NOTES TO THE CONSOLIDATED ACCOUNTS

1 Statement of Compliance

These accounts have been prepared in compliance with the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). These accounts have also been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), and accounting principles generally accepted in Hong Kong. The HKFRSs are fully converged with International Financial Reporting Standards in all material respects. A summary of the principal accounting policies adopted by the Group is set out in note 2.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for accounting periods beginning on or after 1 January 2019. Changes in accounting policies resulting from the initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these accounts are disclosed in note 2A(iii).

2 Principal Accounting Policies

A Basis of Preparation of the Accounts

(i) The measurement basis used in the preparation of the accounts is the historical cost basis except that the following assets and liabilities are stated at their fair value as explained in the accounting policies set out below:

- investment properties (note 2E(i));
- self-occupied buildings (note 2E(ii));
- investments in securities (note 2O); and
- derivative financial instruments (note 2V).

(ii) The preparation of the accounts in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenditure. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements and estimations about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the accounts and estimates are discussed in note 49.

(iii) The HKICPA has issued a new HKFRS, HKFRS 16, *Leases*, and a number of amendments to HKFRSs that are first effective for the current accounting period of the Group.

Except for HKFRS 16, none of the developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented in this annual report.

HKFRS 16 replaces HKAS 17, *Leases*, and the related interpretations, HK(IFRIC) 4, *Determining whether an arrangement contains a lease*, HK(SIC) 15, *Operating leases – incentives*, and HK(SIC) 27, *Evaluating the substance of transactions involving the legal form of a lease*.

The accounting policies in respect of leases prior to and after 1 January 2019 are detailed in Note 2F. The lessor accounting requirements are brought forward from HKAS 17 and are substantially unchanged.

The Group has applied HKFRS 16 as from 1 January 2019. At initial application, the Group has elected (a) to use the modified retrospective approach; (b) to apply the recognition exemption for operating leases with a remaining lease term of less than 12 months from 1 January 2019; and (c) to apply a single discount rate to a portfolio of leases with reasonably similar characteristics. The Group applies the new definition of a lease in HKFRS 16 to contracts that were effective as at 1 January 2019. For lease liabilities, at the date of transition to HKFRS 16 (i.e. 1 January 2019), the Group determined the length of the remaining lease terms and measured the lease liabilities for the leases at the present value of the remaining lease payments, discounted using its incremental borrowing rates at 1 January 2019. The weighted average rate applied was 4.5%. For contracts entered into before 1 January 2019 which are or contain leases, the Group recognised right-of-use assets as if HKFRS 16 had always been applied since the commencement date of the leases, other than discounting using the relevant borrowing rate at 1 January 2019. As a result, any difference between the right-of-use asset recognised, the lease liability and related net deferred tax, is recognised as an adjustment to the opening balance of equity at 1 January 2019.

Comparative information has not been restated and continue to be reported under HKAS 17. The difference between the amount of operating lease commitments as at 31 December 2018 as disclosed in the Group's 2018 consolidated accounts and the amount of lease liabilities initially recognised at 1 January 2019 mainly related to the commitments of those arrangements which are not leases under HKFRS 16, as well as the discounting effect of lease payments.

2 Principal Accounting Policies *(continued)*

A Basis of Preparation of the Accounts *(continued)*

Upon adoption of HKFRS 16 on 1 January 2019, the Group recognised right-of-use assets under "other property, plant and equipment" and "investment properties" of HK$491 million and HK$361 million respectively, lease liabilities under "loans and other obligations" of HK$865 million and related net deferred tax assets of HK$5 million, with the net difference of HK$8 million being recognised as a decrease in the opening balance of "retained profits", on leases previously classified as operating leases.

After the initial recognition of right-of-use assets and lease liabilities as at 1 January 2019, the Group as a lessee is required to recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term.

So far as the impact of the adoption of HKFRS 16 on leases previously classified as finance leases is concerned, the Group is not required to make any adjustments at the date of initial application of HKFRS 16, other than changing the classification for the lease liability. Accordingly, instead of "finance leases" under "loans and other obligations", the amount of HK$450 million is included within "lease liabilities" under "loans and other obligations". There is no impact on the classification and balance for the related leased asset and equity.

(iv) The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (note 50).

B Basis of Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates and joint venture (note 2D) made up to 31 December each year. The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from or to the date of their acquisition or disposal, as appropriate.

C Subsidiaries and Non-controlling Interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group or other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated accounts from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated accounts. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated profit and loss account, statement of comprehensive income, statement of changes in equity and statement of financial position respectively.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in the profit and loss account. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or a joint venture (note 2D).

Investments in subsidiaries are carried in the Company's statement of financial position at cost less any impairment losses (note 2I(ii)).

D Associates and Joint Ventures

An associate is an entity over which the Group or the Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A joint venture is an arrangement whereby the Group or the Company and other parties contractually agree to share control of the arrangement, and have rights to the net assets of the arrangement.

