

Notes to the Summary Financial Statements

1 Statement of Compliance

These 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 2008.

These summary financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), and accounting principles generally accepted in Hong Kong. The HKFRSs have been fully converged with International Financial Reporting Standards in all material respects.

The Company early adopted the Hong Kong (International Financial Reporting Interpretations Committee) ("HK(IFRIC)") Interpretation 12 in the 2007 accounts. As a result, the merger of the Company's operations with Kowloon-Canton Railway Corporation ("KCRC") on 2 December 2007 was considered as a service concession arrangement under this interpretation. Except for HK(IFRIC) Interpretation 12, other new and revised HKFRSs and interpretations, that are first effective for the current accounting period of the Group, issued by the HKICPA have no material impact on the Group's financial statements. The accounting policies adopted in the preparation of these accounts are therefore consistent with those used in the 2007 annual accounts.

2 Rail Merger with Kowloon-Canton Railway Corporation

A On 2 December 2007 (the "Appointed Day"), the Company's operations merged with those of KCRC ("Rail Merger"). The structure and key terms of the Rail Merger were set out in a series of transaction agreements entered into between, inter alia, the Government of the Hong Kong Special Administrative Region, KCRC and the Company including the Service Concession Agreement, Property Package Agreements and Merger Framework Agreement. Key elements of the Rail Merger include the following:

- The expansion of the Company's existing franchise under the Mass Transit Railway Ordinance ("MTR Ordinance") to cover the construction, operation and regulation of railways in addition to the MTRC railway for an initial period of 50 years from the Appointed Day ("Franchise Period"), which may be extended pursuant to the provisions of the MTR Ordinance;
- The Service Concession Agreement ("SCA") pursuant to which KCRC granted the Company the right to access, use and operate the KCRC system for an initial term of 50 years (the "Concession Period"), which will be extended if the Franchise Period (as it relates to the KCRC railway) is extended. The SCA also sets out the basis on which the KCRC system will be returned at the end of the Concession Period. In accordance with the terms of the SCA, the Company paid an upfront lump sum to KCRC on the Appointed Day and is obliged to pay an annual fixed payment to KCRC for the duration of the Concession Period. Additionally, commencing after three years from the Appointed Day, the Company is obliged to pay an annual variable fee to KCRC based on the revenue generated from the KCRC system above certain thresholds;
- Under the SCA, the Company is responsible for the expenditure incurred in relation to the maintenance, repair, replacement and upgrade of the KCRC system (with any new assets acquired being classified as "additional concession property"). To the extent that such expenditure exceeds an agreed threshold ("Capex Threshold"), the Company will be reimbursed for any above threshold expenditure at the end of the Concession Period with such reimbursement to be on the basis of depreciated book value;
- In the event that the Concession Period is extended, the fixed annual payment and the variable annual payment will continue to be payable by the Company. On such extension, the Capex Threshold may also be adjusted;
- With effect from the Appointed Day, staff of the Company and KCRC have been employed by the Company on their prevailing terms and conditions of employment. In connection with the Rail Merger, a Staff Voluntary Separation Scheme has been offered to eligible staff;
- Property Package Agreements whereby property assets comprising certain investment and own-used properties, property management rights and property development rights were acquired by the Company;
- Merger Framework Agreement setting out the framework for the Rail Merger including the implementation of the Fare Adjustment Mechanism whereby the extent to which fares may be adjusted is linked to certain public indices, the provision of a fare reduction starting from the Appointed Day and the guarantee of job security for front line staff employed at the time of the Rail Merger;
- Pursuant to the above and the vesting and novation of certain contracts, the Company assumed certain assets and liabilities of KCRC on the Appointed Day. The assumption of the liabilities of deposits refundable to third parties was subject to compensation by KCRC on the Appointed Day; and
- Other post-Appointed Day arrangements between the Company and KCRC such as the arrangements documented by the Kowloon Southern Link ("KSL") Project Management Agreement, the West Rail Agency Agreement and the Outsourcing Agreement.

