland of China, a number of significant milestones were achieved in 2005.

In 2004, we had signed an Agreement in Principle with the Shenzhen Municipal Government to build Phase 2 of the Shenzhen Metro Line 4 and to operate both Phase 1 and Phase 2 of the line for 30 years. As part of the agreement, the Company will be granted development rights for 2.9 million square metres gross floor area. This replicates the "rail and property" business model which has been successfully employed by the Company for the development of the Hong Kong metro network. In May 2005, the Concession Agreement for this RMB6 billion project was initialled between the Company and the Shenzhen Municipal Government, and a feasibility study report was submitted for Central Government approval to NDRC. This was followed by detailed design and site preparation work, and subsequently in November by ground breaking for a trial section of Phase 2. An MOU was signed with the Shenzhen Municipal

Government in May, which covers co-operation on Shenzhen Metro Line 3, and discussions continue.

We also made good progress on our first investment project in Beijing. In February, the PPP company 49% owned by the Company, 2% by Beijing Infrastructure Investment Co. Ltd. and 49% by Beijing Capital Group, initialled the Concession Agreement for investment, construction and operation of Beijing Metro Line 4 for 30 years with the Beijing Municipal Government. With a total investment of RMB15.3 billion, the project involves investment of around RMB4.6 billion by the PPP company to finance the provision of trains and related mechanical and electrical systems, and the balance by the Beijing Municipal Government for land acquisition and civil construction. In September, NDRC granted approval for the project and in December, the Joint Venture Agreement and Company Articles of Association were approved by Ministry of Commerce, followed by issuance of a business license by the State Administration of Industries and Commerce in January 2006, thus completing all required registrations for the PPP company. Preparation work, including drawing up tenders for the provision of trains and electrical and mechanical systems, is now well underway. Beijing Metro Line 4 is expected to commence operation in the second half of 2009.

We have initialled the term sheet or loan agreements relating to the non-recourse bank financings for the Shenzhen and Beijing projects. These are denominated in RMB and provide a substantial portion of fixed rate funding and a long maturity period, which will reduce the financial risk.

A number of other cities in China have plans to construct metro systems under the policy of using rail as the backbone of metropolitan transport. MTR Corporation is well positioned to take advantage of this very considerable business opportunity. In May, we signed an MOU with Wuhan Urban Construction Investment and Development Group Co. Ltd. and Wuhan Municipal Development Planning Commission of the Wuhan Municipal Government, which covers co-operation opportunities for the construction and operation of the Wuhan metro network.

Europe

During 2005, we participated in the bidding for three train operating franchises, two in the UK in conjunction with local partners, and one in Scandinavia. Although we did not succeed in these bids, we have gained valuable experience from the process which will allow us to be a stronger contender for future opportunities. For 2006, we have identified and are likely to work on a number of possibilities in the UK and Scandinavia. These include the South Western Trains Franchise for which the Company has been pre-qualified for bidding, and the North London Railway Franchise (formerly Silverlink Metro Franchise), both in the UK.

Financial review

As noted in last year's Annual Report, our financial results in 2005 were impacted by a number of accounting changes, particularly that relating to investment property revaluation. In our operations, we achieved strong financial results in all areas of businesses. Fare revenue for the MTR Lines rose by 5.6% from 2004 to HK$5,721 million whilst that for AEL increased 8.9% to HK$561 million. Non-fare revenue, including advertising, telecommunications, station commercial business, property rental and management income as well as income from consultancy business, jumped 18.7% to HK$2,871 million. As a result, total revenue for the year reached HK$9,153 million, an increase of 9.6% from 2004.

Despite the increased scale of business, the opening of DRL and the AsiaWorld-Expo Station and growth costs related to our overseas expansion, we were successful in containing cost increases to a level below revenue growth. Operating costs excluding depreciation for the year amounted to HK$4,052 million, 6.0% higher than last year. This helped boost operating profit before depreciation for the year to HK$5,101 million, a 12.6% increase from 2004 with operating margin before depreciation improving to 55.7% from 54.2% in 2004.

Benefiting from the improved property market sentiment in the year, profit from property development was HK$6,145 million, an increase of 34.5% from 2004. Depreciation charges increased by 7.3% to HK$2,682 million mainly due to completion of DRL, further platform screen door retrofitting, station renovation projects and the change in an accounting policy on rails. Net interest expenses decreased by 6.1% to HK$1,361 million mainly as a result of strong cashflow and reduced borrowings. Excluding investment property revaluation, MTR Corporation's profit after tax from underlying businesses was HK$6,140 million or HK$1.13 per share, increases of 36.7% and 34.5% respectively from last year. After accounting for revaluation of investment properties, reported earnings attributable to equity shareholders of MTR Corporation for 2005 were HK$8,450 million with earnings per share of HK$1.55, representing increases of 29.1% and 26.0% respectively over the reported earnings of last year as restated for the accounting changes.

MTR Corporation's cash flow was strong in the year with net inflows of HK$5,189 million from our recurring businesses and HK$2,610 million from property development. After payments for capital expenditure and interest, MTR Corporation recorded positive cash flow before dividends and loan repayment of HK$2,823 million. Dividend payments in 2005 were HK$1,138 million and the majority of the remaining net cash flow of HK$1,685 million was used to repay debt.

Merger discussions

In September 2004, MTR Corporation and KCRC presented a joint merger proposal to the Government which we believe adequately addresses the parameters as set out by the Government. During the year we continued discussions with the Government on the terms of the possible merger, and the proposal is still under review by the Government.

People

The success of our business heavily depends on skilled and dedicated people and we have continued to invest heavily in their training and development. An individualised and focused approach to leadership development was introduced to enhance the effectiveness of our managers. We launched three new core programmes to develop the consulting and business skills of our dedicated resource pool to support the Company's growth business. We also introduced a series of skill enhancement programmes for managers and supervisors focusing on effective communication and management skills.

In line with our core values to foster a culture of "Enterprising Spirit", an innovative scheme, the Enterprising Pod, was launched in 2005 to encourage staff to generate and contribute their original ideas that lead to business growth. A senior manager will perform the role of an "Idea Guardian Angel" to nurture each idea so that it can be tried and tested in real life operation. The scheme had received numerous submissions from staff at different levels.

I take great pride in the ability and performance of the 6,513 staff of MTR Corporation. They are amongst the most capable and dedicated in Hong Kong and I thank them for providing Hong Kong with one of the world's best mass transit systems. The Company is committed to providing staff with a safe and attractive working environment, as well as training and development opportunities to help them fulfil their ambitions. In 2005, MTR Corporation provided a total of 36,689 man-days of training to our workforce. In addition, a series of work / life balance seminars were held to raise staff awareness of the concept of "healthy mind, healthy body", a lifestyle that would not only enhance the well-being of our staff, but contribute to an even higher level of performance.

Outlook

Barring a pandemic or other major external shocks, we have a positive outlook on business conditions in Hong Kong in 2006. However, the rate of economic growth is anticipated to be slower than that of last year due to high oil prices and higher interest rates. Our rail business should benefit from economic growth as well as the full year impact of the opening of DRL. Economic activities may positively impact our station commercial and other businesses. However, the one-off income from termination of a telecommunication agreement in 2005 will not be repeated in 2006, and the intense competition among mobile network operators is likely to continue, as is the migration of 2G to 3G mobile telephony, all of which will negatively impact our telecommunications revenue. In our property rental business, significant renovation will take place in Telford Plaza to improve its competitive strength. This renovation programme is anticipated to slow rental revenue growth in 2006 but will benefit us in later years. As a result, the overall growth of non-fare revenue in 2006 is likely to be constrained.

In our property development business, projects along both the Airport Railway and Tseung Kwan O Line should contribute to profit. Along the Airport Railway, projects with deferred income will be recognised in accordance with construction progress and pre-sales. Given current market conditions we expect the remaining deferred income to be recognised largely over the next two years. In 2006, we also expect to receive an additional retail shell area of 7,685 square metres gross at Elements. Along the Tseung Kwan O Line, we expect booking of profit of developments at The Grandiose (Area 55b) for which the Occupation Permit was issued in January 2006 and, depending on the issuance of Occupation Permit, of Phase 1 of Metro Town (Tiu Keng Leng Station), comprising 1,676 units. It should be noted that in accordance with our accounting policy, when profit is recognised for Phase 1 of Metro Town, such recognition would be after deducting all costs for the whole development, including costs of Phase 2. Depending on sales progress, the remaining profit for the 390 units of development at Tseung Kwan O Town Centre Area 57a may also be booked in 2006.

Finally, I would like to take the opportunity to thank all of my colleagues for their strong contribution to another successful year for the Company.

C K Chow, *Chief Executive Officer*
Hong Kong, 7 March 2006

Executive management's report

Railway operations

Total fare revenue increased by 5.9% over 2004 to HK$6,282 million, reflecting growth in patronage due to economic growth, the opening of DRL and improvements in service quality and station environments, as well as higher average fares for the MTR Lines and AEL.

Patronage

On the MTR Lines, total patronage reached a record high of 858 million, 2.9% higher than 2004. Average weekday patronage increased by 3.9% to 2.5 million. Our share of the total franchised public transport market rose to 25.2% from 24.8%, with our share of cross-harbour traffic rising to 61.2% from 59.6%. As a result, fare revenue rose to HK$5,721 million, 5.6% higher than in 2004.

For AEL, passenger volume rose 6.0% to 8.5 million in 2005, as the number of air travellers using Hong Kong International Airport increased. Average daily patronage rose 6.4% to 23,300, with our estimated market share of passengers travelling to and from the airport increasing to 22% from 21%. As a result, fare revenue rose 8.9% to HK$561 million.

Network expansion

DRL and Disneyland Resort Station were opened to the public in August, and Sunny Bay Station, the interchange station with the Tung Chung Line was opened in June. The performance of the DRL has since exceeded reliability performance targets.

In December, AEL service was extended to the new AsiaWorld-Expo Station to serve Hong Kong's newest international exhibition centre at the Airport.

Service and promotional campaigns

Programmes throughout the year raised awareness of our service quality and supported patronage growth. These included a Best Station Operator Election for all MTR and AEL stations, a television commercial and a series of advertorials and in-station publicity.

With year-end membership exceeding 500,000, the MTR Club was leveraged to good effect, with a new bonus point scheme to replace the "Ride 10 Get 1 Free" scheme, a major recruitment campaign accompanied by a Chinese name competition, and a Christmas Fun Day to reward loyal members.

To support the opening of DRL, TV commercials, print advertisements, extensive publicity in stations and a special countdown display at Hong Kong Station were launched, followed in December by extending sales of special DRL 1-day passes at all MTR and AEL stations.

The Company's "MTR - Metro News version" TV commercial won "The Most Delightful TV Commercial Award" at ATV's 11th Annual Most Popular TV Award Presentation.

The strategy to improve linkage with other modes of transport is critically important to increasing our market share, and in 2005 the number of feeder bus routes offering inter-modal fare discounts was increased to 25 from 14, whilst the number of fare saver machines offering discounts to Octopus card holders rose by four to 19.

A series of Doraemon Child Ticket sets was launched for AEL during Easter, the summer months, Christmas and Chinese New Year holidays, to target leisure travellers, and this has resulted in incremental network usage.

The Airport Express "Ride to Rewards Programme" was launched to target business travellers, the core target market segment of AEL, supported by in-station publicity, on-line advertisements, emails to MTR Club members and on-site recruitment. By the end of the year, some 9,000 members have signed up for the Programme.

To support the opening of the new AsiaWorld-Expo Station, a series of pre-launch activities was launched, followed by an advertising campaign during launch to promote local and overseas usage, as well as special tickets for sale via AsiaWorld-Expo to secure overseas pre-arrival sales.

Service performance

During 2005, MTR Corporation maintained its very high standards of reliability, safety, comfort and customer satisfaction.

For the sixth consecutive year, the Company exceeded, in every area, the Government's requirements under the Operating Agreement, and its more stringent Customer Service Pledges. For the year, passenger journeys on time for MTR Lines were 99.9% reliable, supported by 99.9% reliability for train service delivery.

Customer satisfaction remained high with the Service Quality Index for MTR and AEL at 71 and 81 respectively on a 100-point scale. The Company again performed well according to the international 12-member Community of Metros (CoMET) benchmarking results for service reliability, asset utilisation and cost efficiency.

In Hong Kong, the Company won *East Week Magazine's* first ever "Quality Living Award HK 2005"- Public Transport Category and, for the seventh year in a row, *Next Magazine's* "Top Service Award 2005" - Public Transport.

The China Association for Quality awarded the Company the "China National Quality Management Award" for 2005, its highest award for quality management and customer service. Overseas, we were named runner-up of the "Robert W. Campbell Award" for success in integrating safety, health and the environment into our operations.

Having further enhanced its world class asset management system in 2005, the Company was recognised with the award of the PAS 55-1:2004 Asset Management Certification by the internationally respected certification body Det Norske Veritas.

Service improvements

During the year, we continued to make improvements to the network infrastructure and services, including completion of convenient new pedestrian links for access to stations at Tsim Sha Tsui, Mong Kok and Kwun Tong.

Over the last 10 years, the Company has invested more than HK$400 million in facilities for the disabled. In 2005, new passenger lifts were installed at Sheung Wan and Jordan stations, while portable ramps to assist wheelchair passengers to access trains were introduced at all MTR and AEL stations. A further HK$100 million will be spent in the next five years on stairlifts, audible devices on escalators and passenger lifts.

The project to retrofit platform screen doors at all underground stations was substantially completed in 2005, with installation at 18 platforms in stations at Diamond Hill, Choi Hung, Lam Tin, Tin Hau, Fortress Hill, Quarry Bay, Tai Koo, Sai Wai Ho and Sau Kei Wan. Final completion of the programme is expected in the first quarter of 2006.

The eight years old station improvement programme has progressed further, bringing a fresher and more modern appearance to eight more stations at Lok Fu, Kowloon Bay, Diamond Hill, Kwai Fong, Sham Shui Po, Yau Ma Tei, Olympic and Tsing Yi, and the total number of renovated stations to 38.

In anticipation of higher patronage due to opening of the AsiaWorld-Expo Station, the entire fleet of AEL trains was modified from a 7-car to an 8-car configuration to increase capacity. In addition, four new trains were ordered, the first due to enter service in mid 2006, to meet increasing passenger demand on the Tung Chung Line.

Productivity

The Company continued its efforts to increase productivity.

A new risk based approach in determining maintenance needs was introduced, using techniques such as reliability centred maintenance to control maintenance cost. However, as a result of higher staff costs and further enhancement to our assets, maintenance and asset management system in response to the public concerns in 2004, operating cost per car kilometre rose by 2.2% to HK$22.8 in 2005.

During the year, we also conducted trials on automated train door operation, which may be introduced in future depending on trial results and further tests.

Station commercial and other businesses

Station commercial and other businesses achieved revenue growth of 18.6% over 2004 to HK$1,555 million on the back of a strong economy, increasing patronage and higher consultancy revenue, supported by our strategy to leverage our railway assets to expand non-fare revenue.

Advertising

During the year, advertising revenue increased 9.2% to HK$510 million as a result of a strong retail sector, our further improved and refined advertising formats, as well as favourable response to our new advertising packages tied to the opening of DRL.

We introduced a number of new advertising formats, including audio advertising at 15 locations in six stations along the MTR Lines, and facilities for platform buntings (decorative flags) at six stations. We also installed lit-up billboards above entrances at Mong Kok and Tsim Sha Tsui stations.

Improvements to existing formats were also introduced, including enlarged advertising cards offering greater visual impact in some 106 trains on the Island, Kwun Tong, Tsuen Wan and Tseung Kwan O lines.

To provide better viewing quality and simplify operation, 18 plasmas at the e-Instant Bonus terminals were replaced and their content management system was integrated with the concourse plasma network.

Telecommunications

Revenue from telecommunications services increased by 40.3% to HK$334 million, the bulk of which however was attributable to a one-off settlement from early termination of a telecommunication service agreement.

In October, upgrading of the existing radio network to enable seamless 3G service provision by all 3G operators across the MTR network was completed, six months ahead of schedule.

TraxComm Limited recorded higher revenues as it expanded its presence, extending its optical fibre network to 30 locations whilst increasing the capacity of its bandwidth services to 80Gbps.

Station commercial

Station commercial facilities revenue rose by 15.4% to HK$344 million, boosted by higher rental rates and the expansion of retail space under the station renovation programme.

During the year, renovations were completed in the retail zones of 20 stations, bringing the total number of stations having undergone renovation to 30. Allowing for repossession of retail area of 1,690 square metres in Kowloon Station to facilitate integration works with Union Square, this has increased our total retail floor area by 2% to 19,070 square metres, with 99 new shops and 28 new trades or brands added at the same time. Renovation work also began at two more stations.

Miscellaneous business revenue, including car park rental, souvenir ticket sale, new station connections and publication, increased by 23.8% to HK$156 million.

External consultancy

In external consultancy, our strategy remains to focus on consultancies that may lead to investment opportunities. In 2005, revenue from this business increased to HK$211 million.

In the Mainland of China, several new consulting and training contracts were signed. Line 9 Shanghai Rail Transit project management consultancy work progressed well. By year-end, construction works were 38% complete. In Shanghai, we completed study packages for Line 11 Phase 1 (North) and have signed a further contract for Line 11 Phase 2 (South).

In Asia, we secured more than 30 new contracts including a contract with Kaohsiung Rapid Transit Corporation. In Hong Kong, the Automated People Mover system maintenance contract for the airport was renewed for three years and we are working on an extension of the system to SkyPlaza and the SkyPier. Elsewhere, we have completed work for the Macau Government, the Taiwan High Speed Rail Corporation and Nippon Sharyo Limited.

Rail Sourcing Solutions (International) Limited

Our wholly-owned subsidiary Rail Sourcing Solutions (International) Limited continued to expand its presence in the global railway parts and equipment market and is now active in the UK, Europe, North America and Australia.

Octopus Holdings Limited

As part of a corporate re-organisation, Octopus Holdings Limited (OHL) was established as the holding company for the Octopus group of companies, including Octopus Cards Limited (OCL). The shareholding structure remained unchanged, with MTR Corporation continuing to own 57.4% of the group through OHL. MTR Corporation's share of earnings from OHL was HK$40 million, an increase of 2.6% over 2004.