An investment in an associate or a joint venture is accounted for in the consolidated accounts of the Group using the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the investees' net assets. The Group's share of the post-acquisition results of the investees for the year is recognised in the consolidated profit and loss account, whereas the Group's share of the post-acquisition items of the investees' other comprehensive income is recognised in the consolidated statement of comprehensive income.

When the Group's share of losses equals or exceeds its interest in the associate or the joint venture, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest in the investee is the carrying amount of the investment under the equity method together with any other long-term interests that in substance form part of the Group's net investment in the associate or the joint venture (after applying the expected credit losses ("ECL") model to such other long-term interests where applicable (see note 2I(i)).

Unrealised profits and losses resulting from transactions between the Group and its associates and joint venture are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in the profit and loss account.

2 Principal Accounting Policies *(continued)*

D Associates and Joint Ventures *(continued)*

If an investment in an associate becomes an investment in a joint venture or vice versa, retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method.

In all other cases, when the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in the profit and loss account. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset.

In the Company's statement of financial position, investments in associates and joint venture are stated at cost less impairment losses (note 2I(ii)).

E Fixed Assets

(i) Investment Properties

Investment properties are land and/or buildings which are owned or held under a leasehold interest to earn rental income and/or for capital appreciation. These include properties that are being constructed or developed for future use as investment properties.

Investment properties are stated on the statement of financial position at fair value as measured semi-annually by independent professionally qualified valuers. Gains or losses arising from changes in the fair value are recognised in the consolidated profit and loss account in the period in which they arise.

(ii) Other Property, Plant and Equipment

Leasehold land registered and located in the Hong Kong Special Administrative Region is stated at cost less accumulated depreciation and impairment losses (note 2I(ii)). Self-occupied leasehold buildings where the Group is the registered owner of the property interest are stated on the statement of financial position at their fair value at the date of revaluation less any subsequent accumulated depreciation. Revaluations are performed by independent qualified valuers semi-annually, with changes in the fair value arising on revaluations recorded as movements in the fixed assets revaluation reserve, except:

(a) where the balance of the fixed assets revaluation reserve relating to a self-occupied leasehold 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

(b) 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 thereafter taken to the fixed assets revaluation reserve.

Civil works and plant and equipment, including right-of-use assets arising from freehold or leasehold properties where the Group is not the registered owner of the property interest, and right-of-use assets arising from leases of underlying plant and equipment are stated at cost less accumulated depreciation and impairment losses (note 2I(ii)).

Assets under construction include capital works on operating railway and are stated at cost less impairment losses (note 2I(ii)). 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 the appropriate fixed assets category when substantially all the activities necessary to prepare the asset for its intended use are completed.

(iii) Service Concession Assets

Where the Group enters into service concession arrangements under which the Group acquires the right to access, use and operate certain assets for the provision of public services, upfront payments and expenditure directly attributable to the acquisition of the service concession up to inception of the service concession are capitalised as service concession assets and amortised on a straight-line basis over the period of the service concession. Annual payments over the period of the service concession with the amounts fixed at inception are capitalised at their present value, calculated using the incremental long term borrowing rate determined at inception as the discount rate, as service concession assets and amortised on a straight-line basis over the period of the service concession, with a corresponding liability recognised as obligations under service concession. Annual payments for the service concession which are not fixed or determinable at inception and are contingent on future revenue are charged to the profit and loss account in the period when incurred.

Where the Group enters into service concession arrangements under which the Group constructs, uses and operates certain assets for the provision of public services, construction revenue and costs are recognised in the profit and loss account by reference to the stage of completion at the end of reporting period while the fair value of construction service is capitalised initially as service concession assets in the statement of financial position and amortised on a straight-line basis over the shorter of the assets' useful lives and the period in which the service concession assets are expected to be available for use by the Group.

Expenditure for assets subject to service concession is capitalised and amortised on a straight-line basis at rates sufficient to write off their cost less their estimated residual value, if any, over the shorter of the assets' useful lives and the remaining period of the service concession.

Service concession assets are carried on the statement of financial position at cost less accumulated amortisation and impairment losses, if any (note 2I(ii)).

2 Principal Accounting Policies *(continued)*

E Fixed Assets *(continued)*

(iv) Subsequent Expenditure and Gains or Losses on Retirement or Disposal

Subsequent expenditure relating to the replacement and/or upgrade of certain parts of an existing asset is recognised in the carrying amount of the asset if it is probable that future economic benefit will flow to the Group and the cost of the item can be measured reliably. The carrying amount of those parts that are replaced is derecognised, with any gain or loss arising therefrom being dealt with in the profit and loss account.

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

Gains or losses arising from the retirement or disposal of an asset are determined as the difference between the net disposal proceeds and the carrying amount of the asset. Such gains or losses are recognised as income or expense in the profit and loss account on the date of retirement or disposal. Any related revaluation surplus is transferred from the fixed assets revaluation reserve to retained profits and is not re-classified to profit and loss account.

