

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 non-controlled subsidiaries and associates for the year ended 31 December 2006.

This summary financial statements have been prepared in accordance with all Hong Kong Financial Reporting Standards, which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKAS"), Interpretations issued by the Hong Kong Institute of Certified Public Accountants and accounting principles generally accepted in Hong Kong. The same accounting policies adopted in the 2005 annual accounts have been consistently applied except for adoption of the Amendment to HKAS 39 "Financial instruments: recognition and measurement on financial guarantee contracts" in 2006. The adoption of this amendment does not have a significant financial impact on the Group's results of operations and financial position for financial years 2005 and 2006.

2 Remuneration of Members of the Board and the Executive Directorate

A Remuneration of Members of the Board and the Executive Directorate

(i) The emoluments of the Members of the Board and the Executive Directorate of the Company were as follows:

<i>in HK\$ million</i>	Fees	Base pay, allowances, and benefits in kind	Retirement scheme contribution	Variable remuneration related to performance	Total
2006					
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
– Sarah Liao Sau-tung	0.2	–	–	–	0.2
– Frederick Ma Si-hang	0.2	–	–	–	0.2
– Alan Wong Chi-kong	0.2	–	–	–	0.2
Members of the Executive Directorate					
– Chow Chung-kong	–	5.9	–*	4.2	10.1
– Russell John Black	–	3.7	0.3	1.0	5.0
– William Chan Fu-keung	–	3.5	0.3	1.0	4.8
– Thomas Ho Hang-kwong	–	3.6	0.3	0.9	4.8
– Lincoln Leong Kwok-kuen	–	3.5	0.5	1.0	5.0
– Francois Lung Ka-kui	–	3.4	0.4	0.9	4.7
– Andrew McCusker	–	3.5	0.3	0.9	4.7
– Leonard Bryan Turk	–	3.5	0.3	1.0	4.8
	3.0	30.6	2.4	10.9	46.9

* 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 2005 and 2006 were HK\$12,000.

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 for the year ended 31 December 2006 was HK\$0.3 million (2005: HK\$0.6 million). The options granted to Francois K K Lung lapsed on 17 October 2006 in accordance with the terms of the New Joiners Share Option Scheme and the fair value of his share-based payments for the year ended 31 December 2005 was HK\$0.3 million. The details of directors' interest in the Company's shares are disclosed under the paragraph "Board Members' and Executive Directorate's Interests in Shares" of the Report of the Members of the Board.

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

In addition, C K Chow does not participate in the Company's two share option schemes. He was entitled to receive an equivalent value in cash of 700,000 shares on completion of his initial three-year contract on 30 November 2006. Pursuant to this contract and following the completion of the contract period, HK\$13,396,600 was paid to C K Chow on 1 December 2006 (at a price of HK\$19.138 per share derived in accordance with the terms of the grant by reference to the average closing price of the Company's shares on the 20 business days immediately preceding 30 November 2006).

The aggregate emoluments of Members of the Board and the Executive Directorate for the year pursuant to section 161 of the Hong Kong Companies Ordinance was HK\$60.6 million (2005: HK\$45.4 million).

<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

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.

(ii) Non-executive directors of the Company are not appointed for a specific term but are subject (save for those appointed pursuant to Section 8 of the Mass Transit Railway Ordinance (Chapter 556 of the Laws of Hong Kong)) to retirement by rotation and re-election at the Company's annual general meetings in accordance with Articles 87 and 88 of the Company's Articles of Association. Dr. Raymond Ch'ien Kuo-fung, a Member of the Board, was appointed as the non-executive Chairman of the Company with effect from 21 July 2003 for a term of three years. In July 2006, he was re-appointed as the non-executive Chairman of the Company until 31 July 2007. All of the five individuals with the highest emoluments are Members of the Executive Directorate whose emoluments are disclosed above.

(iii) C K Chow has a derivative interest in respect of 418,017 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 418,017 shares on completion of his three-year contract ending on 30 November 2009.

The arrangement was offered in order to provide a competitive level of compensation which is to be closely tied to the performance of the Company.

2 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 2006 are set out under the paragraph "Board Members' and Executive Directorate's Interests in Shares" of the Report of the Members of the Board. Details of the options granted to Members of the Executive Directorate are as follows:

(i) Pre-Global Offering Share Option Scheme

Under the Company's Pre-Global Offering Share Option Scheme ("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, was 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 was required to beneficially own at all times on and after 17 October 2006, at least 23,000 shares up to and including the date on which he has exercised his option in full or the date on which his option lapses (whichever is earlier). Francois K K Lung's options lapsed on 17 October 2006 in accordance with the terms of the New Option Scheme.