During the year, the number of service providers rose to 349 from 299. Cards in circulation and average daily transaction value have respectively risen to 13.2 million from 11.8 million, and to HK$64.7 million from HK$57.4 million.

By year-end, green minibuses accepting the Octopus rose by 103 to 2,747, representing virtually the entire fleet, whilst red minibuses accepting Octopus card increased from 50 to 171. A further 37 car parks joined the system, bringing the total to 203. Octopus cards are now in use on all cross-border buses and coaches.

In the retail sector, in addition to fast food chains, supermarkets, convenience stores and cake shops, Octopus card system also gained entry into the clothing, telecommunications and the government sectors.

During the year, a customer loyalty programme was launched, which by year-end had attracted participation of over 590,000 cardholders.

In August, OCL reached agreement with the Hong Kong Monetary Authority on a new regulatory framework for supervision of multi-purpose stored value card operation, resulting in the relaxation of some of the restrictions on Octopus cards in non-transport markets.

Despite these successes and the on time delivery of the Octopus clearing house system for the nationwide Automatic Fare Collection project in the Netherlands, OHL group's consolidated profit registered only a modest increase because of increase in operating costs due to the development and start-up of new businesses, particularly the customer loyalty programme.

Overseas growth

MTR Corporation made significant strides in its international expansion.

Mainland of China

During 2005, the Company achieved a number of major milestones on its RMB6 billion project to build Phase 2 of the Shenzhen Metro Line 4 and to operate both Phase 1 and Phase 2 of the line for 30 years. The feasibility study report was submitted to NDRC, and the Concession Agreement was initialled between the Company and the Shenzhen Municipal Government. Detailed design work and ground breaking on a trial section began.

Bank financing for the project, approximately 60% of the total project cost, was secured in June when a term sheet for a RMB3.6 billion 25-year non-recourse loan was initialled between the Company and China Development Bank.

In Beijing, the PPP company 49% owned by MTR Corporation, 2% by Beijing Infrastructure Investment Co. Ltd. and 49% by Beijing Capital Group through its partner initialled the Concession Agreement with the Beijing Municipal Government for investment in, construction and operation of the 29-kilometre Beijing Metro Line 4 for 30 years.

With an estimated total investment of RMB15.3 billion, the project involves investment of approximately RMB4.6 billion, or 30% of total project cost by the PPP company, with the remaining 70% by the Beijing Municipal Government.

Formal approval was obtained from NDRC and the Joint Venture Agreement and Company Articles of Association were approved by the Ministry of Commerce, followed by issuance of a business license by the State Administration of Industries and Commerce, thus completing all company registration requirements. Preparation work was initiated.

The RMB4.6 billion investment by the PPP company will be financed by 30% equity provided by the partners and 70% by bank debt in the form of two RMB1.6 billion 25-year non-recourse bank loans from the Industrial and Commercial Bank of China and China Development Bank, agreements for which were initialled by the PPP company partners during the year.

Two MOUs were signed. The first was with the Shenzhen Municipal Government covering co-operation on investment, construction and operation for the 32.9-kilometre Line 3. Significant progress has since been made in negotiations.

The second was signed with the Wuhan Urban Construction Investment and Development Group Co. Ltd. and Wuhan Municipal Development Planning Commission covering the development of the metro network in Wuhan. A pre-investment study is underway and discussions continue.

Europe

The Company's approach in Europe is to bid for operating franchises involving both heavy rail and metro.

In 2005 the Company participated in unsuccessful bids for one franchise in Sweden and two in the UK. Presently, it is exploring opportunities in the UK and Scandinavia, particularly operations contracts which the UK Government has announced will be reorganised and refranchised.

In the UK, MTR Corporation and its partner GNER have pre-qualified for a bid for the South Western Trains Franchise. We are also in partnership with Laing Rail to seek prequalification and bid for a gross cost service contract for the North London Railway Franchise.

Property business

The Company's property businesses registered significant growth, supported by the strong economy and positive sentiment in the property market.

Property development

Profit on property developments increased 34.5% to HK$6,145 million, mainly from Airport Railway developments.

Along the Airport Railway, profit was recognised from surplus proceeds from The Arch, sharing in kind from the second part of Phase 1 of the retail shell at Union Square (Elements), and deferred income in line with construction progress of Harbour Green, the hotel in Tung Chung Package One, Coastal Skyline and Caribbean Coast. On the Tseung Kwan O Line, profit was derived from sharing in kind from The Lane and further proceeds from Residence Oasis and sale of the retail podium at Central Heights.

Along the Airport Railway, developments completed included The Four Seasons Hotel & Four Seasons Place, The Arch, the hotel in Tung Chung Package One, Le Bleu and Carmel Cove, with pre-sales launched for Harbour Green, Carmel Cove, Le Bleu and The Arch, all meeting with strong response.

Along the Tseung Kwan O Line, Central Heights was completed with Occupation Permit obtained in February and pre-sale launched in March. Pre-sales launched for The Grandiose and Phase 1 of Metro Town (Tiu Keng Leng Station) were also successful, with Occupation Permit for The Grandiose obtained in January 2006.

In January, we awarded the tender for Package One of Tseung Kwan O Area 86 to City Investments Limited, a subsidiary of Cheung Kong (Holdings) Limited (Cheung Kong), and Development Agreement was executed in February. The tender for Package Two of Area 86 was launched in December and awarded to Rich Asia Investments Limited, a subsidiary of Cheung Kong in January 2006. We decided in Package One to advance half of the land premium in 2005 with reimbursement upon sale of the development, and in Package Two to extend HK$4 billion interest free loan to the developer in 2006, in return respectively for a larger share of development profit and increased sharing in kind.

To better align development to market conditions, a Master Layout Plan reflecting improvements to the Area 86 property development plan was submitted in January 2006. A town planning application to develop a mixed use complex in Tseung Kwan O Town Centre (Area 56) was approved by the Town Planning Board in December.

The Park & Ride project at No. 8 Clear Water Bay Road in Choi Hung was also completed.

Investment properties

Revenue from investment properties increased by 19.0% to HK$1,183 million thanks to higher rents, an increased share of rental income from Telford Plaza II and the opening of The Lane in April. Full occupancy at all our shopping centres, including The Lane, was maintained.

International pre-letting of the flagship mall Elements met with a good response, as did pre-letting of The Edge, the new shopping centre at Tseung Kwan O Station.

During the year, we continued our efforts to enhance the retail environment of our shopping centres including the launch of a major renovation programme at Telford Plaza I, and to support our tenants through promotions whilst continuing to add new trades and refine the trade mix.

Hong Kong Disneyland and DRL had a positive impact on Maritime Square, which achieved 30% year-on-year customer growth from September by leveraging off the opening through effective promotions.

Our 18 floors at Two International Finance Centre (IFC) remained fully let.

Property management and other services

Property management business revenue rose 16.7% to HK$126 million. During the year, 5,075 units were added from Caribbean Coast, Residence Oasis and Le Bleu, to our management portfolio, bringing the total by year-end to 54,358 residential units and 562,296 square metres of commercial and office space.

Property agency business revenue increased 16.7% to HK$7 million, while Octopus Access Control business revenue grew 30.0% to HK$13 million.

Mainland of China

Our property business experienced further growth in the Mainland of China in the areas of property consultancy, management and related businesses.

Three new property management contracts for high-end residential developments were secured during the year, including Northstar Beiyuan B3 District and Jian Wai Soho Phases Five and Seven in Beijing, and Mei Li Shan Shui in Chongqing.

We signed a head lease of up to 47 years for the operation and property management of Oriental Kenzo, a shopping centre in the Dong Cheng district of Beijing, with plans to re-open in late 2006. The head lease contains an option to buy at a pre-set price within the first five years and a right of first refusal thereafter.

For the property developments for Shenzhen Metro Line 4, the Master Plan is largely finalised.

Hong Kong network expansion projects

The Tung Chung Cable Car project (branded "Ngong Ping 360") continued to progress with works on the superstructures all substantially completed, together with the cable car towers and the installation of the electrical and mechanical equipment. All cable car cabins were delivered to Hong Kong and all sections of rope pulling were substantially completed by February 2006. Managed by Skyrail-ITM (Hong Kong) Ltd., "Ngong Ping 360" is expected to open mid 2006.

Fit out works for the second platform at the departure level of Airport Station to connect to the Skyplaza retail development are under way, with completion expected in the second half of 2006.

Detailed design has been completed and construction tenders invited for Tseung Kwan O South Station to serve the Area 86 property development by 2009. This will include Government entrustment of the Area 86 Northern Access Road to the Company.

In February, we submitted to the Government revised proposals for the West Island Line, South Island Line (East) and South Island Line (West).

The West Island Line will extend the Island Line from Sheung Wan to Kennedy Town via Sai Ying Pun and University stations. Preliminary design work, geotechnical investigation and environmental impact assessment began and the line is targeted to open in 2012. Discussion has continued with the Government over details including funding issues following Government's decision that planning of the line should proceed.

The South Island Line (East) will run from South Horizons on Ap Lei Chau, via Lei Tung, Wong Chuk Hang and Ocean Park to Admiralty, where it will interchange with the Island Line.

The South Island Line (West) will run from University, where it will interchange with the West Island Line, through Cyberport, Wah Fu and Aberdeen to Wong Chuk Hang, where it will connect with the South Island Line (East). A decision on the South Island Lines is expected in early 2006.

Following the announcement of their possible merger, MTR Corporation and Kowloon-Canton Railway Corporation undertook a revised study of the Shatin to Central Link that included the Kwun Tong Line Extension as an option. In 2005 the Company proposed that it may be prepared to progress this extension in advance of a merger decision. The proposal remains under Government consideration.

Excavation of the main tunnel for the Queensway subway linking Admiralty Station with Three Pacific Place is almost complete and tunnel lining concrete work is in progress. The link is planned to open in the third quarter of 2006. The Government has also authorised a subway connecting the Pioneer Centre to Prince Edward Station, and work is planned for early 2006, with completion by 2008. A scheme to improve access to Lai Chi Kok Station was gazetted and work is expected to begin in 2006.

A proposal was submitted to the Government to extend Causeway Bay Station and a feasibility study began in January 2006. We are also in talks with developers on new links to Tsim Sha Tsui Station.

Human resources

During 2005, we continued initiatives to raise operational efficiency and invest in human resources.

We completed a study on manpower requirements at the middle to senior management level for our international businesses. This led to initiatives ranging from career posting, flexible deployment of staff, engaging external resources and accelerating local talent development. Of particular importance was the development of a dedicated Resource Pool and Manpower Resource System. We also reviewed employment terms, human resources policies and other support to facilitate staff undertaking overseas assignment.

To enhance the effectiveness of our managers, an individualised and focused approach to leadership development was adopted. The first group of senior and executive managers was assessed and appropriate development methods initiated, including job posting, deputising, executive education and one-on-one coaching.

We offer ample opportunity for staff development and a total of 36,689 man-days of training involving 6,513 employees was conducted during the year. These included customer service courses for DRL and a new Putonghua learning system, "GoChinese".

The Operations Training Department was successfully re-accredited ISO9001, ISO14001 and OHSAS 18001. Our commitment in training was also recognised with "Platinum ACCA Approved Employer" accreditation from Association of Chartered Certified Accountants (ACCA).

An innovation scheme, the "Enterprising Pod", was launched to foster "Enterprising Spirit". We encourage all staff to generate original ideas to create more revenue / profit for the Company. A senior manager will volunteer as an "Idea Guardian Angel" to ensure the ideas are duly nurtured and to liaise on trial and testing. We have received many submissions from staff at different levels.

In support of Corporate Social Responsibility and Sustainability, we introduced a new employee volunteering scheme "More Time Reaching Community" to strengthen our community involvement. Supported by the Chief Executive Officer and Executive Directorate members, the scheme helps and recognises staff organising and participating in volunteer activities. Response from our caring staff and their family members is encouraging. At the same time, the Community Involvement Team remained active in providing voluntary services.

A Work / Life Balance Study was carried out, with the results indicating a high level of job satisfaction with no impact of work stress on performance or safety. To enhance staff awareness of the concept of "healthy mind, healthy body", seminars on mental and physical health, relationships and work were launched.

Financial review

Review of 2005 financial results

On 1 January 2005, the Company adopted changes in accounting policies and financial statement presentation to comply with the revised Hong Kong Financial Reporting Standards (HKFRSs) which include Hong Kong Accounting Standards (HKASs) and Interpretations (HK-Ints) issued by the Hong Kong Institute of Certified Public Accountants. The implications are in the notes to the summary financial statements and comparative figures for 2004 have been restated.

HKAS 40 requires the recognition of the change in market value of investment properties in the profit and loss account (P&L). HKAS 17 requires the land element in leasehold land and building to be accounted for as operating lease, thus re-classifying the previous depreciation for the land element to operating expense. HKASs 32 and 39 require marking derivative instruments to market value. Subject to meeting the requirements to qualify for hedge accounting, those underlying financial liabilities are revalued at their fair values with corresponding adjustments made to their carrying amounts on the balance sheet. The change in value is recognised in the P&L or directly taken to hedging reserve in the balance sheet depending on the type of hedging relationship. Except HKASs 32 and 39 which were adopted prospectively from 1 January 2005, both HKASs 40 and 17 were adopted retrospectively with 2004 comparative figures restated. Following HK-Int 2, certain repair and replacement costs on rails, previously charged to the P&L, are capitalised and depreciated.

These changes affect neither our cashflow nor underlying business performance.

Profit and loss

Patronage on the MTR Lines increased by 2.9% to a record 858 million. Average fare increased by 2.6% to HK$6.67 as a result of changes in promotion programmes and the opening of DRL. Fare revenue increased by 5.6% to HK$5,721 million.

Fare revenue on AEL increased 8.9% to HK$561 million on increased patronage and higher average fare, the latter supported by more passengers taking longer journeys.

Non-fare revenue grew 18.7% to HK$2,871 million, comprising HK$1,555 million from station commercial and other businesses, and HK$1,316 million from property ownership and management income. Excluding a one-off income from a mobile phone operator for early contract termination, total non-fare revenue would have increased by 15%.

Advertising income rose 9.2% owing to the strong economy and new advertising formats. Income from station commercial facilities increased 15.4% on increased patronage, strong consumer spending and higher rental income. Income from consulting business increased 15.9% as new consulting contracts were secured. Income from miscellaneous activities rose 23.8% owing to connection fees received from new station entrances and increased publications income.

With the opening of a new shopping centre and full-year effect of office and car park rental at Two IFC, together with rental increases after tenancy renewal, income from property ownership and management rose by 18.8%. The favourable factors compensated for relatively stagnant growth in telecommunication income.

Despite the increased scope of activities, operating costs were contained at HK$4,052 million or 6.0% higher than last year, below the 9.6% revenue growth rate.

The change in the accounting treatment of rails, i.e. capitalised rails repair and replacement costs as fixed assets, led to a reduction in operating cost of HK$45 million, with a corresponding increase in depreciation of HK$75 million. The write-back in 2004 of HK$69 million of revaluation deficit incurred in 2003 in respect of the headquarters building reduced operating costs in 2004. Excluding these two items, operating costs increased by HK$206 million or 5.4%.

Major drivers of the cost increase included staff costs, which rose by HK$68 million to cover additional work requirements for new line and station operation, salary growth and special discretionary award. Operational rent & rates increased by HK$22 million, following growth in operating profit in 2004. Expenses on station commercial and other businesses, as well as property ownership and management business rose by HK$43 million and HK$31 million respectively, in line with increased business activity. General and administration expenses increased by HK$40 million on higher consultancy fees for various studies and safety measures for the WTO Hong Kong Ministerial Conference. HK$25 million in cost decrease came from our project studies and business development activities in the Mainland of China and Europe.

Operating profit from railway and related operations before depreciation rose 12.6% to HK$5,101 million. Operating margin improved from 54.2% to 55.7%, the highest in a decade.

Profit on property development in 2005 amounted to HK$6,145 million, comprising: surplus proceeds from The Arch; recognition of deferred income relating to the hotel part of Tung Chung Packages and Harbour Green at Olympic Station; and sharing in kind from the second part of Phase 1 of Elements and The Lane.

Operating profit before depreciation rose 23.6% to HK$11,246 million. Depreciation charge increased 7.3% to HK$2,682 million, mainly owing to the above change in rail capitalisation policy, fully depreciating certain telecommunication equipments upon early contract termination, as well as completion of DRL, the platform screen door project and station renovations.

Despite higher interest rates and interest expense no longer being capitalised to DRL, net interest expense dropped 6.1% to HK$1,361 million mainly on reduced borrowing. With higher interest rates, average interest cost increased from 4.7% to 5.1%. Interest cover improved to 7.6 times. In compliance with HKAS 40, the increase in market value of investment properties of HK$2,800 million pre-tax (HK$2,310 million post tax), was recognised in the P&L.

The Company's share of net profit from OHL rose 2.6% to HK$40 million. Our bids for franchises in Europe via jointly controlled entities resulted in a HK$31 million share of net loss. Tax expense, including current tax expense in China and overseas business activities and deferred tax provision, increased 37.1% to HK$1,549 million. Net profit rose 29.3% to HK$8,463 million, with HK$8,450 million attributable to equity shareholders, 29.1% higher. Earnings per share increased from HK$1.23 to HK$1.55.

Excluding investment property revaluation and the related deferred tax, underlying profit was HK$6,140 million or HK$1.13 per share, respectively 36.7% and 34.5% higher.

The Board recommended a final dividend of HK$0.28 per share, amounting to HK$1,535 million, with a scrip dividend option offered to all shareholders except shareholders with registered addresses in the United States of America or any of its territories or possessions. The Government has agreed to receive its entitlement to dividends in the form of shares to the extent necessary to ensure a maximum of 50% of the dividend will be paid in cash.

Balance sheet

Total fixed assets increased to HK$103,275 million, mainly attributable to surpluses in investment property revaluation, receipt of The Lane and the capitalisation of DRL and AsiaWorld-Expo Station upon commissioning.

