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"), among other things,

• 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 for the purposes of the Ordinance (the "Appointed Day"), became the property, rights and liabilities of the Company on the Appointed Day;

• any agreement made, transaction effected or other thing done by, to or in relation to MTRC which was in force or effective immediately before the Appointed Day, have effect as from that day as if made, effected or done by, to or in relation to the Company, in all respects as if the Company were the same person in law as MTRC;

• on the Appointed Day, the Company was granted a franchise, for an initial period of 50 years, to operate the existing mass transit railway system, and to operate and construct any extension to the railway; and

• 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 The accounts of the Company comply with the disclosure provisions of the Companies Ordinance. The accounts have also been prepared in accordance with all applicable Statements of Standard Accounting Practice and Interpretations issued by the Hong Kong Society of Accountants, generally accepted accounting principles in Hong Kong and the disclosure provisions in 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.

iv Subsidiaries are companies in which the Company has an attributable interest of more than 50% of the ordinary share capital held for the long-term. Group accounts of the Company and its subsidiary companies are not prepared in view of the Company having no effective control over the Board of one of its subsidiaries, Creative Star Limited, and the insignificant amounts involved in the other subsidiaries. Investments in subsidiaries are stated in the Company's balance sheet at cost less any provision for diminution in value which is other than temporary as determined by the Board. Any such provisions are charged to the profit and loss account as an expense.

B Revenue recognition

Provided it is probable that the economic benefits associated with the transactions will flow to the Company 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.

C 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.

1 Principal accounting policies (continued)

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 Where assets are acquired under finance leases, the amount representing the present value of the minimum lease payments (computed using the rate of interest implicit in the lease) is capitalised as a fixed asset and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases.

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 Company.

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 The carrying amount of fixed assets, except investment properties and self-occupied land and buildings already dealt with above, is reviewed periodically in order to assess whether the recoverable amount has declined to below the carrying amount. When such a decline has occurred, the carrying amount is reduced to the recoverable amount. The amount of the reduction is charged as an expense in the profit and loss account. In determining the recoverable amount, the physical condition of, and the undiscounted future cash flows expected to be generated by, the fixed asset concerned is taken into consideration.

viii Gains or losses arising from the retirement or disposal of a fixed asset other than an investment property is determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and is 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.

D Depreciation

i Investment properties with an unexpired lease term of more than 20 years are not depreciated. The Company 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:

1 Principal accounting policies (continued)

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 (Note)
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

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

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 Company 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.

1 Principal accounting policies (continued)

E Construction costs

i Costs incurred by the Company 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.

F Property development

i Costs incurred by the Company 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 Company in respect of that development are charged against deferred income.

iii Expenditure incurred on the development of properties for retention by the Company 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 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 Company 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 Company in connection with the development;

• where the Company receives sharing of proceeds from sale of the development, profits arising from such proceeds are recognised upon the issue of occupation permits; and

• where the Company 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.

vi Where the Company is liable to pay the developer consideration for the retention of part of a property to be redeveloped, profit attributable to the Company 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 Company and the amount of realised profit can be determined with reasonable accuracy.

G Operating leases

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.

1 Principal accounting policies (continued)

H 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.

I 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.

J 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.

K 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 Company will have taxable profits sufficient to offset the available losses in the foreseeable future.

L Retirement scheme costs

The Company 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 Company 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 Company to the schemes are charged to the profit and loss account.

M Jointly controlled operations

The arrangements entered into by the Company with developers for property developments along the Airport Railway are considered to be jointly controlled operations pursuant to Statement of Standard Accounting Practice 21 “Accounting for interests in joint ventures”. Pursuant to the development arrangements, the Company 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 Company accounts for the costs of enabling works net of up-front payments received as property development in progress. In cases where up-front

1 Principal accounting policies (continued)

payments received from developers exceed the related expenditures incurred by the Company, such excess is recorded as deferred income. Expenses incurred by the Company on staff, overhead and consultancy fees in respect of these developments are also capitalised as property development in progress. The Company's share of income earned from such operations is recognised in the profit and loss account in accordance with note 1F 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 (AEL) for 2000 included income of HK$25 million *(1999: Nil)* relating to the write back of the unused balance of expired tickets. The increase in fare revenue for AEL was mainly due to the reduction in the promotional fare discount from 30% to 10% with effect from 3 July 2000.

3 Rental and management income

in HK$ million	**2000**	1999
Rental income was attributable to:		
Telford Plaza	**340**	348
Luk Yeung Galleria	**97**	96
Heng Fa Chuen Shopping Centre	**104**	105
Maritime Square	**166**	102
Other properties	**100**	89
	807	740
Management income	**60**	50
	867	790

Rental income in respect of Maritime Square for 1999 relates to the period from 1 April 1999, the commencement date of its operation.

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:

in HK$ million	**2000**	1999
Auditors' remuneration	**2**	3
Operating lease expenses:		
Office buildings and staff quarters	**19**	40
Less: Amount capitalised	**13**	18
	6	22

Certain comparative figures for operating expenses in the profit and loss account have been reclassified to conform to the current year's presentation.

5 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 Companies Ordinance were as follows:

in HK$ million	**2000**	1999
Fees	**1**	1
Salaries, allowances and benefits-in-kind	**33**	32
Retirement scheme contributions	**4**	4
	38	37

Allowances and benefits-in-kind include housing, medical and education allowances. Non-executive directors are appointed on terms of either one or two years.

5 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:

in HK$	2000	1999
Emoluments	Number	Number
$0 – $200,000	9	10
$2,500,001 – $3,000,000	–	1
$4,000,001 – $4,500,000	–	6
$4,500,001 – $5,000,000	6	–
$6,500,001 – $7,000,000	–	1
$7,500,001 – $8,000,000	1	–
	16	18

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 bracket.

