

Notes to the accounts

1 Principal accounting policies

A Basis of preparation of accounts

(i) MTR Corporation Limited (the "Company") was incorporated in Hong Kong on 26 April 2000 by virtue of the Mass Transit Railway Ordinance (Chapter 556 of the Laws of Hong Kong) enacted on 3 March 2000 (the "new MTR Ordinance"). Pursuant to the new MTR Ordinance, all the property, rights and liabilities to which Mass Transit Railway Corporation ("MTRC") was entitled or subject immediately before 30 June 2000 (the "Appointed Day") became the property, rights and liabilities of the Company.

For the purposes of any accounts of the Company prepared under the Companies Ordinance, the Company has been treated, on and from the Appointed Day, as if it were the continuation of MTRC. Accordingly, all the accounts prepared by, and all financial information in relation to MTRC before the Appointed Day are treated, on and from the Appointed Day, as if they were the accounts and financial information of the Company.

(ii) These accounts have been prepared in compliance with the Hong Kong Companies Ordinance. The accounts have also been prepared in accordance with all applicable Statements of Standard Accounting Practice ("SSAPs") and Interpretations issued by the Hong Kong Society of Accountants ("HKSA"), accounting principles generally accepted in Hong Kong and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

(iii) The measurement basis used in the preparation of the accounts is historical cost modified by the revaluation of investment properties and self-occupied land and buildings.

B Basis of consolidation

The consolidated accounts include the accounts of the Company and all its subsidiaries except for a non-controlled subsidiary (see note 1D) (the "Group") made up to 31 December each year. The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from or to the date of their acquisition or disposal, as appropriate. All material inter-company transactions and balances are eliminated on consolidation. For periods prior to 1 January 2001, group accounts were not prepared in view of the Company having no effective control over the Board of one of its subsidiaries, Creative Star Limited, which has

subsequently changed its name to Octopus Cards Limited ("OCL") on 2 January 2002, and the insignificant amounts involved in the other subsidiaries. The consolidated financial information relating to the financial year ended 31 December 2000 included in these accounts is unaudited and has been prepared for comparative purposes only.

C Subsidiaries

A subsidiary in accordance with the Hong Kong Companies Ordinance is a company in which the Group, directly or indirectly, holds more than half of the issued share capital, or controls more than half of the voting power, or controls the composition of the board of directors. Investments in subsidiaries are carried in the Company's balance sheet at cost less any impairment losses (see note 1G).

D Non-controlled subsidiary

OCL is regarded as a jointly controlled entity as the Group does not have effective control over the Board of OCL. Commencing in the year ended 31 December 2001, the investment in OCL is accounted for in the consolidated accounts of the Company using the equity method as described in SSAP 21 "Accounting for interests in joint ventures". The restriction on OCL to operate on a non-profit making basis was removed under the new Shareholders' Agreement dated 17 January 2001. Prior to 1 January 2001, the Company's investment in OCL was accounted for on a cost basis in the Company's balance sheet.

E Revenue recognition

Provided it is probable that the economic benefits associated with the transactions will flow to the Group and the amount of revenue can be measured reliably, revenue is recognised in the profit and loss account as follows:

- (i) Fare revenue is recognised when the journey is provided.
- (ii) Advertising income and service fees from telecommunication services provided within the railway are recognised when the services are provided.
- (iii) Rental income from investment properties and station kiosks is accounted for in accordance with the terms of the leases. Property management income is recognised when the services are provided.

1 Principal accounting policies (continued)

F Fixed assets

(i) Investment properties are stated in the balance sheet at open market value as determined annually by independent professionally qualified valuers.

Changes in the value of investment properties arising upon revaluations are treated as movements in the investment property revaluation reserve, except:

- where the balance of the investment property revaluation reserve is insufficient to cover a revaluation deficit on a portfolio basis, the excess of the deficit is charged to the profit and loss account; and
- where a revaluation deficit had previously been charged to the profit and loss account and a revaluation surplus subsequently arises, this surplus is firstly credited to the profit and loss account to the extent of the deficit previously charged to the profit and loss account, and is thereafter taken to the investment property revaluation reserve.

On disposal of an investment property, the related portion of the investment property revaluation reserve is transferred to the profit and loss account.

(ii) Leasehold land and buildings comprise leasehold land for railway depots and self-occupied office land and buildings:

a Leasehold land for railway depots is stated at cost less accumulated depreciation.

b Self-occupied office land and buildings are stated in the balance sheet at open market value on the basis of their existing use at the date of revaluation less any subsequent accumulated depreciation. Revaluations are performed by independent qualified valuers every year. Changes in the value of self-occupied office land and buildings arising upon revaluations are treated as movements in the fixed asset revaluation reserve, except:

- where the balance of the fixed asset revaluation reserve relating to a self-occupied office land and building is insufficient to cover a revaluation deficit of that property, the excess of the deficit is charged to the profit and loss account; and
- where a revaluation deficit had previously been charged to the profit and loss account and a revaluation surplus subsequently arises, this surplus is firstly credited to the profit and loss account to the extent of the deficit previously charged to the profit and loss account, and is thereafter taken to the fixed asset revaluation reserve.

(iii) Civil works and plant and equipment are stated at cost less accumulated depreciation.

(iv) Assets under construction for the operational railway are stated at cost. Cost comprises direct costs of construction, such as materials, staff costs and overheads, together with interest expense capitalised during the period of construction or installation and testing. Capitalisation of these costs ceases and the asset concerned is transferred to fixed assets when substantially all the activities necessary to prepare the asset for its intended use are completed.

(v) Leases of assets under which the lessee assumes substantially all the risks and benefits of ownership are classified as finance leases. Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments (computed using the rate of interest implicit in the lease), of such assets are included in fixed assets and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases.

Leases of assets under which the lessor has not transferred all the risks and benefits of ownership are classified as operating leases. Where the Group leases out assets under operating leases, the assets are included in the balance sheet according to their nature and, where applicable, are depreciated in accordance with the Group's depreciation policies. Revenue arising from operating leases is recognised in accordance with the Group's revenue recognition policies as set out in note 1E.

(vi) Subsequent expenditure relating to an existing fixed asset is added to the carrying amount of the asset if it is probable that future economic benefit in excess of the originally assessed standard of performance of the asset will flow to the Group.

Expenditure on repairs or maintenance of an existing fixed asset to restore or maintain the originally assessed standard of performance of that asset is charged as an expense when incurred.

(vii) Gains or losses arising from the retirement or disposal of a fixed asset other than an investment property are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognised as income or expense in the profit and loss account on the date of retirement or disposal. Any related revaluation surplus is transferred from the fixed asset revaluation reserve to retained profits.

1 Principal accounting policies (continued)

G Impairment of assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment (other than properties carried at revalued amounts);
- construction in progress;
- deferred expenditure; and
- investments in subsidiaries.

If any such indication exists, the asset's recoverable amount is estimated.

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for

the smallest group of assets that generates cash inflows independently (ie a cash-generating unit).

An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount.

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount of the asset.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the profit and loss account in the year in which the reversals are recognised.

H Depreciation

(i) Investment properties with an unexpired lease term of more than 20 years are not depreciated. The Group has no investment properties with an unexpired lease term of 20 years or less.

(ii) Fixed assets other than investment properties and assets under construction are depreciated on a straight line basis at rates sufficient to write off their cost or valuation over their estimated useful lives as follows:

Leasehold land and buildings

Self-occupied office land and buildings the shorter of 50 years and the unexpired term of the lease
Leasehold land for railway depots the unexpired term of the lease

Civil works

Rails (initial cost) Indefinite*
Tunnel excavation and boring Indefinite
Tunnel linings, underground civil structures, overhead structures and immersed tubes 100 years
Station building structures 80–100 years
Depot structures 80 years
Concrete kiosk structures 20 years
Station architectural finishes 20–25 years

Plant and equipment

Rolling stock (electrical) 35–40 years
Platform screen doors 35 years
Environmental control systems, lifts and escalators and drainage system 20–30 years
Power supply equipment, metal station kiosks, fire protection system, rolling stock (battery operated) and other mechanical equipment 20 years
Train control and signalling equipment, automatic fare collection systems and advertising panels 15 years
Rolling stock (diesel), telecommunication systems, maintenance equipment, office furniture and equipment 10 years
Computer software licences 7 years
Cleaning equipment, computer equipment and tools 5 years
Motor vehicles 4 years

* Replacement costs of rails are charged to the profit and loss account as revenue expenses.

1 Principal accounting policies (continued)

The useful lives of the various categories of fixed assets are reviewed regularly in the light of actual asset condition, usage experience and the current asset replacement programme. The depreciation charge for the current and future periods is adjusted if there are significant changes from previous estimates.

(iii) No depreciation is provided on assets under construction until construction is completed and the assets are ready for their intended use.

(iv) Depreciation on assets held under finance leases is provided at rates designed to write off the cost of the asset in equal annual amounts over the shorter of the lease term or the anticipated useful life of the asset as set out above, except in cases where title to the asset will be acquired by the Group at the end of the lease where depreciation is provided at rates designed to write off the cost of the asset in equal amounts over the anticipated useful life of the asset.

I Construction costs

(i) Costs incurred by the Group in respect of feasibility studies on proposed railway related construction projects (including consultancy fees, in-house staff costs and overheads) are dealt with as follows:

- where the proposed projects are at a preliminary review stage with no certainty of materialising, the costs concerned are written off to the profit and loss account; and
- where the proposed projects are at a detailed study stage, having been agreed in principle by the Board of Directors based on a feasible financial plan, the costs concerned are dealt with as deferred expenditure until such time as a project agreement is reached with the Government, whereupon the costs are transferred to railway construction in progress.

(ii) After entering into a project agreement with the Government, all costs incurred in the construction of the railway are dealt with as railway construction in progress until commissioning of the railway line, whereupon the relevant construction costs are transferred to fixed assets.

J Property development

(i) Costs incurred by the Group in the preparation of sites for property development are dealt with as property development in progress.

(ii) Payments received from developers in respect of developments are offset against the amounts in property development in progress attributable to that development. Any surplus amounts of payments received from developers in excess of the balance in property development in progress are transferred to deferred income. In these cases, further costs subsequently incurred by the Group in respect of that development are charged against deferred income.

(iii) Expenditure incurred on the development of properties for retention by the Group is transferred to fixed assets when the occupation permits are issued and the properties are put into use.

(iv) When agreement is reached with a developer to redevelop an existing self-occupied property, the relevant property is revalued on an existing use basis prior to commencement of redevelopment. The surplus arising on revaluation is credited to fixed asset revaluation reserve. On commencement of redevelopment, the net book value of the property is transferred to property development in progress.

(v) Profits arising from the development of properties undertaken in conjunction with property developers are recognised in the profit and loss account as follows:

- 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;
- where the Group receives sharing of proceeds from sale of the development, profits arising from such proceeds are recognised upon the issue of occupation permits provided the amounts of revenue and costs can be measured reliably; and
- 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.

Upon recognition of profit, the balance of deferred income or property development in progress related to that development is credited or charged to the profit and loss account, as the case may be.

