

Notes to the summary financial statements

1 Significant accounting policies

This summary financial statements have been prepared from the audited financial statements of the Company and all its subsidiaries (the "Group") for the year ended 31 December 2002.

The same accounting policies adopted in the 2001 annual accounts have been consistently applied except for adoption of the following new accounting pronouncements in 2002:

- Statement of Standard Accounting Practice ("SSAP") 34 "Employee Benefits";
- SSAP 35 "Accounting for Government Grants and Disclosure of Government Assistance";
- SSAP 1 (revised) "Presentation of Financial Statements"; and
- SSAP 15 (revised) "Cash Flow Statements".

2 Remuneration of Members of the Board and the Executive Directorate

A Remuneration of Members of the Board and the Executive Directorate

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>	2002	2001
Fees	2	2
Salaries, allowances and benefits-in-kind	32	33
Retirement scheme contributions	4	4
	38	39

Included in salaries, allowances and benefits-in-kind are realised gains on exercise of share options amounting to HK\$0.2 million (2001: HK\$0.6 million) in respect of certain Members of the Executive Directorate. Details of the share options granted to the Executive Directorate are disclosed in note 2B. Allowances and benefits-in-kind also include housing, medical and education allowances.

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.

The gross emoluments of the Members of the Board and the Members of the Executive Directorate were within the following bands:

Emoluments	2002 Number	2001 Number
HK\$0 – HK\$250,000	13	9
HK\$500,001 – HK\$1,000,000	1	–
HK\$3,500,001 – HK\$4,000,000	1	–
HK\$4,500,001 – HK\$5,000,000	5	5
HK\$5,000,001 – HK\$5,500,000	–	1
HK\$7,500,001 – HK\$8,000,000	1	1
	21	16

The information shown in the above table includes the five highest paid employees. The independent non-executive directors' emoluments are included in the first remuneration band.

B Share options

Under the Company's Pre-Global Offering Share Option Scheme ("Share Option Scheme"), Mr. Jack So Chak-kwong and each of the other Members of the Executive Directorate, except Mr. Lincoln Leong Kwok-kuen, were granted options on 20 September 2000 to acquire 1,599,000 and 1,066,000 shares respectively. Mr. Lincoln Leong Kwok-kuen joined the Company on 1 February 2002 and is not a beneficiary of the Share Option Scheme.

Under the vesting terms of the Share Option Scheme, each eligible Member of the Executive Directorate must continue to beneficially own (i) at all times after 26 October 2001, at least 40,000 shares in the case of the Chairman and at least 23,000 shares in the case of other Members of the Executive Directorate, and (ii) at all times after 26 October 2002, at least 80,000 shares in the case of the Chairman and at least 46,000 shares in the case of other Members of the Executive Directorate.

Options exercised and outstanding in respect of each Member of the Executive Directorate as at 31 December 2002 are set out under the paragraph "Board Members and Executive Directorate's Interest in Shares" of the Report of the Members of the Board.

3 Segmental information

The results of major business activities are summarised below:

<i>in HK\$ million</i>	Turnover		Contribution to profits from operations	
	2002	2001	2002	2001
Railway operations	5,720	5,728	577	819
Station commercial and other businesses	979	973	688	679
Property ownership and management	987	891	819	730
Property developments	–	–	3,755	3,248
	7,686	7,592	5,839	5,476
Corporate expenses net of other income			(1,627)	(1,198)
Profit for the year			4,212	4,278