B Loans to Members of the Executive Directorate

The following are loans to Members of the Executive Directorate disclosed pursuant to section 161B of the 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 carries interest at the prevailing Best Lending Rate less 1.75% per annum and is secured by a first charge on the property. The maximum outstanding balance of the loan during the year was HK$2.6 million *(1999: HK$3.4 million)* and the balance as at 31 December 2000 was HK$2.2 million *(1999: HK$2.6 million)* with a remaining term of 52 months. The loan granted by the Company to Mr. Clement Kwok King-man under the same Scheme has been fully repaid during the year, with nil balance as at 31 December 2000 *(1999: HK$7.9 million)*. The maximum outstanding balance during the year was HK$7.9 million *(1999: HK$8.0 million)*. This loan also carried interest at the prevailing Best Lending Rate less 1.75% per annum and was secured by a first charge on the property. There were no outstanding unpaid interest nor any doubtful debt provision made against these loans as at 31 December 1999 and 2000.

C Share options

Under the Pre-Global Offering Share Option Scheme ("Share Option Scheme") described in note 38, 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.

6 Profit on property developments

in HK$ million	2000	1999
Profit on property developments comprises:		
Transfer from deferred income (Note 16B)	3,386	2,260
Additional development costs	–	(224)
Other overhead costs	(10)	(6)
	3,376	2,030

7 Depreciation

in HK$ million	2000	1999
Depreciation comprised charges on:		
Railway operation		
– on fixed assets held under finance leases	**19**	20
– on other railway fixed assets	**1,959**	1,909
Assets relating to station advertising, kiosk and miscellaneous businesses	**88**	84
Unallocated corporate assets	**25**	26
	2,091	2,039

8 Interest and finance charges

in HK$ million	2000	1999
Interest expenses in respect of:		
Bank loans and overdrafts, and capital market instruments wholly repayable within 5 years	**1,287**	935
Capital market instruments not wholly repayable within 5 years	**535**	630
Obligations under finance leases	**74**	86
Finance charges	**92**	61
Exchange loss	**14**	14
Interest expenses capitalised:		
Tseung Kwan O Extension Project	**(478)**	(199)
Property projects	**(109)**	(45)
Other capital projects	**(158)**	(87)
Assets under construction	**(48)**	(46)
	(793)	(377)
	1,209	1,349
Interest income in respect of:		
Deposits with financial institutions	**(9)**	(186)
Staff housing loans	**(58)**	(59)
	(67)	(245)
	1,142	1,104

Interest expenses have been capitalised at the average cost of funds to the Company calculated on a monthly basis. The average interest rates for each month varied from 7.5% to 7.8% per annum during the year *(1999: 7.3% to 7.9% per annum)*.

9 Staff separation payments

Staff separation payments for 1999 comprised mainly redundancy payments made to certain managers and operating staff.

In August 1999, a Voluntary Separation Scheme was introduced under which compensation was paid to around 750 staff who elected to terminate their employment with the Company according to their years of service. The staff separation payments for the year ended 31 December 1999 include the above voluntary separation payments and other redundancy payments.

10 Dividend

	2000		1999	
	HK$ million	Cents per share	HK$ million	Cents per share
Final dividend proposed	**500**	**10**	–	–

The proposed final dividend represents an annualised dividend yield of approximately 4.5% based on the IPO offer price of HK$9.38 per share pro-rated for the period for which the Company was listed on the stock exchange during 2000. This dividend payout ratio is consistent with that projected in the IPO Prospectus. The Company proposes that a scrip dividend election will be offered to shareholders with Hong Kong addresses. The Company's majority shareholder, the Financial Secretary Incorporated, has agreed to elect to receive all or part of its entitlement to dividends in the form of scrip to the extent necessary to ensure that the amount payable in cash will not exceed 50% of the total dividend payable.

11 Earnings per share

The calculation of basic earnings per share is based on the profit for the year attributable to shareholders of HK$4,055 million *(1999: HK$2,116 million)* and assuming that 5,000,000,000 ordinary shares were in issue throughout 1999 and 2000.

The calculation of diluted earnings per share is based on the profit for the year attributable to shareholders of HK$4,055 million *(1999: HK$2,116 million)* and the weighted average number of ordinary shares of 5,004,497,055 after adjusting for the number of dilutive potential ordinary shares under the employee share option scheme calculated as follows:

	2000	1999
Number of ordinary shares used in calculating basic earnings per share	**5,000,000,000**	5,000,000,000
Number of ordinary shares deemed to be issued for no consideration	**4,497,055**	–
Weighted average number of shares used for calculating the diluted earnings per share	**5,004,497,055**	5,000,000,000

12 Taxation

A Profits tax

No provision for Hong Kong profits tax has been made in the profit and loss account as the Company has substantial accumulated tax losses carried forward which are available for set off against current and future assessable profits.

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.

The major components of unprovided deferred taxation are:

in HK$ million	**2000**	1999
Depreciation allowances in excess of related depreciation	**5,428**	4,968
Future benefit of tax losses	**(4,788)**	(4,904)
Other timing differences	**1,117**	1,119
Net deferred tax liabilities	**1,757**	1,183

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.