Notes to the Summary Financial Statements

2 Rail Merger with Kowloon-Canton Railway Corporation *(continued)*

B The principal financial terms of the Rail Merger and their financial impact on the accounts are described in the following paragraphs.

For the acquisition of the service concession, the Company has settled or is liable to settle the following payments to KCRC in respect of the service concession:

- Upfront payment of HK\$4,250 million was paid on the Appointed Day, of which HK\$326 million was in respect of stores and spares, with the balance of HK\$3,924 million for the right to access, use and operate the KCRC system ("initial concession property"), which is capitalised as a service concession asset on the balance sheet and amortised on a straight-line basis over the Concession Period;
- Fixed annual payments of HK\$750 million are payable by the Company to KCRC throughout the Concession Period. The present value of the total fixed annual payments discounted at the Company's estimated long-term incremental borrowing rate at inception of 6.75% amounting to HK\$10,687 million was capitalised as a service concession asset on the balance sheet and amortised on a straight-line basis over the Concession Period with a corresponding liability for obligations under the service concession recognised on the balance sheet; and
- Variable annual payments are payable by the Company to KCRC commencing after the third year from the Appointed Day to the end of the Concession Period. The payments are calculated on a tiered basis by reference to the revenues generated from the operation of the service concession over certain thresholds.

The assumption of the liability of deposits refundable to third parties and other liabilities subject to cash compensation by KCRC on the Appointed Day amounted to HK\$663 million. The assumption of other assets and liabilities not subject to compensation by KCRC on the Appointed Day amounted to a net liability amount of HK\$226 million (note 5C), formed part of the cost of acquiring the service concession and was capitalised accordingly.

On the Appointed Day, the Company paid a total consideration of HK\$7,790 million for the transfer of the economic benefits of the property package from KCRC as follows:

- Acquisition of certain properties or property holding subsidiaries from KCRC at a consideration of HK\$2,840 million;
- Acquisition of property development rights for eight development sites for a consideration of HK\$4,910 million, which was recognised at cost as property development in progress on the balance sheet. Pursuant to the transaction agreements, when the development sites which have not been awarded as at the Appointed Day are subsequently awarded, the Company is obliged to pay KCRC an agreed amount of HK\$875 million in respect of enabling works carried out by KCRC for such sites, which are to be settled by the receipt of mandatory payments from property developers when the sites are awarded;
- Acquisition of certain property management rights from KCRC in respect of existing and future managed properties at a consideration of HK\$40 million. The amount was capitalised and subject to amortisation on a straight-line basis over the period of the management rights;
- Assumption of certain assets and liabilities with a net liability amount of HK\$123 million relating to the property package with corresponding cash settlement from KCRC; and
- Acquisition of certain other subsidiaries of KCRC.

The Rail Merger also gave rise to the following:

- The Company obtained a new loan financing facility of HK\$10 billion in 2007 as part of the financing for the above arrangements; and
- Deferred expenditure of HK\$492 million incurred in connection with the acquisition of the respective assets was capitalised on the Appointed Day.

Income and expenditure and assets and liabilities in relation to the operation of the service concession are accounted for in the respective line items of the Group's and the Company's profit and loss accounts and balance sheets. Accordingly, the profit and loss accounts for the year ended 31 December 2008 reflect a full year of the Rail Merger whereas the comparatives reflect one month.