Railway construction in progress increased slightly to HK$1,006 million, comprising mainly additional capital expenditures on the Tung Chung Cable Car and SkyPlaza Platform projects, partly reduced by the transfer out of DRL and AsiaWorld-Expo Station costs to fixed assets.

Property development in progress increased to HK$2,756 million, mainly due to the payment of half of the land premium of HK$1,160 million for Tseung Kwan O Area 86 Package One, partially reduced by cost reimbursement received from developers relating to Olympic Station Package Three, Tiu Keng Leng and Tseung Kwan O Area 86 developments.

Properties held for sale increased to HK$1,311 million, comprising mainly residential units at The Arch.

In line with the requirement of HKAS 39, derivative financial assets and liabilities of HK$234 million and HK$307 million respectively were recorded.

Debtors, deposits and payments in advance increased significantly to HK$3,095 million, primarily because of increase in receivables relating to pre-sale of properties from The Arch.

Total loans outstanding decreased by HK$2,114 million to HK$28,264 million, owing to loan repayments. Loans drawn down amounted to HK$5,291 million, primarily for refinancing. Deferred income decreased from HK$4,638 million to HK$3,584 million following profit recognition at Tung Chung, Kowloon and Olympic station development packages, offset by a payment of HK$936 million received in respect of Olympic Package Three development.

Deferred tax liabilities increased from HK$6,368 million to HK$8,011 million mainly because of the tax effect on profit, including those on property revaluations, at the standard Hong Kong Profits Tax rate of 17.5%.

Share capital, share premium and capital reserve increased by HK$1,181 million to HK$37,450 million, as a result of shares issued for scrip dividend and share options exercised. Together with increases in fixed asset revaluation and other reserves of HK$501 million, opening adjustments on adoption of HKASs 32 and 39 of HK$124 million and retained earnings net of dividend of HK$6,177 million, total equity attributable to equity shareholders increased to HK$69,875 million from HK$61,892 million. The gross debt-to-equity ratio improved from 49.1% to 40.4% and net debt-to-equity ratio from 48.6% to 39.9%.

Cash flow

Net cash inflow from railway and related activities increased from HK$4,486 million to HK$5,189 million, while cash receipts from property developers and purchasers increased from HK$2,576 million to HK$2,610 million. Outflows for capital project payments, including half of the land premium for Tseung Kwan O Area 86 Package One development, and for interest expenses amounted to HK$3,454 million and HK$1,416 million respectively, compared to HK$2,889 million and HK$1,301 million. With other minor movements, net cash flow before dividends and loan repayments was HK$2,823 million, HK$257 million higher. After dividend payments of HK$1,138 million and net loan repayment of HK$1,598 million, net cash inflow was HK$87 million compared to a net outflow of HK$106 million in 2004.

Financing activities

New financings

The Group took advantage of the strong liquidity, low interest rates and tight credit spreads in the Hong Kong dollar market, and raised a total of HK$4.7 billion new financings at attractive costs during the year. These included a HK$500 million 10-year note and two HK$500 million 15-year notes with coupon rates of 4.5%, 4.28% and 4.75% respectively and a total of HK$3.2 billion bilateral banking facilities comprising HK$2.2 billion in 7 years and HK$1.0 billion in 10 years.

At year-end, the Company had total undrawn committed facilities of HK$5.3 billion, which together with additional bank loan commitments obtained and proceeds from a new fixed rate note issued in early 2006, would be sufficient to cover all of the Company's funding needs in 2006.

At the subsidiary level, a detailed term sheet was initialled with China Development Bank, which provides for a 25-year RMB3.6 billion non-recourse bank loan and proceeds will be used to fund 60% of the Group's investment in the RMB6.0 billion Shenzhen Metro Line 4 project. Partners of the PPP associated company have also initialled two separate loan agreements with Industrial and Commercial Bank of China and China Development Bank, which provide for two non-recourse 25-year bank loans, each of RMB1.6 billion, for Beijing Metro Line 4. The long maturity, RMB denomination and fixed rate funding provided by these loans will help reduce respectively the refinancing, exchange rate and interest rate risks of the two projects.

Cost of borrowing

Despite higher short-term interest rates, our average borrowing cost increased only marginally to 5.1% from 4.7% in 2004 with gross interest expense increased by HK$4 million, reflecting our conservative debt mix which comprised a significant portion in long-term fixed rate financings.

Risk management

We continued to maintain a well diversified debt portfolio in accordance with our Preferred Financing Model which seeks to diversify risks by specifying a preferred mix of fixed and floating rate debts, maximum currency exposure, well spread out maturities, use of different types of financing instruments and adequate forward coverage of future funding needs.

We use derivative financial instruments solely for hedging purposes and not speculation. We deal only with counterparties with credit ratings of A-/A3 or better, and assign to each counterparty limit based on credit ratings to control counterparty risk exposure. A monitoring framework using "value-at-risk" and "expected loss" concepts is used to quantify and further monitor these exposures.

Credit ratings

We were the first Hong Kong corporate entity to obtain internationally recognised credit ratings which are on par with the Hong Kong Government.

Moody's re-affirmed our short-term foreign currency and long-term domestic currency ratings at respectively P-1 and Aa3 with stable outlook, and upgraded the long-term foreign currency debt rating for debt issued under foreign laws to Aa3.

S&P affirmed our A-1+ and AA- for short/long-term local currency ratings and concurrently upgraded our short/long-term foreign currency ratings to A-1+ and AA- with a stable outlook.

R&I also re-affirmed our short-term local currency and long-term domestic/foreign currency ratings of respectively a•1+ and AA/AA-.

Financial planning

We use a comprehensive long-term financial planning model to plan our railway operations and evaluate new investments. The model subjects all investments to rigorous evaluations by taking into account weighted average cost of capital and required rate of return, supplemented by sensitivity analyses on key variables and regular review of assumptions to ensure results are reliable and robust. To manage our cost of capital effectively we also conduct regular assessment of our funding requirement and capital structure.

Financing capacity

Between 2006 and 2008 inclusive, the Company would have total projected capital expenditures of HK$5.1 billion for railway projects and HK$2.1 billion for property developments in Hong Kong, as well as HK$5.4 billion for overseas investments. Amongst these, funding requirement for the HK$4.0 billion interest free loan to the developer for Tseung Kwan O Area 86 Package Two in respect of property developments, and the Shenzhen Metro Line 4 in respect of overseas investment has already been secured and as such the Group has sufficient financing capacity to capture other investment opportunities in Hong Kong and overseas.

Ten-year statistics

	2005*	2004*	2003*	2002*	2001*	2000*	1999	1998	1997	1996
Financial										
Profit and loss account *in HK$ million*										
Turnover	**9,153**	8,351	7,594	7,686	7,592	7,577	7,252	6,981	6,574	6,253
Operating profit before depreciation	**11,246**	9,097	9,116	7,769	7,301	7,290	5,523	4,720	3,805	3,342
Depreciation	**2,682**	2,499	2,402	2,470	2,178	2,091	2,039	1,426	927	850
Interest and finance charges	**1,361**	1,450	1,539	1,125	874	1,143	1,104	475	95	957
Profit	**8,463**	6,543	4,450	3,579	4,278	4,069	2,116	2,819	2,783	1,535
Dividend proposed and declared	**2,299**	2,259	2,215	2,161	2,118	500	–	–	1,252	647
Earnings per share *in HK$*	**1.55**	1.23	0.85	0.70	0.85	0.81	0.42	–	–	–
Balance sheet *in HK$ million*										
Total assets	**113,666**	106,674	102,366	101,119	98,126	92,565	87,250	82,104	75,428	64,644
Loans, obligations under finance leases and bank overdrafts	**28,264**	30,378	32,025	33,508	31,385	27,203	23,177	16,897	10,875	12,696
Deferred income	**3,584**	4,638	5,061	6,226	8,411	10,403	13,776	15,970	16,705	9,094
Total equity attributable to equity shareholders	**69,875**	61,892	57,292	53,574	53,893	50,355	45,115	42,601	41,815	35,473
Financial ratios *in percentage*										
Operating margin	**55.7**	54.2	49.3	52.2	53.4	51.7	48.2	47.3	53.7	53.4
Non-fare revenue as a percentage of turnover	**31.4**	29.0	27.7	25.6	24.6	24.6	22.2	22.1	21.0	18.8
Gross debt-to-equity ratio	**40.4**	49.1	55.9	62.5	58.2	54.0	51.4	39.7	26.0	35.8
Gross debt-to-equity ratio (excluding revaluation reserves)	**40.9**	49.3	63.3	71.1	66.4	62.2	58.5	45.0	31.3	43.8
Interest cover *in times*	**7.6**	6.1	5.6	4.5	3.8	3.8	3.7	5.1	15.7	4.0
Employees										
Corporate management and service departments	**896**	860	855	886	930	966	1,031	1,317	1,104	1,069
Operations	**4,600**	4,669	4,730	4,836	4,756	4,943	5,132	5,890	4,575	4,499
Engineering and project	**246**	366	402	551	978	904	918	1,111	2,380	1,871
Property development and management	**689**	660	642	618	567	519	456	468	427	405
China and international businesses#	**82**	–	–	–	–	–	–	–	–	–
Total	**6,513**	6,555	6,629	6,891	7,231	7,332	7,537	8,786	8,486	7,844

* Consolidated results

\# New division established in 2005

	2005*	2004*	2003*	2002*	2001*	2000*	1999	1998	1997	1996
Railway operations										
Revenue car km operated *in thousands*										
MTR Lines	**114,449**	114,364	112,823	103,318	96,751	92,199	94,704	94,260	84,258	83,769
Airport Express Line	**17,122**	16,081	15,227	19,467	19,458	19,557	19,394	9,011	–	–
Total number of passengers *in thousands*										
MTR Lines	**857,954**	833,550	770,419	777,210	758,421	767,416	779,309	793,602	811,897	816,572
Airport Express Line	**8,493**	8,015	6,849	8,457	9,022	10,349	10,396	3,928	–	–
Average number of passengers *in thousands*										
MTR Lines – weekday average	**2,497**	2,403	2,240	2,261	2,231	2,240	2,284	2,326	2,382	2,379
Airport Express Line – daily average	**23**	22	19	23	25	28	29	22	–	–
Average passenger km travelled										
MTR Lines	**7.6**	7.7	7.7	7.6	7.4	7.3	7.4	7.4	7.4	7.5
Airport Express Line	**30.4**	30.2	29.7	29.9	29.8	29.7	29.9	31.2	–	–
Average car occupancy										
MTR Lines	**57**	56	53	57	58	61	61	62	71	73
Airport Express Line	**15**	15	13	13	14	16	16	14	–	–
Proportion of franchised public transport boardings *in percentage*										
All movements	**25.2**	24.8	24.3	23.5	23.5	24.1	25.2	25.7	25.9	26.7
Cross-harbour movements	**61.2**	59.6	58.7	58.2	57.4	57.9	60.3	61.9	64.2	66.5
Proportion of transport boardings *in percentage*										
To/from the airport	**22**	21	23	25	27	28	32	25	–	–
HK$ per car km operated (all services)										
Fare revenue	**47.7**	45.5	42.9	46.6	49.3	51.1	49.4	52.7	61.6	60.6
Railway operating costs	**22.8**	22.3	22.5	22.8	24.6	26.8	27.3	29.2	29.5	29.1
Railway operating profit	**24.9**	23.2	20.4	23.8	24.7	24.3	22.1	23.5	32.1	31.5
HK$ per passenger carried (all services)										
Fare revenue	**7.25**	7.05	7.06	7.28	7.46	7.35	7.14	6.82	6.39	6.22
Railway operating costs	**3.47**	3.45	3.70	3.57	3.72	3.85	3.94	3.78	3.06	2.99
Railway operating profit	**3.78**	3.60	3.36	3.71	3.74	3.50	3.20	3.04	3.33	3.23
Safety performance										
Number of reportable events^	**747**	701	641	690	686	748	859	842	814	869
Reportable events per million passengers carried^	**0.86**	0.83	0.82	0.88	0.89	0.96	1.09	1.05	1.00	1.06
Number of staff and contractors' staff accidents	**30**	25	33	24	39	36	49	65	54	40

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

Corporate governance report

Corporate Governance Practices

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

The Company has complied throughout the year ended 31 December 2005 with the Code Provisions except that, with respect to Code Provision A.4.1, non-executive Directors of the Company are not appointed for a specific term but are subject (save for those appointed pursuant to Section 8 of The Mass Transit Railway Ordinance (Chapter 556 of the Laws of Hong Kong) ("MTR Ordinance")) 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. As there are currently nine Directors subject to the requirement to retire by rotation, and one-third of them shall retire at each annual general meeting of the Company (subject to re-election by the shareholders), each of these Directors is effectively appointed for a term of approximately three years.

The Board of Directors

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

The Board comprises 11 members, consisting of one executive Director (the Chief Executive Officer) and ten non-executive Directors, of whom six are independent non-executive Directors. In this regard, the Company exceeds the requirement of the Listing Rules which requires every board of directors of a listed issuer to have at least three independent non-executive directors. Following the Board's decision to split the roles of Chairman and Chief Executive Officer, Dr. Raymond Ch'ien Kuo-fung, already a Member of the Board, was appointed non-executive Chairman for three years with effect from 21 July 2003, and Mr. Chow Chung-kong was appointed Chief Executive Officer and a Member of the Board on 1 December 2003. Two of the other non-executive Directors (being the Secretary for the Environment, Transport and Works and the Commissioner for Transport) are appointed by the Chief Executive of The Hong Kong Special Administrative Region of the People's Republic of China ("HKSAR"). Another non-executive Director, Mr. Frederick Ma Si-hang, is the Secretary for Financial Services and the Treasury of the Government of the HKSAR. The Government of the HKSAR through The Financial Secretary Incorporated, holds approximately 76% of the issued share capital of the Company.

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

Each Director ensures that he/she can give sufficient time and attention to the affairs of the Company. They are requested to disclose the number and nature of offices held in public companies or organisations and other significant commitments as well as their identity to the Company twice a year.

Biographies of the Members of the Board and Executive Directorate are set out on pages 26 to 29. None of the Members of the Board and Executive Directorate has any relationship (including financial, business, family or other material or relevant relationships) between each other, although Commissioner for Transport (Mr. Alan Wong Chi-kong) and Secretary for the Environment, Transport and Works (Dr. Sarah Liao Sau-tung) were appointed by the Chief Executive of HKSAR, and Mr. Frederick Ma Si-hang was appointed by The Financial Secretary Incorporated, and Ms. Christine Fang Meng-sang sits on various government advisory committees.

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

Chairman and Chief Executive Officer

The posts of Chairman and Chief Executive Officer are distinct and separate. The non-executive Chairman is responsible for chairing and managing the operations of the Board, as well as monitoring the performance of the Chief Executive Officer and Members of the Executive Directorate. Apart from ensuring that adequate information about the Company's business is provided to the Board on a timely basis, the Chairman also ensures that the non-executive Directors make an effective contribution at Board meetings. As head of the Executive Directorate, the Chief Executive Officer is responsible to the Board for managing the business of the Company.

The Chairman held a meeting on 12 April 2005 with all of the non-executive directors without the presence of Members of Executive Directorate (including the Chief Executive Officer) to discuss the responsibilities of the Board, proceedings at Board Meetings and the performance of Members of the Executive Directorate. Another meeting was held by the Chairman on 7 March 2006.

Board Proceedings

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

At each regular Board meeting, Members of the Executive Directorate together with senior managers report to the Board on their business, including the operations, project progress, financial performance, corporate governance and outlook. The Chief Executive Officer also submits his Executive Summary, which focuses on the overall strategies and principal issues of the Company, to the Board. These reports, together with the discussions at Board meetings, provide information to enable all Members of the Board to make informed decisions for the benefit of the Company. The agenda together with board papers is sent in full at least 3 days before the intended date of the Board Meeting.

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

In 2005, the Board held eight meetings. The possible merger between the Company and Kowloon-Canton Railway Corporation ("KCRC") was discussed at all eight meetings by the Members of the Board who did not have conflicts of interest. The attendance record of each Member of the Board is set out below:

Directors	Attendance of Board meetings in 2005	Attendance rate
Non-executive Directors		
Dr. Raymond Ch'ien Kuo-fung (Chairman)	8/8	100%
Commissioner for Transport (Robert Charles Law Footman, ceased to be the Commissioner for Transport with effect from 18 June 2005)	3/3	100%
(Alan Wong Chi-kong, appointed Commissioner for Transport with effect from 18 June 2005)	4/5#	80%
# 1 meeting was attended by the alternate director		
Secretary for the Environment, Transport and Works (Dr. Sarah Liao Sau-tung)	8/8*	100%
* 6 meetings were attended by the alternate directors		
Frederick Ma Si-hang	8/8†	100%
† 4 meetings were attended by his alternate director		
Independent Non-executive Directors		
Professor Cheung Yau-kai	8/8	100%
David Gordon Eldon	2/8	25%
Christine Fang Meng-sang	7/8	88%
Edward Ho Sing-tin	8/8	100%
Lo Chung-hing	8/8	100%
T. Brian Stevenson	8/8	100%
Executive Director		
Chow Chung-kong (Chief Executive Officer)	8/8	100%

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

Appointment, re-election and removal of Members of the Board

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

The Chief Executive of the HKSAR may, pursuant to Section 8 of the MTR Ordinance, appoint up to three persons as "additional directors". Directors appointed in this way may not be removed from office except by the Chief Executive of the HKSAR. These Directors are not subject to any requirement to retire by rotation nor will they be counted in the calculation of the number of Directors who must retire by rotation. In all other respects, the "additional directors" are treated for all purposes in the same way as other Directors. The Chief Executive has appointed the Office for the Secretary for Environment, Transport and Works and the Office for Commissioner for Transport as "additional directors". As there are currently nine Directors subject to the requirement to retire by rotation, and one-third of them shall retire at each annual general meeting of the Company (subject to re-election by the shareholders), each of these Directors is effectively appointed for a term of approximately three years.