F Leased Assets

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

(i) As a Lessee

(a) Policy applicable from 1 January 2019

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets. When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses (see notes 2J and 2I(ii)), except for the following types of right-of-use asset:

- right-of-use assets that meet the definition of investment property are carried at fair value in accordance with note 2E(i);
- right-of-use assets related to leasehold self-occupied buildings where the Group is the registered owner of the leasehold interest are carried at fair value in accordance with note 2E(ii); and
- right-of-use assets related to interests in leasehold land where the interest in the land is held as inventory are carried at the lower of cost and net realisable value in accordance with note 2N.

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

(b) Policy applicable prior to 1 January 2019

Leases of assets under which the lessee assumes substantially all the risks and rewards of ownership are classified as finance leases. Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments (computed using the rate of interest implicit in the lease), of such assets are included in fixed assets and the corresponding liabilities, net of finance charges are recorded as obligations under finance leases. Depreciation and impairment losses are accounted for in accordance with the accounting policies as set out in notes 2J and 2I(ii) respectively. Finance charges implicit in the lease payments are charged to the profit and loss account over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

Leases of assets under which the lessor has not transferred substantially all the risks and rewards of ownership are classified as 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 in progress, property development in progress and deferred expenditure respectively.

2 Principal Accounting Policies *(continued)*

F Leased Assets *(continued)*

(ii) As a Lessor

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to the ownership of an underlying assets to the lessee. If this is not the case, the lease is classified as an operating lease.

When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. The rental income from operating leases is recognised in accordance with note 2AA(ii).

G Goodwill

Goodwill represents the excess of:

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash-generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (note 2I(ii)).

On disposal of a cash-generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

H Property Management Rights

Where the Group makes payments for the acquisition of property management rights, the amounts paid are capitalised as intangible assets and stated on the statement of financial position at cost less accumulated amortisation and impairment losses (note 2I(ii)). Property management rights are amortised to the profit and loss account on a straight-line basis over the terms of the management rights.

I Impairment of Assets

(i) Credit Losses from Financial Instruments, Contract Assets and Lease Receivables

For the Group's trade receivables, contract assets and lease receivables, the Group recognises a loss allowance for expected credit losses ("ECL") which is measured at an amount equal to "lifetime ECLs" (which are the losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies). For the Group's other financial assets measured at amortised cost, the loss allowance is measured at an amount equal to "12-month ECLs" (which are losses that are expected to result from possible default events within the 12 months after the reporting date) unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to "lifetime ECLs". Financial assets measured at fair value are not subject to the ECL assessment.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

(ii) Impairment of Other Assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

- fixed assets (including right-of-use assets and service concession assets but other than assets carried at revalued amounts);
- property management rights;
- goodwill;
- railway construction in progress;
- property development in progress;
- deferred expenditure; and
- investments in subsidiaries, associates and joint ventures.

2 Principal Accounting Policies *(continued)*

I Impairment of Assets *(continued)*

If any such indication exists, the asset's recoverable amount is estimated. In addition, the recoverable amount for goodwill is estimated annually whether or not there is any indication of impairment.

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

An impairment loss is recognised in the profit and loss account whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount of the asset. An impairment loss in respect of goodwill is not reversed.

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

J Depreciation and Amortisation

(i) Investment properties are not depreciated.

(ii) Fixed assets other than investment properties, assets under construction and service concession assets which are amortised over the entire or remaining period of the service concession (note 2E(iii)) are depreciated or amortised on a straight-line basis at rates sufficient to write off their cost or valuation, less their estimated residual value, if any, over their estimated useful lives as follows:

Land and Buildings

Self-occupied buildings	the shorter of 50 years and the unexpired term of the lease
Leasehold land	the unexpired term of the lease

Civil Works

Excavation and boring	Indefinite
Tunnel linings, underground civil structures, overhead structures and immersed tubes	100 years
Station building structures	100 years
Depot structures	80 years
Kiosk structures	20 – 30 years
Cableway station tower and theme village structures	27 – 30 years

Plant and Equipment

Rolling stock and components	15 – 42 years
Platform screen doors	20 – 35 years
Rail track	15 – 50 years
Environmental control systems, lifts and escalators, fire protection and drainage system	20 – 45 years
Power supply systems	20 – 45 years
Aerial ropeway and cabin	10 – 27 years
Automatic fare collection systems, metal station kiosks, and other mechanical equipment	9 – 25 years
Train control and signalling equipment, station announcement systems, telecommunication systems and advertising panels	5 – 35 years
Station architectural finishes	20 – 30 years
Fixtures and fittings	10 – 25 years
Maintenance equipment	10 – 40 years
Office furniture and equipment	5 – 15 years
Computer software licences and applications	5 – 10 years
Computer equipment	3 – 5 years
Cleaning equipment and tools	5 years
Motor vehicles	5 – 12 years

Where parts of an item of property, plant and equipment have different useful lives, each part is depreciated or amortised separately. The useful lives of the various categories of fixed assets are reviewed annually in the light of actual asset condition, usage experience and the current asset replacement programme.