3 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:

in HK\$ million	Fees	Base pay, allowances and benefits in kind	Retirement scheme contribution	Variable remuneration related to performance	Total
2008					
Members of the Board					
– Raymond Ch'ien Kuo-fung	1.2	–	–	–	1.2
– Cheung Yau-kai	0.3	–	–	–	0.3
– David Gordon Eldon (retired on 29 May 2008)	0.1	–	–	–	0.1
– Christine Fang Meng-sang	0.3	–	–	–	0.3
– Edward Ho Sing-tin	0.4	–	–	–	0.4
– Lo Chung-hing (retired on 29 May 2008)	0.2	–	–	–	0.2
– Ng Leung-sing	0.3	–	–	–	0.3
– Abraham Shek Lai-him	0.3	–	–	–	0.3
– T. Brian Stevenson	0.4	–	–	–	0.4
– Ceajer Chan Ka-keung	0.3	–	–	–	0.3
– Eva Cheng	0.3	–	–	–	0.3
– Alan Wong Chi-kong	0.3	–	–	–	0.3
Members of the Executive Directorate					
– Chow Chung-kong	–	6.7	–*	8.6	15.3
– Russell John Black	–	4.3	0.2	2.7	7.2
– William Chan Fu-keung	–	4.4	0.2	2.6	7.2
– Thomas Ho Hang-kwong	–	4.4	0.2	2.6	7.2
– Lincoln Leong Kwok-kuen	–	4.8	0.7	2.7	8.2
– Francois Lung Ka-kui (left service on 31 December 2008)	–	3.6	0.5	1.7	5.8
– Andrew McCusker	–	4.4	0.2	2.3	6.9
– Leonard Bryan Turk	–	4.2	0.2	2.6	7.0
	4.4	36.8	2.2	25.8	69.2

* C K Chow participates in the Company's Mandatory Provident Fund Scheme. The total contributions paid by the Company in each of the years 2007 and 2008 were HK\$12,000.

Notes to the Summary Financial Statements

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

A 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
2007					
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
– Ng Leung-sing (appointed on 18 December 2007)	–	–	–	–	–
– Abraham Shek Lai-him (appointed on 18 December 2007)	–	–	–	–	–
– T. Brian Stevenson	0.3	–	–	–	0.3
– Ceajer Chan Ka-keung (appointed on 10 July 2007)	0.1	–	–	–	0.1
– Eva Cheng (appointed on 1 July 2007)	0.1	–	–	–	0.1
– Sarah Liao Sau-tung (retired on 1 July 2007)	0.1	–	–	–	0.1
– Frederick Ma Si-hang (retired on 10 July 2007)	0.1	–	–	–	0.1
– Alan Wong Chi-kong	0.2	–	–	–	0.2
Members of the Executive Directorate					
– Chow Chung-kong	–	5.9	–*	5.1	11.0
– Russell John Black	–	3.8	0.1	1.7	5.6
– William Chan Fu-keung	–	3.7	0.1	1.7	5.5
– Thomas Ho Hang-kwong	–	3.8	0.1	1.6	5.5
– Lincoln Leong Kwok-kuen	–	3.8	0.5	1.7	6.0
– Francois Lung Ka-kui	–	3.5	0.5	0.8	4.8
– Andrew McCusker	–	3.7	0.1	1.4	5.2
– Leonard Bryan Turk	–	3.7	0.1	1.7	5.5
	3.0	31.9	1.5	15.7	52.1

The above emoluments do not include the fair value of share options, as estimated at the date of grant which is defined as the date of acceptance of the offer to grant the option. The fair values of the share options awarded to Members of the Executive Directorate are as follows:

(a) Options vested under the New Joiners Share Option Scheme (the "New Option Scheme") in 2007 and 2008

Francois K K Lung was granted options in respect of 1,066,000 shares under the New Option Scheme on 22 March 2007, of which 711,000 options were vested in 2008 (2007: nil), and the respective fair value of the share-based payments recognised for the year ended 31 December 2008 was HK\$1.6 million (2007: HK\$1.1 million).