1 Principal accounting policies (continued)

(vi) Where the Group is liable to pay the developer consideration for the retention of part of a property to be redeveloped, profit attributable to the Group in respect of the redevelopment (including any payment received from the developer) will be recognised in the profit and loss account when the quantum of the obligation of the Group and the amount of realised profit can be determined with reasonable accuracy.

(vii) Where properties are received as a profit distribution upon completion of development and are held for sale, those properties are stated at their estimated net realisable value upon receipt. Net realisable value represents the estimated selling price less costs to be incurred in selling the properties.

K Operating lease charges

Rentals payable under operating leases are charged on a straight-line basis over the period of the lease to the profit and loss account, except for rentals payable in respect of railway construction, property development in progress and proposed capital projects which are capitalised as part of railway construction, property development in progress and deferred expenditure respectively.

L Stores and spares

Stores and spares are categorised as either revenue or capital. Revenue items are stated in the balance sheet at cost, using the weighted average cost method. Provision is made for obsolescence where appropriate. Capital items are included in fixed assets and stated at cost less aggregate depreciation. Depreciation is charged at the rates applicable to the relevant fixed assets against which the capital spares are held in reserve.

M Interest and finance charges

Interest expense directly attributable to the financing of assets under construction prior to their completion or commissioning is capitalised. Exchange differences arising from foreign currency borrowings related to the acquisition of assets are capitalised to the extent that they are regarded as an adjustment to interest costs. Interest expense attributable to other purposes is charged to the profit and loss account.

Finance charges implicit in the lease payments on assets held under finance leases are charged to the profit and loss account over the period of the lease so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

The differentials paid and received on interest rate swap agreements are accrued and recognised as adjustments to interest expense.

N Foreign currency translation

Foreign currency transactions during the year are translated into Hong Kong dollars and recorded at exchange rates ruling at the transaction dates. Foreign currency monetary assets and liabilities are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. Forward foreign exchange contracts, swaps and options used as a hedge against foreign currency liabilities are revalued at the balance sheet date at the exchange rates ruling at that date. Gains and losses on currency hedging transactions are used to offset gains and losses resulting from currency fluctuations inherent in the underlying foreign currency liabilities. Differences arising on foreign currency translation and revaluation of forward foreign exchange contracts, swaps and options are dealt with in the profit and loss account.

O Deferred taxation

Deferred taxation is provided using the liability method in respect of the taxation effect arising from all material timing differences which are expected with reasonable probability to crystallise in the foreseeable future.

A deferred tax asset in respect of carried forward tax losses is only recognised if it is assured beyond reasonable doubt that the Group will have taxable profits sufficient to offset the available losses in the foreseeable future.

P Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Company or Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

1 Principal accounting policies (continued)

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Q Retirement Scheme costs

The Group operates an Occupational Retirement Scheme (the "MTR Corporation Limited Retirement Scheme"), which is supplemented by a top-up scheme ("MTR Corporation Limited Retention Bonus Scheme") mainly for project staff to provide extra benefits in the event of redundancy.

In addition, the Group has set up a Mandatory Provident Fund ("MPF") Scheme by participating in a master trust scheme provided by an independent MPF service provider to comply with the requirements under the MPF Ordinance.

Contributions paid and payable by the Group to the schemes are charged to the profit and loss account except those incurred in respect of construction projects and capital works, which are capitalised as part of the cost of the qualifying assets.

R Jointly controlled operations

The arrangements entered into by the Group with developers for property developments along the Airport Railway are considered to be jointly controlled operations pursuant to SSAP 21 "Accounting for interests in joint ventures". Pursuant to the development arrangements, the Group is normally responsible for its own costs, including in-house staff costs and the costs of enabling works, and the developers normally undertake to pay for all other project costs such as land premium, construction costs, professional fees, etc. Such costs are deductible from the proceeds of sale before surplus proceeds are shared. In respect of its interests in such operations, the Group accounts for the costs of enabling works net of up-front payments received as property development in progress. In cases where up-front payments received from developers exceed the related expenditures incurred by the Group, such excess is recorded as deferred income. Expenses incurred by the Group on staff, overhead and consultancy fees in respect of these developments are also capitalised as property development in progress. The Group's share of income earned from such operations is recognised in the profit and loss account in accordance with note 1J after netting off any related balance in the property development in progress account at that time.

2 Fare revenue

The MTR Lines comprise the Kwun Tong, Tsuen Wan, Island and Tung Chung Lines. Fare revenue of the Airport Express Line for 2001 included income of HK\$7 million (2000: HK\$25 million) relating to the write back of the unused balance of expired tickets.

3 Non-fare revenue

A Station commercial and other revenue

in HK\$ million	The Group		The Company	
	2001	2000	2001	2000
Station commercial and other revenue comprises:				
Advertising	428	504	428	504
Kiosk rental	221	217	221	217
Telecommunication income	173	174	173	174
Miscellaneous business revenue	151	100	147	96
	973	995	969	991

3 Non-fare revenue (continued)

B Rental and management income

in HK\$ million	The Group		The Company	
	2001	2000	2001	2000
Rental income was attributable to:				
Telford Plaza	353	340	353	340
Luk Yeung Galleria	104	97	104	97
Paradise Mall	80	104	80	104
Maritime Square	176	166	176	166
Other properties	104	100	104	100
	817	807	817	807
Management income	73	60	73	60
Property agency income	1	–	–	–
	891	867	890	867

4 Operating expenses before depreciation

Repairs and maintenance costs relate mainly to contracted maintenance and revenue works. Other routine repairs and maintenance works are performed by in-house operations, the costs of which are included under staff costs and stores and spares consumed.

Included in other expenses are the following charges:

The Group and The Company

in HK\$ million	2001	2000
Auditors' remuneration		
– audit services	3	2
– other services	1	1
Operating lease expenses:		
Office buildings and staff quarters	15	19
Less: Amount capitalised	10	13
	5	6

5 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:

The Group and The Company

in HK\$ million	2001	2000
Fees	2	1
Salaries, allowances and benefits-in-kind	33	33
Retirement scheme contributions	4	4
	39	38

Included in salaries, allowances and benefits-in-kind are realised gains on exercise of share options amounting to HK\$1 million (2000: Nil) in respect of certain Members of the Executive Directorate. Details of the share option granted to the Executive Directorate are disclosed in note 5C. Allowances and benefits-in-kind also include housing, medical and education allowances.

Non-executive directors are appointed on terms of either one or two years except the Government directors whose appointments are subject to the provisions of section 8 of the Mass Transit Railway Ordinance.

5 Remuneration of Members of the Board and the Executive Directorate

(continued)

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

Emoluments	2001 Number	2000 Number
HK\$0– HK\$250,000	9	9
HK\$4,500,001–HK\$5,000,000	5	6
HK\$5,000,001–HK\$5,500,000	1	–
HK\$7,500,001–HK\$8,000,000	1	1
	16	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 Loan to a Member of the Executive Directorate

The following loan granted to a member of the Executive Directorate is disclosed pursuant to section 161B of the Hong Kong Companies Ordinance.

The Company operates a Staff Housing Loan Scheme for its staff to facilitate the purchase of their self-occupied principal residence. The loan granted by the Company to Mr. Thomas Ho Hang-kwong under the Scheme has been fully repaid during the year (*outstanding balance as at 31 December 2000: HK\$2.2 million*). The maximum outstanding balance of the loan during the year was HK\$2.2 million (*2000: HK\$2.6 million*). This loan carried interest at the prevailing Best Lending Rate less 1.75% per annum and was secured by a first charge on the property. There was no outstanding unpaid interest nor any doubtful debt provision made against this loan as at 31 December 2000 and 2001.

C Share options

Under the Company's Pre-Global Offering Share Option Scheme ("Share Option Scheme") described in note 39, Mr. Jack So Chak-kwong and each of the other members of the Executive Directorate were granted options on 12 September 2000 to acquire 1,599,000 and 1,066,000 shares respectively.

Under the terms of the Share Option Scheme, each 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 2001 are set out under the paragraph "Board Members and Executive Directorate's Interest in Shares" of the Report of the Members of the Board.

6 Profit on property developments

The Group and The Company

<i>in HK\$ million</i>	2001	2000
Profit on property developments comprises:		
Transfer from deferred income (Note 15B)	2,110	3,386
Share of surplus from development	1,096	–
Profit recognised from sharing in kind	56	–
Other overhead costs	(14)	(10)
	3,248	3,376

Share of surplus from development comprised proceeds from properties sold, amounting to HK\$407 million (*2000: Nil*) and properties held for sale of HK\$689 million (*2000: Nil*) recognised in accordance with the terms of the relevant development agreement.

7 Depreciation

The Group and The Company

<i>in HK\$ million</i>	2001	2000
Depreciation comprised charges on:		
Railway operations		
– on fixed assets held under finance leases	19	19
– on other railway fixed assets	2,036	1,959
Assets relating to station advertising, kiosk and miscellaneous businesses	97	88
Unallocated corporate assets	26	25
	2,178	2,091

8 Interest and finance charges

	The Group		The Company	
<i>in HK\$ million</i>	2001	2000	2001	2000
Interest expenses in respect of:				
Bank loans and overdrafts, and capital market instruments wholly repayable within 5 years	910	1,287	910	1,287
Capital market instruments not wholly repayable within 5 years	861	535	861	535
Obligations under finance leases	64	74	64	74
Finance charges	88	92	88	92
Exchange (gain)/loss	(1)	14	(1)	14
Interest expenses capitalised:				
Tseung Kwan O Extension Project	(661)	(478)	(661)	(478)
Property projects	(144)	(109)	(144)	(109)
Other capital projects	(167)	(158)	(167)	(158)
Assets under construction	(54)	(48)	(54)	(48)
	(1,026)	(793)	(1,026)	(793)
	896	1,209	896	1,209
Interest income in respect of:				
Deposits with financial institutions	(2)	(8)	(3)	(9)
Staff housing loans	(20)	(58)	(20)	(58)
	(22)	(66)	(23)	(67)
	874	1,143	873	1,142

Interest expenses have been capitalised at the average cost of funds to the Group calculated on a monthly basis. The average interest rates for each month varied from 5.4% to 7.5% per annum during the year (*2000: 7.5% to 7.8% per annum*).

9 Dividends

In prior years, dividends proposed or declared after the balance sheet date in respect of an accounting period were recognised as a liability at the balance sheet date. With effect from 1 January 2001, in order to comply with SSAP 9 (revised) "Events after the balance sheet date", issued by HKSA, the Company recognises a liability for dividends in the accounting period in which they are declared or proposed and approved by shareholders. The new accounting policy has been adopted retrospectively, with the opening balance of retained profits and the comparative information adjusted for the amounts relating to prior periods (note 32).

Dividends paid and proposed during the year comprised:

<i>in HK\$ million</i>	2001	2000
Dividend paid		
2000 final dividend of 10 cents (<i>1999: Nil</i>) per share approved and paid in 2001	500	–
2001 interim dividend of 14 cents (<i>2000: Nil</i>) per share	703	–
	1,203	–
Dividend proposed		
Final dividend proposed after the balance sheet date of 28 cents (<i>2000: 10 cents</i>) per share	1,415	500

9 Dividends (continued)

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

During the year, scrip dividend elections were offered to shareholders with Hong Kong addresses. The Company's majority shareholder, the Financial Secretary Incorporated ("FSI"), had elected to receive part of its entitlement to dividends in the form of scrip to the extent necessary to ensure that the amount payable in cash would not exceed 50% of the total dividend payable. Details of dividends paid to the FSI are disclosed in note 37H.