Each of the Directors, on appointment to the Board, is given a comprehensive induction programme on key areas of business operations and practices of the Company, as well as a Directors' Manual. Amongst other things, the Manual not only sets out the general and specific duties of the Directors under general law (common law and legislation) and the Listing Rules, but also includes the Terms of Reference of the Board Committees. The Directors' Manual is updated from time to time to reflect developments in those areas.

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

Accountability

The Members of the Board are responsible for preparing the accounts of the Company and of the Group. The accounts are prepared on a going concern basis and give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2005, and of the Group's profit and cash flow for the year then ended. In preparing the accounts for the year ended 31 December 2005, the Members of the Board have selected appropriate accounting policies and, apart from those new and amended accounting policies as disclosed in the notes to the accounts ended 31 December 2005, have applied them consistently with previous financial periods. Judgments and estimates have been made that are prudent and reasonable. The reporting responsibilities of the External Auditor are set out on page 50.

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

Board Committees

As an integral part of good corporate governance, the Board has established the following Board Committees to oversee particular aspects of the Company's affairs. Each of these Committees comprises non-executive Directors who have been invited to serve as members. Each of the Audit, Remuneration and Nominations Committee is governed by its respective Terms of Reference, which are available on the Company's website: www.mtr.com.hk. All Committees are provided with sufficient resources to discharge their duties.

Audit Committee

The Audit Committee consists of three non-executive Directors, two of whom are independent non-executive Directors. The Members of the Committee are T. Brian Stevenson (chairman), Professor Cheung Yau-kai and the Commissioner for Transport (Robert Charles Law Footman who ceased to be the Commissioner for Transport and Alan Wong Chi-kong who was appointed Commissioner for Transport, both with effect from 18 June 2005). None of the Committee Members is a partner or former partner of KPMG, the Company's External Auditor. The Finance Director, the Head of Internal Audit Department and representatives of the External Auditor of the Company are expected to attend meetings of the Committee. At the discretion of the Committee, others may also be invited to attend meetings. The Committee normally meets four times a year, and the External Auditor or the Finance Director may request a meeting if they consider it necessary.

Under its Terms of Reference, the duties of the Audit Committee include financial and efficiency aspects. Amongst other things, the Committee is required to oversee the relationship with the Company's External Auditor, to review the financial information of the Company, and to oversee the Company's financial reporting system and internal procedures. The Committee discusses with the External Auditor the nature and scope of audit and reporting obligations before the audit commences. Apart from giving pre-approval of all audit services, the Committee also pre-approves any non-audit services for complying with relevant legal requirements. The Committee is primarily responsible for making recommendations to the Board on the appointment and removal of the External Auditor, and approving the remuneration and terms of such engagement. With respect to financial information of the Company, the Committee monitors the integrity of financial statements, annual and interim reports and accounts, together with the preliminary announcement of results and other announcements regarding the Company's financial information to be made public. In dealing with the financial information, the Committee liaises with the Board and the Executive Directorate (including the Finance Director), and further meets with both the External Auditor and the Head of Internal Audit. Apart from considering issues arising from the audit, the Committee discusses any matters that auditor(s) may wish to raise either privately or together with executive director and any other person. The Committee is required to review, at least annually, the effectiveness of the Company's financial controls, internal control and risk management systems and to report to the Board that such a review has been carried out. These controls and systems allow the Board to monitor the Company's overall financial position and to protect its assets. In addition, the Committee reviews periodic reports from the Head of Internal Audit and the follow-up of major action plans recommended. The Committee selects, in consultation with the Chairman and the Chief Executive Officer (or otherwise approves) any topic to be the subject of an audit into the efficiency, effectiveness or value for money of any of the activities or operations of the Company. It then reviews reports of such audit and puts forward recommendations to the Board.

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

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

In 2005, the Audit Committee held four meetings. The major work performed by the Committee in 2005 included:

- Reviewing and recommending for the Board's approval the draft 2004 Annual Report and Accounts and 2005 Interim Report and Accounts;
- Reviewing 2005 Revised Accounting Standards;
- Reviewing the Company's internal control systems;
- Approving the 2005 Audit Plan and reviewing the periodic report prepared by the Internal Audit Department;
- Pre-approving the audit and non-audit services provided by KPMG, External Auditor, for 2005;
- Reviewing and recommending for the Board's approval the revision of the Terms of Reference of the Audit Committee to comply with amendments to the Listing Rules.

The attendance record of each Audit Committee Member is set out below. Representatives of the External Auditor, the Finance Director and the Head of Internal Audit Department attended all those meetings for reporting and answering questions about their work. Further to that and by invitation, the then Managing Director – Operations and Business Development (or his representative), and Property Director had respectively provided an overview of the Company's railway operations and property business to the Members at their meetings.

Directors	Attendance of Audit Committee meetings in 2005	Attendance rate
T. Brian Stevenson (chairman)	4/4	100%
Professor Cheung Yau-kai	4/4	100%
Commissioner for Transport (Robert Charles Law Footman, ceased to be the Commissioner for Transport with effect from 18 June 2005)	2/2	100%
(Alan Wong Chi-kong, appointed Commissioner for Transport with effect from 18 June 2005)	2/2	100%

Remuneration Committee

The Remuneration Committee consists of three non-executive Directors, two of whom are independent non-executive Directors. The Members of the Remuneration Committee are Edward Ho Sing-tin (chairman), T. Brian Stevenson and Frederick Ma Si-hang.

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

In 2005, the Remuneration Committee held two meetings. In accordance with its Terms of Reference, the Committee performed the following work during the year:

- Reviewed and approved payouts under the Company's performance-based variable incentive scheme for the 2004 performance period;
- Reviewed and recommended for the Board's approval the revision of the Terms of Reference of the Remuneration Committee to comply with amendments to the Listing Rules;

- Conducted an annual review of remuneration packages for the Chief Executive Officer and Executive Directorate for effect in 2005;
- Reviewed and approved the remuneration packages of new Members of the Executive Directorate and Senior Management.

The attendance record of each Committee Member is set out below:

Directors	Attendance of Remuneration Committee meetings in 2005	Attendance rate
Edward Ho Sing-tin (chairman)	2/2	100%
T. Brian Stevenson	2/2	100%
Frederick Ma Si-hang	2/2	100%

The Remuneration Committee also met on 7 March 2006 to approve the 2005 Remuneration Report. This report is set out on pages 24 and 25 and includes a description of the remuneration policy of the Company.

Nominations Committee

The Nominations Committee consists of three non-executive Directors, two of whom are independent non-executive Directors. The Members of the Nominations Committee are David Gordon Eldon (chairman), Lo Chung-hing and the Secretary for the Environment, Transport and Works (Dr. Sarah Liao Sau-tung). The Nominations Committee nominates and recommends to the Board candidates for filling vacancies on the Board.

Since there were no new Board appointments in 2005, the Committee did not convene any meeting during the year.

Independent Committee

The Board is committed to looking after the interests of independent shareholders of the Company and, for this purpose, an independent committee of the Board (the "Independent Committee"), chaired by Edward Ho Sing-tin, together with Professor Cheung Yau-kai, Christine Fang Meng-sang, Lo Chung-hing and T. Brian Stevenson, has been established to consider and review the terms of any possible merger between the Company and KCRC, and to advise independent shareholders whether they are fair and reasonable. At the Board Meeting on 7 March 2006, the Board approved Mr. David Gordon Eldon rejoining the Independent Committee. All Members of the Independent Committee are independent non-executive Directors of the Company.

Internal Controls

The Board is responsible for ensuring that there is in place a satisfactory system of internal control. The main objectives are to ensure adherence to management policies, compliance with applicable laws and regulations, the safeguarding of assets, the efficiency and effectiveness of operation, the prevention and detection of fraud and error, the accuracy and completeness of the accounting records, and the timely preparation of reliable financial information.

The Company has adopted the internal control systems including following:

- The Board has delegated to the Executive Directorate all decision-making powers to run the business on a day to day basis subject to the terms of the "Protocol: Matters reserved to the Board".
- Various risk management strategies have been established by the Board to identify, assess and reduce risks including construction and insurance, finance, treasury, safety, security and environmental. The relevant Member of the Executive Directorate is responsible for managing the risks under his areas of business.
- The Company is developing a formal Enterprise Risk Management framework (the "Framework"). The Framework aims to standardise and extend the risk management practices that are already present in some key functions of the Company, to provide an overall view of key risks at a corporate level, and to enhance common understanding of how individual business areas can support the control of such risks. An Enterprise Risk Manager has been appointed to lead this effort.
- The Company respects investors' rights to information that is necessary for evaluating their investments in the Company. Directors and employees are required to be familiar with and comply with the Company's disclosure controls and procedures so that the Company's public reports and documents that the Company is required to disclose publicly comply in all material respects with the applicable regulatory regimes.
- Members of the Board and Executive Directorate, and other nominated managers who have access to price-sensitive and/or specific information are bound by the Model Code for Securities Transactions by Directors of the Company (see below). In addition, every employee is also bound by the Code of Conduct issued by the Company, amongst other things, to keep unpublished price-sensitive information in strict confidence.
- All Department Heads, including the responsible Business and Project Managers for overseas projects, are asked to identify any new or updated statutes, to assess the risk of such statutes/regulations and their impact on the Company's operations, and to review at least once every year to ensure that relevant statutes/regulations are complied with. Any non-compliance that is detrimental to the Company is reported to the respective Divisional Heads who would then report it to the Executive Directorate.
- The Internal Audit Department carries out audits on systems, financial controls, and compliance with statutes/regulations according to the Audit Plan approved by the Audit Committee.

The Internal Audit Department plays a major role in support of and in collaboration with the Company's management, in monitoring the internal governance of the Company. The Internal Auditor reports directly to the Chief Executive Officer and has direct access to the Audit Committee. The Department has unrestricted access to information that allows it to review all aspects of the Company's risk management, control and governance processes. On a regular basis, it conducts audits on internal control systems of all business, support units and subsidiaries. As the need arises, it also conducts ad-hoc reviews or investigations. On a half-yearly basis, based on the audit findings and other relevant information that have come to the Internal Audit Department's attention during the course of the audits, the Internal Auditor reports to the Audit Committee his opinion on system of internal controls. In the 2005 reports, it was stated that in general an adequate and effective system of internal controls was in place.

As disclosed before, the Chairman of the Committee summarises activities of the Committee and highlights issues arising therefrom by a report to the Board after each Audit Committee meeting.

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

The Company has adopted the Model Code and, having made specific enquiry, confirms that Members of the Board and the Executive Directorate complied throughout the year with the Model Code set out in Appendix 10 to the Listing Rules. Senior managers who, because of their office in the Company, are likely to be in possession of unpublished price sensitive information, have been requested to comply with the provisions of the Model Code.

Business Ethics

The Company is committed to a high standard of business ethics and integrity. The content of the Company's Code of Conduct and the Corporate Guidebook for All Staff are reviewed every two years by Human Resource Management Department to ensure appropriateness and compliance with legislation.

In order to extend the ethical culture of the Company to our Mainland subsidiaries, the Induction Programme for the Shenzhen subsidiary company has been reviewed and updated to incorporate a briefing on the Company's Code of Conduct and the Corporate Guidebook for All Staff.

US Sarbanes-Oxley Act 2002

This legislation, which seeks to enhance the transparency and accountability of companies in the areas of corporate governance and financial reporting, was signed into law by the President of the United States on 30 July 2002.

As the Company is The U.S. Securities and Exchange Commission reporting company, it is generally bound by this legislation.

The Company has been, and will continue its process of, reviewing its internal systems and practices and implementing new requirements under this legislation in line with applicable compliance dates.

External Auditor

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

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

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

in HK$ million	**2005**	2004
Auditor's remuneration		
– audit services	**4**	4
– tax services	**1**	1
– other services	**2**	–

Communication with Shareholders

The Company's Annual General Meeting ("AGM") is one of the principal channels of communication with its shareholders. It provides an opportunity for shareholders to question Directors about the Company's performance. The Chairman of the Company and the Chairmen of each of the Board Committees were present at the 2005 AGM.

At the 2005 AGM, the Chairman started the formal business by outlining the categories of persons who were entitled to demand a poll in accordance with Article 67 of the Company's Articles of Association on any resolution to be proposed at the AGM. Separate resolutions were proposed for each substantially separate issue at the AGM. Before the resolutions were considered, the Chairman exercised his right as the Chairman of the Meeting under Article 67 of the Company's Articles of Association to call a poll on all resolutions. The poll results were published in an English and a Chinese newspaper and posted on the websites of the Company and The Stock Exchange of Hong Kong Limited on the day after the AGM. The AGM minutes were also posted on the Company's website within a reasonable time.

Remuneration report

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

Remuneration policy

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

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

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

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

A summary of work performed by the Remuneration Committee during 2005 is set out in the "Corporate Governance Report" on pages 18 to 23.

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

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

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

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

Remuneration Structure for Employees

The Company's remuneration structure for its employees, including Members of the Board who are executive Directors and Executive Directorate, comprises fixed compensation, variable incentives, discretionary award, long-term incentives, and retirement schemes. Specifics about each of these components are described below.

Fixed Compensation

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

Variable Incentives

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

Under the current scheme rules, the payouts are based on the performance of the Company and individual performance. The Company's performance is measured by the return on fixed assets and operating profit on an annual and rolling three-year basis.

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

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

Discretionary Award

In 2005, a special discretionary award was provided to all staff with competent or above performance as a recognition of the staff's contribution to the good company performance in the past year and as a motivation to the staff for continuous business growth.

Long-Term Incentives

The Company operates two schemes, namely the Pre-Global Offering Share Option Scheme, and New Joiners Share Option Scheme.

Options exercised and outstanding in respect of each Member of the Executive Directorate as at 31 December 2005 under the two Schemes 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 two Schemes and options granted to Members of the Executive Directorate under the Schemes are set out in note 3 of the summary financial statements.

The Chief Executive Officer does not participate in the two Schemes but is entitled to receive an equivalent value in cash of 700,000 Shares on completion of his three-year contract.

Retirement Schemes

The Company operates three retirement schemes, the MTR Corporation Limited Retirement Scheme (the "Retirement Scheme"), the MTR Corporation Limited Retention Bonus Scheme (the "RBS"), and a Mandatory Provident Fund Scheme (the "MPF Scheme"). Employees who are eligible to join the Retirement Scheme can choose between the Retirement Scheme and the MPF Scheme, while other employees are required to join the MPF Scheme. The RBS is a top-up scheme to supplement the Retirement Scheme for employees who are classified by the Company as staff working on designated projects and who are not on gratuity terms.

(a) Retirement Scheme

The Retirement Scheme contains a hybrid benefit section and a defined contribution section. It is a registered scheme under the Occupational Retirement Schemes Ordinance and has been granted with an MPF Exemption so that it can be offered to employees as an alternative to the MPF Scheme. The hybrid benefit section provides benefits based on the greater of a multiple of final salary times service or the accumulated contributions with investment returns. Members' contributions to the hybrid benefit section are based on fixed percentages of basic salary. The Company's contributions are determined by reference to an annual actuarial valuation carried out by an independent actuarial consulting firm.

The hybrid benefit section has been closed to new employees since 31 March 1999. All employees joining the Company on or after 1 April 1999 who would have been eligible to join the Retirement Scheme can choose to join either the defined contribution section or, commencing 1 December 2000, the MPF Scheme.

The defined contribution benefit section is a member investment choice plan which provides benefits based on accumulated contributions and investment returns. Both members' and the Company's contributions to the defined contribution section are based on fixed percentages of members' basic salary.

(b) RBS

The RBS is a registered scheme under the Occupational Retirement Schemes Ordinance. It provides benefits only in the event of redundancy for service accrued up to 31 December 2002, offset by any benefits payable from the Retirement Scheme. Members are not required to contribute while the Company's contributions are determined by reference to an annual actuarial valuation carried out by an independent actuarial consulting firm.

(c) MPF Scheme

The Company has participated in the Bank Consortium MPF Plan which has been registered with the Mandatory Provident Fund Schemes Authority. The MPF Scheme covers those employees who are eligible to join the Retirement Scheme but have chosen not to join it and other employees who are not eligible to join the Retirement Scheme. Both members and the Company each contribute to the MPF Scheme at the mandatory levels as required by the Mandatory Provident Fund Schemes Ordinance. Additional contribution above the mandatory level may be provided subject to individual terms of employment.

The executive Directors who have been employed by the Company before 1 April 1999 are eligible to join the hybrid benefit section of the MTR Corporation Limited Retirement Scheme.

The executive Directors who are hired on or after 1 April 1999 are eligible to join the defined contribution benefit section of the MTR Corporation Limited Retirement Scheme.

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

Remuneration of Non-Executive and Executive Directors

(i) The total remuneration of the Members of the Board and the Executive Directorate (excluding share-based payments) is shown below and the remuneration details are set out in note 3 of the summary financial statements.

in HK$ million	**2005**	2004
Fees	**3**	3
Base Salaries, allowances and other benefits-in-kind	**29**	28
Variable remuneration related to performance	**10**	8
Retirement scheme contributions	**2**	3
	44	42

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

Remuneration	**2005 Number**	2004 Number
HK$0 – HK$500,000	**10**	9
HK$500,001 – HK$1,000,000	**1**	1
HK$1,000,001 – HK$1,500,000	**2**	–
HK$4,500,001 – HK$5,000,000	**5**	4
HK$5,000,001 – HK$5,500,000	**1**	2
HK$9,000,001 – HK$9,500,000	**–**	1
HK$9,500,001 – HK$10,000,000	**1**	–
	20	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.