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

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

(b) Options vested under the 2007 Share Option Scheme (the "2007 Option Scheme") in 2007 and 2008

Share options were granted to Members of the Executive Directorate under the Company's 2007 Option Scheme, which were offered to them on 10 December 2007 and 8 December 2008. The entitlements of each of the Members are as follows:

- C K Chow was granted options in respect of 720,000 shares on 13 December 2007 and 470,000 shares on 9 December 2008, of which 240,000 options were vested in 2008 (2007: nil), and the respective fair value of the share-based payments recognised for the year ended 31 December 2008 was HK\$1.2 million (2007: HK\$0.071 million);
- Russell J Black, Lincoln K K Leong and Leonard B Turk were each granted options in respect of 170,000 shares on both 12 December 2007 and 9 December 2008, of which 57,000 options were vested in 2008 (2007: nil), and the respective fair value of the share-based payments recognised for the year ended 31 December 2008 was HK\$0.3 million (2007: HK\$0.017 million) for each of them;
- Thomas H K Ho was granted options in respect of 170,000 shares on both 12 December 2007 and 11 December 2008, of which 57,000 were vested in 2008 (2007: nil), and the respective fair value of the share-based payments recognised for the year ended 31 December 2008 was HK\$0.3 million (2007: HK\$0.017 million);
- Andrew McCusker was granted options in respect of 170,000 shares on both 12 December 2007 and 12 December 2008, of which 57,000 options were vested in 2008 (2007: nil), and the respective fair value of the share-based payments recognised for the year ended 31 December 2008 was HK\$0.3 million (2007: HK\$0.017 million);
- William F K Chan was granted options in respect of 170,000 shares on both 13 December 2007 and 9 December 2008, of which 57,000 options were vested in 2008 (2007: nil), and the respective fair value of the share-based payments recognised for the year ended 31 December 2008 was HK\$0.3 million (2007: HK\$0.017 million); and
- Francois K K Lung was granted options in respect of 130,000 shares on 12 December 2007, of which 87,000 options were vested in 2008 (2007: nil), and the respective fair value of the share-based payments recognised for the year ended 31 December 2008 was HK\$0.4 million (2007: HK\$0.013 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.

(ii) 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 ("SFO"). The 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.

On 12 April 2007, Lincoln K K Leong was granted a derivative interest in respect of 160,000 shares in the Company within the meaning of Part XV of the SFO. The derivative interest represents Lincoln K K Leong's entitlement to receive an equivalent value in cash of 160,000 shares on 9 April 2010.

The arrangements were offered to C K Chow and Lincoln K K Leong in order to provide a competitive level of compensation which is also closely tied to the performance of the Company.

(iii) 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\$74.2 million (2007: HK\$53.4 million).

(iv) 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. In July 2007, Dr. Ch'ien was re-appointed as the non-executive Chairman of the Company with effect from 1 August 2007 for a term up to 31 December 2007 or the day to be appointed by the Secretary for Transport and Housing by notice published in the Gazette under the Rail Merger Ordinance, whichever was the earlier. On 8 August 2007, he was appointed as the non-executive Chairman of the Company after the Rail Merger for a term of two years commencing from 2 December 2007. All of the five individuals with the highest emoluments are Members of the Executive Directorate whose emoluments are disclosed above.

B Share Options

Options exercised and outstanding in respect of each Member of the Executive Directorate as at 31 December 2008 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:

Notes to the Summary Financial Statements

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

B Share Options *(continued)*

(i) Pre-Global Offering Share Option Scheme

Under the Company's Pre-Global Offering Share Option Scheme (the "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 (the "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.

On 22 March 2007, Francois K K Lung was granted options to acquire 1,066,000 shares under the New Option Scheme. Under the vesting terms of the New Option Scheme, Francois K K Lung was required to beneficially own at all times on and after 9 April 2008, at least 23,000 shares up to and including the date on which he has exercised his options in full or the date on which his options lapse (whichever is earlier). In connection with the termination of his employment with the Company on 31 December 2008 and in accordance with the terms of the New Option Scheme, 711,000 options granted to Francois K K Lung under the New Option Scheme were vested and 355,000 options lapsed as at 31 December 2008.