	2001	2000
Weighted average number of ordinary shares used in calculating basic earnings per share	5,015,601,057	5,000,000,000
Number of ordinary shares deemed to be issued for no consideration	14,587,837	4,497,055
Weighted average number of shares used for calculating the diluted earnings per share	5,030,188,894	5,004,497,055

11 Taxation

A Profits tax

No provision for Hong Kong profits tax has been made in the consolidated profit and loss account in respect of the Company and its subsidiaries, as the Company and its subsidiaries either have substantial accumulated tax losses brought forward which are available for set off against current year's assessable profits or have sustained tax losses as at 31 December 2001.

B Deferred tax

Provision for deferred taxation is not required as any potential liability arising from tax depreciation allowances in excess of related depreciation is not expected to crystallise in the foreseeable future.

10 Earnings per share

The calculation of basic earnings per share is based on the profit for the year attributable to shareholders of HK\$4,284 million (2000: HK\$4,069 million) and the weighted average number of ordinary shares of 5,015,601,057 in issue during the year (2000: assuming 5,000,000,000 shares were in issue throughout the year).

The calculation of diluted earnings per share is based on the profit for the year attributable to shareholders of HK\$4,284 million (2000: HK\$4,069 million) and the weighted average number of ordinary shares of 5,030,188,894 (2000: 5,004,497,055) after adjusting for the number of dilutive potential ordinary shares under the employee share option scheme calculated as follows:

The major components of unprovided deferred taxation are:

The Group and The Company

in HK\$ million	2001	2000
Depreciation allowances in excess of related depreciation	5,861	5,428
Future benefit of tax losses	(4,497)	(4,788)
Other timing differences	1,117	1,117
Net deferred tax liabilities	2,481	1,757

No deferred taxation has been provided on the surpluses arising on the revaluation of properties as the disposal of these assets at their carrying value would result in capital gains which are not subject to taxation.

12 Segmental information

The results of major business activities for 2001, with comparative figures for 2000, are summarised below:

The Group

in HK\$ million	Railway operations	Station commercial and other businesses	Property ownership and management	Total railway operations and related activities	Property developments	Total
2001						
Revenue	5,728	973	891	7,592	–	7,592
Less: Operating expenses before depreciation	2,850	197	159	3,206	–	3,206
	2,878	776	732	4,386	–	4,386
Profit on property developments	–	–	–	–	3,248	3,248
Operating profit before depreciation	2,878	776	732	4,386	3,248	7,634
Less: Depreciation	2,053	97	2	2,152	–	2,152
	825	679	730	2,234	3,248	5,482
Unallocated corporate expenses						(353)
Interest and finance charges (net)						(874)
Share of profit of non-controlled subsidiary						29
Profit for the year ended 31 December 2001						4,284
Assets						
Operational assets	64,415	1,207	10,417	76,039	301	76,340
Railway construction in progress	12,873	–	–	12,873	–	12,873
Railway assets under construction	3,024	–	–	3,024	–	3,024
Property development in progress	–	–	–	–	3,361	3,361
Properties held for sale	–	–	–	–	689	689
	80,312	1,207	10,417	91,936	4,351	96,287
Interest in non-controlled subsidiary						51
Unallocated assets						1,790
Total assets						98,128
Liabilities						
Segmented liabilities	3,619	164	359	4,142	141	4,283
Deferred income	–	–	–	–	8,411	8,411
	3,619	164	359	4,142	8,552	12,694
Unallocated liabilities						31,385
Total liabilities						44,079
Other information						
Capital expenditure on:						
Operational assets	1,447	581	196			
Railway construction in progress	3,679					
Railway assets under construction	754					
Property development in progress						789
Non-cash expenses other than depreciation	6	1	3			

12 Segmental information (continued)

The Group

<i>in HK\$ million</i>	Railway operations	Station commercial and other businesses	Property ownership and management	Total railway operations and related activities	Property developments	Total
2000						
Revenue	5,715	995	867	7,577	–	7,577
Less: Operating expenses before depreciation	2,997	185	142	3,324	–	3,324
	2,718	810	725	4,253	–	4,253
Profit on property developments	–	–	–	–	3,376	3,376
Operating profit before depreciation	2,718	810	725	4,253	3,376	7,629
Less: Depreciation	1,976	88	2	2,066	–	2,066
	742	722	723	2,187	3,376	5,563
Unallocated corporate expenses						(364)
Interest and finance charges (net)						(1,143)
Share of profit of non-controlled subsidiary						13
Profit for the year ended 31 December 2000						4,069
Assets						
Operational assets	62,578	1,204	10,229	74,011	–	74,011
Railway construction in progress	9,194	–	–	9,194	–	9,194
Railway assets under construction	4,378	–	–	4,378	–	4,378
Property development in progress	–	–	–	–	2,699	2,699
	76,150	1,204	10,229	87,583	2,699	90,282
Interest in non-controlled subsidiary						26
Unallocated assets						2,257
Total assets						92,565
Liabilities						
Segmented liabilities	3,907	166	312	4,385	228	4,613
Deferred income	–	–	–	–	10,403	10,403
	3,907	166	312	4,385	10,631	15,016
Unallocated liabilities						27,194
Total liabilities						42,210
Other information						
Capital expenditure on:						
Operational assets	1,124	217	62			
Railway construction in progress	4,198					
Railway assets under construction	1,006					
Property development in progress					1,113	
Non-cash expenses other than depreciation	62	4	–			

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

12 Segmental information (continued)

The Company

<i>in HK\$ million</i>	Railway operations	Station commercial and other businesses	Property ownership and management	Total railway operations and related activities	Property developments	Total
2001						
Revenue	5,728	969	890	7,587	–	7,587
Less: Operating expenses before depreciation	2,865	185	159	3,209	–	3,209
	2,863	784	731	4,378	–	4,378
Profit on property developments	–	–	–	–	3,248	3,248
Operating profit before depreciation	2,863	784	731	4,378	3,248	7,626
Less: Depreciation	2,053	97	2	2,152	–	2,152
	810	687	729	2,226	3,248	5,474
Unallocated corporate expenses						(353)
Interest and finance charges (net)						(873)
Profit for the year ended 31 December 2001						4,248
Assets						
Operational assets	64,425	1,102	10,416	75,943	301	76,244
Railway construction in progress	12,873	–	–	12,873	–	12,873
Railway assets under construction	3,024	–	–	3,024	–	3,024
Property development in progress	–	–	–	–	3,361	3,361
Properties held for sale	–	–	–	–	689	689
	80,322	1,102	10,416	91,840	4,351	96,191
Investments in subsidiaries						49
Unallocated assets						1,820
Total assets						98,060
Liabilities						
Segmented liabilities	3,618	160	359	4,137	141	4,278
Deferred income	–	–	–	–	8,411	8,411
	3,618	160	359	4,137	8,552	12,689
Unallocated liabilities						31,385
Total liabilities						44,074
Other information						
Capital expenditure on:						
Operational assets	1,447	581	196			
Railway construction in progress	3,679					
Railway assets under construction	754					
Property development in progress					789	
Non-cash expenses other than depreciation	6	1	3			

12 Segmental information (continued)

The Company

<i>in HK\$ million</i>	Railway operations	Station commercial and other businesses	Property ownership and management	Total railway operations and related activities	Property developments	Total
2000						
Revenue	5,715	991	867	7,573	–	7,573
Less: Operating expenses before depreciation	3,007	173	142	3,322	–	3,322
	2,708	818	725	4,251	–	4,251
Profit on property developments	–	–	–	–	3,376	3,376
Operating profit before depreciation	2,708	818	725	4,251	3,376	7,627
Less: Depreciation	1,976	88	2	2,066	–	2,066
	732	730	723	2,185	3,376	5,561
Unallocated corporate expenses						(364)
Interest and finance charges (net)						(1,142)
Profit for the year ended 31 December 2000						4,055
Assets						
Operational assets	62,591	1,125	10,229	73,945	–	73,945
Railway construction in progress	9,194	–	–	9,194	–	9,194
Railway assets under construction	4,378	–	–	4,378	–	4,378
Property development in progress	–	–	–	–	2,699	2,699
	76,163	1,125	10,229	87,517	2,699	90,216
Investments in subsidiaries						53
Unallocated assets						2,257
Total assets						92,526
Liabilities						
Segmented liabilities	3,914	147	312	4,373	228	4,601
Deferred income	–	–	–	–	10,403	10,403
	3,914	147	312	4,373	10,631	15,004
Unallocated liabilities						27,194
Total liabilities						42,198
Other information						
Capital expenditure on:						
Operational assets	1,124	217	62			
Railway construction in progress	4,198					
Railway assets under construction	1,006					
Property development in progress					1,113	
Non-cash expenses other than depreciation	62	4	–			

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

13 Fixed assets

The Group and The Company

<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 2001	10,151	1,649	34,802	40,757	4,378	91,737
Additions	195	–	–	34	2,749	2,978
Disposals/Write-offs	–	–	(2)	(64)	(16)	(82)
Surplus/(Deficit) on revaluation (Note 32)	17	(46)	–	–	–	(29)
Reclassification	–	–	40	(45)	5	–
Quarry Bay Congestion Relief Works commissioned	–	–	1,330	1,304	(2,634)	–
Other assets commissioned	–	–	21	1,437	(1,458)	–
At 31 December 2001	10,363	1,603	36,191	43,423	3,024	94,604
At Cost	–	581	36,191	43,423	3,024	83,219
At 31 December 2001 Valuation	10,363	1,022	–	–	–	11,385
Aggregate depreciation						
At 1 January 2001	–	62	1,640	11,560	–	13,262
Charge for the year	–	34	330	1,814	–	2,178
Written back on disposal	–	–	(1)	(55)	–	(56)
Written back on revaluation (Note 32)	–	(23)	–	–	–	(23)
At 31 December 2001	–	73	1,969	13,319	–	15,361
Net book value at 31 December 2001	10,363	1,530	34,222	30,104	3,024	79,243
Net book value at 31 December 2000	10,151	1,587	33,162	29,197	4,378	78,475

Notes:

A The remaining lease periods in respect of the investment properties and leasehold land and buildings held in Hong Kong are as follows:

The Group and The Company

<i>in HK\$ million</i>	Leasehold land and buildings					
	Investment properties		Leasehold land for railway depots		Office land and buildings	
	2001	2000	2001	2000	2001	2000
Cost or valuation						
Over 50 years	1,522	1,534	193	193	16	17
10 to 50 years	8,841	8,617	388	388	1,006	1,051
	10,363	10,151	581	581	1,022	1,068

B The lease of the land on which the civil works, plant and equipment are situated for the operation of the railway was granted to the Company under a running line lease for the period up to 30 June 2047, which has been extended to 29 June 2050. It is assumed that the lease will be renewed and that the operation of the railway will continue after 2050.