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

2 Principal Accounting Policies *(continued)*

K Construction Costs

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

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

(ii) After entering into a project agreement, 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.

L Joint Operations

A joint operation is an arrangement whereby the Group and other parties contractually agree to share control of the arrangement, and have rights to the assets, and obligations for the liabilities, relating to the arrangement. The Group recognises its interest in the joint operation by combining the assets, liabilities, revenues and expenses relating to its interest with similar items on a line by line basis. Consistent accounting policies are applied for like transactions and events in similar circumstances.

The arrangements entered into by the Group with developers for Hong Kong property development without establishing separate entities are considered to be joint operations in accordance with HKFRS 11, *Joint Arrangements*. Under the development arrangements, the Group is normally responsible for its own costs, including in-house staff costs and the costs of enabling works, and the developers normally undertake to pay for all other project costs such as land premium (or such remaining portion as not already paid by the Group), construction costs, professional fees, etc. In respect of its interests in such operations, the Group accounts for the purchase consideration of development rights, costs of enabling works (including any interest accrued) and land costs (including any land premiums) paid net of payments received as property development in progress. In cases where payments received from developers exceed the related expenditures incurred by the Group, such excess is recorded as deferred income. Expenses incurred by the Group on staff, overhead and consultancy fees in respect of these developments are also capitalised as property development in progress. The Group's share of income earned from such operations is recognised in the profit and loss account on the basis of note 2M(iii) after netting off any related balance in property development in progress at that time.

M Property Development

(i) Costs incurred by the Group in respect of site preparation, land costs, acquisition of development rights, aggregate cost of development, borrowing costs capitalised, provisions and other direct expenses are dealt with as property development in progress.

(ii) Payments received from developers in respect of property developments are offset against the amounts in property development in progress attributable to that development. Payments received from developers in excess of the balance in property development in progress are transferred to deferred income which is included in creditors and other payables. In these cases, further costs subsequently incurred by the Group in respect of that development are charged against deferred income.

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

- where the Group receives payments from developers, profits arising from such payments are recognised when the foundation and site enabling works are complete and acceptable for development, and after taking into account the outstanding risks and obligations, if any, retained by the Group in connection with the development;
- where the Group receives a right to a share of the net surplus from the development, the Group's share of the profit is initially recognised once the amounts of revenue (including the fair value of any unsold properties) and costs for the development as a whole can be estimated reliably. The Group's interest in any unsold properties is subsequently remeasured on a basis consistent with the policy set out in note 2N and included within properties held for sale; and
- where the Group receives a distribution of the assets of the development, profit is recognised based on the fair value of such assets at the time of receipt and after taking into account any outstanding risks and obligations retained by the Group in connection with the development.

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

(iv) Revenue arising from sales of properties in Mainland of China is recognised when the legal assignment is completed, which is the point in time when the purchaser has the ability to direct the use of the properties and obtain substantially all of the remaining benefits of the properties. Deposits and instalments received on properties sold prior to the date of revenue recognition are included in the consolidated statement of financial position under "Creditors and other payables".

(v) Where properties under construction are received from a development for investment purpose, these properties are recognised as investment properties at fair value. Further costs incurred in the construction of those assets and the related fitting out costs are capitalised in investment properties.

2 Principal Accounting Policies *(continued)*

N Properties Held for Sale

Where properties are held for sale, those properties are stated initially at their cost and subsequently carried at the lower of cost and net realisable value.

For those properties in Hong Kong, cost represents the fair value, as determined by reference to an independent open market valuation, upon the recognition of profits arising from the development as set out in note 2M(iii).

For those properties in Mainland of China, cost is determined by the apportionment of the development costs attributable to the unsold properties.

Net realisable value represents the estimated selling price less costs to be incurred in selling the properties.

The amount of any write-down of properties to net realisable value is recognised as an expense in the period the write-down occurs. The amount of any reversal of any write-down of properties arising from an increase in net realisable value is recognised as a reduction in the cost of properties sold in the period in which the reversal occurs.

When properties held for sale are sold, the carrying amount of those properties is recognised in the profit and loss account.

O Investments in Securities

Investments in securities (other than investments in subsidiaries, associates and joint venture) are classified as at fair value through profit or loss ("FVPL"). Changes in the fair value of the investments (including interest) are recognised in profit or loss.

Investments in securities are recognised/derecognised on the date the Group commits to purchase/sell the investments. Profit or loss on disposal of investments in securities are determined as the difference between the net disposal proceeds and the carrying amount of the investments and are accounted for in the profit and loss account as they arise.

P Stores and Spares

Stores and spares used for business operation are categorised as either revenue or capital. Revenue spares are stated in the statement of financial position at cost, using the weighted average cost method and are recognised as expenses in the period in which the consumption occurs. Provision is made for obsolescence where appropriate. Capital spares are included in fixed assets and stated at cost less accumulated depreciation and impairment losses (note 2I(ii)). Depreciation is charged at the rates applicable to the relevant fixed assets against which the capital spares are held in reserve.