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

4 Fixed assets and railway construction in progress

A Fixed assets

<i>in HK\$ million</i>	Investment properties	Leasehold land and buildings	Civil works	Plant and equipment	Assets under construction	Total
Cost or Valuation						
At 1 January 2002	10,363	1,603	36,191	43,423	3,024	94,604
Additions	16	–	–	62	1,928	2,006
Disposals/Write-offs	–	–	(3)	(122)	(91)	(216)
Deficit on revaluation (Note 6)	(112)	(115)	–	–	–	(227)
Reclassification	–	–	(13)	13	–	–
Tseung Kwan O Extension Project commissioned (Note 4B)	–	150	8,374	7,279	–	15,803
Other assets commissioned	–	–	543	1,864	(2,407)	–
At 31 December 2002	10,267	1,638	45,092	52,519	2,454	111,970
At Cost	–	731	45,092	52,519	2,454	100,796
At 31 December 2002 Valuation	10,267	907	–	–	–	11,174
Aggregate depreciation						
At 1 January 2002	–	73	1,969	13,319	–	15,361
Charge for the year	–	34	357	2,079	–	2,470
Written back on disposal	–	–	(2)	(106)	–	(108)
Written back on revaluation (Note 6)	–	(23)	–	–	–	(23)
At 31 December 2002	–	84	2,324	15,292	–	17,700
Net book value at 31 December 2002	10,267	1,554	42,768	37,227	2,454	94,270
Net book value at 31 December 2001	10,363	1,530	34,222	30,104	3,024	79,243

4 Fixed assets and railway construction in progress (continued)

B Railway construction in progress

<i>in HK\$ million</i>	Balance at 1 Jan 2002	Transferred from deferred expenditure	Expenditure during the year	Capitalised on commissioning (Note 4A)	Balance at 31 Dec 2002
Tseung Kwan O Extension Project					
Construction costs	8,861	–	2,199	(11,060)	–
Consultancy fees	801	–	36	(837)	–
Staff costs and general expenses	1,742	–	312	(2,054)	–
Finance costs	1,429	–	423	(1,852)	–
	12,833	–	2,970	(15,803)	–
Tseung Kwan O Extension Further Capital Works Project					
	40	–	3	–	43
Penny's Bay Rail Link Project					
	–	68	217	–	285
Government grant received					(219)
					66
Total	12,873	68	3,190	(15,803)	109

5 Bonds and notes issued and redeemed

Bonds and notes issued during the year ended 31 December 2001 and 2002 comprise:

<i>in HK\$ million</i>	2002		2001	
	Principal amount	Net consideration received	Principal amount	Net consideration received
Debt issuance programme notes	–	–	2,650	2,648
HK dollar retail bonds	3,500	3,553	–	–
HK dollar notes	–	–	2,350	2,347
	3,500	3,553	5,000	4,995

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

None of the Group's issued debt securities was redeemed during the year ended 31 December 2002.

6 Reserves

<i>in HK\$ million</i>	Share premium	Capital reserve	Investment property revaluation reserve	Fixed asset revaluation reserve	Retained profits	Total
2002						
Balance as at 1 January 2002 as previously reported	564	27,188	6,518	116	14,608	48,994
Prior period adjustments in respect of annual leave and passage expenses	–	–	–	–	(156)	(156)
	564	27,188	6,518	116	14,452	48,838
Prior period adjustments in respect of pension expenses	–	–	–	–	(45)	(45)
Balance as at 1 January 2002 as restated	564	27,188	6,518	116	14,407	48,793
Employee share options exercised	33	–	–	–	–	33
Shares issued under Scrip Dividend Schemes	966	–	–	–	–	966
Dividends paid	–	–	–	–	(2,132)	(2,132)
Deficits on revaluation	–	–	(112)	(92)	–	(204)
Profit for the year	–	–	–	–	4,212	4,212
Balance as at 31 December 2002	1,563	27,188	6,406	24	16,487	51,668
2001						
Balance as at 1 January 2001 as previously reported	–	27,188	6,501	139	11,527	45,355
Prior period adjustments in respect of annual leave and passage expenses	–	–	–	–	(150)	(150)
Balance as at 1 January 2001 as restated	–	27,188	6,501	139	11,377	45,205
Employee share options exercised	16	–	–	–	–	16
Shares issued under Scrip Dividend Schemes	548	–	–	–	–	548
Dividends paid	–	–	–	–	(1,203)	(1,203)
Surplus/(Deficit) on revaluations	–	–	17	(23)	–	(6)
Profit for the year (as restated)	–	–	–	–	4,278	4,278
Balance as at 31 December 2001	564	27,188	6,518	116	14,452	48,838

7 Other information

This summary financial statements is only a summary of information in the Group's 2002 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 2002 Annual Report is available in electronic form on the Company's website at www.mtr.com.hk. A printed copy of the 2002 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 in the inside back cover of this Summary Report.