Under the terms of the lease, the Company undertakes to keep and maintain all the leased areas, including underground and overhead structures, at its own cost. With respect to parts of the railway situated in structures where access is shared with other users, such as the Lantau Fixed Crossing, the Company's obligation for maintenance is limited to the railway only. All maintenance costs incurred under the terms of the lease have been dealt with as railway operating costs in the profit and loss account.

13 Fixed assets (continued)

C All the investment properties of the Group were revalued at 31 December 2001 by DTZ Debenham Tie Leung, Chartered Surveyors, at open market value. The majority of the valuations are based on capitalisation of the net income receivable at an appropriate capitalisation rate, taking into account the reversionary income potential. The net revaluation surplus of HK\$17 million (2000: HK\$1,233 million) arising from the revaluation has been transferred to the investment property revaluation reserve (note 32).

E Fixed assets include the following assets held under agreements which are treated as finance leases:

The Group and The Company

<i>in HK\$ million</i>	Cost 2001	Aggregate depreciation 2001	Net book value 2001	Net book value 2000
Civil works				
– Eastern Harbour Crossing	1,254	211	1,043	1,062

The Company has entered into a Management Agreement (the "Agreement") with New Hong Kong Tunnel Company Limited to operate the Eastern Harbour Crossing until 2008. Included in the assets held under the Agreement are railway and ancillary works relating to the rail tunnel.

At the end of the Agreement, title to the assets will, pursuant to the Eastern Harbour Crossing Ordinance, be vested in the Government which has in turn entered into a Memorandum of Understanding dated 17 October 1986 with the Company to the effect that the assets will be vested in the Company on terms to be agreed between the Company and the Government. On 30 June 2000, the Company entered into a further agreement with the Government pursuant to which the relevant assets will be vested by the Government into the Company in 2008 for a nominal consideration and the Company agreed to indemnify the Government for certain amounts which are expected to be nominal. On this basis, the semi-annual payments made by the Company to New Hong Kong Tunnel Company Limited in respect of the Eastern Harbour Crossing are dealt with in these accounts as payments under a finance lease.

D All self-occupied office land and buildings were revalued at 31 December 2001 by DTZ Debenham Tie Leung, Chartered Surveyors, at open market value on an existing use basis. The net revaluation deficit of HK\$23 million (2000: HK\$75 million) arising from the revaluation has been transferred to the fixed asset revaluation reserve to offset against prior period revaluation surpluses (note 32).

The carrying amount of the office land and buildings at 31 December 2001 would have been HK\$1,281 million (2000: HK\$1,309 million) had the office land and buildings been stated at cost less accumulated depreciation.

F The Group leases out investment properties and station kiosks under operating leases. The leases typically run for an initial period of one to six years, with an option to renew the lease after that date at which time all terms will be renegotiated. Lease payments are usually adjusted annually to reflect market rentals. Certain leases carry additional rental based on turnover.

The gross carrying amounts of investment properties of the Group and the Company held for use in operating leases were HK\$10,363 million (2000: HK\$10,151 million). The gross carrying amounts of station kiosks held for use in operating leases were HK\$208 million (2000: HK\$163 million) and the related accumulated depreciation charges were HK\$45 million (2000: HK\$36 million).

The Group's total future minimum lease payments under non-cancellable operating leases are receivable as follows:

The Group and The Company

<i>in HK\$ million</i>	2001	2000
Within 1 year	842	669
After 1 year but within 5 years	1,408	931
Later than 5 years	226	273
	2,476	1,873

14 Railway construction in progress

The Group and The Company

<i>in HK\$ million</i>	Balance at 1 Jan 2001	Expenditure during the year	Balance at 31 Dec 2001
Tseung Kwan O Extension Project			
Main contracts			
– Civil works	4,465	1,401	5,866
– Plant and equipment	1,131	1,228	2,359
– Works entrusted to Government	367	11	378
Associated construction costs			
– Site investigation	74	–	74
– Rental of work sites	148	36	184
Overheads			
– Consultancy fees	771	30	801
– Staff costs and general expenses	1,444	298	1,742
Finance costs	768	661	1,429
	9,168	3,665	12,833
Tseung Kwan O Extension Further Capital Works Project			
Construction costs	1	–	1
Consultancy fees	15	7	22
Staff costs and general expenses	9	5	14
Finance costs	1	2	3
	26	14	40
Total	9,194	3,679	12,873

15 Property development in progress and deferred income

Under the Airport Railway Agreement related to the construction of the Airport Railway, the Government had granted to the Company land on five station sites along the railway at full market value for property development. In preparing the sites for development, the Company incurs costs related to foundation and site enabling works and expects the costs to be reimbursed by property developers in the form of up-front cash payments when development packages are awarded. In accordance with the development agreements entered into with property developers, the developers are also responsible for the balance of the development costs.

Despite having entered into the development agreements with the developers, the Company being the grantee of the land remains primarily responsible for the fulfilment of all the conditions and obligations in the Land Grant. Such conditions and obligations include the type and quantity of the developments that must be built, public facilities to be provided, and the completion date of the project.

15 Property development in progress and deferred income (continued)

Costs of foundation and site enabling works incurred by the Company are capitalised as property development in progress and payments received from developers are credited to property development in progress to offset costs incurred in respect of the same development. In cases where payments received from developers exceed the related expenditure incurred by the Company, such excess is recorded as deferred income (note 15B). In these cases, any subsequent expenditure incurred by the Company in respect of that development will be charged against deferred income. It is expected that the majority of deferred income will be recognised as profits of the Company at the appropriate time after charging any remaining costs related to foundation and site enabling works, and after taking into account the outstanding risks and obligations retained by the Company relating to

each development. Until such time as deferred income is recognised as profit, it is recorded as a liability of the Company in recognition of the Company's obligations under the Land Grant.

The TKE Project Agreement entered into between the Secretary for Transport, for and on behalf of the Government, and the Company in respect of the construction of the Tseung Kwan O Extension provides the Company with the right to undertake property developments at four station and depot sites along the Tseung Kwan O Line ("Tseung Kwan O Extension Property Projects"). The basis of accounting for development costs incurred by the Company and payments received by the Company related thereto is consistent with that for the property developments along the Airport Railway ("Airport Railway Property Projects").

A Property development in progress

The Group and The Company

<i>in HK\$ million</i>	Balance at 1 Jan	Expenditure	Offset against payments received from developers (Note 15B)	Transferred out on project completion	Balance at 31 Dec
2001					
Airport Railway Property Projects	634	51	(102)	–	583
Tseung Kwan O Extension and other property projects	2,065	738	(25)	–	2,778
	2,699	789	(127)	–	3,361
2000					
Airport Railway Property Projects	1,842	159	(1,322)	(45)	634
Tseung Kwan O Extension and other property projects	1,126	954	(15)	–	2,065
	2,968	1,113	(1,337)	(45)	2,699

15 Property development in progress and deferred income (continued)

B Deferred income

The Group and The Company

<i>in HK\$ million</i>	Balance at 1 Jan	Payments received from developers	Offset against property development in progress (Note 15A)	Amount recognised as profit (Note 6)	Balance at 31 Dec
2001					
Airport Railway Property Projects	10,388	225	(102)	(2,110)	8,401
Tseung Kwan O Extension and other property projects	15	20	(25)	–	10
	10,403	245	(127)	(2,110)	8,411
2000					
Airport Railway Property Projects	13,776	1,320	(1,322)	(3,386)	10,388
Tseung Kwan O Extension and other property projects	–	30	(15)	–	15
	13,776	1,350	(1,337)	(3,386)	10,403

C Stakeholding funds

As stakeholder under certain Airport Railway Property Projects, the Company receives and manages deposit monies and sales proceeds in respect of sales of properties under those developments. These monies are placed in separate designated bank accounts and, together with any interest earned, will be released to the developers for the reimbursement of costs of the respective developments in accordance with the terms and conditions of the Government Consent Schemes and development agreements. Accordingly, the balances of the stakeholding funds and the corresponding bank balances have not been included in the Group's and the Company's balance sheets. Movements in stakeholding funds during the year were as follows:

The Group and The Company

<i>in HK\$ million</i>	2001	2000
Balance as at 1 January	4,011	4,304
Stakeholding funds received and receivable	11,482	8,736
Add: Interest earned thereon	137	225
	15,630	13,265
Disbursements during the year	(9,944)	(9,254)
Balance as at 31 December	5,686	4,011
<i>Represented by:</i>		
Balances in designated bank accounts as at 31 December	5,684	4,009
Retention receivable	2	2
	5,686	4,011

16 Deferred expenditure

The Group and The Company

<i>in HK\$ million</i>	Balance at 1 Jan	Expenditure/ (Amortisation) during the year	Recovered from proceeds on sale of shares	Balance at 31 Dec
2001				
Deferred finance charges	149	(16)	–	133
Expenditure on proposed capital projects				
– Penny's Bay Rail Link	21	47	–	68
– North Island Link	17	60	–	77
– Shatin Central Link	–	42	–	42
– Cable Car Project	–	6	–	6
	187	139	–	326
2000				
Deferred finance charges	114	35	–	149
Expenditure on proposed capital projects				
– Penny's Bay Rail Link	4	17	–	21
– North Island Link	–	17	–	17
Initial public offering expenses	20	62	(82)	–
	138	131	(82)	187

Expenditure incurred in 2001 in respect of the Shatin Central Link and the Cable Car Project relates mainly to design works incurred in preparing for the tenders of these projects. These works will be capitalised as construction costs if the projects are awarded to the Company and are therefore regarded as deferred expenditure. The costs will be written off to the profit and loss account if the tenders are unsuccessful.

Initial public offering expenses comprise legal and professional costs incurred in preparing for the partial privatisation of the Company. These costs were recovered from Government from the proceeds of the offering following the successful listing of the Company's shares in October 2000.

17 Interest in non-controlled subsidiary

The Group and the Company had the following interest in a non-controlled subsidiary at 31 December 2001:

<i>in HK\$ million</i>	The Group		The Company	
	2001	2000	2001	2000
Unlisted shares, at cost	–	–	24	28
Share of net assets	51	26	–	–
	51	26	24	28

Name of company	Authorised share capital	Issued ordinary share capital	Interest in equity shares	Place of incorporation	Activities
Octopus Cards Limited (Formerly Creative Star Limited)	HK\$60,000,000	HK\$42,000,000	57.4%	Hong Kong	Development and operation of smart card system

In June 1994, the Company entered into an agreement with four local transport companies, Kowloon-Canton Railway Corporation, The Kowloon Motor Bus Company (1933) Limited, Citybus Limited and The Hongkong and Yaumati Ferry Co., Limited, to incorporate a company, Creative Star Limited, now Octopus Cards Limited ("OCL"), to undertake the development and operation of the "Octopus" contactless smart card ticketing system, which was initially used by the shareholding transport companies. Although the Company holds a majority interest in the issued shares of OCL, its appointees to the Board of Directors of OCL are limited to 49% of the voting rights at board meetings. The shareholders have agreed to provide the necessary funding to OCL for its operations and for the development of the "Octopus" system.