Q Contract Assets and Contract Liabilities

A contract asset is recognised when the Group recognises revenue (see note 2AA) before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed for ECL in accordance with the policy set out in note 2I(i) and are reclassified to receivables when the right to the consideration has become unconditional (see note 2S).

A contract liability is recognised when the customer pays consideration before the Group recognises the related revenue (see note 2AA). A contract liability would also be recognised if the Group has an unconditional right to receive consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised (see note 2S).

For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

When the contract includes a significant financing component, the contract balance includes interest accrued under the effective interest method (see note 2AB).

R Cash and Cash Equivalents

Cash and cash equivalents comprise cash at banks and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments that are readily convertible into known amounts of cash and subject to an insignificant risk of changes in value with a maturity at acquisition within three months. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

S Debtors and Other Receivables

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognised before the Group has an unconditional right to receive consideration, the amount is presented as a contract asset (see note 2Q). Receivables are stated at amortised cost using the effective interest method less allowance for credit losses (see note 2I(i)).

2 Principal Accounting Policies *(continued)*

T Interest-bearing Borrowings

Interest-bearing borrowings are measured initially at fair value net of transaction costs incurred. The interest-bearing borrowings not subject to fair value hedges are subsequently stated at amortised costs using effective interest method. Interest expense is recognised in accordance with the Group's accounting policy for interest and finance charges (see note 2AB).

Subsequent to initial recognition, the carrying amount of interest-bearing borrowings subject to fair value hedges is remeasured and the change in fair value attributable to the risk being hedged is recognised in the profit and loss account to offset the effect of the gain or loss on the related hedging instrument.

U Creditors and Other Payables

Creditors and other payables are stated at amortised cost if the effect of discounting would be material, otherwise they are stated at cost.

V Derivative Financial Instruments and Hedging Activities

The Group uses derivative financial instruments such as interest rate swaps and currency swaps to manage its interest rate and foreign exchange exposure. Based on the Group's policies, these instruments are used solely for reducing or eliminating financial risks associated with the Group's investments and liabilities and not for trading or speculation purposes.

Derivatives are recognised at fair value and are remeasured at their fair value at the end of each reporting period. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and the nature of the item being hedged.

Where hedge accounting applies, the Group designates derivatives employed as either: (1) a fair value hedge: to hedge the fair value of recognised liabilities; (2) a cash flow hedge: to hedge the variability in cash flows of a recognised liability or the foreign currency risk of a firm commitment; or (3) a hedge of a net investment: to hedge the variability in cash flows of a monetary item that is receivable from or payable to a foreign operation where the settlement for the monetary item is neither planned nor likely to occur in foreseeable future.

(i) Fair Value Hedge

Changes in the fair value of derivatives that are designated and qualified as fair value hedges are recorded in the profit and loss account, together with any changes in the fair value of the hedged assets or liabilities that are attributable to the hedged risk.

(ii) Cash Flow Hedge

The effective portion of changes in the fair value of derivatives that are designated and qualified as cash flow hedges is recognised in other comprehensive income which is accumulated separately in equity in the hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in the profit and loss account.

Amounts previously recognised in other comprehensive income and accumulated in equity are transferred to the profit and loss account in the periods when the hedged item is recognised in the profit and loss account. However, when the transaction in respect of the hedged item results in the recognition of a non-financial asset or liability, the associated gains and losses that were previously recognised in other comprehensive income and accumulated in equity are transferred from equity and included in the initial cost or carrying amount of the non-financial asset or liability.

When a hedging instrument expires or is sold, terminated or exercised, or the Group revokes designation of the hedge relationship but the transaction in respect of the hedged item is still expected to occur, the cumulative gain or loss existing in equity at that time remains in equity until the transaction occurs and it is recognised in accordance with the above policy. However, if the transaction in respect of the hedged item is no longer expected to occur, the gain or loss accumulated in equity is immediately transferred to the profit and loss account.

(iii) Hedge of a Net Investment

The effective portion of changes in the fair value of derivatives that are designated and qualified as hedges of net investments in foreign operations is recognised in other comprehensive income which is accumulated separately in equity in the exchange reserve. The gain or loss relating to the ineffective portion is recognised immediately in the profit and loss account.

Amounts previously recognised in other comprehensive income and accumulated in equity are transferred to the profit and loss account as a reclassification adjustment on the disposal or partial disposal of the foreign operation.

(iv) Derivatives That Do Not Qualify for Hedge Accounting

Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the profit and loss account.

2 Principal Accounting Policies *(continued)*

W Employee Benefits

(i) Salaries, annual leave, other allowances, contributions to defined contribution retirement schemes, including contributions to Mandatory Provident Funds ("MPF") as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance, and other costs of non-monetary benefits are accrued in the period in which the associated services are rendered by employees of the Group. Where these benefits are incurred for staff relating to construction projects, capital works and property developments, they are capitalised as part of the cost of the qualifying assets. In other cases, they are recognised as expenses in the profit and loss account as incurred.