Edward Ho Sing-tin, *Chairman, Remuneration Committee*
MTR Corporation Limited
Hong Kong, 7 March 2006

Board and Executive Directorate

Members of the Board

Dr. Raymond Ch´ien Kuo-fung 54, was appointed Non-Executive Chairman in July 2003. He has been a member of the Board since 1998. Dr. Ch'ien is chairman of CDC Corporation (formerly known as chinadotcom Corporation) and its subsidiary, China.com Inc (formerly known as hongkong.com Corporation). He is also non-executive chairman of HSBC Private Equity (Asia) Limited. He serves on the boards of HSBC Holdings plc, The Hongkong and Shanghai Banking Corporation Limited, Inchcape plc, Convenience Retail Asia Limited, VTech Holdings Limited and The Wharf (Holdings) Limited. Dr. Ch'ien is chairman of the Advisory Committee on Corruption of the Independent Commission Against Corruption, chairman of the Hong Kong/European Union Business Cooperation Committee, and a Hong Kong member of the APEC Business Advisory Council. In addition, Dr. Ch'ien is the honorary president and past chairman of the Federation of Hong Kong Industries. He was a member of the Executive Council of Hong Kong, then under British Administration, from 1992 to 1997, a member of the Executive Council of the Hong Kong SAR from 1 July 1997 to June 2002. Dr. Ch'ien was appointed Justice of the Peace in 1993. He was made a Commander in the Most Excellent Order of the British Empire in 1994 and awarded the Gold Bauhinia Star medal in 1999. Dr. Ch'ien received a doctoral degree in economics from the University of Pennsylvania in 1978.

Chow Chung-kong 55, was appointed Chief Executive Officer on 1 December 2003. He was formerly chief executive officer of Brambles Industries PLC, a global support services company with dual listings in the United Kingdom and Australia. From 1997 to 2001, Mr. Chow was chief executive of GKN PLC, a leading engineering company based in the United Kingdom and before that, he spent 20 years with the BOC Group PLC and was appointed a director of its board and chief executive of its Gases Division in 1993. Mr. Chow is a chartered engineer. He holds Bachelor of Science and Master of Science degrees in Chemical Engineering from The University of Wisconsin and The University of California respectively. He also holds a Master of Business Administration degree from The Chinese University of Hong Kong and was a graduate of the Advanced Management Program of Harvard Business School. He was awarded an Honorary Doctor of Engineering degree by The University of Bath. Mr. Chow was knighted in the United Kingdom in 2000 for his contribution to industry. He is currently member of the Council of the Hong Kong Institute of Certified Public Accountants, the Hong Kong Tourism Board, the Council of The Chinese University of Hong Kong and as the Council's representative to serve on the Board of Trustees of its Shaw College. He is also a member of the general committee of the Hong Kong General Chamber of Commerce, and the Shenzhen Municipal Committee of the Chinese People's Political Consultative Conference. Mr. Chow is a non-executive director of Standard Chartered PLC and the non-executive chairman of Standard Chartered Bank (Hong Kong) Limited.

Professor Cheung Yau-kai 71, is an independent non-executive Director and has been a member of the Board since 1999. Professor Cheung is Honorary Professor of Engineering and Special Adviser to the Vice-Chancellor of The University of Hong Kong. He was Taikoo Professor of Engineering and Acting Deputy Vice-Chancellor of The University of Hong Kong until 30 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 of Hong Kong. In addition to his academic appointments, Professor Cheung was the former first Senior Vice-President of the Hong Kong Institution of Engineers and the Ex-Chairman of its Accreditation Board. He has been awarded several honorary degrees at educational institutions, including, an honorary Doctor of Science by The University of Hong Kong and an honorary Doctor of Laws by the University of Wales. He has also been elected a member of the Chinese Academy of Sciences, and is a fellow of the Royal Academy of Engineering, a fellow of the Royal Society of Canada and immediate past President of the Hong Kong Academy of Engineering Sciences.

David Gordon Eldon 60, is an independent non-executive Director and has been a member of the Board since 1999. He retired from the HSBC Group on 27 May 2005 after 37 years of service. He was Chairman of The Hongkong and Shanghai Banking Corporation Limited from 1 January 1999 to 24 May 2005, non-executive Chairman of Hang Seng Bank Limited from 1 June 1996 to 21 April 2005, and a board member of Swire Pacific Limited until 11 May 2005. Mr. Eldon was the Executive Committee Chairman of The Community Chest of Hong Kong until 17 June 2005 and is currently its Vice Patron. He is senior adviser to PricewaterhouseCoopers (based in Hong Kong), Chairman of the Hong Kong General Chamber of Commerce, a Council member of the Hong Kong Trade Development Council and a Steward of the Hong Kong Jockey Club. Mr. Eldon is a fellow of the Chartered Institute of Bankers and a fellow of the Hong Kong Institute of Bankers. He is a Justice of the Peace.

Christine Fang Meng-sang 47, is an independent non-executive Director and has been a member of the Board since 2004. Ms. Fang has been the chief executive of the Hong Kong Council of Social Service since 2001. Prior to joining the Hong Kong Council of Social Service, she worked for the Hong Kong Red Cross from 1989 to 2001 and held the position of Secretary General from 1993 to 2001. By training, Ms. Fang is a social worker and has a strong background in community service. She sits on various government advisory committees, including the Social Welfare Advisory Committee, the Rehabilitation Advisory Committee (from 1 January 2002 to 31 December 2005), the Manpower Development Committee, the Hong Kong Housing Authority and the Sustainable Development Council. She is also a member of the Commission on Poverty and Commission on Strategic Development (Executive Committee).

Edward Ho Sing-tin 67, is an independent non-executive Director and has been a member of the Board since 1991. He is an architect and the deputy chairman and 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 president of the Hong Kong Institute of Architects in 1983 and 1984 and was chairman of the Hong Kong Industrial Estates Corporation from 1992 to 2001. Mr. Ho serves on a number of statutory boards and advisory committees including the Board of Hong Kong Hospital Authority. He is also chairman of the General Committee of the Hong Kong Philharmonic Society Ltd. and chairman of the Antiquities Advisory Board.

Lo Chung-hing 54, is an independent non-executive Director and has been a member of the Board since 1995. He is general manager of Bank of China (Hong Kong) Limited, after the restructuring of the Bank of China Group in October 2001. 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. He is a director of the Urban Renewal Authority. Mr. Lo 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. He was also a board member of the Hospital Authority from December 1997 to November 2005. Mr. Lo was awarded the Silver Bauhinia Star medal in 1998.

T. Brian Stevenson 61, is an independent non-executive Director and has been a member of the Board since October 2002. He is a non-executive director of The Hongkong and Shanghai Banking Corporation Limited, a member of the Asia Pacific Advisory Board of British Telecom, a member of the Public Service Commission and a Steward of the Hong Kong Jockey Club. Mr. Stevenson was previously the Senior Partner of Ernst & Young, Hong Kong from 1981 to 1999. He served on the Council of the Hong Kong Society of Accountants from 1991 to 1997 and was president of the Society in 1996. Mr. Stevenson is a chartered accountant and holds law degrees from Glasgow and Hong Kong Universities.

Commissioner for Transport (Alan Wong Chi-kong 50, joined the Board as a non-executive Director appointed as an "additional director" under section 8 of the Mass Transit Railway Ordinance by virtue of his appointment to the post of the Commissioner for Transport of the Government of the Hong Kong SAR on 18 June 2005. Prior to that, Mr. Wong has served in various bureaux and departments of the Government of the Hong Kong SAR including the Home Affairs Bureau, Civil Service Bureau, the former Urban Services Department, the former City and New Territories Administration, the former Health and Welfare Branch, the former Recreation and Culture Branch, the former Secretariat of the University and Polytechnic Grants Committee, the former Trade and Industry Branch, the Office of the Commissioner of Insurance from August 1996 to January 2000, the Mandatory Provident Fund Schemes Authority from January 2000 to June 2001, the former Information Technology Services Department from July 2001 to July 2004, and the Office of the Government Chief Information Officer from July 2004 to January 2005. As Commissioner for Transport, Mr. Wong is also a director of several transport-related companies, including The Kowloon Motor Bus Company (1933) Limited, Long Win Bus Company Limited, New World First Bus Services Limited, New Lantao Bus Company (1973) Limited, Citybus Limited, The Star Ferry Company Limited, The New Hong Kong Tunnel Company Limited, Western Harbour Tunnel Company Limited, Tate's Cairn Tunnel Company Limited and Route 3 (CPS) Company Limited.)

Secretary for the Environment, Transport and Works (Dr. Sarah Liao Sau-tung 54, joined the Board as a non-executive Director appointed as an "additional director" under section 8 of the Mass Transit Railway Ordinance in August 2002 after her appointment as the Secretary for the Environment, Transport and Works of the Government of the Hong Kong SAR on 1 July 2002. As Secretary for the Environment, Transport and Works, she is also a director of a number of companies including Kowloon-Canton Railway Corporation and Route 3 (CPS) Company Limited. Dr. Liao obtained a Doctorate Degree (Environmental/Occupational Health) from The University of Hong Kong. She has also been a fellow of the Royal Society of Chemistry since 1995 and the Hong Kong Institution of Engineers since 1996.)

Frederick Ma Si-hang 54, joined the Board as a non-executive Director on 1 July 2002 upon his appointment as Secretary for Financial Services and the Treasury of the Government of the Hong Kong SAR. Before assuming that post, Mr. Ma was Group Chief Financial Officer of PCCW Ltd. and was also an executive director and member of the Executive Committee of that group. Mr. Ma has more than 20 years' experience in the global financial services industry. He has served in key posts in J.P. Morgan Private Bank, Chase Manhattan Bank, Kumagai Gumi (Hong Kong) Limited and RBC Dominion Securities Limited. Besides serving as board member of Kowloon-Canton Railway Corporation and the Airport Authority, Mr. Ma is also a director of Hong Kong International Theme Parks Limited, Hong Kong Mortgage Corporation Limited and Mandatory Provident Fund Schemes Authority. Graduated from The University of Hong Kong in 1973, Mr. Ma holds a Bachelor of Arts degree, majoring in Economics and History.

Members of the Executive Directorate

Chow Chung-kong Biographical details are set out on page 26.

Russell John Black 59, has been the Project Director of the Company since 1992. He is responsible for the planning and implementation of all major railway extension and projects upgrade, including the Airport Railway project, the Quarry Bay Congestion Relief Works, the Tseung Kwan O Extension project, the Disneyland Resort Line and the Tung Chung Cable Car. He is also responsible for undertaking feasibility studies into possible new extensions to the railway, including the South Island Line and the West Island Line and providing project management expertise to railway projects in Mainland of China. Mr. Black initially worked for the Company from 1976 to 1984 and, prior to rejoining the Company in 1992, he was the project director of 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 also served on the Vocational Training Council from 1998 to 2002 and the Construction Advisory Board from 1993 to 1999. He currently serves on the Provisional Construction Industry Coordination Board. Mr. Black holds an honours degree in civil engineering from the University of Canterbury in New Zealand. He is a Fellow of the Hong Kong Academy of Engineering Sciences, the Hong Kong Institution of Engineers and the Institution of Professional Engineers, New Zealand. He was awarded the Public Service medal (PBM) in Singapore in 1986 and the Bronze Bauhinia Star medal in 1999.

William Chan Fu-keung 57, has been the Human Resources Director since August 1998. He joined the Company as Human Resources Manager in 1989. He is responsible for human resource management, operational and management training, administration and security management. Prior to joining the Company, Mr. Chan held senior managerial positions both in the commerce and in the utility sectors in Hong Kong, including the Government, the Hong Kong Productivity Council, Hutchison Whampoa Limited and Hong Kong Telecommunications Limited. He is a fellow member of the Hong Kong Institute of Human Resource Management since 1985 and is also the Vice President of the Institute. He is a Council member of Employers' Federation of Hong Kong, and a member of the Remuneration Committee of the Hong Kong Housing Society, the Labour Advisory Board Committee on Labour Relations, and the Career Development and Advisory Careers Board for a number of universities. Mr. Chan received a Bachelor of Social Science degree from The University of Hong Kong in 1971, majoring in economics.

Thomas Ho Hang-kwong 55, has served as Property Director since joining the Company in 1991. He is responsible for the development and management of all properties above and adjacent to MTR stations and depots. He leads a multi-disciplinary team of managers involved in the planning, design, construction and management of large-scale property developments. Between 1971 and 1990, Mr. Ho worked for the Hong Kong Government specialising in land administration and latterly held a directorate post in the Lands Department, responsible for formulating policies and procedures to make land available for the airport and the Airport Railway project. Mr. Ho was qualified in 1974 as a chartered surveyor in Hong Kong.

Lincoln Leong Kwok-kuen 45, has served as the Finance Director since February 2002. 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 Octopus Holdings Limited and the board of trustees of the Company's retirement scheme. Mr. Leong graduated from Cambridge University in 1982 and later qualified as a chartered accountant in England in 1985 and Canada in 1986. Prior to joining the Company as Finance Director, he worked in both the accountancy and investment banking industries. Mr. Leong has also worked as an accountant in London and Vancouver, Canada and for a number of years as an investment banker in Hong Kong. Mr. Leong is the chairman of the executive committee of the Hong Kong Society for the Protection of Children, a member of the executive committee of Housing Society and a board member of the Community Chest. He also serves on the Board of Governor of the Chinese International School and is a trustee of the Hospital Authority Pension Fund Scheme.

Mr. Leong is also a non-executive director of both Hong Kong Aircraft Engineering Company Limited and Tai Ping Carpets International Limited.

Francois Lung Ka-kui 47, was appointed as the China & International Business Director on 26 September 2005. He heads the Company's growth-business efforts, including investments in Mainland of China, operating franchises in Europe and international consultancy. Dr. Lung has held various positions in a number of Royal Dutch Shell affiliates since 1997 and joined the Company from Shell Eastern Petroleum (Pte) Ltd. He was the General Manager, China, with responsibility for strategy development, governance and business performance of Shell's gas and power business in China. From 1994 to 1997, he held positions at Duke Energy Asia Limited, an affiliate of Duke Energy International, becoming Vice-President in 1996. Prior to this, Dr. Lung spent approximately five years at PowerGen plc, a major generator, distributor and retailer of electricity in the United Kingdom, and three years at the Central Electricity Generating Board before the privatisation of the electricity industry in the United Kingdom. Dr. Lung holds a Bachelor of Science degree in Mechanical Engineering from the University of Hong Kong, a PhD in Combustion from the University of Leeds in the United Kingdom, a Master of Science degree in Management from the University of Southampton in the United Kingdom and a Bachelor of Law degree from the University of London. Dr. Lung was admitted to the Bar of the United Kingdom in 1992.

Andrew McCusker 60, was appointed as the Acting Operations Director on 1 October 2005 and became Operations Director on 5 December 2005. Mr. McCusker has more than 40 years of experience in the engineering field. He joined the Company as Operations Engineering Manager in 1987, and since then has been posted to other responsible positions, including Operations Engineering Design Manager and Project Manager (Operations). He was appointed Deputy Operations Director in March 2004. Mr. McCusker holds a degree in Mechanical Engineering from the Kensington University in the United States and is a member of the Institution of Mechanical Engineers of the United Kingdom.

Leonard Bryan Turk 56, is a solicitor admitted to practice both in England and Wales and in Hong Kong. He joined the Company in 1981 and has been Legal Director and Secretary to the Board since 1988. Mr. Turk is responsible for legal advice, corporate secretarial services, insurance, procurement and enterprise risk management functions within the Company. In particular, his responsibilities include construction contracts, contract drafting and administration, cost control and dispute resolution. Before joining the Company, Mr. Turk worked in local government in England, concentrating particularly on commercial property development and the financing of large projects.

Report of the Members of the Board

The Members of the Board have pleasure in submitting their Report and the summary financial statements for the financial year ended 31 December 2005.

Principal Activities of the Group

The principal activities of the Company and its subsidiaries are:

A the operation of a mass transit railway system with lines from Central to Tsuen Wan (Tsuen Wan Line), from Yau Ma Tei to Tiu Keng Leng (Kwun Tong Line), from Po Lam to North Point (Tseung Kwan O Line), from Chai Wan to Sheung Wan (Island Line), from Hong Kong to Tung Chung (Tung Chung Line), from Hong Kong to the Hong Kong International Airport and then AsiaWorld-Expo both at Chek Lap Kok (Airport Express Line) and from Sunny Bay to Disneyland Resort (Disneyland Resort Line);

B property development at locations relating to the railway system including the Tseung Kwan O Line Extension;

C related commercial activities, including the letting of advertising and retail space, bandwidth services on the railway telecommunication system, property management and leasing management of investment properties (including shopping centres and offices), property agency and Octopus Card Building Access System services;

D the construction, commissioning and opening of Disneyland Resort Line and AsiaWorld-Expo Station beyond Airport Station as an extension of the Airport Express Line;

E the design and construction of the Ngong Ping 360 tourism facilities and subsequent monitoring of the appointed operator;

F the planning and construction of future extensions to the railway system and other related infrastructure projects;

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

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

I equity investments and long term operation and maintenance contracts outside of Hong Kong;

J property management, shopping centre investment and railway related property development business in China; and

K the investment in, and construction of, Beijing Metro Line 4, in which the Company has a 49% equity interest, for future operations under a 30-year concession agreement with the Beijing Municipal Government.

In addition to the above, a Feasibility Study Report for Shenzhen Line 4 has been submitted to National Development and Reform Commission for approval. The Company is waiting for the result.

Dividend

The Directors have recommended a final dividend of HK$0.28 per Ordinary Share to be payable to shareholders whose names appear on the Register of Members of the Company on 11 April 2006. Subject to the passing of the necessary resolutions at the forthcoming Annual General Meeting, such dividend will be payable on or about 27 June 2006, in cash in Hong Kong dollars, with a scrip dividend alternative. The Company's majority shareholder, The Financial Secretary Incorporated, has agreed to elect to receive all or part of its entitlement to dividends in the form of scrip to the extent necessary to ensure that a maximum of 50% of the total dividend paid by the Company will be in the form of cash.

Members of the Board

Members of the Board who served during the year were Raymond Ch'ien Kuo-fung (non-executive Chairman), Chow Chung-kong (Chief Executive Officer), Cheung Yau-kai, David Gordon Eldon, Christine Fang Meng-sang , Edward Ho Sing-tin, Lo Chung-hing, T. Brian Stevenson, Frederick Ma Si-hang, the Secretary for the Environment, Transport and Works (Sarah Liao Sau-tung) and the Commissioner for Transport (Robert Charles Law Footman ceased to hold the post of the Commissioner for Transport and Alan Wong Chi-kong was appointed to that post, both with effect from 18 June 2005).