On 20 April 2000, OCL received approval from The Hong Kong Monetary Authority to become a deposit-taking company ("DTC") for purposes of extending the use of Octopus cards to a wider range of services, including those that are non-transport related. Prior to becoming a DTC, the Octopus card was exempted from the definition of "multi-purpose card" under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) on the basis that its use was restricted to transport related services only. In connection with the application, the Company and the other shareholders of OCL injected HK\$28 million and HK\$42 million in the form of subordinated loan and share capital respectively into OCL on 18 April 2000 in order to fulfill the capital requirements pursuant to the Banking

Ordinance. The contributions were made in proportion to each shareholder's interest in the shares of OCL.

On 17 January 2001, the Company entered into a new Shareholders' Agreement with the other shareholders of OCL. Under this agreement, the Company disposed of a shareholding interest of 10.4% in OCL to certain other shareholders of OCL for a consideration of HK\$16 million, together with a deferred consideration to be received in the event of OCL subsequently becoming a stock exchange listed company. The profit arising from this disposal excluding the deferred consideration amounted to HK\$12 million and has been included in other revenue. On 17 October 2001, OCL repaid half, or HK\$9.5 million of the Company's subordinated loans granted to OCL in connection with the above mentioned application to become a DTC.

During the year ended 31 December 2001, a total amount of HK\$44 million (2000: HK\$43 million) was paid by the Company to OCL in respect of the central clearing services provided by OCL to the Company. During the same period, load agent fees amounting to HK\$12 million (2000: HK\$11 million) were received from OCL in respect of services and facilities provided by the Company at various MTR stations to enable customers to add value to the Octopus cards.

In addition, services fees amounting to HK\$2 million (2000: HK\$4 million) were received from OCL in respect of rental of computer equipment and services and warehouse storage space payable to the Company under a service agreement.

17 Interest in non-controlled subsidiary (continued)

The condensed profit and loss account and the balance sheet for OCL are shown below:

Profit and loss account

Year ended 31 December in HK\$ million	2001 (Audited)	2000 (Audited)
Turnover	152	120
Other operating income	42	18
	194	138
Staff costs	(51)	(43)
Load agent fees	(21)	(19)
Other expenses	(46)	(33)
Operating profit before depreciation	76	43
Depreciation	(55)	(48)
Operating profit/(loss) before interest and finance charges	21	(5)
Net interest income	29	24
Profit before taxation	50	19
Taxation	–	–
Profit for the year	50	19
Group's share of profit	29	13

Balance sheet

At 31 December in HK\$ million	2001 (Audited)	2000 (Audited)
Assets		
Fixed assets	333	361
Investments	452	349
Cash at banks and in hand	183	148
Other assets	79	76
	1,047	934
Liabilities		
Card floats and card deposits due to cardholders	(899)	(788)
Amounts due to shareholders	(18)	(44)
Other liabilities	(28)	(36)
Shareholders' loans	(14)	(28)
	(959)	(896)
Net assets	88	38
Shareholders' funds		
Share capital	42	42
Retained profits/(Accumulated losses)	46	(4)
	88	38
Group's share of net assets	51	26

18 Investments in subsidiaries

The Company

in HK\$ million	2001	2000
Unlisted shares, at cost	52	56
Less: Impairment losses	3	3
	49	53

Details of principal subsidiaries as at 31 December 2001, other than the non-controlled subsidiary the relevant details of which are disclosed in note 17, are as follows:

Name of company	Authorised share capital	Issued ordinary share capital	Interest in equity shares	Place of incorporation and operation	Activities
MTR Engineering Services Limited	HK\$10,000	HK\$1,000	100%	Hong Kong	Engineering consultancy services
MTR Travel Limited	HK\$2,500,000	HK\$2,500,000	100%	Hong Kong	Travel services
Fasttrack Insurance Limited	HK\$100,000,000	HK\$25,000,000	100%	Bermuda	Insurance underwriting
MTR Corporation (C.I.) Ltd.	US\$50,000	US\$1,000	100%	Cayman Islands	Finance
MTR Property Agency Co. Limited	HK\$10,000	HK\$2	100%	Hong Kong	Property agency

Full provision against the cost of investment in MTR Engineering Services Limited and MTR Travel Limited has been made in the Company's accounts.

Fasttrack Insurance Limited ("FIL"), a wholly-owned subsidiary incorporated in Bermuda, operates as the Group's captive insurance company to obtain better direct access to the international reinsurance market and to contain insurance premium payments at a favourable

level. FIL commenced operation on 30 November 1997 upon the placing with it of the Group's principal insurance cover for its railway assets and revenue. FIL retains the primary level of insurance cover and places the excess and catastrophe cover in the international reinsurance market.

No dividend has been paid or is payable to the Company by the subsidiaries for the year up to 31 December 2001.

19 Staff housing loans

The Group and The Company

in HK\$ million	Balance at 1 Jan	New loans drawdown	Redemption	Repayment	Reduction in provision	Balance at 31 Dec
2001						
Housing loans receivable	638	3	(487)	(26)	–	128
Less: General provision	3	–	–	–	(2)	1
	635	3	(487)	(26)	2	127
2000						
Housing loans receivable	797	160	(269)	(50)	–	638
Less: General provision	4	–	–	–	(1)	3
	793	160	(269)	(50)	1	635

19 Staff housing loans (continued)

The Group and The Company

<i>in HK\$ million</i>	2001	2000
Amount receivable:		
– within 1 year	12	47
– after 1 year	115	588
	127	635

The MTR Staff Housing Loan Scheme, a Company financed scheme, was introduced in 1997 to replace, on a phased basis, the previous arrangements whereby interest subsidies were paid by the Company to eligible employees. All housing loans granted to employees carry interest either at the prevailing Best Lending Rate less 1.75% per annum or at the Company's Average Cost of Borrowings plus 0.75% per annum, and are secured by mortgage over the relevant properties.

20 Properties held for sale

The Group and The Company

<i>in HK\$ million</i>	2001	2000
Properties held for sale, <i>at cost</i>	689	–

The properties held for sale at 31 December 2001, comprising residential units and retail and car parking spaces at the Olympic Station development, are properties received by the Company as part of the profit distribution

22 Debtors, deposits and payments in advance

<i>in HK\$ million</i>	The Group		The Company	
	2001	2000	2001	2000
Debtors (net of specific allowances for bad and doubtful debts), deposits and payments in advance relate to:				
– Airport Railway Project	–	1	–	1
– Tseung Kwan O Extension Project	21	14	21	14
– Railway operations and other projects	809	661	816	670
	830	676	837	685

The Group's credit policy in respect of receivables arising from its principal activities are as follows:

(i) Rentals, advertising and telecommunications fees are billed monthly with due dates ranging from 7 to 50 days. Tenants of the Group's investment properties and station kiosks are required to pay three months' rental deposit upon the signing of lease agreements.

upon completion of the development (note 6). The properties are stated in the balance sheet at the lower of cost, which is deemed to be their net realisable value upon receipt (note 1J(vii)), or their net realisable value at the balance sheet date. Net realisable value represents the estimated selling price less costs to be incurred in selling the properties. There is no significant difference between the net realisable value as at the time of receipt and as at 31 December 2001. The net realisable value as at 31 December 2001 is determined by reference to an open market valuation of the properties as at that date undertaken by DTZ Debenham Tie Leung, Chartered Surveyors.

21 Stores and spares

The Group and The Company

<i>in HK\$ million</i>	2001	2000
Stores and spares expected to be consumed:		
– within 1 year	138	164
– after 1 year	130	119
	268	283
Less: Provision for obsolete stock	7	8
	261	275

Stores and spares expected to be consumed after 1 year comprise mainly contingency spares and stocks kept to meet cyclical maintenance requirements.

(ii) Amounts receivable under interest rate and currency swap agreements with financial institutions are due in accordance with the respective terms of the agreements.

(iii) Debtors in relation to capital works entrusted to the Group, subject to any agreed retentions, are due within 21 days upon the certification of work in progress.

Fare revenue is collected either in cash for single and two-ride tickets or through Octopus Cards with daily settlement.

22 Debtors, deposits and payments in advance (continued)

The ageing analysis of debtors included above is as follows:

<i>in HK\$ million</i>	The Group		The Company	
	2001	2000	2001	2000
Amount not yet due	698	533	697	532
Overdue by 30 days	65	78	65	78
Overdue by 60 days	9	6	9	6
Overdue by 90 days	3	3	3	3
Overdue by more than 90 days	16	29	16	34
Total debtors	791	649	790	653
Deposits and payments in advance	39	27	47	32
	830	676	837	685

23 Amounts due from the Government and other related parties

<i>in HK\$ million</i>	The Group		The Company	
	2001	2000	2001	2000
Amounts due from:				
– the Government	78	191	78	191
– the Housing Authority	65	24	65	24
– the Kowloon-Canton Railway Corporation ("KCRC")	3	2	3	2
– non-controlled subsidiary	6	7	6	7
– other subsidiaries of the Company (net of provision for losses)	–	–	30	–
	152	224	182	224

The amount due from the Government relates to outstanding payments and retention, as well as provision for contract claims recoverable from the Government, in connection with infrastructure works entrusted to the Company.

The amount due from the Housing Authority relates to site formation works entrusted to the Company by the Housing Authority in respect of the Tseung Kwan O Extension Project. The entrustment arrangement enabled early possession of a site by the Group to facilitate railway construction.

The amount due from KCRC relates to works entrusted to the Company in connection with the provision of interchange stations between the MTR and KCRC systems.

As at 31 December 2001, the contract retentions on the above entrusted works due for release after one year were HK\$16 million (2000: HK\$13 million). All other amounts due from the Government and other related parties were expected to be received within 12 months.