(ii) The Group's net obligation in respect of defined benefit retirement schemes is calculated separately for each scheme by estimating the amount of future benefit that employees have earned in return for their service in the current and prior years; that benefit is discounted to determine the present value, and the fair value of any scheme assets is deducted. The calculation is performed by a qualified actuary using the Projected Unit Credit Method. When the calculation results in a benefit to the Group, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the scheme or reductions in future contributions to the scheme. Service cost and net interest expense/income on the net defined benefit liability/asset are recognised either as an expense in the profit and loss account, or capitalised as part of the cost of the relevant construction projects, capital works or property developments, as the case may be. Current service cost is measured as the increase in the present value of the defined benefit obligation resulting from employee service in the current period. Net interest expense/income for the period is determined by applying the discount rate used to measure the defined benefit obligation at the beginning of the reporting period to the net defined benefit liability/asset. The discount rate is the yield at the end of the reporting period on high quality corporate bonds that have maturity dates approximating the weighted average duration of the scheme's obligations.

When the benefits of a scheme are changed, or when a scheme is curtailed, current service cost for the portion of the changed benefit related to past service by employees, or the gain or loss on curtailment, is recognised as an expense in the profit or loss account or capitalised at the earlier of when the scheme amendment or curtailment occurs and when related restructuring costs or termination benefits are recognised.

Remeasurements arising from defined benefit retirement schemes are recognised in other comprehensive income and reflected immediately in retained earnings. Remeasurements comprise of actuarial gains and losses, the return on scheme assets (excluding amounts included in net interest on the net defined benefit liability/asset) and any change in the effect of the asset ceiling (excluding amounts included in net interest on the net defined benefit liability/asset).

(iii) Equity-settled share-based payments are measured at fair value at the date of grant.

- For share options, the fair value determined at the grant date is recognised as staff costs, unless the relevant employee expenses qualify for recognition as an asset, on a straight-line basis over the vesting period and taking into account the probability that the options will vest, with a corresponding increase in the employee share-based capital reserve within equity. Fair value is measured by use of the Black-Scholes model, taking into account the terms and conditions upon which the options are granted. The expected life used in the model is adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

  During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit and loss account in the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the employee share-based capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to the employee share-based capital reserve). The equity amount is recognised in the employee share-based capital reserve until either the option is exercised which is transferred to the share capital account or the option is lapsed (on expiry of the share options) which is released directly to retained profits.
- For award shares under the Executive Share Incentive Scheme, the amounts to be expensed as staff costs are determined by reference to the fair value of the award shares granted, taking into account all non-vesting conditions associated with the grants. The total expense is recognised over the relevant vesting periods, with a corresponding credit to the employee share-based capital reserve under equity.

  For those award shares which are amortised over the vesting periods, the Group reviews its estimates of the number of award shares that are expected to ultimately vest based on the vesting conditions at the end of each reporting period. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to profit and loss account in the year of the review, with a corresponding adjustment to the employee share-based capital reserve. Upon vesting of award shares, the related costs of the vested award shares purchased from the market (the "purchased shares") and shares received in relation to scrip dividend and shares purchased from the proceeds of cash ordinary dividends received (the "ordinary dividend shares") are credited to Shares held for Executive Share Incentive Scheme, with a corresponding decrease in employee share-based compensation reserve for the purchased shares, and decrease in retained earnings for the ordinary dividend shares.

For cash-settled share-based payments, a liability equal to the portion of the services received is recognised at the fair value of the shares determined at the end of each reporting period.

(iv) Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when it recognises restructuring costs involving the payment of termination benefits.

2 Principal Accounting Policies *(continued)*

X Income Tax

(i) Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Income tax is recognised in the profit and loss account except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case it is recognised in other comprehensive income or directly in equity respectively.

(ii) Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of reporting period, and any adjustment to tax payable in respect of previous years.

(iii) Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax assets also arise from unused tax losses and unused tax credits. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are generally recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit (provided they are not part of a business combination).

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and an associate, and interests in a joint venture, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Where investment properties are carried at their fair value in accordance with the accounting policy set out in note 2E(i), the amount of deferred tax recognised is measured using the tax rates that would apply on sale of those assets at their carrying value at the end of the reporting period unless the property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the property over time, rather than through sale. In all other cases, the amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Y Financial Guarantee Contracts

Financial guarantees are contracts that require the issuer to make specified payments to reimburse the holder of the guarantee for a loss it incurs because a specified debtor fails to make payment to the holder when due in accordance with the original or modified terms of a debt instrument.