At the Annual General Meeting on 2 June 2005 and pursuant to the Articles of Association, Cheung Yau-kai, Edward Ho Sing-tin and Lo Chung-hing retired under the Articles of Association and were re-elected as Members of the Board.

At the forthcoming Annual General Meeting and in accordance with the Articles of Association, Raymond Ch'ien Kuo-fung, T. Brian Stevenson and Frederick Ma Si-hang will retire by rotation. All these three Board Members will offer themselves for re-election at that Meeting.

Biographical details for Board Members are set out on pages 26 and 27.

Alternate Directors

The Alternate Directors in office during the year were (i) Martin McKenzie Glass and Alan Lai Nin (both for Frederick Ma Si-hang), (ii) both the Permanent Secretary for the Environment, Transport & Works (Joshua Law Chi-kong) and the Deputy Secretary for the Environment, Transport & Works (Patrick Ho Chung-kei , Thomas

Chow Tat-ming, Cathy Chu Man-ling and Annie Choi Suk-han) (for the Secretary for the Environment, Transport & Works), and (iii) the Deputy Commissioner for Transport/Transport Services and Management (Judy Li Wu Wai-lok [who ceased to be the Deputy Commissioner for Transport/Transport Services and Management and accordingly ceased to be the alternate director for the Commissioner for Transport] and Carolina Yip Lai-ching [with effect from 23 May 2005]) (for the Commissioner for Transport).

Executive Directorate

The Members of the Executive Directorate who served during the year were Chow Chung-kong (Chief Executive Officer and a Member of the Board), Russell John Black, William Chan Fu-keung, Philip Gaffney [retired with effect from 5 December 2005], Thomas Ho Hang-kwong, Lincoln Leong Kwok-kuen, Francois Lung Ka-kui [appointed with effect from 26 September 2005], Andrew McCusker [appointed with effect from 1 October 2005] and Leonard Bryan Turk.

Biographical details for Members of the Executive Directorate during the year are set out on page 28 and page 29.

Internal Audit

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

- Assessments on the adequacy and effectiveness of the Company's system of internal control for controlling its activities and managing its risks.
- Identification of opportunities for improving management control, resources utilisation and profitability.
- Special reviews and/or investigations as commissioned by Company management.

The Company's Internal Auditor reports directly to the Chief Executive Officer and has direct access to the Audit Committee.

Business Ethics

Please refer to page 23.

Policies

The Board has adopted risk management strategies on the following matters:

A Construction and insurance;
B Finance;
C Treasury risk management;
D Safety risk management;
E Security management.

No changes to such policies may be made without the approval of the Board.

Public Float

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

Summary Financial Statements

The state of affairs of the Group as at 31 December 2005 and of its results for the year are set out in the summary financial statements on pages 35 to 49.

Ten-Year Statistics

A summary of the results and of the assets and liabilities of the Group together with some major operational statistics for the last ten years are set out on pages 16 and 17.

Fixed Assets and Railway Construction in Progress

Movements in fixed assets and railway construction in progress during the year are set out in note 5 to the summary financial statements.

Movements in Reserves

Movements in reserves during the year are set out in note 7 to the summary financial statements.

Share Capital

As at 31 December 2004, the authorised share capital of the Company was HK$6.5 billion, divided into 6.5 billion Ordinary Shares, 5,389,999,974 of which were issued and credited as fully paid. During the year, the Company issued a total of 91,856,465 Ordinary Shares. Of this number:

A 5,282,500 Ordinary Shares were issued by the Company pursuant to the exercise of share options which had been granted under the Company's Pre-Global Offering Share Option Scheme. In respect of each Ordinary Share issued, the relevant exercise price per share of options is HK$8.44 to the Company;

B 117,500 Ordinary Shares were issued by the Company pursuant to the exercise of share options which had been granted under the Company's New Joiners Share Option Scheme. In respect of each Ordinary Share issued, the relevant exercise price per share of options is HK$9.75, HK$15.75, HK$15.97 and HK$16.05 respectively;

C 62,121,448 Ordinary Shares were issued by the Company in order to satisfy shareholders' scrip dividend elections in respect of the final dividend of the Company for the year ended 31 December 2004 (for which the cash dividend was HK$0.28 per Ordinary Share); and

D 24,335,017 Ordinary Shares were issued by the Company in order to satisfy shareholders' scrip dividend elections in respect of the interim dividend of the Company for the six months ended 30 June 2005 (for which the cash dividend was HK$0.14 per Ordinary Share).

As at 31 December 2005, the authorised share capital of the Company was HK$6.5 billion, divided into 6.5 billion Ordinary Shares, 5,481,856,439 of which were issued and credited as fully paid.

Redemption of Listed Securities

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of its listed securities during the financial year 2005.

Donations

During the year, the Company donated a total of HK$1,065,332 to charitable organisations. In early 2005, the Company donated HK$860,000 for the relief work of the South Asia Tsunami and made available its stations and shopping malls to charities and raised over HK$1.2 million aiding this cause.

Reporting and Monitoring

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

Treasury Management

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

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

Capital and Revenue Expenditure

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

Bonds and Notes Issued

The Group issued bonds and notes during the year ended 31 December 2005, details of which are set out in note 6 to the summary financial statements. Such bonds and notes were issued in order to meet the Group's general corporate funding requirements, including the financing of new capital expenditure and the refinancing of maturing debts.

Computer Processing

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

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

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

Board Members' and Executive Directorate's Interests in Shares

As at 31 December 2005, the interests or short positions of the Members of the Board and the Executive Directorate in the shares, underlying shares and debentures of the Company (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the HKSE pursuant to the Model Code were as follows:

Long Positions in Shares and Underlying Shares of the Company

	Number of Ordinary Shares held			Derivatives			
				Share Options	Other		
Member of the Board or Executive Directorate	Personal* interests	Family† interests	Corporate interests	Personal* interests	Personal* interests	Total interests	Percentage of aggregate interests to total issued share capital
Chow Chung-kong	–	–	–	–	700,000 (Note 1)	700,000	0.01277
T. Brian Stevenson	4,585	–	–	–	–	4,585	0.00008
Christine Fang Meng-sang	1,675	–	–	–	–	1,675	0.00003
Russell John Black	52,778	–	–	–	–	52,778	0.00096
William Chan Fu-keung	46,233	–	–	317,500 (Note 2)	–	363,733	0.00664
Thomas Ho Hang-kwong	52,696	2,524	–	321,000 (Note 2)	–	376,220	0.00686
Lincoln Leong Kwok-kuen	23,000	–	23,000 (Note 3)	1,043,000 (Note 4)	–	1,089,000	0.01987
Francois Lung Ka-kui	–	–	–	1,066,000 (Note 4)	–	1,066,000	0.01945

Notes

1. Chow Chung-kong has a derivative interest in respect of 700,000 shares in the Company within the meaning of Part XV of the SFO. That derivative interest represents Mr. Chow's entitlement to receive an equivalent value in cash of 700,000 shares in the Company on completion of his three-year contract (on 30 November 2006).

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

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

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

* Interests as beneficial owner

† Interests of spouse or child under 18 as beneficial owner

Options to subscribe for Ordinary Shares granted under the Pre-Global Offering Share Option Scheme, as referred to in Note 3B (i) to the summary financial statements

Executive Directorate and eligible employees	Date granted	No. of options granted	Period during which rights exercisable (day/month/year)	Options outstanding as at 1 January 2005	Options vested during the year	Options lapsed during the year	Options exercised during the year	Exercise price per share of options (HK$)	Options outstanding as at 31 December 2005	Weighted average closing price of shares immediately before the date(s) on which options were exercised (HK$)
William Chan Fu-keung	20/9/2000	1,066,000	5/4/2001 – 11/9/2010	317,500	–	–	–	8.44	317,500	–
Thomas Ho Hang-kwong	20/9/2000	1,066,000	5/4/2001 – 11/9/2010	321,000	–	–	–	8.44	321,000	–
Other eligible employees	20/9/2000	41,409,000	5/4/2001 – 11/9/2010	16,567,500	–	–	5,282,500	8.44	11,285,000	13.68

Notes

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

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

Options to subscribe for Ordinary Shares granted under the New Joiners Share Option Scheme, as referred to in Note 3B (ii) to the summary financial statements

Executive Directorate and eligible employees	Date granted	No. of options granted	Period during which rights exercisable (day/month/year)	Options outstanding as at 1 January 2005	Options vested during the year	Options lapsed during the year	Options exercised during the year	Exercise price per share of options (HK$)	Options outstanding as at 31 December 2005	Weighted average closing price of shares immediately before the date(s) on which options were exercised (HK$)
Lincoln Leong Kwok-kuen	1/8/2003	1,066,000	14/7/2004 – 14/7/2013	1,066,000	355,500	–	23,000	9.75	1,043,000	14.10
Francois Lung Ka-kui	27/9/2005	1,066,000	26/9/2006 – 26/9/2015	–	–	–	–	15.75	1,066,000	–
Other eligible employees	1/8/2003	495,200	14/7/2004 – 14/7/2013	495,200	165,500	–	94,500	9.75	400,700	15.40
	13/9/2005	94,000	9/9/2006 – 9/9/2015	–	–	–	–	15.97	94,000	–
	23/9/2005	213,000	9/9/2006 – 9/9/2015	–	–	–	–	15.97	213,000	–
	17/10/2005	94,000	6/10/2006 – 6/10/2015	–	–	–	–	16.05	94,000	–

Notes

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

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

Save as disclosed above:

A none of the Members of the Board or Executive Directorate of the Company had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO); and

B during the year ended 31 December 2005, no Member of the Board or Executive Directorate nor any of their spouses or children under 18 years of age held any rights to subscribe for equity or debt securities of the Company nor had there been any exercises of any such rights by any of them,

as recorded in the register kept by the Company under section 352 of the SFO or otherwise notified to the Company and the HKSE pursuant to the Model Code.

Substantial Shareholders' Interests

Set out below is the name of the party which was interested in 5% or more of the nominal value of the share capital of the Company and the respective relevant numbers of shares in which it was interested as at 31 December 2005 as recorded in the register kept by the Company under section 336 of the SFO:

Name	No. of Ordinary Shares	Percentage of Ordinary Shares to total issued share capital
The Financial Secretary Incorporated (in trust on behalf of the Government)	4,195,703,166	76.54

The Company has been informed by the Government that, as at 31 December 2005, approximately 1.49% of the shares of the Company were held for the account of the Exchange Fund. The Exchange Fund is a fund established under the Exchange Fund Ordinance (Cap. 66 of the laws of Hong Kong) under the control of the Financial Secretary.

Major Suppliers and Customers

Less than 30% in value of supplies (which were not of a capital nature) purchased during the year ended 31 December 2005 was attributable to the Company's five largest suppliers. Less than 30% in value of the Company's turnover during the year ended 31 December 2005 was attributable to the Company's five largest customers combined by value.

Going Concern

The summary financial statements on pages 35 to 49 have been prepared on a going concern basis. The Board has reviewed the Company's budget for 2006, together with the longer-term forecast for the following five years and is satisfied that the Company has sufficient resources to continue as a going concern for the foreseeable future.

By order of the Board

Leonard Bryan Turk
Secretary to the Board
Hong Kong, 7 March 2006

Consolidated profit and loss account

for the year ended 31 December *in HK$ million*	**2005**	2004 (Restated)
Fare revenue	**6,282**	5,932
Station commercial and other revenue	**1,555**	1,311
Rental and management income	**1,316**	1,108
Turnover	**9,153**	8,351
Staff costs and related expenses	**(1,614)**	(1,546)
Energy and utilities	**(541)**	(544)
Operational rent and rates	**(92)**	(70)
Stores and spares consumed	**(120)**	(128)
Repairs and maintenance	**(496)**	(517)
Railway support services	**(74)**	(72)
Expenses relating to station commercial and other businesses	**(358)**	(315)
Property ownership and management expenses	**(238)**	(207)
Project study and business development expenses	**(142)**	(167)
General and administration expenses	**(207)**	(167)
Other expenses	**(170)**	(89)
Operating expenses before depreciation	**(4,052)**	(3,822)
Operating profit from railway and related operations before depreciation	**5,101**	4,529
Profit on property developments	**6,145**	4,568
Operating profit before depreciation	**11,246**	9,097
Depreciation	**(2,682)**	(2,499)
Operating profit before interest and finance charges	**8,564**	6,598
Interest and finance charges	**(1,361)**	(1,450)
Change in fair value of investment properties	**2,800**	2,486
Share of profits less losses of non-controlled subsidiaries and associates	**9**	39
Profit before taxation	**10,012**	7,673
Income tax	**(1,549)**	(1,130)
Profit for the year	**8,463**	6,543
Attributable to:		
– Equity shareholders of the Company	**8,450**	6,543
– Minority interests	**13**	–
	8,463	6,543
Dividends		
Interim dividend declared and paid during the year	**764**	750
Final dividend proposed after the balance sheet date	**1,535**	1,509
	2,299	2,259
Earnings per share:		
– Basic	**HK$1.55**	HK$1.23
– Diluted	**HK$1.55**	HK$1.23

The notes on pages 37 to 49 form part of these summary financial statements.

Consolidated balance sheet

at 31 December *in HK$ million*	**2005**	2004 (Restated)
Assets		
Fixed assets		
– Investment properties	**19,892**	16,687
– Other property, plant and equipment	**83,383**	83,005
	103,275	99,692
Railway construction in progress	**1,006**	962
Property development in progress	**2,756**	2,088
Deferred expenditure	**281**	243
Prepaid land lease payments	**608**	621
Interests in non-controlled subsidiaries	**103**	63
Deferred tax assets	**19**	15
Investments in securities	**183**	202
Staff housing loans	**34**	47
Properties held for sale	**1,311**	815
Derivative financial assets	**234**	–
Stores and spares	**248**	248
Debtors, deposits and payments in advance	**3,095**	1,276
Amounts due from the Government and other related parties	**154**	133
Cash and cash equivalents	**359**	269
	113,666	106,674
Liabilities		
Bank overdrafts	**14**	11
Short-term loans	**385**	–
Creditors, accrued charges and provisions	**3,303**	3,037
Current taxation	**2**	3
Contract retentions	**170**	240
Amounts due to related parties	**17**	1
Loans and obligations under finance leases	**27,865**	30,367
Derivative financial liabilities	**307**	–
Deferred liabilities	**112**	109
Deferred income	**3,584**	4,638
Deferred tax liabilities	**8,011**	6,368
	43,770	44,774
Net assets	**69,896**	61,900
Equity		
Share capital, share premium and capital reserve	**37,450**	36,269
Other reserves	**32,425**	25,623
Total equity attributable to equity shareholders of the Company	**69,875**	61,892
Minority interests	**21**	8
Total equity	**69,896**	61,900

Approved and authorised for issue by the Members of the Board on 7 March 2006

Raymond K F Ch'ien
C K Chow
Lincoln K K Leong

The notes on pages 37 to 49 form part of these summary financial statements.

Notes to the summary financial statements

1 Significant accounting policies

This summary financial statements have been prepared from the audited financial statements of MTR Corporation Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") and the Group's interest in associates for the year ended 31 December 2005.

With effect from 1 January 2005, all Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") have been converged with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB"). As a result, the HKICPA has aligned HKFRSs with the requirements of IFRSs in all material respects from the same date. This summary financial statements have been prepared in accordance with all HKFRSs, which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKAS"), Interpretations issued by HKICPA and accounting principles generally accepted in Hong Kong. Changes in accounting policies from those adopted in the 2004 annual accounts are disclosed in note 2.

2 Adoption of new Hong Kong Financial Reporting Standards

A The Group has adopted all HKFRSs (which include all HKASs, Interpretations issued by the Standing Interpretations Committee of IASB ("HK(SIC)-Ints") and Interpretations issued by the HKICPA ("HK-Ints")) issued up to 31 December 2005 pertinent to its operations. The applicable HKFRSs are set out below and the accounts for the year ended 31 December 2004 has been restated in accordance with the relevant requirements except for HKASs 32 and 39 which have been adopted prospectively as of 1 January 2005.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 11	Construction Contracts
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 20	Accounting for Government Grants and Disclosure of Government Assistance
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 31	Investments in Joint Ventures
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings Per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 40	Investment Property
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations
HK(SIC)-Int 15	Operating Leases – Incentives
HK(SIC)-Int 21	Income Taxes – Recovery of Revalued Non-Depreciable Assets
HK(SIC)-Int 27	Evaluating the Substance of Transaction Involving the Legal Forms of a Lease
HK-Int 2	The Appropriate Accounting Policies for Hotel Properties
HK-Int 3	Revenue – Pre-completion Contracts for the Sale of Development Properties
HK-Int 4	Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases

2 Adoption of new Hong Kong Financial Reporting Standards (continued)

The adoption of the above new HKFRSs has the following impacts on the Group's accounting policies:

(i) The adoption of HKASs 2, 7, 8, 10, 11, 12, 14, 16, 18, 19, 20, 21, 23, 27, 28, 31, 33, 36, 37, HKFRS 3, HK(SIC)-Ints 15, 27 and HK-Ints 3, 4 do not result in substantial changes to the Group's accounting policies. In summary:

- HKASs 2, 8, 16, 27 and 28 affect certain disclosure of the accounts; and
- HKASs 7, 10, 11, 12, 14, 18, 19, 20, 21, 23, 31, 33, 36, 37, HKFRS 3, HK(SIC)-Ints 15, 27 and HK-Ints 3, 4 do not have any impact as the Group's accounting policies already comply with those standards.

(ii) The adoption of HKAS 1 has resulted in changes in presentation of shares of non-controlled subsidiaries' taxation and minority interests as follow:

- in prior years, the Group's share of taxation of non-controlled subsidiaries accounted for using the equity method was included as part of the Group's income tax in the consolidated profit and loss account. With effect from 1 January 2005, the Group has changed the presentation and includes the share of taxation of non-controlled subsidiaries accounted for using the equity method in the respective shares of profit or loss reported in the consolidated profit and loss account before arriving at the Group's profit or loss before tax; and
- in prior years, minority interests at the balance sheet date were presented in the consolidated balance sheet separately from liabilities and as deduction from net assets. Minority interests in the results of the Group for the year were also separately presented in the profit and loss account as a deduction before arriving at the profit attributable to equity shareholders (the equity shareholders of the Company). With effect from 1 January 2005, in order to comply with HKASs 1 and 27, the Group has changed its accounting policy relating to presentation of minority interests. Under the new policy, minority interests are presented as part of equity, separately from interests attributable to the equity shareholders of the Company.