24 Cash at banks and in hand

<i>in HK\$ million</i>	The Group		The Company	
	2001	2000	2001	2000
Deposits with financial institutions	180	119	78	46
Cash at banks and in hand	35	55	34	53
	215	174	112	99

25 Loans and obligations under finance leases

A By type

The Group

<i>in HK\$ million</i>	Balance at year end closing rate 2001	Exchange (gain)/loss on related forward exchange contracts 2001	Balance 2001	Balance 2000
Capital market instruments				
Listed or publicly traded:				
US dollar Yankee notes due 2005	2,340	(16)	2,324	2,324
US dollar Global notes due 2009	5,849	(15)	5,834	5,835
US dollar Global notes due 2010	4,679	–	4,679	4,679
Debt issuance programme notes due 2005	195	–	195	195
Samurai yen bonds (4th Series) due 2001	–	–	–	1,121
	13,063	(31)	13,032	14,154
Unlisted:				
Debt issuance programme notes due 2001 to 2018	7,538	(4)	7,534	5,090
HK dollar note issuance programme notes due 2001 to 2003	500	–	500	1,500
HK dollar notes due 2004 to 2008	2,350	–	2,350	–
	10,388	(4)	10,384	6,590
Total capital market instruments	23,451	(35)	23,416	20,744
Bank loans and overdrafts	7,159	60	7,219	5,576
	30,610	25	30,635	26,320
Obligations under finance leases (Note 25C)	750	–	750	883
Total	31,360	25	31,385	27,203

25 Loans and obligations under finance leases (continued)

The Company

<i>in HK\$ million</i>	Balance at year end closing rate 2001	Exchange (gain)/loss on related forward exchange contracts 2001	Balance 2001	Balance 2000
Capital market instruments				
Listed or publicly traded:				
US dollar Yankee notes due 2005	2,340	(16)	2,324	2,324
US dollar Global notes due 2009	5,849	(15)	5,834	5,835
US dollar Global notes due 2010	4,679	–	4,679	4,679
Debt issuance programme notes due 2005	195	–	195	195
Samurai yen bonds (4th Series) due 2001	–	–	–	1,121
	13,063	(31)	13,032	14,154
Unlisted:				
Debt issuance programme notes due 2001 to 2018	4,888	(4)	4,884	5,090
HK dollar note issuance programme notes due 2001 to 2003	500	–	500	1,500
	5,388	(4)	5,384	6,590
Total capital market instruments	18,451	(35)	18,416	20,744
Bank loans and overdrafts	7,159	60	7,219	5,576
	25,610	25	25,635	26,320
Obligations under finance leases (Note 25C)	750	–	750	883
Total	26,360	25	26,385	27,203

As at 31 December 2001, the Group had available undrawn committed bank loan facilities amounting to HK\$5,495 million (2000: HK\$13,761 million). In addition, the Group had a number of uncommitted facilities with undrawn amounts totalling HK\$1,841 million

(2000: HK\$20,634 million), comprising a multi-currency medium-term note programme, a HK dollar note issuance programme and short-term bank loan facilities.

Samurai yen bonds totalling HK\$1,121 million (2000: Nil) were redeemed during the year.

25 Loans and obligations under finance leases (continued)

B By repayment terms

The Group

<i>in HK\$ million</i>	Capital market instruments 2001	Bank loans and overdrafts 2001	Obligations under finance leases 2001	Total 2001	Total 2000
Long-term loans and obligations under finance leases					
Amounts repayable beyond 5 years	11,483	772	141	12,396	11,254
Amounts repayable within a period of between 2 and 5 years	7,683	5,567	364	13,614	9,059
Amounts repayable within a period between 1 and 2 years	4,250	419	103	4,772	2,842
Amounts repayable within 1 year	–	18	142	160	3,117
	23,416	6,776	750	30,942	26,272
Bank overdrafts	–	49	–	49	44
Short-term loans	–	394	–	394	887
	23,416	7,219	750	31,385	27,203

The Company

<i>in HK\$ million</i>	Capital market instruments 2001	Bank loans and overdrafts 2001	Obligations under finance leases 2001	Total 2001	Total 2000
Long-term loans and obligations under finance leases					
Amounts repayable beyond 5 years	10,983	772	141	11,896	11,254
Amounts repayable within a period of between 2 and 5 years	3,683	5,567	364	9,614	9,059
Amounts repayable within a period between 1 and 2 years	3,750	419	103	4,272	2,842
Amounts repayable within 1 year	–	18	142	160	3,117
	18,416	6,776	750	25,942	26,272
Bank overdrafts	–	49	–	49	44
Short-term loans	–	394	–	394	887
	18,416	7,219	750	26,385	27,203

The amounts repayable within 1 year in respect of long-term loans and obligations under finance leases are included in long-term loans as these amounts are intended to be refinanced on a long-term basis.

25 Loans and obligations under finance leases (continued)

C Obligations under finance leases

As at 31 December 2001, the Group and the Company had obligations under finance leases repayable as follows:

The Group and The Company

<i>in HK\$ million</i>	Present value of the minimum lease payments 2001	Interest expense relating to future periods 2001	Total minimum lease payments 2001	Present value of the minimum lease payments 2000	Interest expense relating to future periods 2000	Total minimum lease payments 2000
Amounts repayable beyond 5 years	141	9	150	272	28	300
Amounts repayable within a period of between 2 and 5 years	364	86	450	336	114	450
Amounts repayable within a period of between 1 and 2 years	103	47	150	142	58	200
Amounts repayable within 1 year	142	58	200	133	67	200
	750	200	950	883	267	1,150

Obligations under finance lease are the Group's and the Company's commitments to make future payments to New Hong Kong Tunnel Company Limited under the management agreement for the Eastern Harbour Crossing which is treated as a finance lease (note 13E).

D Bonds and notes issued

Bonds and notes issued during the year ended 31 December 2000 and 2001 comprise:

The Group

<i>in HK\$ million</i>	Amount issued 2001	Net consideration received 2001	Amount issued 2000	Net consideration received 2000
US dollar global notes	–	–	4,679	4,618
Debt issuance programme notes	2,650	2,648	700	698
HK dollar notes	2,350	2,347	–	–
	5,000	4,995	5,379	5,316

The Company

<i>in HK\$ million</i>	Amount issued 2001	Net consideration received 2001	Amount issued 2000	Net consideration received 2000
US dollar global notes	–	–	4,679	4,618
Debt issuance programme notes	–	–	700	698
	–	–	5,379	5,316

25 Loans and obligations under finance leases (continued)

The notes issued in 2001 were issued by a subsidiary, MTR Corporation (C.I.) Limited. The notes issued are unconditionally and irrevocably guaranteed by the Company, are direct, unsecured, unconditional and unsubordinated to other unsecured and unsubordinated obligations of MTR Corporation (C.I.) Limited. The obligations of the Company under the guarantee are direct, unsecured, unconditional, and unsubordinated to other unsecured and unsubordinated obligations of the Company. The net proceeds from the issues were on lent to the Company for general working capital, refinancing or other corporate purposes.

F Interest rates

The total borrowings, excluding obligations under finance leases, of HK\$30,635 million (2000: HK\$26,320 million) comprise:

The Group

	Loan amount HK\$ million 2001	Interest rate % p.a. 2001	Loan amount HK\$ million 2000	Interest rate % p.a. 2000
Fixed rate loans and loans swapped to fixed rates	15,901	4.5 – 8.4	17,588	6.5 – 8.4
Variable rate loans and loans swapped from fixed rate	14,734	(Note)	8,732	(Note)
	30,635		26,320	

The Company

	Loan amount HK\$ million 2001	Interest rate % p.a. 2001	Loan amount HK\$ million 2000	Interest rate % p.a. 2000
Fixed rate loans and loans swapped to fixed rates	11,151	4.5 – 8.4	17,588	6.5 – 8.4
Variable rate loans and loans swapped from fixed rate	14,484	(Note)	8,732	(Note)
	25,635		26,320	

Note: Interest rates are determined by reference to either the Hong Kong prime rate, the Hong Kong Interbank Offered Rate or the London Interbank Offered Rate.

The notes issued in 2000 were issued by the Company and are unsecured and rank pari passu with all other unsecured and unsubordinated obligations of the Company. The net proceeds from the issues were used for general working capital, refinancing or other corporate purposes.

E Guarantees

There were no guarantees given by the Government in respect of loan facilities as at 31 December 2001 and 2000.

26 Off-balance sheet financial instruments

The Group has employed off-balance sheet derivative instruments such as interest rate swaps and currency swaps to manage its interest rate and foreign exchange exposure. These instruments are used solely to reduce or

eliminate the financial risk associated with the Group's liabilities and not for trading or speculation purposes.

The contracted notional amounts of derivative instruments outstanding by maturity and type at 31 December 2001 are as follows:

The Group and The Company

Notional amount in HK\$ million	2001 Maturing in			Total	2000 Total
	Less than 2 years	2-5 years	Over 5 years		
Foreign exchange forwards	306	206	22	534	833
Cross currency and interest rate swaps	2,084	3,397	2,807	8,288	11,148
Interest rate swaps and options	4,200	4,650	2,060	10,910	11,530
	6,590	8,253	4,889	19,732	23,511

There are four main categories of risk related to using derivative instruments, namely market risk, credit risk, operational risk and legal risk. Since the Group employs derivative instruments purely for hedging purposes, it is not exposed to market risk because any change in market values will be offset by an opposite change in the market values of the underlying liabilities being hedged.

The Group manages credit risk by assigning limits to counter-parties and by dealing only with financial institutions with acceptable credit ratings. The Group

further monitors its credit exposure by estimating the fair market values plus any potential adverse movement in the values of the derivative instruments employed. The Group has not experienced non-performance by any counter-party.

The Group has internal control measures to safeguard compliance with policies and procedures to minimise operational risk. Standardised or master agreements are used whenever practicable to reduce legal risk and credit exposure.

27 Creditors, accrued charges and provisions

in HK\$ million	The Group		The Company	
	2001	2000	2001	2000
Creditors, accrued charges and provisions relate to:				
– Airport Railway Project	335	415	335	415
– Tseung Kwan O Extension Project	479	493	479	493
– Property Projects	75	159	75	159
– Railway operations and other projects	2,117	2,222	2,081	2,210
	3,006	3,289	2,970	3,277

The above amounts are mainly related to capital projects which are settled upon certification of work in progress and swap interest payable. The Group has no significant balances of trade creditors resulting from its provision of transportation services.

27 Creditors, accrued charges and provisions (continued)

The analysis of creditors included above by due dates is as follows:

in HK\$ million	The Group		The Company	
	2001	2000	2001	2000
Due within 30 days or on demand	595	801	578	799
Due after 30 days but within 60 days	1,106	1,147	1,092	1,146
Due after 60 days but within 90 days	44	178	43	178
Due after 90 days	971	901	967	892
Rental and other refundable deposits	2,716	3,027	2,680	3,015
	290	262	290	262
Total	3,006	3,289	2,970	3,277

Creditors, accrued charges and provisions in respect of the Airport Railway Project include provisions for claims on completed contracts, which were capitalised as part of the railway assets upon commissioning of the Tung Chung and Airport Express Lines in 1998. Most of the claims have been resolved and it is anticipated that, subject to unforeseen circumstances, the remaining amount required to be paid will be sufficiently covered by the above mentioned provisions.

As at 31 December 2001, all creditors, accrued charges and provisions were expected to be settled within one year except for HK\$368 million (2000: HK\$216 million) included in the amounts relating to railway operations and other projects, which were expected to be settled after one year. The amounts due after one year are mainly rental deposits received from shop and station kiosk tenants and advance income received from telecommunication services operators.

28 Contract retentions

The Group and The Company

in HK\$ million	Due for		Total
	release after 12 months	release within 12 months	
2001			
Airport Railway Project	–	32	32
Tseung Kwan O Extension Project	201	225	426
Property Projects	32	34	66
Railway operations and other projects	142	132	274
	375	423	798
2000			
Airport Railway Project	–	61	61
Tseung Kwan O Extension Project	376	6	382
Property Projects	67	2	69
Railway operations and other projects	138	167	305
	581	236	817

29 Amounts due to the Government and other related parties

The following are amounts due to the Government and Airport Authority in respect of works entrusted to them by the Group and the amounts due to the subsidiaries:

in HK\$ million	The Group		The Company	
	2001	2000	2001	2000
Amounts due to:				
– the Government	282	303	282	303
– the Airport Authority	119	119	119	119
– the Company's subsidiaries	–	–	5,031	–
	401	422	5,432	422

As at 31 December 2001, all amounts (2000: HK\$422 million) due to the Government and Airport Authority and HK\$31 million (2000: Nil) due to the subsidiaries are expected to be settled within one year.