When the Group issues a financial guarantee, where the effect is material, the fair value of the guarantee, after netting off any consideration received or receivable at inception, is initially debited to the profit and loss account and recognised as deferred income within creditors and other payables. The fair value of financial guarantees issued at the time of issuance is determined by reference to fees charged in an arm's length transaction for similar services, when such information is obtainable, or is otherwise estimated by reference to interest rate differentials, by comparing the actual rates charged by lenders when the guarantee is made available with the estimated rates that lenders would have charged, had the guarantees not been available, where reliable estimates of such information can be made.

The amount of the guarantee initially recognised as deferred income is amortised in the profit and loss account over the term of the guarantee as income from financial guarantees issued.

The Group monitors the risk that the specified debtor will default on the contract and recognises a provision when ECLs on the financial guarantees are determined to be higher than the amount carried in creditors and other payables in respect of the guarantees (i.e. the amount initially recognised, less accumulated amortisation). To determine ECLs, the Group considers changes in the risk of default of the specified debtor since the issuance of the guarantee. A 12-month ECL is measured unless the risk that the specified debtor will default has increased significantly since the guarantee is issued, in which case a lifetime ECL is measured. The same definition of default and the same assessment of significant increase in credit risk as described in note 2I(i) apply.

As the Group is required to make payments only in the event of a default by the specified debtor in accordance with the terms of the instrument that is guaranteed, an ECL is estimated based on the expected payments to reimburse the holder for a credit loss that it incurs less any amount that the Group expects to receive from the holder of the guarantee, the specified debtor or any other party. The amount is then discounted using the current risk-free rate adjusted for risks specific to the cash flows.

2 Principal Accounting Policies *(continued)*

Z Provisions, Contingent Liabilities and Onerous Contracts

(i) Provisions and Contingent Liabilities

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

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

(ii) Onerous Contracts

An onerous contract exists when the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract. Provisions for onerous contracts are measured at the present value of the lower of the expected cost of terminating the contract and the net cost of continuing with the contract.

AA Revenue Recognition

Revenue is recognised when control over a product or service is transferred to the customer, or the lessee has the right to use the asset, at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts. Further details of the Group's revenue and other income recognition policies are as follows:

(i) Fare revenue is recognised when the journey is provided.

(ii) Rental income from investment properties, station kiosks and other railway premises under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased assets. Lease incentives granted are recognised in the profit and loss account as an integral part of the aggregate net lease payments receivable. Variable lease payments that do not depend on an index or a rate are recognised as income in the accounting period in which they are earned.

(iii) Contract revenue is recognised when the outcome of a consultancy, construction or service contract can be estimated reliably. Contract revenue is recognised progressively over-time using the cost-to-cost method, i.e. based on the proportion of the actual costs incurred relative to the estimated total costs. When the outcome of a consultancy, construction or service contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that are expected to be recovered.

(iv) Incomes from other railway and station commercial businesses, property management, railway franchises and service concessions are recognised when the services are provided.

AB Interest and Finance Charges

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

Finance charges on lease liabilities 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.

AC 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 end of the reporting period. Exchange gains and losses are recognised in the profit and loss account.

The results of foreign enterprises are translated into Hong Kong dollars at the average exchange rates for the year. Statement of financial position items are translated into Hong Kong dollars at the closing exchange rates at the end of reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

2 Principal Accounting Policies *(continued)*

AD Segment Reporting

Operating segments, and the amounts of each segment item reported in the accounts, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of businesses and operations in different geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of services and products, the type or class of customers, the methods used to provide the services or distribute the products, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

AE Related Parties

For the purposes of these accounts, a person, or a close member of that person's family, is related to the Group if that person has control, joint control or significant influence over the Group, or is a member of the key management personnel of the Group.

An entity is related to the Group if (i) the entity and the Group are members of the same group; (ii) the entity is an associate or joint venture of the Group; (iii) the entity is a post-employment benefit scheme for the benefit of employees of the Group or of any entity that is a related party of the Group; (iv) an individual who is a related party of the Group has control or joint control over that entity; (v) a person, or a close member of that person's family, who has control or joint control over the Group has significant influence over the entity or is a member of the key management personnel of that entity; or (vi) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

AF Government Grants

Government grants are assistance by governments in the form of transfer of resources in return for the Group's compliance with the conditions attached thereto. Government grants which represent compensation for the cost of an asset are deducted from the cost of the asset in arriving at its carrying value to the extent of the amounts received and receivable as at the date of the statement of financial position. Government grants which represent compensation for expenses or losses are deducted from the related expenses. Any excess of the amount of grant received or receivable over the cost of the asset or the expenses or losses at the end of reporting period are carried forward as advance receipts or deferred income to set off against the future cost of the asset or future expenses or losses.

3 Rail Merger with Kowloon-Canton Railway Corporation and Operating Arrangements for High Speed Rail and Tuen Ma Line Phase 1

Rail Merger

On 2 December 2007 (the "Appointed Day"), the Company's operations merged with those of Kowloon-Canton Railway Corporation ("KCRC") (the "Rail Merger"). The structure and key terms of the Rail Merger were set out in a series of transaction agreements entered into between, inter alia, the Government of the Hong Kong Special Administrative Region (the "HKSAR Government"), KCRC and the Company including the Service Concession Agreement, Property Package Agreements and Merger Framework Agreement.

