Unaudited supplementary information for US bond holders

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

A Revenue recognition on property developments

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

B Telford headquarters redevelopment

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

C Asset revaluations and depreciation

Under HK GAAP, investment properties are stated on the basis of appraised value, and depreciation expense is not provided on such properties. Also under HK GAAP, self-occupied land and buildings are stated at their open market values on the basis of their existing use at the date of revaluation less any subsequent accumulated depreciation. Under US GAAP, such revaluations are not permitted. Accordingly, for the purposes of the reconciliation between HK GAAP and US GAAP, the properties of the Group, which are stated at appraised or open market value, have been restated at historical cost less accumulated depreciation. Depreciation has been based on the historical cost of the properties and the shorter of unexpired lease term or useful life of 50 years. The approximate gross historical cost of investment properties subject to depreciation under US GAAP, which are not depreciated under HK GAAP, amounted to HK$3,234 million and HK$3,250 million at 31 December 2001 and 2002, respectively.

D Depreciation of certain fixed assets

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

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

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

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

E Pension costs

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

F Income taxes

The Group's 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 become payable in the foreseeable future. With respect to deferred tax assets (a net deferred tax debit), HK GAAP includes recognition criteria providing for net deferred tax assets, which are probable of recovery in the foreseeable future, with assurance beyond a reasonable doubt that taxable income will be generated in the future. Based on these recognition criteria, as disclosed in note 12 of Notes to the Accounts, the Group had an unrecognised net deferred tax liability at 31 December 2002, which is not expected with reasonable probability to become payable.

US GAAP requires that full provision be made for all deferred taxes as they arise, except that a valuation allowance is provided on deferred tax assets to the extent that it is not "more likely than not" that such deferred tax assets will be realised. Under US GAAP, "more likely than not" is defined as a likelihood of more than 50 percent.

G Capitalisation of certain costs

Under HK GAAP, certain costs of a non-incremental nature are capitalised relative to the Airport Railway Project and other capital projects. Under US GAAP, it is not permissible to capitalise these non-incremental costs. The preponderance of the capitalised costs relating to the capital projects is incremental in nature and accordingly, is properly capitalised under both HK GAAP and US GAAP.

H Interest

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

I Stock based compensation

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

J Others

Other adjustments primarily represent the net effect of costs deferred under HK GAAP which are required to be recognised as expenses under US GAAP, and certain anticipated expenses recognised under HK GAAP which are not recognised as expenses under US GAAP until the related goods or services are received or provided.

K Derivative instruments

Under US GAAP, effective 1 January 2001, the Group adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", which establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities. All derivatives, whether designated in hedging relationships or not, are required to be recorded on the balance sheet at fair value. If the derivative is designated as a fair value hedge, the changes in the fair value of the derivative and of the hedged item attributable to the hedged risk are recognised in earnings. If the derivative is designated as a cash flow hedge, the effective portions of changes in the fair value of the derivative are recorded in other comprehensive income and are recognised in the profit and loss account when the hedged item affects earnings. Ineffective portions of changes in the fair value of cash flow hedges are recognised in earnings.

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

Under HK GAAP, derivative instruments are not required to be recorded on the balance sheet at fair value.

Reconciliation of net income to US GAAP

Year Ended 31 December *in $ million*	2001 HK$ (Note 1)	**2002** **HK$**	**2002** **US$** (Note 2)
Profit for the year in accordance with HK GAAP	4,284	**4,212**	**540**
Adjustments required under US GAAP			
Revenue recognition on property developments	1,216	**(115)**	**(15)**
Depreciation on revalued properties and redevelopment	(64)	**(66)**	**(8)**
Depreciation on certain fixed assets	10	**10**	**1**
Difference in periodic pension cost	112	**45**	**6**
Deferred tax accounting	(724)	**(761)**	**(98)**
Capitalisation of certain costs	(65)	**(66)**	**(8)**
Interest	(21)	**(20)**	**(3)**
Stock based compensation	(60)	**(5)**	**(1)**
Derivative instruments including cumulative effect of adopting SFAS No. 133 in 2001	(53)	**(11)**	**(1)**
Other	(1)	**3**	**–**
Tax effect of above adjustments	(160)	**35**	**5**
Net income for the year in accordance with US GAAP	4,474	**3,261**	**418**
Basic and diluted earnings per share	HK$0.89	**HK$0.64**	**US$0.08**

Reconciliation of shareholders' equity to US GAAP

As of 31 December *in $ million*	2001 HK$ (Note 1)	**2002** **HK$**	**2002** **US$** (Note 2)
Shareholders' funds in accordance with HK GAAP	54,049	**56,827**	**7,286**
Adjustments required under US GAAP			
Revenue recognition on property developments	2,277	**2,162**	**277**
Accumulated depreciation on revalued properties and redevelopment	(298)	**(364)**	**(47)**
Asset revaluation reserves	(6,634)	**(6,430)**	**(824)**
Accumulated depreciation on certain fixed assets	(781)	**(771)**	**(99)**
Difference in periodic pension cost	(199)	**(110)**	**(14)**
Deferred tax accounting	(2,481)	**(3,242)**	**(416)**
Capitalisation of certain costs	(1,173)	**(1,239)**	**(159)**
Interest	676	**656**	**84**
Derivative instruments including cumulative effect of adopting SFAS No. 133 in 2001	(326)	**(501)**	**(64)**
Other	37	**40**	**5**
Tax effect of above adjustments	(121)	**(86)**	**(11)**
Shareholders' equity in accordance with US GAAP	45,026	**46,942**	**6,018**

Notes:

1. Under HK GAAP, the Group adopted SSAP 34, "Employee Benefits", on 1 January 2002. As a result of the adoption of SSAP 34, the Group recognises liabilities for certain employee benefits in the accounting period in which the obligations arise, including staffs' vested annual leave and leave passage entitlements. Under HK GAAP, SSAP 34 was adopted retrospectively, resulting in the restatement of certain prior year balances (note 42A of Notes to the Accounts). Under US GAAP, the adoption of SSAP 34 with respect to the accrual of staffs' vested annual leave and leave passage entitlements represents a restatement for a correction of an error. However, the amount of the restatement under US GAAP was not considered material to the Group's results of operations or shareholders' equity.

2. For the convenience of readers, the US dollars equivalent was translated at HK$7.7998 which was the Hong Kong closing buying rate quoted from Reuters at 4 pm of 31 December 2002.