30 Deferred liabilities

The Group and The Company

in HK\$ million	2001		2000	
Estate management funds				
– Refundable deposits on managed properties		31		28
– Building maintenance and asset replacement reserve funds		47		48
		78		76

31 Share capital, share premium and capital reserve

in HK\$ million	2001	2000
Authorised: 6,500,000,000 shares of HK\$1.00 each	6,500	6,500
Issued and fully paid: 5,055,229,742 shares (2000: 5,000,000,000 shares) of HK\$1.00 each	5,055	5,000
Share premium	564	–
Capital reserve	27,188	27,188
	32,807	32,188

Pursuant to the Articles of Association of the Company, the capital reserve can only be applied in paying up in full unissued shares to be allotted and distributed as fully paid bonus shares to the shareholders of the Company.

Share premium represents the amount by which the issue price of shares exceeds the par value of those shares. The application of the share premium account is governed by section 48B of the Hong Kong Companies Ordinance.

New shares issued and fully paid up during the year comprise:

	Number of shares	Option/ scrip price HK\$	Proceeds credited to	
			Share capital account HK\$ million	Share premium account HK\$ million
Employee share options exercised	2,098,000	8.44	2	16
Issued as 2000 final scrip dividends	18,235,023	13.71	18	232
Issued as 2001 interim scrip dividends	34,896,719	10.06	35	316
	55,229,742		55	564

31 Share capital, share premium and capital reserve (continued)

Outstanding share options under the Pre-Global Offering Share Option Scheme as at 31 December 2001 are disclosed in note 39.

32 Other reserves

The Group

<i>in HK\$ million</i>	Investment property revaluation reserve	Fixed asset revaluation reserve	Retained profits	Total
2001				
Balance as at 1 January 2001 as previously stated	6,501	139	11,027	17,667
Change in accounting policy with respect to dividends (Note 9)	–	–	500	500
Balance as at 1 January 2001 (as restated)	6,501	139	11,527	18,167
Dividends paid	–	–	(1,203)	(1,203)
Surplus/(Deficit) on revaluations	17	(23)	–	(6)
Profit for the year	–	–	4,284	4,284
Balance as at 31 December 2001	6,518	116	14,608	21,242
2000				
Balance as at 1 January 2000	5,268	214	7,458	12,940
Surplus/(Deficit) on revaluations	1,233	(75)	–	1,158
Profit for the year	–	–	4,069	4,069
Balance as at 31 December 2000 (as restated)	6,501	139	11,527	18,167

The Company

<i>in HK\$ million</i>	Investment property revaluation reserve	Fixed asset revaluation reserve	Retained profits	Total
2001				
Balance as at 1 January 2001 as previously stated	6,501	139	11,000	17,640
Change in accounting policy with respect to dividends (Note 9)	–	–	500	500
Balance as at 1 January 2001 (as restated)	6,501	139	11,500	18,140
Dividends paid	–	–	(1,203)	(1,203)
Surplus/(Deficit) on revaluations	17	(23)	–	(6)
Profit for the year	–	–	4,248	4,248
Balance as at 31 December 2001	6,518	116	14,545	21,179
2000				
Balance as at 1 January 2000	5,268	214	7,445	12,927
Surplus/(Deficit) on revaluations	1,233	(75)	–	1,158
Profit for the year	–	–	4,055	4,055
Balance as at 31 December 2000 (as restated)	6,501	139	11,500	18,140

32 Other reserves (continued)

The investment property and fixed asset revaluation reserves are not available for distribution to shareholders because they do not constitute realised profits. As at 31 December 2001, the total amount of reserves available for distribution to shareholders under the Hong Kong Companies Ordinance amounted to HK\$14,545 million (2000: HK\$11,500 million, as restated).

Included in the Group's retained profits as at 31 December 2001 is an amount of HK\$27 million (2000: Nil), being the retained profits attributable to the non-controlled subsidiary.

33 Consolidated cash flow statement analysis

A Reconciliation of operating profit to net cash inflow from operating activities:

<i>in HK\$ million</i>	2001	2000
Operating profit from railway and related operations before depreciation	4,059	3,914
Decrease in provision for staff housing loans	(2)	(1)
Loss on disposal of fixed assets	6	62
Gain on disposal of investment in non-controlled subsidiary	(12)	–
(Gain)/Loss on exchange translation	(4)	10
Decrease/(Increase) in debtors, deposits and payments in advance	82	(37)
Decrease in stores and spares	14	15
Increase/(Decrease) in creditors, accrued charges and provisions	12	(178)
Reimbursement of initial public offering expenses	–	20
Staff separation payments	–	(49)
Net cash inflow from operating activities	4,155	3,756

B Analysis of changes in financing during the year:

<i>in HK\$ million</i>	Share capital	Share premium	Capital reserve	Loans and finance lease obligations	Deferred liabilities	Total
2001						
Balance as at 1 January	5,000	–	27,188	27,159	76	59,423
Cash inflow from financing	2	16	–	4,177	(2)	4,193
Issued scrip dividends	53	548	–	–	–	601
Interest capitalised	–	–	–	–	4	4
Balance as at 31 December	5,055	564	27,188	31,336	78	64,221
2000						
Balance as at 1 January	32,188	–	–	23,142	70	55,400
Transfer to capital reserve (Note 31)	(27,188)	–	27,188	–	–	–
Cash inflow from financing	–	–	–	4,003	3	4,006
Unrealised exchange loss	–	–	–	14	–	14
Interest capitalised	–	–	–	–	3	3
Balance as at 31 December	5,000	–	27,188	27,159	76	59,423

34 Retirement Schemes

The Company operates an occupational retirement scheme being the MTR Corporation Limited Retirement Scheme (the "Retirement Scheme") and a top-up scheme being the MTR Corporation Limited Retention Bonus Scheme (the "RBS"). In addition, in accordance with the Mandatory Provident Fund ("MPF") Schemes Ordinance, the Company has set up an MPF Scheme on 1 December 2000 by participating in a master trust scheme provided by an independent MPF service provider. Employees eligible to join the Retirement Scheme can choose between the Retirement Scheme and the MPF Scheme while temporary employees are required to join the MPF Scheme.

The assets of these schemes are held under the terms of separate trust arrangements. These trusts ensure that the assets are kept separate from those of the Company.

A Retirement Scheme

The Retirement Scheme was established under trust at the beginning of 1977. The Scheme contains both defined benefit and defined contribution elements. The Scheme was registered under the Occupational Retirement Schemes Ordinance (Chapter 426 of the Laws of Hong Kong) with effect from 31 October 1994. On 3 July 2000, exemption was granted by the MPF Authority to maintain the Retirement Scheme and offer it as an alternative to the MPF Scheme.

The Retirement Scheme provides both a hybrid benefit section and a defined contribution benefit section, offering benefits on retirement, permanent disability, death and leaving services to its members. The hybrid benefit section provides benefits based on the greater of a multiple of final salary and accumulated contributions with investment returns. The defined contribution benefit section, which was implemented on 1 April 1999, is a member choice plan which provides retirement benefits based on accumulated contributions and investment returns only. Promotees who are promoted after 1 April 1999 can choose to join either the defined contribution benefit section or to remain in the hybrid benefit section. As the hybrid benefit section was closed to new entrants on 31 March 1999, staff joining the Company on or after 1 April 1999 who would be eligible to join the Retirement Scheme can choose to join either the Defined Contribution Benefit Section or, commencing 1 December 2000, the MPF Scheme.

(a) The hybrid benefit section

Members' contributions to the hybrid benefit section are based on a fixed percentage of basic salary. The Company's contributions are determined by the Executive Directorate with reference to an actuarial valuation and are charged to the profit and loss account accordingly. At 31 December 2001, the total membership was 6,715 (2000: 6,957). In 2001, members contributed HK\$78 million (2000: HK\$82 million) and the Company contributed HK\$267 million (2000: HK\$278 million) to the hybrid benefit section. The net asset value of the hybrid benefit section as at 31 December 2001 was HK\$3,726 million (2000: HK\$3,851 million).

(b) The defined contribution benefit section

Both members' and the Company's contributions to the defined contribution benefit section are based on fixed percentages of members' basic salary. As at 31 December 2001, the total membership under the section was 368 (2000: 234). In 2001, total members' contributions were HK\$4.4 million (2000: HK\$2.4 million) and the total contribution from the Company was HK\$9.1 million (2000: HK\$4.9 million). The net asset value as at 31 December 2001 was HK\$19.7 million (2000: HK\$8.2 million).

According to the terms of the trust deed, forfeitures are transferred to a reserve account to be utilised at the discretion of the Company.

(c) Actuarial valuations

Actuarial valuations are carried out annually. A full actuarial valuation of the Scheme, comprising both the hybrid and the defined contribution benefit sections, was carried out at 31 December 2001 by Towers, Perrin, Forster & Crosby, Inc., an independent firm of consulting actuaries, using an attained age method. The principal actuarial assumptions used were a long-term rate of investment return net of salary increases of 2% (2000: 2%) per annum, together with appropriate allowances for expected rates of mortality, turnover and retirements and an adjustment for salary increases expected over the short term. The actuary was able to confirm that, at the valuation date:

- (i) the Scheme was solvent, with assets more than adequate to cover the aggregate value of members' vested benefits had all members left the Scheme; and
- (ii) the value of the Scheme's assets was more than sufficient to cover the aggregate past service liability on the assumption that the Scheme continued in force.

34 Retirement Schemes (continued)

B Retention Bonus Scheme

The Retention Bonus Scheme ("RBS") was established under trust as of 1 January 1995. The RBS is a defined benefit scheme and applies to all employees classified by the Company as staff working on designated projects and who are not on gratuity terms. The RBS provides for benefits to be payable only in the event of redundancy for accrued service upto 31 December 2002. The RBS was registered under the Occupational Retirement Schemes Ordinance with effect from 1 December 1995. As at 31 December 2001, there were 692 members (2000: 758) under the RBS.

The RBS is non-contributory for members. The Company's contributions are determined by the Executive Directorate with reference to an actuarial valuation and are charged as part of the staff costs to various projects on the basis of the amount contributed. During 2001, the Company's contributions amounted to HK\$3 million (2000: HK\$15 million). The net asset value of the RBS as at 31 December 2001 was HK\$45 million (2000: HK\$49 million).

Actuarial valuations of the RBS are carried out annually. A full actuarial valuation of the RBS was carried out at 31 December 2001 by Towers, Perrin, Forster & Crosby, Inc. using an attained age method. The principal actuarial assumptions used were a weighted rate of investment return net of estimated rates of salary increases, of approximately 0% (2000: 0%) per annum, together with appropriate allowance for expected rates of redundancy. The actuary was able to confirm that, at the valuation date:

- (i) due to the nature of the RBS which provides for benefits only on redundancy, there was no aggregate vested liability, and thus the RBS was technically solvent; and
- (ii) the value of the RBS assets, together with the future contributions recommended by the actuary and adopted by the Board of Directors, will be sufficient to meet the accruing liabilities of the RBS on an on-going basis.