(iii) 2007 Share Option Scheme

Under the 2007 Share Option Scheme (the "2007 Option Scheme"), all Members of the Executive Directorate were granted options to acquire shares in December 2007 and December 2008. C K Chow was granted options to acquire 720,000 shares in 2007 and 470,000 shares in 2008; Russell J Black, William F K Chan, Thomas H K Ho, Lincoln K K Leong, Andrew McCusker and Leonard B Turk were each granted options to acquire 170,000 shares in both 2007 and 2008; and Francois K K Lung was granted options to acquire 130,000 shares in 2007.

Under the vesting terms of the options granted in December 2007 and December 2008, options granted will be evenly vested in respect of their underlying shares over a period of three years from 10 December 2007 and 8 December 2008 respectively. However, in connection with the termination of his employment with the Company on 31 December 2008 and in accordance with the terms of the 2007 Option Scheme, 87,000 options granted to Francois K K Lung under the 2007 Option Scheme were vested and 43,000 options lapsed as at 31 December 2008.

4 Segmental Information

Segmental information is presented in accordance with the Group's business segments, which comprise the following:

Railway operations: The operation of an urban mass transit railway system within Hong Kong and an Airport Express serving both the Hong Kong International Airport and the AsiaWorld-Expo at Chek Lap Kok and following the Rail Merger, with effect from 2 December 2007, the KCR System consisting of KCR Lines (comprising the East Rail excluding Cross-boundary Service, West Rail and Ma On Shan lines), Cross-boundary Service, Light Rail, Bus and Intercity passenger services.

Station commercial and rail related businesses: Commercial activities including letting of advertising and retail space, bandwidth services on the railway telecommunication system, railway consultancy services, freight and rail related subsidiaries' businesses.

Property ownership, management and other businesses: Property rental, property management and operations relating to Ngong Ping 360.

Property developments: Property development at locations relating to the railway system.

4 Segmental Information (continued)

The results of major business activities are summarised below:

in HK\$ million	Turnover		Contribution to Profit	
	2008	2007	2008	2007
Railway operations	11,467	7,115	2,776	1,355
Station commercial and rail related businesses	3,449	1,741	2,551	1,258
	14,916	8,856	5,327	2,613
Property ownership, management and other businesses	2,712	1,834	1,856	1,226
	17,628	10,690	7,183	3,839
Profit on property developments			4,670	8,304
			11,853	12,143
Unallocated corporate expenses			(788)	(666)
Merger related expenses			(53)	(193)
Interest and finance charges			(1,998)	(1,316)
Change in fair value of investment properties			(146)	8,011
Net gain on acquisition of subsidiaries			–	187
Share of profits of non-controlled subsidiaries and associates			159	99
Income tax			(747)	(3,083)
Profit for the year			8,280	15,182

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.

5 Fixed Assets and Railway Construction in Progress

A Investment Properties

in HK\$ million	2008	2007
Valuation		
At 1 January	37,723	22,539
Additions through Rail Merger	–	2,840
Other additions	108	364
Change in fair value	(146)	8,011
Transfer from assets under construction (note 5B)	98	4,027
Transfer to self-occupied land and buildings (note 5B)	(46)	(58)
At 31 December	37,737	37,723
Long leases	1,575	1,609
Medium-term leases	36,162	36,114
	37,737	37,723

