Unaudited supplementary information for US bond holders

The Group's financial statements are prepared in accordance with the accounting principles generally accepted applicable in Hong Kong ("HK GAAP"), which differ in certain significant respects from those applicable in the United States ("US GAAP"). The significant differences relate principally to the following items, and the adjustments considered necessary to restate profit ("net income") and shareholders' funds ("shareholders' equity") in accordance with US GAAP are shown in the tables set out below.

A Revenue recognition on property developments

Under HK GAAP, where the Group receives payments from developers at the commencement of the project, profits arising from such payments are recognised when the foundation and site enabling works are complete and acceptable for development, and after taking into account the outstanding risks and obligations, if any, retained by the Group in connection with the development. In addition, under HK GAAP, where the Group receives a distribution of the assets of the development upon completion of construction, profit is recognised based on the fair value of such assets at the time of receipt. Under US GAAP, such profits would be recognised during construction of the property on a percentage-of-completion basis. Accordingly, the balances of debtors and creditors would be increased by HK$243 million and HK$897 million respectively at 31 December 2003 and HK$237 million and HK$1,276 million respectively at 31 December 2004.

B Telford headquarters redevelopment

The Group entered into a joint venture agreement with a property developer to redevelop the headquarters building. Under HK GAAP, the redeveloped headquarters building retained by the Group was recorded as an addition of land and buildings at open market value. The shopping centre and cash received from the developer, net of related costs, were recognised as property development profits. Under US GAAP, the redevelopment would be accounted for as a non-monetary transaction, and such redevelopment would be recorded at historical cost with no profit recognition thereon.

C Asset revaluations and depreciation

Under HK GAAP, investment properties are stated on the basis of appraised value, and depreciation expense is not provided on such properties. Also under HK GAAP, self-occupied land and buildings are stated at their open market values on the basis of their existing use at the date of revaluation less any subsequent accumulated depreciation. Under US GAAP, such revaluations are not permitted. Accordingly, for the purposes of the reconciliation between HK GAAP and US GAAP, the properties of the Group, which are stated at appraised or open market value, have been restated at historical cost less accumulated depreciation. Depreciation has been based on the historical cost of the properties and the shorter of the unexpired lease term or useful life of 50 years. The approximate gross historical cost of investment properties subject to depreciation under US GAAP, which are not depreciated under HK GAAP, amounted to HK$6,876 million and HK$6,908 million at 31 December 2003 and 2004, respectively.

D Depreciation of certain fixed assets

Prior to 1995, under HK GAAP, the historical cost of the Group's tunnel lining and underground civil structures was not depreciated. Under established industry practice in the United States for similar costs, depreciation is provided for financial accounting purposes over extended periods. For US GAAP purposes, the Group has depreciated such costs over a 100-year period.

Effective 1 January 1995, under HK GAAP, the Group re-appraised the estimated useful life of the tunnel lining and underground civil structures. In accordance with such re-appraisal, such costs are being depreciated over the number of years remaining using an original life of 100-year period. Such change in useful life was accounted for prospectively, with no cumulative adjustment recognised in 1995.

In addition, prior to 1995 under HK GAAP, the cost of leasehold land was not amortised based on assumed extensions of the leases. Under US GAAP, the amortisation of the historical cost of leasehold land is provided over the life of the leases, without any consideration of renewals.

Effective 1 January 1995, under HK GAAP, all leasehold land is amortised over the unexpired terms of the leases. This change in accounting policy under HK GAAP was applied prospectively, with no cumulative adjustment recognised in 1995.

E Pension costs

Under HK GAAP, the provision for the defined benefit element of the MTR Corporation Limited Retirement Scheme (the "Retirement Scheme") was based on the contributions made to the Retirement Scheme. The adoption of the new Statement of Standard Accounting Practice ("SSAP") 34 under HK GAAP has resulted in the provisions for deficiency of the Retirement Scheme's present value of the defined benefit obligations over the fair value of the assets. Such transitional liability was recognised immediately against the opening balance of the retained profits as of 1 January 2002 under HK GAAP. Under US GAAP, the defined benefit element of the Retirement Scheme is recognised as a charge to income over the employees' approximate service period, in accordance with Statement of Financial Accounting Standards ("SFAS") No. 87. SFAS No.87 focuses on the Retirement Scheme's benefit formula as the basis for determining the benefit earned, and therefore the cost incurred, in each year. The determination of the benefit earned is actuarially determined and includes components for service cost, time value of money, return on plan assets and gains or losses from changes in previous assumptions. The actuarial valuation methods used are different under HK GAAP and US GAAP and so are the pension expenses recognised. As such, the transitional liability of HK$44 million recognised immediately against the opening balance of the retained profits under HK GAAP is reversed under US GAAP. Under US GAAP, the pension cost would be decreased by HK$74 million for the year ended 31 December 2003 and increased by HK$6 million for the year ended 31 December 2004. Accordingly, the prepaid pension cost at 31 December 2003 and 2004 would be adjusted to accrued pension cost of HK$145 million and HK$80 million respectively.