13 Segmental information

The results of major business activities for 2000, with comparative figures for 1999, are summarised below:

in HK$ million	Railway operations	Station commercial and other income	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
Investments in subsidiaries						53
Unallocated assets						2,257
Total assets						92,526
Liabilities						
Segmented liabilities	4,414	147	312	4,873	228	5,101
Deferred income					10,403	10,403
Unallocated liabilities						27,194
Total liabilities						42,698
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	–			

13 Segmental information (continued)

in HK$ million	Railway operations	Station commercial and other income	Property ownership and management	Total railway operations and related activities	Property developments	Total
1999						
Revenue	5,639	823	790	7,252	–	7,252
Less: Operating expenses before depreciation	3,115	150	155	3,420	–	3,420
	2,524	673	635	3,832	–	3,832
Profit on property developments	–	–	–	–	2,030	2,030
Operating profit before depreciation	2,524	673	635	3,832	2,030	5,862
Less: Depreciation	1,927	84	2	2,013	–	2,013
	597	589	633	1,819	2,030	3,849
Unallocated corporate expenses						365
Interest and finance charges (net)						1,104
Profit after interest and finance charges						2,380
Less: Staff separation payments						264
Profit for the year ended 31 December 1999						2,116
Assets						
Operational assets	63,371	1,073	8,896	73,340	–	73,340
Railway construction in progress	4,996			4,996		4,996
Railway assets under construction	3,415			3,415		3,415
Property development in progress					2,968	2,968
Investments in subsidiaries						25
Unallocated assets						2,506
Total assets						87,250
Liabilities						
Segmented liabilities	4,404	149	294	4,847	335	5,182
Deferred income					13,776	13,776
Unallocated liabilities						23,177
Total liabilities						42,135
Other information						
Capital expenditure on:						
Operational assets	2,178	70	118			
Railway construction in progress	3,460					
Railway assets under construction	999					
Property development in progress					1,271	
Non-cash expenses other than depreciation	17	2	–			

No geographical analysis is shown as over 99% of the turnover and operating profit is derived from activities in Hong Kong.

14 Fixed assets

in HK$ million	Investment properties	Leasehold land and buildings	Civil works	Plant and equipment	Assets under construction	Total
Cost or valuation						
At 1 January 2000	8,857	1,748	34,794	39,664	3,415	88,478
Additions	61	–	–	46	2,302	2,409
Disposals / write-offs	–	–	(2)	(239)	(43)	(284)
Surplus / (deficit) on revaluation (Note 31)	1,233	(99)	–	–	–	1,134
Reclassification	–	–	8	(8)	–	–
Assets commissioned	–	–	2	1,294	(1,296)	–
At 31 December 2000	10,151	1,649	34,802	40,757	4,378	91,737
At cost	–	581	34,802	40,757	4,378	80,518
At 31 December 2000 valuation	10,151	1,068	–	–	–	11,219
Aggregate depreciation						
At 1 January 2000	–	52	1,308	10,013	–	11,373
Charge for the year	–	34	332	1,725	–	2,091
Written back on disposal	–	–	–	(178)	–	(178)
Written back on revaluation (Note 31)	–	(24)	–	–	–	(24)
At 31 December 2000	–	62	1,640	11,560	–	13,262
Net book value at 31 December 2000	**10,151**	**1,587**	**33,162**	**29,197**	**4,378**	**78,475**
Net book value at 31 December 1999	8,857	1,696	33,486	29,651	3,415	77,105

Notes:

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

			Leasehold land and buildings			
	Investment properties		Leasehold land for railway depots		Office land and buildings	
in HK$ million	**2000**	1999	**2000**	1999	**2000**	1999
Cost or valuation						
Over 50 years	**1,534**	1,298	**193**	193	**17**	13
10 to 50 years	**8,617**	7,559	**388**	388	**1,051**	1,154
	10,151	8,857	**581**	581	**1,068**	1,167

14 Fixed assets (continued)

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.

C All the investment properties of the Company were revalued at 31 December 2000 by CB Richard Ellis Limited, 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$1,233 million *(1999: HK$432 million)* arising from the revaluation has been transferred to the investment property revaluation reserve (note 31).

D All self-occupied office land and buildings were revalued at 31 December 2000 by CB Richard Ellis Limited, Chartered Surveyors, at open market value on an existing use basis. The net revaluation deficit of HK$75 million *(1999: HK$34 million)* arising from the revaluation has been transferred to the fixed asset revaluation reserve to offset against prior period revaluation surpluses (note 31).

The carrying amount of the office land and buildings at 31 December 2000 would have been HK$1,309 million *(1999: HK$1,337 million)* had the office land and buildings been stated at cost less accumulated depreciation.

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

in HK$ million	Cost **2000**	Aggregate depreciation **2000**	Net book value **2000**	Net book value 1999
Civil works				
– Eastern Harbour Crossing	**1,254**	**192**	**1,062**	1,081

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 financial statements as payments under a finance lease.

15 Railway construction in progress

in HK$ million	Balance at 1 Jan 2000	Expenditure during the year	Balance at 31 Dec 2000
Tseung Kwan O Extension Project			
Main contracts			
– Civil works	**2,127**	**2,338**	**4,465**
– Plant and equipment	**408**	**723**	**1,131**
– Works entrusted to Government	**288**	**79**	**367**
Associated construction costs			
– Site investigation	**68**	**6**	**74**
– Rental of work sites	**63**	**85**	**148**
Overheads			
– Consultancy fees	**707**	**64**	**771**
– Staff costs and general expenses	**1,046**	**398**	**1,444**
Finance costs	**289**	**479**	**768**
	4,996	**4,172**	**9,168**
Tseung Kwan O Extension Further Capital Works Project			
Construction costs	**–**	**1**	**1**
Consultancy fees	**–**	**15**	**15**
Staff costs and general expenses	**–**	**10**	**10**
	–	**26**	**26**
Total	**4,996**	**4,198**	**9,194**

16 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.

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 16B). 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. 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").