Notes to the Summary Financial Statements

5 Fixed Assets and Railway Construction in Progress (continued)

B Other Property, Plant and Equipment

in HK\$ million	Self-occupied land and buildings	Civil works	Plant and equipment	Assets under construction	Total
Cost or Valuation					
At 1 January 2008	2,240	46,471	58,820	1,037	108,568
Additions	–	–	75	1,351	1,426
Capitalisation adjustments *	–	(96)	5	–	(91)
Disposals / Write-offs	(36)	(15)	(316)	(2)	(369)
Deficit on revaluation	(285)	–	–	–	(285)
Reclassification	–	(4)	4	–	–
Transfer from / (to) investment properties (note 5A)	46	–	–	(98)	(52)
Other assets commissioned	–	3	885	(888)	–
At 31 December 2008	1,965	46,359	59,473	1,400	109,197
At Cost	–	46,359	59,473	1,400	107,232
At 31 December 2008 Valuation	1,965	–	–	–	1,965
Aggregate depreciation					
At 1 January 2008	–	4,236	24,888	–	29,124
Charge for the year	58	389	2,174	–	2,621
Capitalisation adjustments *	–	(6)	–	–	(6)
Written back on disposal	–	(7)	(281)	–	(288)
Written back on revaluation	(58)	–	–	–	(58)
At 31 December 2008	–	4,612	26,781	–	31,393
Net book value at 31 December 2008	1,965	41,747	32,692	1,400	77,804
Cost or Valuation					
At 1 January 2007	1,989	46,544	57,767	4,905	111,205
Additions	–	–	44	1,387	1,431
Capitalisation adjustments *	–	(42)	(49)	–	(91)
Disposals / Write-offs	–	(4)	(371)	–	(375)
Surplus on revaluation	193	–	–	–	193
Reclassification	–	(61)	61	–	–
Transfer from deferred expenditure	–	–	59	44	103
Transfer from / (to) investment properties (note 5A)	58	–	–	(4,027)	(3,969)
SkyPlaza Platform Project commissioned (note 5D)	–	–	71	–	71
Other assets commissioned	–	34	1,238	(1,272)	–
At 31 December 2007	2,240	46,471	58,820	1,037	108,568
At Cost	–	46,471	58,820	1,037	106,328
At 31 December 2007 Valuation	2,240	–	–	–	2,240
Aggregate depreciation					
At 1 January 2007	–	3,864	22,937	–	26,801
Charge for the year	52	387	2,279	–	2,718
Capitalisation adjustments *	–	(1)	(3)	–	(4)
Written back on disposal	–	(2)	(337)	–	(339)
Written back on revaluation	(52)	–	–	–	(52)
Reclassification	–	(12)	12	–	–
At 31 December 2007	–	4,236	24,888	–	29,124
Net book value at 31 December 2007	2,240	42,235	33,932	1,037	79,444

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

Depreciation charge for the year was HK\$2,615 million (2007: HK\$2,714 million), comprising depreciation for the year of HK\$2,621 million (2007: HK\$2,718 million) less capitalisation adjustments of HK\$6 million (2007: HK\$4 million).

5 Fixed Assets and Railway Construction in Progress *(continued)*

C Service Concession Assets

in HK\$ million	Initial concession property	Additional concession property	Total
2008			
Cost			
At 1 January 2008	15,226	49	15,275
Net additions during the year	–	523	523
At 31 December 2008	15,226	572	15,798
Accumulated amortisation			
At 1 January 2008	25	–	25
Charge for the year	304	6	310
At 31 December 2008	329	6	335
Net book value at 31 December 2008	14,897	566	15,463
2007			
Cost			
At 1 January 2007	–	–	–
Additions through the Rail Merger			
– Upfront payment (note 2B)	3,924	–	3,924
– Principal element of fixed annual payments (note 2B)	10,687	–	10,687
– Others (note 2B)	226	31	257
Net additions during the year	–	18	18
Transfer from deferred expenditure	389	–	389
At 31 December 2007	15,226	49	15,275
Accumulated amortisation			
At 1 January 2007	–	–	–
Charge for the year	25	–	25
At 31 December 2007	25	–	25
Net book value at 31 December 2007	15,201	49	15,250

Additional concession property represents expenditure incurred in relation to the maintenance, repair, replacement and upgrade of the KCRC system.