F Income taxes

With effect from 1 January 2003, the Group's accounting policy for the recognition of deferred tax as set out in note 1R is adopted under HK GAAP. The adoption of this policy resulted in a decrease of HK$2,620 million to the balance of the shareholder's funds as of 1 January 2002. Under US GAAP, full provision is made for all deferred taxes as they arise, except that a valuation allowance is provided on deferred tax assets to the extent that it is not "more likely than not" that such deferred tax assets will be realised. Under US GAAP, "more likely than not" is defined as a likelihood of more than 50 percent.

Since the adoption of the new accounting policy for deferred tax under HK GAAP, the remaining adjustment represents deferred tax liability recognised for temporary differences arising from adjustments to profit for the year under US GAAP.

G Capitalisation of certain costs

Under HK GAAP, certain costs of a non-incremental nature are capitalised relative to the Airport Railway Project and other capital projects. Under US GAAP, it is not permissible to capitalise these non-incremental costs. Accordingly, under US GAAP, fixed assets and railway construction in progress would be decreased by HK$1,229 million and HK$29 million respectively at 31 December 2003 and HK$1,210 million and HK$49 million respectively at 31 December 2004. The preponderance of the capitalised costs relating to the capital projects is incremental in nature and accordingly, is properly capitalised under both HK GAAP and US GAAP.

H Interest

Under HK GAAP, interest earned on funds obtained by the Group specifically for the construction of the Airport Railway prior to the date of expenditure for such purpose is credited to railway construction in progress related to the Airport Railway, the balance of which was transferred to fixed assets following the commission of the line in 1997. Interest earned for this purpose includes notional interest on funds temporarily applied by the Group for purposes other than related to the construction of the Airport Railway. Under US GAAP, actual interest earned is included in the determination of profit for such period, and notional interest on funds temporarily applied is not recognised.

I Stock based compensation

Under HK GAAP, share options granted by the Company and shares granted by the principal shareholder (defined as shareholding larger than 10%) for no consideration to the employees of the Company are not required to be recognised in the profit and loss account of the Company. Under US GAAP, such share options and shares granted are accounted for in accordance with Accounting Principles Board ("APB") Opinion 25 as contributions to capital with the offsetting charge to the profit and loss account as compensation expense. The compensation expense for the share grants is measured based on the quoted market price of the shares, and in case of share options, the difference between the quoted market price of the shares less the exercise price, at a defined measurement date. The measurement date is the first date on which both the number of shares that an individual employee is entitled to receive and the exercise price are known.

J Others

Other adjustments primarily represent the net effect of costs deferred under HK GAAP which are required to be recognised as expenses under US GAAP, and certain anticipated expenses recognised under HK GAAP which are not recognised as expenses under US GAAP until the related goods or services are received or provided. Under US GAAP, deferred liabilities would be decreased by HK$40 million and HK$42 million respectively at 31 December 2003 and 2004.

K Derivative instruments

Under US GAAP, all derivatives, whether designated in hedging relationships or not, are required to be recorded on the balance sheet at fair value. If the derivative is designated as a fair value hedge, the changes in the fair value of the derivative and of the hedged item attributable to the hedged risk are recognised in earnings. If the derivative is designated as a cash flow hedge, the effective portions of changes in the fair value of the derivative are recorded in other comprehensive income and are recognised in the profit and loss account when the hedged item affects earnings. Ineffective portions of changes in the fair value of cash flow hedges are recognised in earnings.

The Group uses derivative instruments to manage exposures to foreign currency and interest rate risks. The Group's objectives for holding derivatives are to minimise the risks using the most effective methods to eliminate or reduce the impacts of these exposures.

Under HK GAAP, derivative instruments are not required to be recorded on the balance sheet at fair value. Under US GAAP, assets and liabilities would be increased by HK$914 million and HK$1,280 million respectively at 31 December 2003 and HK$434 million and HK$601 million respectively at 31 December 2004.

L Other comprehensive income

Under US GAAP, the Group applies the provisions of SFAS No. 130 which requires the reporting of comprehensive income, which represents the change in equity of the Group during a period from transactions and other events and circumstances from nonowner sources. Such presentation is not required under HK GAAP. Other comprehensive income represents such changes in equity that are not included in the determination of net profit or loss. Other comprehensive income and accumulated other comprehensive income balances determined on a US GAAP basis are related solely to the net unrealised gain or loss on qualifying cash flow hedges, net of related income taxes. Such presentation is not required under HK GAAP.

Under US GAAP, other comprehensive income for the years ended 31 December 2003 and 2004 were HK$157 million (HK$130 million after tax) and HK$133 million (HK$110 million after tax) respectively. Accumulated other comprehensive income at 31 December 2003 and 2004 were HK$280 million (HK$231 million after tax) and HK$147 million (HK$121 million after tax) respectively.