16 Property development in progress and deferred income (continued)

A Property development in progress

in HK$ million	Balance at 1 Jan	Transfer from deferred expenditure (Note 17)	Expenditure	Offset against payments received from developers (Note 16B)	Transferred out on project completion	Balance at 31 Dec
2000						
Airport Railway Property Projects	**1,842**	**–**	**159**	**(1,322)**	**(45)**	**634**
Tseung Kwan O Extension Property Projects	**1,083**	**–**	**945**	**(15)**	**–**	**2,013**
Choi Hung Park and Ride Project	**43**	**–**	**9**	**–**	**–**	**52**
	2,968	**–**	**1,113**	**(1,337)**	**(45)**	**2,699**
1999						
Airport Railway Property Projects	1,965	–	424	(547)	–	1,842
Tseung Kwan O Extension Property Projects	248	–	835	–	–	1,083
Choi Hung Park and Ride Project	–	31	12	–	–	43
	2,213	31	1,271	(547)	–	2,968

B Deferred income

in HK$ million	Balance at 1 Jan	Payments received from developers	Offset against property development in progress (Note 16A)	Amount recognised as profit (Note 6)	Balance at 31 Dec
2000					
Airport Railway Property Projects	**13,776**	**1,320**	**(1,322)**	**(3,386)**	**10,388**
Tseung Kwan O Extension Property Projects	**–**	**30**	**(15)**	**–**	**15**
	13,776	**1,350**	**(1,337)**	**(3,386)**	**10,403**
1999					
Airport Railway Property Projects	15,970	613	(547)	(2,260)	13,776

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 Company's balance sheet. Movements in stakeholding funds during the year were as follows:

in HK$ million	2000	1999
Balance as at 1 January	**4,304**	5,596
Stakeholding funds received and receivable	**8,736**	12,200
Add: Interest earned thereon	**225**	310
	13,265	18,106
Disbursements during the year	**(9,254)**	(13,802)
Balance as at 31 December	**4,011**	4,304
Represented by :		
Balances in designated bank accounts as at 31 December	**4,009**	4,302
Retention receivable	**2**	2
	4,011	4,304

17 Deferred expenditure

in HK$ million	Balance at 1 Jan	Expenditure during the year/ (transfer to operating costs)	Transfer to property development in progress (Note 16A)	Recovered from proceeds on sale of shares	Balance at 31 Dec
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**
1999					
Deferred finance charges	74	40	–	–	114
Expenditure on proposed capital projects					
– Choi Hung Park and Ride Project	31	–	(31)	–	–
– Penny's Bay Rail Link	–	4	–	–	4
Initial public offering expenses	–	20	–	–	20
Others	18	(18)	–	–	–
	123	46	(31)	–	138

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.

Following the Board's approval to carry out the preliminary design of the North Island Link project, the related costs incurred are dealt with as deferred expenditure.

Following the approval of the Choi Hung Park and Ride Development Proposal by the Town Planning Board during the first half of 1999, the cumulative costs incurred on the project were transferred to property development in progress (note 16A).

18 Investments in subsidiaries

in HK$ million	2000	1999
Unlisted shares, *at cost*	**56**	28
Less: Provision for diminution in value	**3**	3
	53	25

18 Investments in subsidiaries (continued)

Details of principal subsidiaries at 31 December 2000 are as follows:

Name of Company	Authorised share capital	Issued ordinary share capital	Interest in equity shares	Country of incorporation	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
Creative Star Limited	HK$60,000,000	HK$42,000,000	67.8%	Hong Kong	Development and operation of smart card system
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

Full provision against the cost of investment in MTR Engineering Services Limited and MTR Travel Limited has been made in these financial statements.

A Creative Star Limited

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 ("CS"), 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 CS, its appointees to the Board of Directors of CS are limited to 49% of the voting rights at board meetings. The shareholders have agreed to provide the necessary funding to CS for its operations and for the development of the "Octopus" system. Changes to the shareholdings of CS subsequent to the year end are set out in note 39.

On 20 April 2000, CS 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 CS injected HK$28 million and HK$42 million in the form of subordinated loan and share capital respectively into CS 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 CS.

During the year ended 31 December 2000, a total amount of HK$43 million *(1999: HK$42 million)* was paid by the Company to CS in respect of the central clearing services provided by CS to the Company. During the same period, load agent fees amounting to HK$11 million *(1999: HK$10 million)* were received from CS in respect of services and facilities provided by the Company at various MTR stations to enable customers to add value to the Octopus cards.

18 Investments in subsidiaries (continued)

CS had separately entered into a service agreement with the Company for the Company to provide management services to CS for an initial period of 6 years from the commencement of operation of the Octopus system in 1997. However, this agreement was terminated on 1 September 1999 upon the establishment of an organisation and manpower structure within CS. A residual services agreement was executed between CS and the Company on the same day, specifying the services that the Company will continue to provide to CS on an on-going or as required basis. Most of these services relate to the rental of computer equipment and services and warehouse storage space. Fees payable under the initial and the residual services agreements by CS to the Company for the year amounted to HK$4 million *(1999: HK$30 million)*.

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

Profit and loss account

Year ended 31 December (expressed in HK$ thousand)	2000 (audited)	1999 (audited)
Turnover	**120,179**	94,853
Other operating income	**17,869**	3,293
	138,048	98,146
Staff costs	**(42,686)**	(29,564)
Load agent fees	**(19,334)**	(15,343)
Other expenses	**(33,452)**	(22,287)
Operating profit before depreciation	**42,576**	30,952
Depreciation	**(47,756)**	(38,098)
Operating loss before interest and finance charges	**(5,180)**	(7,146)
Net interest income	**24,005**	14,737
Profit before taxation	**18,825**	7,591
Taxation	**–**	–
Profit for the year	**18,825**	7,591
Company's share of profit	**12,763**	5,147

Balance sheet

at 31 December (expressed in HK$ thousand)	2000 (audited)	1999 (audited)
Assets		
Fixed assets	**361,471**	372,175
Investments	**349,116**	–
Cash at banks and in hand	**147,548**	284,357
Other assets	**76,026**	48,732
	934,161	705,264
Liabilities		
Card floats and card deposits due to cardholders	**(788,199)**	(670,770)
Amounts due to shareholders	**(44,251)**	(26,950)
Other liabilities	**(35,734)**	(30,391)
	(868,184)	(728,111)
Net assets / (liabilities)	**65,977**	(22,847)
Shareholders' funds		
Share capital	**42,000**	1
Shareholders' loan	**28,000**	–
Accumulated losses	**(4,023)**	(22,848)
	65,977	(22,847)
Company's share of net assets / (liabilities)	**44,732**	(15,490)

B Fasttrack Insurance Limited ("FIL"), a wholly-owned subsidiary incorporated in Bermuda, operates as the Company'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 Company'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.