Notes to the Summary Financial Statements

5 Fixed Assets and Railway Construction in Progress *(continued)*

D Railway Construction in Progress

in HK\$ million	Balance at 1 Jan	Expenditure	Capitalised on commissioning (note 5B)	Balance at 31 Dec
2008				
LOHAS Park Station Project	424	234	–	658
Total	424	234	–	658
2007				
LOHAS Park Station Project	175	249	–	424
SkyPlaza Platform Project	57	14	(71)	–
Total	232	263	(71)	424

6 Bonds and Notes Issued and Redeemed

Bonds and notes issued during the year ended 31 December 2008 and 2007 comprise:

in HK\$ million	2008		2007	
	Principal amount	Net consideration received	Principal amount	Net consideration received
Debt issuance programme notes	1,750	1,750	–	–

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

During the year ended 31 December 2008, the Group redeemed HK\$1,000 million (2007: nil) of its unlisted debt securities.

None of the Group's listed debt securities was redeemed during the year ended 31 December 2008 and 2007.

7 Reserves

in HK\$ million	Attributable to equity shareholders of the Company							
	Share premium	Capital reserve	Fixed asset revaluation reserve	Hedging reserve	Employee share-based capital reserve	Exchange reserve	Retained profits	Total
2008								
Balance as at 1 January 2008	7,029	27,188	1,170	(25)	7	42	49,992	85,403
Employee share options exercised	25	-	-	-	-	-	-	25
Shares issued under Scrip Dividend Schemes	1,214	-	-	-	-	-	-	1,214
Cash flow hedges:								
Effective portion of changes in fair value, net of deferred tax	-	-	-	(151)	-	-	-	(151)
Transfer from equity								
– to consolidated profit and loss account	-	-	-	41	-	-	-	41
– to initial carrying amount of non-financial hedged items	-	-	-	(14)	-	-	-	(14)
– to deferred tax	-	-	-	(5)	-	-	-	(5)
2007 final dividend	-	-	-	-	-	-	(1,740)	(1,740)
2008 interim dividend	-	-	-	-	-	-	(790)	(790)
Deficit on revaluation, net of deferred tax	-	-	(189)	-	-	-	-	(189)
Release of revaluation reserve on disposal, net of deferred tax	-	-	(35)	-	-	-	42	7
Effect on deferred tax balances resulting from a change in tax rate	-	-	14	-	-	-	-	14
Employee share-based payments	-	-	-	-	20	-	-	20
Release to share premium upon share options exercised	2	-	-	-	(2)	-	-	-
Exchange difference on translation of accounts of overseas subsidiaries	-	-	-	-	-	21	-	21
Profit for the year	-	-	-	-	-	-	8,284	8,284
Balance as at 31 December 2008	8,270	27,188	960	(154)	25	63	55,788	92,140
2007								
Balance as at 1 January 2007	5,902	27,188	968	(10)	5	17	37,148	71,218
Employee share options exercised	20	-	-	-	-	-	-	20
Shares issued under Scrip Dividend Schemes	1,107	-	-	-	-	-	-	1,107
Cash flow hedges:								
Effective portion of changes in fair value, net of deferred tax	-	-	-	(13)	-	-	-	(13)
Transfer from equity								
– to consolidated profit and loss account	-	-	-	-	-	-	-	-
– to initial carrying amount of non-financial hedged items	-	-	-	(2)	-	-	-	(2)
– to deferred tax	-	-	-	-	-	-	-	-
2006 final dividend	-	-	-	-	-	-	(1,554)	(1,554)
2007 interim dividend	-	-	-	-	-	-	(782)	(782)
Surplus on revaluation, net of deferred tax	-	-	202	-	-	-	-	202
Employee share-based payments	-	-	-	-	2	-	-	2
Exchange difference on translation of accounts of overseas subsidiaries	-	-	-	-	-	25	-	25
Profit for the year	-	-	-	-	-	-	15,180	15,180
Balance as at 31 December 2007	7,029	27,188	1,170	(25)	7	42	49,992	85,403

8 Other Information

These summary financial statements are only a summary of information in the Group's 2008 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 2008 Annual Report is available in electronic form on the Company's website at www.mtr.com.hk. A printed copy of the 2008 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 77 of this Summary Financial Report.