These changes in presentation have been applied retrospectively with comparatives restated.

(iii) The adoption of HKAS 17 has resulted in a change in accounting policy relating to leasehold land. Leasehold land and buildings were previously accounted for as finance leases and were stated at cost or valuation less accumulated depreciation. In accordance with HKAS 17, a leasehold interest in land is accounted for as an operating lease where the fair value of the interest in any buildings situated on the leasehold land could be measured separately from the fair value of the leasehold interest in the land at the time the lease was first entered into by the Group, or taken over from the previous lessee, or at the date of construction of those buildings, if later. Pursuant to these requirements, the land premium paid for distinguishable leasehold land is accounted for as an operating lease and amortised over its unexpired lease term, whereas indistinguishable leasehold land and building is stated collectively at valuation less accumulated depreciation. The new accounting policies have been adopted retrospectively and the adjustments for each financial statement line item affected for 31 December 2005 and 2004 are set out in note 2B(i).

(iv) The adoption of HKAS 24 resulted in an expanded definition of related parties to include post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group, in addition to entities that are under the significant influence of a related party that is an individual (i.e. key management personnel, significant shareholders and/or their close family members). This revised definition has not resulted in any material changes to the previously reported disclosures of related party transactions nor has it had any material effect on the disclosures made in the current period.

(v) The adoption of HKASs 32 and 39 has resulted in a change in accounting policy for recognition, measurement and disclosure of financial instruments. Prior to 1 January 2005, derivatives of the Group were not recorded on the balance sheet based on the then prevailing accounting standards. In accordance with the provisions of HKAS 39, all derivatives have been recognised at their fair value on the balance sheet on 1 January 2005. Subject to meeting the requirements to qualify for hedge accounting, those underlying financial liabilities, such as loans that are designated as hedged items for fair value hedges, have been revalued at their fair values with corresponding adjustments made to their carrying amounts on the balance sheet. Depending on the type of hedging relationship, subsequent changes in fair value of derivatives and hedged items are to be charged to the profit and loss account or directly transferred to hedging reserve. The changes in accounting policies relating to accounting for financial instruments were adopted by way of opening balance adjustments to other reserves as at 1 January 2005. Comparative amounts have not been restated as the Company has adopted HKASs 32 and 39 prospectively. The adjustments for each financial statement line affected for the year ended 31 December 2005 are set out in note 2B(i).

2 Adoption of new Hong Kong Financial Reporting Standards (continued)

(vi) The adoption of HKAS 40 has resulted in a change in accounting policy for the Group's investment properties. In prior years, increases in the valuation of investment property were credited to the investment property revaluation reserve except when, on a portfolio basis, the reserve was insufficient to cover a deficit on the portfolio, or when a deficit previously recognised in the profit and loss account had reversed, or when an individual investment property was disposed of. In these limited circumstances, movements in the fair value were recognised in the profit and loss account. Following the adoption of HKAS 40, all changes in valuation of the investment property are to be recognised in the profit and loss account.

The adoption of HK(SIC)-Int 21 has resulted in a change in accounting policy for the deferred tax treatment on the Group's investment properties. Prior to 1 January 2005, deferred tax on changes in fair value of investment properties arising from revaluation was not provided on the basis that the recovery of the carrying amount would be through sale and was calculated at the tax rate applicable on eventual sale, which in Hong Kong is nil. Following the adoption of HK(SIC)-Int 21, the deferred tax arising from revaluation of the investment properties is required to be valued on the basis that the recovery of the carrying amount of the properties would be through use and calculated at the profits tax rate and is charged to the profit and loss account.

All the above changes in accounting policies relating to investment property have been adopted retrospectively. The adjustments for each financial statement line affected for 31 December 2005 and 2004 are set out in note 2B(i).

(vii) The adoption of HKFRS 2 has resulted in a change in accounting policy for employee share options and other share-based payments. Prior to this, no amounts were recognised when employees were granted share options over shares in the Company. If the employees chose to exercise the options, the nominal amount of share capital and share premium were credited only to the extent of the option's exercise price receivable. Following the adoption of HKFRS 2:

- the fair value of share options at grant date are amortised over the relevant vesting periods to the profit and loss account with corresponding increases recognised in an employee share-based capital reserve within equity; and
- the fair value of cash-settled share-based payments are charged to profit and loss account, with corresponding amount recorded in liabilities.

The new accounting policies have been applied retrospectively with comparatives restated, except that the Group has taken advantage of the transitional provisions set out in HKFRS 2, under which the new recognition and measurement policies have not been applied to all options granted to employees on or before 7 November 2002. The adjustments for each financial statement line affected for the years ended 31 December 2005 and 2004 are set out in note 2B(i).

(viii) The introduction of HK-Int 2 has resulted in a change in accounting policy on depreciation of the Group's rails assets. In prior years, certain rails assets subject to continuous repair and maintenance had been carried at historical cost without depreciation as those assets were considered to be maintained in full working condition, while the related repair and maintenance and replacement cost of which was charged to the profit and loss account as revenue expenses. Following the introduction of HK-Int 2, depreciation is provided on such rails assets and charged to the profit and loss account while rail replacement cost is capitalised and depreciated.

Comparative figures have not been adjusted on adoption of the new policies as the financial impact of a retrospective adjustment is not material.

2 Adoption of new Hong Kong Financial Reporting Standards (continued)

B (i) Pursuant to HKAS 8 (which outlines the disclosure requirements when a change in accounting policy has a material effect on the current and prior periods presented), the Group has retrospectively restated the opening balances of the retained profits as at 1 January 2004 and 2005 to take into account the effects of changes in the above accounting policies, except for HKASs 32 and 39 (note 2B(iii)) which are applied prospectively and HK-Int 2 (note 2B(iv)) as explained in notes 2A(v) and (viii) above. The previously reported net profit for the year ended 31 December 2004 has also been adjusted. These effects on the financial statements are summarised as follows:

Consolidated profit and loss account

	Effects of adopting				
in HK$ million	HKAS 17	HKAS 40	HKFRS 2	HK(SIC)-Int 21	Total
Effects on periods prior to 2004					
Decrease in depreciation	98	–	–	–	98
Increase in other expenses	(98)	–	–	–	(98)
Revaluation gain on investment properties	–	6,682	–	–	6,682
Increase in deferred tax	–	–	–	(1,169)	(1,169)
Increase in retained profits	–	6,682	–	(1,169)	5,513
Effects on year ended 31 December 2004					
Decrease in depreciation	13	–	–	–	13
Increase in other expenses	(13)	–	–	–	(13)
Revaluation gain on investment properties	–	2,486	–	–	2,486
Increase in deferred tax	–	–	–	(435)	(435)
Increase in staff costs and related expenses for share option schemes	–	–	(4)	–	(4)
Increase in profit for the year ended 31 December 2004 *	–	2,486	(4)	(435)	2,047
Increase in retained profits as at 31 December 2004	–	9,168	(4)	(1,604)	7,560

* *Restated profit for the year ended 31 December 2004 is HK$6,543 million, after taking into account the prior year adjustments of HK$2,047 million due to changes in accounting policies (note 7).*

Consolidated balance sheet

	Effects of adopting				
in HK$ million	HKAS 17	HKAS 40	HKFRS 2	HK(SIC)-Int 21	Total
Effects as at 31 December 2004					
Assets					
Decrease in other property, plant and equipment	(621)	–	–	–	(621)
Increase in prepaid land lease payments	621	–	–	–	621
	–	–	–	–	–
Liabilities					
Increase in creditors, accrued charges and provisions	–	–	3	–	3
Increase in deferred tax liabilities	–	–	–	1,604	1,604
	–	–	3	1,604	1,607
Net assets	–	–	(3)	(1,604)	(1,607)
Equity					
Decrease in investment property revaluation reserve	–	(9,168)	–	–	(9,168)
Increase in employee share-based capital reserve	–	–	1	–	1
Increase/(decrease) in retained profits	–	9,168	(4)	(1,604)	7,560
	–	–	(3)	(1,604)	(1,607)

2 Adoption of new Hong Kong Financial Reporting Standards (continued)

(ii) The following tables provide estimates of the extent to which each of the line items in the consolidated profit and loss account, and the consolidated balance sheet for the year ended 31 December 2005 is higher or lower than it would have been had the previous policies still been applied in the year, where it is practicable to make such estimates.

Consolidated profit and loss account

	Estimated effects of adopting					
in HK$ million	HKAS 17	HKASs 32 & 39	HKAS 40	HKFRS 2	HK(SIC)-Int 21	Total
Estimated effects on year ended 31 December 2005						
Decrease in depreciation	13	–	–	–	–	13
Increase in other expenses	(13)	(9)	–	–	–	(22)
Revaluation gain on investment properties	–	–	2,800	–	–	2,800
Increase in interest and finance charges	–	(6)	–	–	–	(6)
Decrease/(increase) in deferred tax	–	3	–	1	(490)	(486)
Increase in staff costs and related expenses for share option schemes	–	–	–	(5)	–	(5)
Increase in profit for the year ended 31 December 2005	–	(12)	2,800	(4)	(490)	2,294

Consolidated balance sheet

	Estimated effects of adopting					
in HK$ million	HKAS 17	HKASs 32 & 39	HKAS 40	HKFRS 2	HK(SIC)-Int 21	Total
Estimated effects as at 31 December 2005						
Assets						
Decrease in other property, plant and equipment	(608)	–	–	–	–	(608)
Decrease in deferred expenditure	–	(109)	–	–	–	(109)
Increase in prepaid land lease payments	608	–	–	–	–	608
Increase in derivative financial assets	–	234	–	–	–	234
	–	125	–	–	–	125
Liabilities						
Increase in creditors, accrued charges and provisions	–	–	–	7	–	7
Decrease in loans	–	(410)	–	–	–	(410)
Increase in derivative financial liabilities	–	307	–	–	–	307
Increase/(decrease) in deferred tax liabilities	–	2	–	(1)	2,094	2,095
	–	(101)	–	6	2,094	1,999
Net assets	–	226	–	(6)	(2,094)	(1,874)
Equity						
Decrease in investment property revaluation reserve	–	–	(11,968)	–	–	(11,968)
Increase in hedging reserve	–	24	–	–	–	24
Increase in employee share-based capital reserve	–	–	–	2	–	2
Increase/(decrease) in retained profits	–	202	11,968	(8)	(2,094)	10,068
	–	226	–	(6)	(2,094)	(1,874)

2 Adoption of new Hong Kong Financial Reporting Standards (continued)

(iii) Following the prospective adoption of HKAS 39 from 1 January 2005, the following adjustments were made on the same date:

- recognise derivatives at fair value on the balance sheet on 1 January 2005 and adjust the balance to retained profits, except for those qualified for effective cash flow hedges which are recognised in the hedging reserve directly; and
- revalue those financial assets or financial liabilities that should be valued at fair value and those that should be valued at amortised cost and adjust the balance to retained profits at 1 January 2005.

As a result, the balances of retained profits and hedging reserve on 1 January 2005 have been increased by HK$190 million and decreased by HK$66 million respectively (note 7).

(iv) With regard to HK-Int 2, the Company has conducted an assessment of the financial implications of this new interpretation to its accounts and concluded that the impact was not significant and thus no prior period adjustment was considered necessary.

3 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:

in HK$ million	Fees	Base pay, allowances, and benefits in kind	Retirement scheme contribution	Variable remuneration related to performance	Total
2005					
Members of the Board					
– Raymond Ch'ien Kuo-fung	**1.0**	**–**	**–**	**–**	**1.0**
– Cheung Yau-kai	**0.2**	**–**	**–**	**–**	**0.2**
– David Gordon Eldon	**0.2**	**–**	**–**	**–**	**0.2**
– Christine Fang Meng-sang	**0.2**	**–**	**–**	**–**	**0.2**
– Edward Ho Sing-tin	**0.3**	**–**	**–**	**–**	**0.3**
– Lo Chung-hing	**0.2**	**–**	**–**	**–**	**0.2**
– T. Brian Stevenson	**0.3**	**–**	**–**	**–**	**0.3**
– Robert Charles Law Footman (retired on 18 June 2005)	**0.1**	**–**	**–**	**–**	**0.1**
– Sarah Liao Sau-tung	**0.2**	**–**	**–**	**–**	**0.2**
– Frederick Ma Si-hang	**0.2**	**–**	**–**	**–**	**0.2**
– Alan Wong Chi-kong (appointed on 18 June 2005)	**0.1**	**–**	**–**	**–**	**0.1**
Members of the Executive Directorate					
– Chow Chung-kong	**–**	**5.7**	**–***	**4.2**	**9.9**
– Russell John Black	**–**	**3.5**	**0.3**	**1.0**	**4.8**
– William Chan Fu-keung	**–**	**3.5**	**0.3**	**0.9**	**4.7**
– Philip Gaffney (retired on 5 December 2005)	**–**	**3.9**	**0.3**	**1.1**	**5.3**
– Thomas Ho Hang-kwong	**–**	**3.5**	**0.3**	**1.0**	**4.8**
– Lincoln Leong Kwok-kuen	**–**	**3.4**	**0.5**	**1.0**	**4.9**
– Francois Lung Ka-kui (appointed on 26 September 2005)	**–**	**0.9**	**0.1**	**0.2**	**1.2**
– Andrew McCusker (appointed on 1 October 2005)	**–**	**0.9**	**0.1**	**0.2**	**1.2**
– Leonard Bryan Turk	**–**	**3.5**	**0.3**	**0.9**	**4.7**
	3.0	**28.8**	**2.2**	**10.5**	**44.5**

* C K Chow is a member of the Company's Mandatory Provident Fund Scheme. The total contributions paid by the Company in each of the years 2004 and 2005 were HK$12,000.

In December 2005, Philip Gaffney received a lump sum benefit payment of HK$11.6 million from the MTR Corporation Limited Retirement Scheme upon retirement.

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

in HK$ million	Fees	Base pay, allowances, and benefits in kind	Retirement scheme contribution	Variable remuneration related to performance	Total
2004					
Members of the Board					
– Raymond Ch'ien Kuo-fung	1.0	–	–	–	1.0
– Cheung Yau-kai	0.2	–	–	–	0.2
– David Gordon Eldon	0.2	–	–	–	0.2
– Christine Fang Meng-sang	0.2	–	–	–	0.2
– Edward Ho Sing-tin	0.3	–	–	–	0.3
– Lo Chung-hing	0.2	–	–	–	0.2
– T. Brian Stevenson	0.3	–	–	–	0.3
– Robert Charles Law Footman	0.2	–	–	–	0.2
– Sarah Liao Sau-tung	0.2	–	–	–	0.2
– Frederick Ma Si-hang	0.2	–	–	–	0.2
Members of the Executive Directorate					
– Chow Chung-kong	–	5.6	–*	3.4	9.0
– Russell John Black	–	3.6	0.5	0.8	4.9
– William Chan Fu-keung	–	3.6	0.5	0.8	4.9
– Philip Gaffney	–	3.9	0.6	0.8	5.3
– Thomas Ho Hang-kwong	–	3.6	0.5	0.8	4.9
– Lincoln Leong Kwok-kuen	–	3.4	0.4	0.8	4.6
– Leonard Bryan Turk	–	3.7	0.5	0.8	5.0
	3.0	27.4	3.0	8.2	41.6

(ii) The above emoluments do not include the fair value of share options granted to Lincoln K K Leong and Francois K K Lung under the Company's New Joiners Share Option Scheme, as estimated at the date of grant. The fair value of share-based payments for Lincoln K K Leong and Francois K K Lung for the year ended 31 December 2005 were HK$0.6 million *(2004: HK$0.6 million)* and HK$0.3 million *(2004: nil)* respectively. The details of directors' interest in the Company's shares are disclosed under the paragraph "Board Members and Executive Directorate's Interest in Shares" of the Report of the Members of the Board.

(iii) 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. Dr. Raymond Ch'ien Kuo-fung, a Member of the Board, was appointed as the non-executive Chairman of the Company with effect from 21 July 2003 for a term of three years. All of the five individuals with the highest emoluments are Members of the Executive Directorate whose emoluments are disclosed above.

(iv) C K Chow has a derivative interest in respect of 700,000 shares within the meaning of Part XV of the Securities and Futures Ordinance. That derivative interest represents C K Chow's entitlement to receive an equivalent value in cash of 700,000 shares on completion of his three-year contract (i.e. 30 November 2006).

The arrangement was offered in order to provide a competitive level of compensation and to enable C K Chow's total pay to be closely tied to the performance of the Company.

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

B Share options

Options exercised and outstanding in respect of each Member of the Executive Directorate as at 31 December 2005 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"), each Member of the Executive Directorate, except C K Chow, Lincoln K K Leong, Francois K K Lung and Andrew McCusker, were granted options on 20 September 2000 to acquire 1,066,000 shares. C K Chow, Lincoln K K Leong and Francois K K Lung joined the Company on 1 December 2003, 1 February 2002 and 26 September 2005 respectively, and are not beneficiaries of the Pre-IPO Option Scheme. Andrew McCusker was granted 266,500 options on 20 September 2000 under the Pre-IPO Option Scheme and no additional share options were granted upon his appointment as a Member of the Executive Directorate on 1 October 2005.

Under the vesting terms of the Pre-IPO Option Scheme, each eligible Member of the Executive Directorate must continue to beneficially own (i) at all times after 26 October 2001, at least 23,000 shares; and (ii) at all times after 26 October 2002, at least 46,000 shares, in each case, up to and including the date on which he has exercised his option in full or the date on which his option lapses (whichever is earlier).

(ii) New Joiners Share Option Scheme

Under the New Joiners Share Option Scheme ("New Option Scheme"), Lincoln K K Leong and Francois K K Lung, Members of the Executive Directorate, were granted options to acquire 1,066,000 shares on 1 August 2003 and 27 September 2005 respectively.