FIL had an operating profit of HK$3 million *(1999: HK$7 million)* for the year ended 31 December 2000. As at 31 December 2000, FIL had retained profits of HK$23 million *(1999: HK$20 million)* and net assets of HK$48 million *(1999: HK$45 million)*.

No dividend has been paid or is payable to the Company by FIL for the year up to 31 December 2000.

18 Investments in subsidiaries (continued)

C MTR Corporation (C.I.) Limited was incorporated in the Cayman Islands as a wholly-owned subsidiary in October 2000. The primary purpose of this subsidiary is to act as a funding vehicle. The subsidiary has an authorised share capital of US$50,000 and its issued share capital as at 31 December 2000 was US$1,000. There have been no business activities during the period from its incorporation to 31 December 2000.

D MTR Travel Limited ("MTRT") operates in Hong Kong, whereas MTR Engineering Services Limited ("MTRES") operates both in Hong Kong and in the United Kingdom. The operations of MTRT have been substantially reduced, with six of its seven sales outlets closed down since 1 January 2000.

The cumulative losses reported by CS, MTRT and MTRES attributable to the Company were as follows:

in HK$ million	2000	1999
Accumulated losses as at 1 January	**23**	19
Net aggregated losses for the year	**–**	4
Accumulated losses as at 31 December	**23**	23

19 Staff housing loans

in HK$ million	Balance at 1 Jan	New loans drawndown	Redemption and repayment	Reduction in provision	Balance at 31 Dec
2000					
Housing loans receivable	**797**	**160**	**(319)**	**–**	**638**
Less: General provision	**4**	**–**	**–**	**(1)**	**3**
	793	**160**	**(319)**	**1**	**635**
1999					
Housing loans receivable	891	156	(250)	–	797
Less: General provision	4	–	–	–	4
	887	156	(250)	–	793

in HK$ million	2000	1999
Amount receivable:		
– within 1 year	**47**	53
– after 1 year	**588**	740
	635	793

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 are secured by mortgage over the relevant properties.

20 Stores and spares

in HK$ million	2000	1999
Stores and spares expected to be consumed:		
– within 1 year	**164**	199
– after 1 year	**119**	99
	283	298
Less: Provision for obsolete stock	**8**	8
	275	290

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

21 Debtors, deposits and payments in advance

in HK$ million	**2000**	1999
Debtors, deposits and payments in advance relate to:		
– Airport Railway Project	**1**	2
– Tseung Kwan O Extension Project	**14**	36
– Railway operations and other projects	**670**	570
	685	608

The Company'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 Company's investment properties and station kiosks are required to pay three months' rental deposit upon the signing of lease agreements.

ii Amounts receivable under interest rate 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 Company, subject to any agreed retentions, are due 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.

The ageing analysis of debtors included above is as follows:

in HK$ million	**2000**	1999
Amount not yet due	**532**	471
Overdue by 30 days	**78**	26
Overdue by 60 days	**6**	11
Overdue by 90 days	**3**	29
Overdue by more than 90 days	**34**	31
Total debtors	**653**	568
Deposits and payments in advance	**32**	40
	685	608

22 Amounts due from the Government and other related parties

in HK$ million	**2000**	1999
Amounts due from:		
– the Government	**191**	207
– the Housing Authority	**24**	48
– the Kowloon-Canton Railway Corporation (KCRC)	**2**	–
– subsidiaries of the Company (net of provision for losses)	**7**	4
	224	259

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 Company 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 2000, the contract retentions on the above entrusted works due for release after one year were HK$13 million *(1999: HK$9 million)*. All other amounts due from the Government and other related parties were expected to be received within 12 months.

The amount due from subsidiaries at 31 December 2000 includes an interest bearing subordinated loan granted by the Company to Creative Star Limited in the amount of HK$19 million *(1999: Nil)*.

23 Cash at banks and in hand

in HK$ million	**2000**	1999
Deposits with financial institutions	**46**	15
Cash at banks and in hand	**53**	53
	99	68

24 Loans and obligations under finance leases

A By type

in HK$ million	Balance at year end closing rate **2000**	Exchange (gain)/loss on related forward exchange contracts **2000**	Balance **2000**	Balance 1999
Capital market instruments				
Listed or publicly traded:				
US dollar Yankee notes due 2005	**2,340**	**(16)**	**2,324**	2,323
US dollar Global notes due 2009	**5,850**	**(15)**	**5,835**	5,823
US dollar Global notes due 2010	**4,680**	**(1)**	**4,679**	–
Debt issuance programme notes due 2005	**195**	**–**	**195**	194
Samurai yen bonds (4th Series) due 2001	**1,018**	**103**	**1,121**	1,120
	14,083	**71**	**14,154**	9,460
Unlisted:				
US dollar private placement notes (Rule 144A) due 2000	**–**	**–**	**–**	1,165
Debt issuance programme notes due 2000 to 2018	**5,094**	**(4)**	**5,090**	4,388
HK dollar medium-term notes due 2000	**–**	**–**	**–**	450
HK dollar note issuance programme notes due 2000 to 2003	**1,500**	**–**	**1,500**	2,500
	6,594	**(4)**	**6,590**	8,503
Total capital market instruments	**20,677**	**67**	**20,744**	17,963
Bank loans and overdrafts	**5,592**	**(16)**	**5,576**	4,209
	26,269	**51**	**26,320**	22,172
Obligations under finance leases	**883**	**–**	**883**	1,005
Total	**27,152**	**51**	**27,203**	23,177

As at 31 December 2000, the Company had available undrawn committed bank loan facilities amounting to HK$13,761 million *(1999: HK$13,113 million)*. In addition, the Company had a number of uncommitted facilities with undrawn amounts totalling HK$20,634 million *(1999: HK$21,323 million)*, comprising a multi-currency medium-term note programme, a HK dollar note issuance programme and short-term bank loan facilities.