C MPF Scheme

Effective from the MPF commencement date of 1 December 2000, the Company joined The Bank Consortium MPF Plan which has been registered under the Mandatory Provident Fund Schemes Authority and authorised by the Securities and Futures Commission. As at 31 December 2001, the total number of employees of the Company participating in the MPF Scheme was 438 (2000: 434). In 2001, total members' contributions were HK\$2.5 million (2000: HK\$0.01 million) and total contribution from the Company was HK\$2.7 million (2000: HK\$0.2 million).

35 Tseung Kwan O Extension Project

The TKE Project Agreement between the Government and the Company for the design, construction, financing and operation of the Tseung Kwan O Extension was signed on 4 November 1998.

With the good progress made on construction and equipment installation, the TKE Project is expected to open for passenger service in mid August 2002. Combined with the continued effects of the economic recession and through efficiencies achieved by the Company's project management team and partnering methodology in the design and construction processes, the Company has further reduced the estimated capital cost of the TKE Project to HK\$18 billion, as compared to the original budget of HK\$30.5 billion. Under the Agreement, the Company has undertaken to bear and finance the full amount of the capital cost.

The Agreement also permits the Company to undertake commercial and residential property developments at the proposed development sites in Tseung Kwan O South Area 86, Tiu Keng Leng, Tseung Kwan O Town Centre and Hang Hau, with approximate site areas totalling 42.64 hectares.

As at 31 December 2001, the Company had incurred expenditure of HK\$12,833 million (2000: HK\$9,168 million) on the project and had authorised outstanding commitments on contracts totalling HK\$1,025 million (2000: HK\$3,388 million) related to the project.

36 Interests in jointly controlled operations

The Group has the following jointly controlled operations in respect of its property development projects as at 31 December 2001.

Location/ development package	Land use	Total gross floor area (sq.m.)	Actual or expected completion date
Hong Kong Station	Office / Retail / Hotel	415,900	By phases from 1998–2004
Kowloon Station			
Package One	Residential	147,547	Completed in 2000
Package Two	Residential	210,319	By phases from 2002–2003
Package Three	Residential	105,886	2004
Package Four	Residential	128,845	2003
Package Five, Six and Seven	Residential / Office / Retail / Hotel / Serviced Apartment	504,350	By phases from 2003–2007
Olympic Station			
Package One	Residential / Office / Retail	309,069	By phases from 1998–2000
Package Two	Residential / Retail	268,650	By phases from 2001–2002
Package Three	Residential	104,452	2005
Tsing Yi Station	Residential / Retail	292,795	Fully completed in 1999
Tung Chung Station			
Package One	Residential / Office / Retail / Hotel	361,710	By phases from 1999–2003
Package Two	Residential / Retail	255,950	By phases from 2002–2005
Package Three	Residential / Retail	413,154	By phases from 2002–2005
Tseung Kwan O Station			
Area 57a	Residential / Retail	29,642	2004
Choi Hung Park-and-Ride	Residential / Retail	19,531	2005

The Group's assets held in relation to these joint venture operations include various site foundation works and related staff and overhead costs. The costs incurred by the Group on each development package are set off against any up-front payments received from developers in relation to that development package, and the balance is shown on the balance sheet either as property development in progress or deferred income (note 15) as the case may be. As at 31 December 2001, total property development in progress in respect of these jointly controlled operations was HK\$621 million (2000:

HK\$634 million) and total deferred income was HK\$8,411 million (2000: HK\$10,403 million).

As the Group is not involved in the financing of the construction of the developments, the only financial liability in respect of these developments as at 31 December 2001 was HK\$81 million (2000: HK\$147 million) in respect of accruals related to property enabling works.

During the year ended 31 December 2001, profits of HK\$3,248 million (2000: HK\$3,376 million) were recognised (note 6).

37 Material related party transactions

The Financial Secretary Incorporated, which holds approximately 77% of the Company's issued share capital on trust for the Government of the Hong Kong SAR, is the majority shareholder of the Company. Transactions between the Group and Government departments, agencies or Government controlled entities, other than those transactions such as the payment of fees, taxes, leases and rates, etc. that arise in the normal dealings between the Government and the Group, are considered to be related party transactions pursuant to SSAP 20 "Related party disclosures" and are identified separately in these accounts.

Members of the Board and Members of the Executive Directorate, and parties related to them, are also considered to be related parties of the Group. Transactions with these parties, except for those involving a Member of the Board or his related parties where the relevant Member abstains from voting, are separately disclosed in the accounts.

Major related party transactions entered into by the Group in prior years include:

A The Company entered into the Airport Railway Agreement with the Government on 5 July 1995 for the construction of the Airport Railway. In addition to specifying the parameters for the design, construction and operation of the Tung Chung and Airport Express Lines, the Agreement also included provisions for the granting of land to the Company for property development (note 15).

B The Company entered into the TKE Project Agreement with the Government on 4 November 1998 for the design, construction, financing and operation of the Tseung Kwan O Extension and the granting of land for commercial and residential property developments along the railway extension (note 35).

C On 30 June 2000, the Appointed Day for the purposes of the new MTR Ordinance, the Company was granted a franchise, for an initial period of 50 years, to operate the existing mass transit railway, and to operate and construct any extension to the railway. On the same day, the Company entered into an Operating Agreement with the

Government which detailed provisions for the design, construction, maintenance and operation of the railway under the franchise.

D On 14 July 2000, the Company received a comfort letter from the Government pursuant to which Government agreed to extend the period of certain of the Company's land interests so that they are coterminous with the Company's initial 50-year franchise.

During the year, the Group has had the following material related party transactions:

E In connection with the construction of the Airport Railway and the Tseung Kwan O Extension, certain essential project works are embedded within the infrastructure works to be undertaken by the Government or certain of its related parties. These works have been entrusted to the Government and its related parties and are payable on an actual cost basis according to architectural certifications. The Government and certain of its related parties, on the other hand, have entered into entrustment agreements with the Company for the construction of various other infrastructure works that are also reimbursable according to actual costs certified. Details of the amounts paid and the amounts receivable and payable as at 31 December 2001 are provided in notes 14, 23 and 29 respectively.

F The Company has business transactions with its non-controlled subsidiary in the normal course of operations, details of which are disclosed in note 17.

G The Group has paid remuneration to the Members of the Board and Members of the Executive Directorate as well as granted loan to a Member of the Executive Directorate during the year. Details of these transactions are described in note 5. In addition, the Members of the Executive Directorate were granted share options under the Company's Pre-Global Offering Share Option Scheme. Details of these benefits in kind are disclosed in note 5C and under the paragraph "Board Members and Executive Directorate's interests in shares" in the Report of the Members of the Board.

37 Material related party transactions (continued)

H During the year, the following dividends were paid to the Government:

<i>in HK\$ million</i>	2001 Interim dividend	2000 Final dividend	Total
Cash dividends	218	153	371
Scrip dividends	322	231	553
	540	384	924

38 Commitments

A Capital commitments

(i) Outstanding capital commitments as at 31 December 2001 not provided for in the accounts were as follows:

The Group and The Company

<i>in HK\$ million</i>	Railway operations	Tseung Kwan O Extension Project	Property development projects	Total
2001				
Authorised but not yet contracted for	854	4,142	1,985	6,981
Authorised and contracted for	1,760	1,025	154	2,939
	2,614	5,167	2,139	9,920
2000				
Authorised but not yet contracted for	890	8,444	2,045	11,379
Authorised and contracted for	2,577	3,388	617	6,582
	3,467	11,832	2,662	17,961

Included in the amounts authorised but not yet contracted for are costs that will not be subject to construction contracts such as staff costs, overhead expenses and capitalised interest.

(ii) The commitments under railway operations comprise the following:

The Group and The Company

<i>in HK\$ million</i>	Improvement and enhancement works	Acquisition of property, plant and equipment	Total
2001			
Authorised but not yet contracted for	625	229	854
Authorised and contracted for	930	830	1,760
	1,555	1,059	2,614
2000			
Authorised but not yet contracted for	634	256	890
Authorised and contracted for	1,359	1,218	2,577
	1,993	1,474	3,467

38 Commitments (continued)

(iii) Commitments in respect of jointly controlled operations have been included in the commitments for Property Development Projects above and were as follows:

The Group and The Company

<i>in HK\$ million</i>	2001	2000
Authorised but not yet contracted for	1,983	2,014
Authorised and contracted for	38	39
	2,021	2,053

B Operating lease commitments

The Group had operating leases on office buildings and staff quarters as at 31 December 2001. The total future minimum lease payments under non-cancellable operating leases are payable as follows:

The Group and The Company

<i>in HK\$ million</i>	2001	2000
Payable within one year		
Leases expiring within one year	4	3
Leases expiring between one to five years	8	10
	12	13
Payable after one but within five years	4	9
Payable after five years	–	–
	16	22

The above includes HK\$10 million (2000: HK\$17 million) in respect of the office accommodation and quarters for construction project staff. The majority of the leases are subject to rent reviews.

C Liabilities and commitments in respect of property management contracts

The Group had, over the years, jointly developed with outside property developers certain properties above or adjacent to railway depots and stations. Under most of the development agreements, the Group retained the right to manage these properties after their completion. The Group, as manager of these properties, enters into services contracts with outside contractors for the provision of security, cleaning, maintenance and other services on behalf of the managed properties. The Group is primarily responsible for these contracts, but any contract costs incurred will be reimbursed by the owners and tenants of the managed properties from the management funds as soon as they are paid.

As at 31 December 2001, the Group had total outstanding liabilities and contractual commitments of HK\$390 million (2000: HK\$272 million) in respect of these works and services. Cash funds totalling HK\$435 million (2000: HK\$401 million) obtained through monthly payments of management service charges from the managed properties are held by the Group on behalf of those properties for settlement of works and services provided.

39 Employee Stock Option Scheme

In connection with the Initial Public Offering ("IPO") and Stock Exchange listing of the Company's shares in October 2000, a Pre-Global Offering Share Option Scheme ("Share Option Scheme") was established. Under the Share Option Scheme, a total of 769 employees including all the Members of the Executive Directorate were granted on 12 September 2000 options to purchase an aggregate of 48,338,000 shares at an exercise price of HK\$8.44 per share, which was equivalent to 90% of the IPO offer price of HK\$9.38 per share. The options may be exercised prior to 11 September 2010, subject to the vesting provisions under the Scheme, which provide that certain proportions of the underlying shares in respect of which options were granted under the Share Option Scheme will vest at certain specified times, as follows:

Date	Proportion of options vested
Before 5 October 2001	None
5 October 2001 to 4 October 2002	One-third
5 October 2002 to 4 October 2003	Two-thirds
After 4 October 2003	All

As at 31 December 2001, options to subscribe for 16,223,500 shares have been vested, of which 2,098,000 share options have been exercised. In addition, options to subscribe for 43,940,500 shares remained outstanding and 2,299,500 share options lapsed as a result of the resignation of certain option holders during the year.

40 Comparative figures

Comparative figures have been restated based on the changes in accounting policy as set out in notes 1B, 1D and 9.

41 Approval of accounts

The accounts were approved by the Board on 28 February 2002.