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

Under the vesting terms of the New Option Scheme, Francois K K Lung must continue to beneficially own (i) at all times on and after 17 October 2006, at least 23,000 shares; and (ii) at all times on and after 17 October 2007, 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).

4 Segmental information

The results of major business activities are summarised below:

	Turnover		Contribution to profit	
in HK$ million	**2005**	2004	**2005**	2004 (Restated)
Railway operations	**6,282**	5,932	**760**	670
Station commercial and other businesses	**1,555**	1,311	**1,071**	879
	7,837	7,243	**1,831**	1,549
Property ownership and management	**1,316**	1,108	**1,074**	897
	9,153	8,351	**2,905**	2,446
Property developments			**6,145**	4,568
			9,050	7,014
Unallocated corporate expenses			**(1,847)**	(1,866)
Change in fair value of investment properties			**2,800**	2,486
Share of profits less losses of non-controlled subsidiaries and associates			**9**	39
Income tax			**(1,549)**	(1,130)
Profit for the year			**8,463**	6,543

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

5 Fixed assets and railway construction in progress

A Fixed assets

in HK$ million	Investment properties	Self-occupied land and buildings	Civil works	Plant and equipment	Assets under construction	Total
Cost or Valuation						
At 1 January 2005, as previously reported	**16,687**	**1,978**	**45,704**	**55,081**	**3,051**	**122,501**
Prior period adjustments on adoption of HKAS 17	**–**	**(732)**	**–**	**–**	**–**	**(732)**
At 1 January 2005, as restated	**16,687**	**1,246**	**45,704**	**55,081**	**3,051**	**121,769**
Additions	**405**	**–**	**–**	**44**	**1,727**	**2,176**
Capitalisation adjustments *	**–**	**–**	**(2)**	**(76)**	**–**	**(78)**
Disposals/Write-offs	**–**	**–**	**(2)**	**(275)**	**(3)**	**(280)**
Change in fair value	**2,800**	**–**	**–**	**–**	**–**	**2,800**
Surplus on revaluation (note 7)	**–**	**459**	**–**	**–**	**–**	**459**
Reclassification	**–**	**–**	**175**	**(175)**	**–**	**–**
Disneyland Resort Line and AsiaWorld-Expo Station Projects commissioned (note 5B)	**–**	**–**	**176**	**763**	**–**	**939**
Assets commissioned	**–**	**–**	**137**	**977**	**(1,114)**	**–**
At 31 December 2005	**19,892**	**1,705**	**46,188**	**56,339**	**3,661**	**127,785**
At Cost	**–**	**–**	**46,188**	**56,339**	**3,661**	**106,188**
At 31 December 2005 Valuation	**19,892**	**1,705**	**–**	**–**	**–**	**21,597**
Aggregate depreciation						
At 1 January 2005, as previously reported	**–**	**111**	**3,093**	**18,984**	**–**	**22,188**
Prior period adjustments on adoption of HKAS 17	**–**	**(111)**	**–**	**–**	**–**	**(111)**
At 1 January 2005, as restated	**–**	**–**	**3,093**	**18,984**	**–**	**22,077**
Charge for the year	**–**	**33**	**395**	**2,258**	**–**	**2,686**
Capitalisation adjustments *	**–**	**–**	**–**	**(4)**	**–**	**(4)**
Written back on disposal	**–**	**–**	**(1)**	**(215)**	**–**	**(216)**
Written back on revaluation (note 7)	**–**	**(33)**	**–**	**–**	**–**	**(33)**
Reclassification	**–**	**–**	**5**	**(5)**	**–**	**–**
At 31 December 2005	**–**	**–**	**3,492**	**21,018**	**–**	**24,510**
Net book value at 31 December 2005	**19,892**	**1,705**	**42,696**	**35,321**	**3,661**	**103,275**

* 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$2,682 million *(2004: HK$2,499 million, as restated)*, comprising depreciation for the year of HK$2,686 million *(2004: HK$2,519 million, as restated)* less capitalisation adjustments of HK$4 million *(2004: HK$20 million)*.

5 Fixed assets and railway construction in progress (continued)

in HK$ million	Investment properties	Self-occupied land and buildings	Civil works	Plant and equipment	Assets under construction	Total
Cost or Valuation						
At 1 January 2004, as previously reported	14,169	1,598	45,740	54,319	940	116,766
Prior period adjustments on adoption of HKAS 17	–	(732)	–	–	–	(732)
At 1 January 2004, as restated	14,169	866	45,740	54,319	940	116,034
Additions	32	–	–	49	3,245	3,326
Capitalisation adjustments *	–	–	(124)	(156)	–	(280)
Disposals/Write-offs	–	–	(1)	(172)	(4)	(177)
Change in fair value	2,486	–	–	–	–	2,486
Surplus on revaluation (note 7)	–	311	–	–	–	311
Write back of revaluation deficit	–	69	–	–	–	69
Reclassification	–	–	82	(82)	–	–
Assets commissioned	–	–	7	1,123	(1,130)	–
At 31 December 2004, as restated	16,687	1,246	45,704	55,081	3,051	121,769
At Cost (restated)	–	–	45,704	55,081	3,051	103,836
At 31 December 2004 Valuation	16,687	1,246	–	–	–	17,933
Aggregate depreciation						
At 1 January 2004, as previously reported	–	98	2,705	17,042	–	19,845
Prior period adjustments on adoption of HKAS 17	–	(98)	–	–	–	(98)
At 1 January 2004, as restated	–	–	2,705	17,042	–	19,747
Charge for the year (restated)	–	20	392	2,107	–	2,519
Capitalisation adjustments *	–	–	(3)	(17)	–	(20)
Written back on disposal	–	–	(1)	(148)	–	(149)
Written back on revaluation (note 7)	–	(20)	–	–	–	(20)
Reclassification	–	–	–	–	–	–
At 31 December 2004, as restated	–	–	3,093	18,984	–	22,077
Net book value at 31 December 2004, as restated	16,687	1,246	42,611	36,097	3,051	99,692

5 Fixed assets and railway construction in progress (continued)

B Railway construction in progress

in HK$ million	Balance at 1 Jan	Transferred from deferred expenditure	Expenditure/ (Government grant)	Costs written off to profit and loss account	Capitalised on commissioning (note 5A)	Balance at 31 Dec
2005						
Tseung Kwan O South Station Project	**7**	**–**	**36**	**–**	**–**	**43**
Disneyland Resort Line Project	**1,409**	**–**	**278**	**–**	**(1,687)**	**–**
Government grant	**(931)**	**–**	**–**	**–**	**931**	**–**
	478	**–**	**278**	**–**	**(756)**	**–**
Tung Chung Cable Car Project	**444**	**–**	**489**	**–**	**–**	**933**
AsiaWorld-Expo Station Project	**33**	**–**	**150**	**–**	**(183)**	**–**
SkyPlaza Platform Project	**–**	**–**	**30**	**–**	**–**	**30**
Total	**962**	**–**	**983**	**–**	**(939)**	**1,006**
2004						
Tseung Kwan O South Station 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

In 2004, 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.

In 2004, HK$37 million cash dividends were waived by the Government. Such amount, together with HK$11 million brought forward from previous year, have been offset against the construction costs of Disneyland Resort Line Project.

6 Bonds and notes issued and redeemed

Bonds and notes issued during the year ended 31 December 2005 and 2004 comprise:

	2005		2004	
in HK$ million	Principal amount	Net consideration received	Principal amount	Net consideration received
Debt issuance programme notes	**1,500**	**1,491**	5,158	5,109

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$1,650 million *(2004: HK$4,415 million)* unlisted Hong Kong dollar notes upon maturity.

During the year, the Group redeemed HK$2,518 million *(2004: Nil)* listed debt securities upon maturities, including:

(i) Yankee Notes USD300 million due 2005; and

(ii) Medium Term USD25 million Notes due 2005 issued under Debt Issuance Programme.

7 Reserves

in HK$ million	Share premium	Capital reserve	Investment property revaluation reserve	Fixed asset revaluation reserve	Hedging reserve	Employee share-based capital reserve	Exchange reserve	Retained profits	Total
	Attributable to equity shareholders of the Company								
2005									
Balance as at 1 January 2005, as previously reported	**3,691**	**27,188**	**9,168**	**291**	**–**	**–**	**–**	**17,771**	**58,109**
Prior period adjustments on effects of changes in accounting policies (note 2)	**–**	**–**	**(9,168)**	**–**	**–**	**1**	**–**	**7,560**	**(1,607)**
	3,691	**27,188**	**–**	**291**	**–**	**1**	**–**	**25,331**	**56,502**
Effect of prospective adoption of new accounting policy with respect to financial instruments (note 2)	**–**	**–**	**–**	**–**	**(66)**	**–**	**–**	**190**	**124**
Balance as at 1 January 2005, as restated	**3,691**	**27,188**	**–**	**291**	**(66)**	**1**	**–**	**25,521**	**56,626**
Employee share options exercised	**41**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**41**
Shares issued under Scrip Dividend Schemes	**1,048**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**1,048**
Cash flow hedges:									
Effective portion of changes in fair value, net of deferred tax	**–**	**–**	**–**	**–**	**69**	**–**	**–**	**–**	**69**
Transfer from equity									
– to profit and loss account	**–**	**–**	**–**	**–**	**32**	**–**	**–**	**–**	**32**
– to initial carrying amount of non-financial hedged items	**–**	**–**	**–**	**–**	**(21)**	**–**	**–**	**–**	**(21)**
– to deferred tax	**–**	**–**	**–**	**–**	**10**	**–**	**–**	**–**	**10**
Dividends approved/paid	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(2,273)**	**(2,273)**
Surplus on revaluation (note 5A), net of deferred tax	**–**	**–**	**–**	**406**	**–**	**–**	**–**	**–**	**406**
Employee share-based payments	**–**	**–**	**–**	**–**	**–**	**1**	**–**	**–**	**1**
Exchange difference on translation of accounts of overseas subsidiaries	**–**	**–**	**–**	**–**	**–**	**–**	**4**	**–**	**4**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**8,450**	**8,450**
Balance as at 31 December 2005	**4,780**	**27,188**	**–**	**697**	**24**	**2**	**4**	**31,698**	**64,393**
2004									
Balance as at 1 January 2004, as previously reported	2,609	27,188	6,682	18	–	–	–	15,506	52,003
Prior period adjustments on effects of changes in accounting policies (note 2)	–	–	(6,682)	–	–	–	–	5,513	(1,169)
Balance as at 1 January 2004, as restated	2,609	27,188	–	18	–	–	–	21,019	50,834
Employee share options exercised	60	–	–	–	–	–	–	–	60
Shares issued under Scrip Dividend Schemes	1,022	–	–	–	–	–	–	–	1,022
Dividends approved/paid	–	–	–	–	–	–	–	(2,231)	(2,231)
Surplus on revaluation (note 5A), net of deferred tax (restated)	–	–	–	273	–	–	–	–	273
Employee share-based payments (restated) (note 2)	–	–	–	–	–	1	–	–	1
Profit for the year, as previously reported	–	–	–	–	–	–	–	4,496	4,496
Effects of changes in accounting policies (note 2)	–	–	–	–	–	–	–	2,047	2,047
Profit for the year, as restated	–	–	–	–	–	–	–	6,543	6,543
Balance as at 31 December 2004, as restated	3,691	27,188	–	291	–	1	–	25,331	56,502

8 Other information

This summary financial statements is only a summary of information in the Group's 2005 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 2005 Annual Report is available in electronic form on the Company's website at www.mtr.com.hk. A printed copy of the 2005 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 51 of this Summary Report.

Auditors' statement on the summary financial report

To the shareholders of MTR Corporation Limited
(Incorporated in Hong Kong with limited liability)

We have examined the summary financial report of MTR Corporation Limited for the year ended 31 December 2005 on pages 1 to 49 and the front and back cover pages.

Respective responsibilities of directors and auditors
Under the Hong Kong Companies Ordinance, the directors are responsible for preparing the summary financial report which complies with section 141CF(1) of the Hong Kong Companies Ordinance. In preparing the summary financial report, section 141CF(1) of the Hong Kong Companies Ordinance requires that the summary financial report be derived from the annual accounts and the auditors' report thereon and the report of the Members of the Board for the year ended 31 December 2005, be in such form and contain such information and particulars as specified in section 5 of the Hong Kong Companies (Summary Financial Reports of Listed Companies) Regulation, and be approved by the board of directors.

It is our responsibility to form an independent opinion on the summary financial report, based on our examination, and to report our opinion solely to you, as a body, and we are also required to state whether the auditors' report on the annual accounts for the year ended 31 December 2005 is qualified or otherwise modified, in accordance with section 5 of the Hong Kong Companies (Summary Financial Reports of Listed Companies) Regulation, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this statement.

Basis of opinion
We conducted our engagement in accordance with Hong Kong Standards on Assurance Engagements and with reference to Practice Note 710 "The auditors' statement on the summary financial report" issued by the Hong Kong Institute of Certified Public Accountants. Our examination includes examining evidence supporting the consistency of the summary financial report with the annual accounts and the auditors' report thereon and the report of the Members of the Board for the year ended 31 December 2005, and the compliance of the summary financial report with the requirements of section 5 of the Hong Kong Companies (Summary Financial Reports of Listed Companies) Regulation, and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

Opinion
Based on the foregoing, in our opinion the summary financial report on pages 1 to 49 and the front and back cover pages:

(a) is consistent with the annual accounts and the auditors' report thereon and the report of the Members of the Board of MTR Corporation Limited for the year ended 31 December 2005 from which it is derived; and

(b) complies with the requirements of section 5 of the Hong Kong Companies (Summary Financial Reports of Listed Companies) Regulation.

We have audited the annual accounts of MTR Corporation Limited for the year ended 31 December 2005 and have issued an auditors' report thereon dated 7 March 2006 which is unqualified or otherwise unmodified.

KPMG
Certified Public Accountants
Hong Kong, 7 March 2006

Key shareholder information

Financial calendar 2006

Announcement of 2005 results	7 March
Last day to register for 2005 final dividend	31 March
Book closure period	3 to 11 April
Annual General Meeting	8 June
2005 final dividend payment date	On or about 27 June
Announcement of 2006 interim results	August
2006 interim dividend payment date	October
Financial year end	31 December

Registered office

MTR Corporation Limited
MTR Tower, Telford Plaza, Kowloon Bay, Hong Kong
Telephone: (852) 2993 2111 Facsimile: (852) 2798 8822

Website

www.mtr.com.hk

Share information

Listing

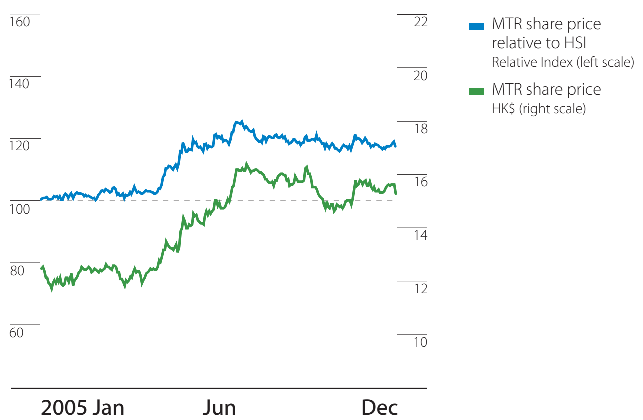
MTR Corporation Limited's shares are listed on The Stock Exchange of Hong Kong. In addition, shares are traded in United States through an American Depositary Receipt (ADR) Level 1 Programme sponsored by JP Morgan Chase Bank. The shares are also quoted on the London SEAQ International System.

Ordinary shares *(as at 31 December 2005)*:

Shares outstanding	5,481,856,439 shares
Hong Kong SAR Government shareholding:	4,195,703,166 shares (76.54%)
Free float:	1,286,153,273 shares (23.46%)

Nominal value	HK$1 per share
Market capitalisation *(as at 31 December 2005)*:	HK$83,598 million

Share price performance



Dividend policy

Subject to the financial performance of the Company, we expect to pay two dividends each financial year with interim and final dividends payable around October and June respectively, with the interim dividend representing approximately one third of the total dividends to be paid for the entire year.

Dividend per share *(in HK$)*

2004 Final Dividend	0.28
2005 Interim Dividend	0.14
2005 Final Dividend	0.28

ADR Level 1 Programme

Ordinary share to ADR ratio	10:1
Depositary Bank	JP Morgan Chase Bank 40th Floor, One Chase Manhatten Plaza New York, NY 10081 USA

Index constituent

MTR Corporation Limited is a constituent of the following indices:
Hang Seng Index Series
MSCI Index Series
FTSE All-World Hong Kong Index
FTSE4Good Global Index
Dow Jones Sustainability World Index

Stock codes

Ordinary shares

The Stock Exchange of Hong Kong	66
Reuters	0066.HK
Bloomberg	66 HK
CUSIP Reference Number	Y5896Y104
Sedol Reference Number	6290054
ADR Level 1 Programme	MTRJY

Annual report 2005

Our annual report is available in both English and Chinese. Shareholders can obtain copies by writing to:
Computershare Hong Kong Investor Services Limited
46th Floor, Hopewell Centre,183 Queen's Road East, Hong Kong

If you are not a shareholder, please write to:
Corporate Relations Department, MTR Corporation Limited
MTR Tower, Telford Plaza, Kowloon Bay, Hong Kong

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

Shareholder services

Any matters relating to your shareholding, such as transfer of shares, change of name or address, and loss of share certificates should be addressed in writing to the Registrar:
Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17th Floor, Hopewell Centre,183 Queen's Road East, Hong Kong
Telephone: (852) 2862 8628 Facsimile: (852) 2529 6087

Shareholder enquiries

Our enquiry hotline is operational during normal office hours:
Telephone: (852) 2881 8888

Investor relations

For enquiries from institutional investors and securities analysts, please contact:
Investor Relations Department, MTR Corporation Limited
MTR Tower, Telford Plaza, Kowloon Bay, Hong Kong
Email: investor@mtr.com.hk

Notes

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Designed by Sedgwick Richardson   Editorial by Conatus Limited