No listed debt securities were redeemed during the year.

24 Loans and obligations under finance leases (continued)

B By repayment terms

in HK$ million	Capital market instruments 2000	Bank loans and overdrafts 2000	Obligations under finance leases 2000	Total 2000	Total 1999
Long-term loans and obligations under finance lease					
Amounts repayable beyond 5 years	**10,982**	**–**	**272**	**11,254**	9,355
Amounts repayable within a period of between 2 and 5 years	**7,435**	**1,288**	**336**	**9,059**	6,562
Amounts repayable within a period of between 1 and 2 years	**–**	**2,699**	**143**	**2,842**	2,963
Amounts repayable within 1 year	**2,327**	**658**	**132**	**3,117**	3,826
	20,744	**4,645**	**883**	**26,272**	22,706
Bank overdrafts	**–**	**44**	**–**	**44**	35
Short-term loans	**–**	**887**	**–**	**887**	436
	20,744	**5,576**	**883**	**27,203**	23,177

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.

Obligations under finance lease are 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 14E).

C Bonds and notes issued

Bonds and notes issued during the year ended 31 December 1999 and 2000 comprise:

in HK$ million	2000 Amount issued	2000 Net consideration received	1999 Amount issued	1999 Net consideration received
US dollar global notes	**4,679**	**4,618**	5,811	5,761
Debt issuance programme notes	**700**	**698**	1,155	1,154

US dollar global notes are unsecured and rank pari passu with all other unsecured obligations of the Company. The net proceeds from issuance were used to repay existing indebtedness of the Company and/or for general corporate purposes.

Debt issuance programme notes are unsecured and rank pari passu with all other unsecured obligations of the Company. The net proceeds from issuance were used for general working capital, refinancing or other permitted purposes.

D Guarantees

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

24 Loans and obligations under finance leases (continued)

E Interest rates

The total borrowings, excluding obligations under finance leases, of HK$26,320 million *(1999: HK$22,172 million)* comprise:

	Loan amount HK$ million **2000**	Interest rate % p.a. **2000**	Loan amount HK$ million 1999	Interest rate % p.a. 1999
Fixed rate loans and loans swapped to fixed rates	**17,588**	**6.5 – 8.4**	13,928	6.2 – 8.4
Variable rate loans and loans swapped from fixed rate	**8,732**	**(note)**	8,244	(note)
	26,320		22,172	

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.

25 Off-balance sheet financial instruments

The Company 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 risks associated with the Company's liabilities and not for trading or speculation purposes.

The contracted notional amounts of derivative instruments outstanding by maturity and type at 31 December 2000 are as follows:

	2000 Maturing in				1999
Notional amount in HK$ million	Less than 2 years	2-5 years	Over 5 Years	Total	Total
Foreign exchange forwards	**523**	**258**	**52**	**833**	262
Cross currency and interest rate swaps	**2,860**	**4,244**	**4,044**	**11,148**	10,718
Interest rate swaps and options	**4,550**	**6,200**	**780**	**11,530**	12,481
	7,933	**10,702**	**4,876**	**23,511**	23,461

25 Off-balance sheet financial instruments
(continued)

There are four main categories of risk related to using derivative instruments, namely market risk, credit risk, operational risk and legal risk. Since the Company 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 Company manages credit risk by assigning limits to counter-parties and by dealing only with financial institutions with acceptable credit ratings. The Company 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 Company has not experienced non-performance by any counter-party.

The Company 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.

26 Creditors, accrued charges and provisions

in HK$ million	2000	1999
Creditors, accrued charges and provisions relate to:		
– Airport Railway Project	**415**	549
– Tseung Kwan O Extension Project	**493**	456
– Property Projects	**159**	276
– Railway operations and other projects	**2,210**	2,503
	3,277	3,784

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

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

in HK$ million	2000	1999
Due within 30 days or on demand	**799**	1,068
Due after 30 days but within 60 days	**1,146**	1,264
Due after 60 days but within 90 days	**178**	176
Due after 90 days	**892**	1,019
	3,015	3,527
Rental and other refundable deposits	**262**	257
Total	**3,277**	3,784

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.

A number of claims were lodged with the Company by various contractors in respect of extension of time and additional costs arising from unforeseeable reasons such as delay in handover of sites, unforeseeable ground conditions, late provision of drawings and design changes. These claims are being assessed and resolved as part of the normal process of managing a major construction project of the size and complexity of the Airport Railway. 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 covered by the above mentioned provisions.

As at 31 December 2000, all creditors, accrued charges and provisions were expected to be settled within one year except for HK$216 million *(1999: HK$239 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.

27 Contract retentions

in HK$ million	Due for release after 12 months	Due for release within 12 months	Total
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**
1999			
Airport Railway Project	–	132	132
Tseung Kwan O Extension Project	243	10	253
Property Projects	47	12	59
Railway operations and other projects	118	179	297
	408	333	741

28 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 Company:

in HK$ million		2000	1999
Party Entrusted	**Project**		
Hong Kong Government	Airport Railway Project	**283**	308
	Tseung Kwan O Extension Project	**20**	1
		303	309
Airport Authority	Airport Railway Project	**119**	278
		422	587

As at 31 December 2000, all amounts *(1999: HK$586 million)* due to the Government and other related parties are expected to be settled within one year.