M Lease out and lease back transaction

Under HK GAAP, where commitments by the Group to make long-term lease payments have been defeased by the placement of securities under the lease out and lease back transaction as described in note 14H, those commitments and securities are not recognised as obligations and assets of the Group, respectively. Under US GAAP, the securities are not allowed to offset with the commitments to make long-term lease payments as there is no legal right of offset. Accordingly, the securities placed to defease the lease obligations and the related commitments to make long-term lease payments would be reflected separately in the balance sheet and the net cash provided by financing activities and net cash used by investing activities would be increased by HK$3,781 million under US GAAP.

N Classification of items in the consolidated balance sheet

Under HK GAAP, amount due from non-controlled subsidiary, amounting to HK$2 million and HK$87 million at 31 December 2003 and 2004 respectively, is included in the balance of debtors, deposits and payments in advance as management considers that the receivable does not form part of the investment cost.

Under US GAAP, amount due from non-controlled subsidiary is included as a component of investment in non-controlled subsidiary.

O Recent accounting pronouncements

(i) SFAS No. 123 (revised)

In December 2004, the Financial Accounting Standards Board ("FASB") issued SFAS No. 123 (revised), Shared-Based Payment. This Statement requires that the compensation cost relating to share-based payment transactions be recognised in the consolidated financial statements. That cost will be measured based on the fair value of the equity or liability instruments issued. Public entities will be required to apply this Statement as of the first interim or annual reporting period that begins after 15 June 2005. This Statement replaces SFAS No. 123 and supersedes APB Opinion 25. The Group has assessed the impact of adopting SFAS No. 123 (revised) and it believed that the adoption of this Statement would not have a material effect to the Company's consolidated financial statements.

O Recent accounting pronouncements (continued)

(ii) SFAS No. 153

In December 2004, the FASB issued SFAS No. 153, Exchanges of Nonmonetary Assets – an amendment of APB Opinion 29. The guidance in APB Opinion 29, Accounting for Nonmonetary Transactions, is based on the principle that exchanges of nonmonetary assets should be based on the fair value of the assets exchanged. This Statement amends APB Opinion 29 to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary asset that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. The provisions of this Statement shall be effective for nonmonetary asset exchanges occurring in fiscal periods beginning after 15 June 2005. The Group currently does not have any material nonmonetary transactions that are within the scope of this Statement. Therefore, the application of this Statement will not have material effect to the Company's consolidated financial statements.

Reconciliation of Net Income to US GAAP

Year Ended 31 December *in $ million*	2003 HK$	**2004** **HK$**	**2004** **US$** (Note 1)
Profit for the year in accordance with HK GAAP	4,450	**4,496**	**578**
Adjustments required under US GAAP			
Revenue recognition on property developments	(3,522)	**(385)**	**(50)**
Depreciation on revalued properties and redevelopment	(38)	**(218)**	**(28)**
Depreciation on certain fixed assets	10	**11**	**1**
Difference in periodic pension cost	(74)	**6**	**1**
Capitalisation of certain costs	(19)	**(1)**	**–**
Interest	(19)	**(19)**	**(2)**
Stock based compensation	(19)	**(6)**	**(1)**
Derivative instruments	(22)	**66**	**9**
Other	–	**2**	**–**
Deferred tax accounting	(15)	**–**	**–**
Tax effect of above adjustments	637	**(78)**	**(10)**
Net income for the year in accordance with US GAAP	1,369	**3,874**	**498**
Basic and diluted earnings per share	HK$0.26	**HK$0.73**	**US$0.09**

Reconciliation of Shareholders' Equity to US GAAP

As of 31 December *in $ million*	2003 HK$	**2004** **HK$**	**2004** **US$** (Note 1)
Shareholders' funds in accordance with HK GAAP	57,292	**63,499**	**8,166**
Adjustments required under US GAAP			
Revenue recognition on property developments	(1,360)	**(1,745)**	**(224)**
Accumulated depreciation on revalued properties and redevelopment	(402)	**(620)**	**(80)**
Asset revaluation reserves	(6,704)	**(9,521)**	**(1,224)**
Accumulated depreciation on certain fixed assets	(761)	**(750)**	**(96)**
Difference in periodic pension cost	(184)	**(178)**	**(23)**
Capitalisation of certain costs	(1,258)	**(1,259)**	**(162)**
Interest	637	**618**	**79**
Derivative instruments	(366)	**(167)**	**(21)**
Other	40	**42**	**5**
Deferred tax liabilities	600	**561**	**72**
Shareholders' equity in accordance with US GAAP	47,534	**50,480**	**6,492**

Note:

1. For the convenience of readers, the US dollars equivalent was translated at HK$7.7756 which was the Hong Kong closing buying rate quoted from Reuters at 4 pm of 31 December 2004.