3 Segmental information

The results of major business activities are summarised below:

<i>in HK\$ million</i>	Turnover		Contribution to profit	
	2006	2005	2006	2005
Railway operations	6,523	6,282	979	760
Station commercial and other businesses	1,606	1,555	1,081	1,071
	8,129	7,837	2,060	1,831
Property ownership and management	1,412	1,316	1,096	1,074
	9,541	9,153	3,156	2,905
Property developments			5,817	6,145
			8,973	9,050
Unallocated corporate expenses			(2,027)	(1,847)
Change in fair value of investment properties			2,178	2,800
Share of profits less losses of non-controlled subsidiaries and associates			45	9
Income tax			(1,411)	(1,549)
Profit for the year			7,758	8,463

Station commercial and other businesses comprise mainly letting of advertising and retail space within the railway premises, bandwidth services on the railway telecommunication system, international consultancy services and, commencing from 18 September 2006, cable car operations and related businesses.

As substantially all the principal operating activities of the Group were carried out in Hong Kong throughout the reporting periods, no geographical analysis is provided.

4 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 2006	19,892	1,705	46,188	56,339	3,661	127,785
Additions	469	–	–	69	2,152	2,690
Disposals/Write-offs	–	–	(20)	(370)	(2)	(392)
Change in fair value	2,178	–	–	–	–	2,178
Surplus on revaluation (note 6)	–	284	–	–	–	284
Tung Chung Cable Car Project commissioned (note 4B)	–	–	375	824	–	1,199
Other assets commissioned	–	–	1	905	(906)	–
At 31 December 2006	22,539	1,989	46,544	57,767	4,905	133,744
At Cost	–	–	46,544	57,767	4,905	109,216
At 31 December 2006 Valuation	22,539	1,989	–	–	–	24,528
Aggregate depreciation						
At 1 January 2006	–	–	3,492	21,018	–	24,510
Charge for the year	–	45	380	2,249	–	2,674
Written back on disposal	–	–	(8)	(330)	–	(338)
Written back on revaluation (note 6)	–	(45)	–	–	–	(45)
At 31 December 2006	–	–	3,864	22,937	–	26,801
Net book value at 31 December 2006	22,539	1,989	42,680	34,830	4,905	106,943
Cost or Valuation						
At 1 January 2005	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 6)	–	459	–	–	–	459
Reclassification	–	–	175	(175)	–	–
Disneyland Resort Line and AsiaWorld-Expo Station Projects commissioned (note 4B)	–	–	176	763	–	939
Other 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	–	–	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 6)	–	(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.

4 Fixed assets and railway construction in progress (continued)

B Railway construction in progress

<i>in HK\$ million</i>	Balance at 1 Jan	Expenditure	Capitalised on commissioning (note 4A)	Transfer to stores and spares	Balance at 31 Dec
2006					
Tseung Kwan O South Station Project	43	132	–	–	175
Tung Chung Cable Car Project	933	271	(1,199)	(5)	–
SkyPlaza Platform Project	30	27	–	–	57
Total	1,006	430	(1,199)	(5)	232
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

5 Bonds and notes issued and redeemed

Bonds and notes issued during the year ended 31 December 2006 and 2005 comprise:

<i>in HK\$ million</i>	2006		2005	
	Principal amount	Net consideration received	Principal amount	Net consideration received
Debt issuance programme notes	1,500	1,499	1,500	1,491

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\$2,450 million (2005: HK\$1,650 million) unlisted Hong Kong dollar notes upon maturity.

None of the Group's listed debt securities was redeemed during the year ended 31 December 2006 (2005: HK\$2,518 million).

6 Reserves

<i>in HK\$ million</i>	Attributable to equity shareholders of the Company							Total
	Share premium	Capital reserve	Fixed asset revaluation reserve	Hedging reserve	Employee share-based capital reserve	Exchange reserve	Retained profits	
2006								
Balance as at 1 January 2006	4,780	27,188	697	24	2	4	31,698	64,393
Employee share options exercised	32	-	-	-	-	-	-	32
Shares issued under Scrip								
Dividend Schemes	1,090	-	-	-	-	-	-	1,090
Cash flow hedges:								
Effective portion of changes in fair value, net of deferred tax	-	-	-	(18)	-	-	-	(18)
Transfer from equity								
– to profit and loss account	-	-	-	(17)	-	-	-	(17)
– to initial carrying amount of non-financial hedged items	-	-	-	(2)	-	-	-	(2)
– to deferred tax	-	-	-	3	-	-	-	3
2005 final dividend	-	-	-	-	-	-	(1,535)	(1,535)
2006 interim dividend	-	-	-	-	-	-	(774)	(774)
Surplus on revaluation (note 4A), net of deferred tax	-	-	271	-	-	-	-	271
Employee share-based payments	-	-	-	-	3	-	-	3
Exchange difference on translation of accounts of overseas subsidiaries	-	-	-	-	-	13	-	13
Profit for the year	-	-	-	-	-	-	7,759	7,759
Balance as at 31 December 2006	5,902	27,188	968	(10)	5	17	37,148	71,218
2005								
Balance as at 1 January 2005	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
2004 final dividend	-	-	-	-	-	-	(1,509)	(1,509)
2005 interim dividend	-	-	-	-	-	-	(764)	(764)
Surplus on revaluation (note 4A), 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

7 Other information

This summary financial statements is only a summary of information in the Group's 2006 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 2006 Annual Report is available in electronic form on the Company's website at www.mtr.com.hk. A printed copy of the 2006 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 49 of this Summary Report.