29 Deferred liabilities

in HK$ million	2000	1999
Estate management funds		
– Refundable deposits on managed properties	**28**	27
– Building maintenance and asset replacement reserve funds	**48**	43
	76	70

30 Share capital and capital reserve

in HK$ million	
2000	
Authorised:	
6,500,000,000 shares of HK$1.00 each	**6,500**
Issued and fully paid:	
5,000,000,000 shares of HK$1.00 each	**5,000**
Capital reserve	**27,188**
	32,188
1999 (share capital of MTRC)	
Authorised:	
327,000 shares of HK$100,000 each	32,700
Issued and fully paid:	
321,881 shares of HK$100,000 each	32,188

30 Share capital and capital reserve (continued)

On 26 April 2000, the Company was incorporated with an authorised share capital of HK$33 billion divided into 33 billion shares of HK$1.00 each and an issued share capital of HK$2.00 divided into two shares of HK$1.00 each. On the Appointed Day, all the property, rights and liabilities to which MTRC was entitled or subject immediately before 30 June 2000 became the property, rights and liabilities of the Company. By virtue of the new MTR Ordinance, the Company issued 2,999,999,998 shares to the Financial Secretary Incorporated on trust for the Government with an aggregate par value of HK$2,999,999,998. The difference between the aggregate par value of the shares already in issue as at the Appointed Day and the aggregate par value of the issued shares of MTRC immediately before the Appointed Day was transferred to a capital reserve established by the Articles of Association. This 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.

Pursuant to resolutions passed by the shareholders of the Company on 12 September 2000, the authorised share capital of the Company was reduced from HK$33 billion to HK$6.5 billion. On the same day, a sum of HK$2 billion of the capital reserve account was capitalised and applied in paying up in full 2 billion shares of HK$1.00 each which were allotted and issued to The Financial Secretary Incorporated on trust for the Government in accordance with article 132(e), as amended, of the Company's articles of association, prior to the listing of the Company's shares on The Stock Exchange of Hong Kong Limited.

31 Other reserves

in HK$ million	Investment property revaluation reserve	Fixed asset revaluation reserve	Retained profits	Total
2000				
Balance as at 1 January	**5,268**	**214**	**7,445**	**12,927**
Surplus / (Deficit) on revaluations	**1,233**	**(75)**	**–**	**1,158**
Retained profit for the year	**–**	**–**	**3,555**	**3,555**
Balance as at 31 December	**6,501**	**139**	**11,000**	**17,640**
1999				
Balance as at 1 January	4,836	248	5,329	10,413
Surplus / (Deficit) on revaluations	432	(34)	–	398
Retained profit for the year	–	–	2,116	2,116
Balance as at 31 December	5,268	214	7,445	12,927

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 2000, the total amount of reserves available for distribution to shareholders under the Companies Ordinance amounted to HK$11,000 million *(1999: HK$7,445 million)*.

32 Cash flow statement analysis

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

in HK$ million	2000	1999
Operating profit from railway and related operations before depreciation	**3,912**	3,493
Decrease in provision for staff housing loans	**(1)**	(1)
Loss on disposal of fixed assets	**62**	16
Loss on exchange translation	**10**	2
(Increase) / Decrease in debtors, deposits and payments in advance	**(50)**	69
Decrease / (Increase) in stores and spares	**15**	(25)
Decrease in creditors, accrued charges and provisions	**(187)**	(26)
Reimbursement / (Payment) of initial public offering expenses	**20**	(20)
Decrease in other deferred expenditure	**–**	18
Staff separation payments	**(49)**	(215)
Net cash inflow from operating activities	**3,732**	3,311

B Analysis of changes in financing during the year:

in HK$ million	Share capital	Capital reserve	Loans and finance lease obligations	Deferred liabilities	Total
2000					
Balance as at 1 January	**32,188**	**–**	**23,142**	**70**	**55,400**
Transfer to capital reserve (Note 30)	**(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**
1999					
Balance as at 1 January	32,188	–	16,865	58	49,111
Cash inflow from financing	–	–	6,261	9	6,270
Unrealised exchange loss	–	–	16	–	16
Interest capitalised	–	–	–	3	3
Balance as at 31 December	32,188	–	23,142	70	55,400

33 Retirement Scheme

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 2000, the total membership was 6,957*(1999: 7,212)*. In 2000, members contributed HK$82 million *(1999: HK$91 million)* and the Company contributed HK$278 million *(1999: HK$308 million)* to the hybrid benefit section. The net asset value of the hybrid benefit section as at 31 December 2000 was HK$3,851 million *(1999: HK$3,934 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 2000, the total membership under the section was 234 *(1999: 79)*. In 2000, total members' contributions were HK$2.4 million *(1999: HK$0.4 million)* and the total contribution from the Company was HK$4.9 million *(1999: HK$1.0 million)*. The net asset value as at 31 December 2000 was HK$8.2 million *(1999: HK$1.4 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 by Watson Wyatt Hong Kong Limited, an independent firm of consulting actuaries. A full actuarial valuation of the Scheme, comprising both the hybrid and the defined contribution benefit sections, was carried out at 31 December 2000 using an attained age method. The principal actuarial assumptions used were a long-term rate of investment return net of salary increases of 2% *(1999: 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.

33 Retirement Scheme (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 Scheme Ordinance with effect from 1 December 1995. As at 31 December 2000, there were 758 members *(1999: 834)* 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 2000, the Company's contributions amounted to HK$15 million *(1999: HK$18 million)*. The net asset value of the RBS as at 31 December 2000 was HK$49 million *(1999: HK$35 million)*.

Actuarial valuations of the RBS are carried out annually by Watson Wyatt Hong Kong Limited. A full actuarial valuation of the RBS was carried out at 31 December 2000 using an attained age method. The principal actuarial assumptions used were a rate of investment return net of estimated rates of salary increases, of approximately 2% *(1999: 1.5%)* 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 2000, the total number of employees of the Company participating in the MPF Scheme was 434 *(1999: N/A)*. In 2000, total members' contributions were HK$0.01 million *(1999: N/A)* and total contribution from the Company was HK$0.2 million *(1999: N/A)*.

