

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

in HK\$ million	Effects of adopting				Total
	HKAS 17	HKAS 40	HKFRS 2	HK(SIC)-Int 21	
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

in HK\$ million	Effects of adopting				Total
	HKAS 17	HKAS 40	HKFRS 2	HK(SIC)-Int 21	
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

in HK\$ million	Estimated effects of adopting					Total
	HKAS 17	HKASs 32 & 39	HKAS 40	HKFRS 2	HK(SIC)-Int 21	
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

in HK\$ million	Estimated effects of adopting					Total
	HKAS 17	HKASs 32 & 39	HKAS 40	HKFRS 2	HK(SIC)-Int 21	
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:

<i>in HK\$ million</i>	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)

<i>in HK\$ million</i>	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:

<i>in HK\$ million</i>	Turnover		Contribution to profit	
	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

<i>in HK\$ million</i>	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)

<i>in HK\$ million</i>	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

<i>in HK\$ million</i>	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:

<i>in HK\$ million</i>	2005		2004	
	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

<i>in HK\$ million</i>	Attributable to equity shareholders of the Company								
	Share premium	Capital reserve	Investment property revaluation reserve	Fixed asset revaluation reserve	Hedging reserve	Employee share-based capital reserve	Exchange reserve	Retained profits	Total
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.