34 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.

Since the signing of the Agreement, all major contracts of the project have been awarded and construction works are well underway. The project is on programme for completion by October 2002.

In view of most of the contracts being awarded at prices below the engineer's estimate, the Company has further reduced the budget for the project from HK$24 billion to HK$21 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 2000, the Company had incurred expenditure of HK$9,168 million *(1999: HK$4,996 million)* on the project and had authorised outstanding commitments on contracts totalling HK$3,388 million *(1999: HK$6,121 million)* related to the project.

35 Interests in jointly controlled operations

The Company has the following jointly controlled operations in respect of its property development projects as at 31 December 2000.

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 - 2005
Kowloon Station			
Package One	Residential	147,562	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	Retail / hotel	64,600	2004
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 2001 - 2004
Package Three	Residential / retail	413,200	By phases from 2002 - 2004
Tseung Kwan O Station			
Area 57a	Residential / retail	29,642	2003

The Company'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 Company 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 16) as the case may be. As at 31 December 2000, total property development in progress in respect of these jointly controlled operations was HK$634 million *(1999: HK$583 million)* and total deferred income was HK$10,403 million *(1999: HK$13,776 million)*.

As the Company 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 2000 was HK$147 million *(1999: HK$246 million)* in respect of accruals related to property enabling works.

During the year ended 31 December 2000, profits of HK$3,376 million *(1999: HK$2,030 million)* were recognised (note 6).

36 Material related party transactions

The Financial Secretary Incorporated, which holds 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 Company 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 Company, are considered to be related party transactions pursuant to Statement of Standard Accounting Practice 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 Company. 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 Company 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 16).

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 34).

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

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 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 2000 are provided in notes 15, 22 and 28 respectively.

E 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;

F On 30 June 2000, the Company entered into an agreement with the Government in respect of the vesting of certain assets comprised in the Eastern Harbour Crossing by Government into the Company in 2008 for nominal consideration;

G In connection with the partial privatisation of the Company and listing of the shares on the stock exchange:

i the Company, the Members of the Board and the Members of the Executive Directorate (the "Directors") entered into a deed of indemnity with the Government, under which the Government agreed to indemnify the Company and the Directors in respect of certain liabilities relating to the global offering of the shares in the Company by the Government;

ii the Company and the Government entered into certain underwriting agreements with third parties in relation to the underwriting of the Privatisation Share Offer of the Company.

H The Company has business transactions with its subsidiaries in the normal course of operations, details of which are disclosed in notes 18 and 22.

I The Company has paid remuneration to the Members of the Board and Members of the Executive Directorate as well as granted loans to Members of the Executive Directorate during the year, the details of which are described in note 5.

37 Commitments

A Capital commitments

i Outstanding capital commitments as at 31 December 2000 not provided for in the accounts were as follows:

in HK$ million	Railway operations	Tseung Kwan O Extension Project	Property development projects	Total
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**
1999				
Authorised but not yet contracted for	816	14,279	835	15,930
Authorised and contracted for	2,653	6,121	1,138	9,912
	3,469	20,400	1,973	25,842

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:

in HK$ million	Improvement and enhancement works	Acquisition of property, plant and equipment	Total
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**
1999			
Authorised but not yet contracted for	624	192	816
Authorised and contracted for	2,283	370	2,653
	2,907	562	3,469

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

in HK$ million	2000	1999
Authorised but not yet contracted for	**2,014**	480
Authorised and contracted for	**39**	28
	2,053	508

B Operating lease commitments

The Company had operating leases on office buildings and staff quarters as at 31 December 2000. The commitments payable within one year analysed according to the period in which the leases expire, and in subsequent years, are as follows:

in HK$ million	2000	1999
Payable within one year		
Leases expiring within one year	**3**	7
Leases expiring between one to five years	**10**	8
	13	15
Payable after one but within five years	**9**	12
	22	27

The above includes HK$17 million *(1999: HK$21 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 Company 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 Company retained the right to manage these properties after their completion. The Company, 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 Company 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.

37 Commitments (continued)

As at 31 December 2000, the Company had total outstanding liabilities and contractual commitments of HK$272 million *(1999: HK$271 million)* in respect of these works and services. Cash funds totalling HK$401 million *(1999: HK$314 million)* obtained through monthly payments of management service charges from the managed properties are held by the Company on behalf of those properties for settlement of works and services provided.

38 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

39 Subsequent event

On 17 January 2001, the Company entered into a new Shareholders' Agreement with the other shareholders of Creative Star Limited ("CS"). Under the new agreement, the shareholding structure of CS has been revised as follows:

Company	Before new shareholders' agreement	After new shareholders' agreement
MTR Corporation Limited	67.8%	57.4%
Kowloon-Canton Railway Corporation	24.7%	22.1%
Kowloon Motor Bus Company (1933) Limited/KMB Public Bus Services Holdings Limited	3.0%	12.4%
Citybus Limited	1.4%	5.0%
New World First Bus Services Limited	0.0%	3.05%
New World First Ferry Services Limited	0.0%	0.05%
Hongkong & Yaumati Ferry Company Limited	3.1%	0.0%

The Company received an initial consideration of HK$15.6 million for the sale of its shares together with a deferred consideration in the event that CS subsequently becomes a stock exchange listed company. The listing of CS is not expected in the near future.

The new Shareholders' Agreement also removes CS's previous non-profit making restriction.

40 Comparative figures

The presentation and classification of certain items in the segmental activity information have been revised to comply with the requirements of the new Statement of Standard Accounting Practice 26 on "Segment reporting". Certain comparative figures have therefore been reclassified to conform with the current year's presentation.

41 Approval of accounts

The accounts were approved by the Board on 1 March 2001.