Pursuant to the Service Concession Agreement ("SCA"), KCRC granted the Company the right to access, use and operate the KCRC system for an initial term of 50 years (the "Concession Period"), which will be extended if the franchise period (as it relates to the KCRC railway) is extended. In accordance with the terms of the SCA, the Company paid an upfront lump sum to KCRC on the Appointed Day and is obliged to pay to KCRC fixed annual payments and variable annual payments (calculated on a tiered basis by reference to the revenue generated from the KCRC system above certain thresholds).

Under the SCA, the Company is responsible for the expenditure incurred in relation to the maintenance, repair, replacement and upgrade of the KCRC system (with any new assets acquired being classified as "additional concession property"). To the extent that such expenditure exceeds an agreed threshold ("Capex Threshold"), the Company will be reimbursed for any above-threshold expenditure at the end of the Concession Period with such reimbursement to be on the basis of depreciated book value.

Details of the Rail Merger are disclosed in the Company's circular dated 3 September 2007.

3 Rail Merger with Kowloon-Canton Railway Corporation and Operating Arrangements for High Speed Rail and Tuen Ma Line Phase 1 *(continued)*

Operating Arrangements for High Speed Rail

On 23 August 2018, the Company entered into relevant agreements with the HKSAR Government and KCRC to supplement and amend the then current agreements to enable the Company to operate the Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link ("High Speed Rail" or "HSR") in substantially the same manner as the existing railway network. Under the supplemental service concession agreement that was executed on 23 August 2018 ("SSCA-HSR"), the operating period with respect to the HSR is for an initial term of 10 years from 23 September 2018 ("Concession Period (High Speed Rail)"), which may be extended subject to further negotiation between the Company and KCRC in accordance with the mechanism set out in the SSCA-HSR. Under the SSCA-HSR, the Company is responsible for the expenditure incurred in relation to the maintenance, repair, replacement and upgrade of the concession property of the High Speed Rail (with any new assets acquired being classified as "additional concession property (High Speed Rail)"). To the extent that such expenditure exceeds an agreed threshold ("Capex Threshold (High Speed Rail)"), the Company will be reimbursed for any above-threshold expenditure at the end of the concession period with such reimbursement to be on the basis of depreciated book value.

Details of the SSCA-HSR are disclosed in the Company's announcement dated 23 August 2018.

Operating Arrangements for Tuen Ma Line Phase 1

On 11 February 2020, the Company entered into relevant agreements with the HKSAR Government and KCRC to supplement and amend the then current agreements to enable the Company to operate Tuen Ma Line Phase 1 (which extends the Ma On Shan Line from Tai Wai to Kai Tak) in substantially the same manner as the existing railway network for a period of two years from 14 February 2020. Prior to the full opening of the Tuen Ma Line, the parties are obliged to commence exclusive negotiations in good faith with a view to agreeing the terms of a supplemental service concession agreement for the entire Tuen Ma Line (which is intended to replace the supplemental service concession agreement that was executed on 11 February 2020 ("SSCA-SCL")). Under the SSCA-SCL, the Company is responsible for the expenditure incurred in relation to the maintenance, repair, replacement and upgrade of the concession property of the Tuen Ma Line Phase 1.

Details of the SSCA-SCL are disclosed in the Company's announcement dated 11 February 2020.

4 Revenue from Hong Kong Transport Operations

Revenue from Hong Kong transport operations comprises:

in HK$ million	2019	2018
Domestic Service	**12,714**	13,232
Cross-boundary Service	**3,164**	3,472
High Speed Rail	**2,098**	600
Airport Express	**1,011**	1,156
Light Rail and Bus	**677**	723
Intercity Service	**175**	214
Others	**99**	93
	19,938	19,490

Domestic Service comprises the Kwun Tong, Tsuen Wan, Island, South Island, Tung Chung, Tseung Kwan O, Disneyland Resort, East Rail (excluding Cross-boundary Service), West Rail and Ma On Shan Lines. Others include mainly by-law infringement surcharge and Octopus load agent fees.

5 Revenue from Hong Kong Station Commercial Businesses

Revenue from Hong Kong station commercial businesses comprises:

in HK$ million	2019	2018
Duty free shops and kiosks	**4,800**	4,424
Advertising	**1,130**	1,212
Telecommunication income	**743**	696
Other station commercial income	**126**	126
	6,799	6,458

6 Revenue from Hong Kong Property Rental and Management Businesses

Revenue from Hong Kong property rental and management businesses comprises:

in HK$ million	**2019**	2018
Property rental income	**4,833**	4,748
Property management income	**304**	307
	5,137	5,055

7 Revenue and Expenses Relating to Mainland of China and International Subsidiaries

Revenue and expenses relating to Mainland of China and international subsidiaries comprise:

	2019		2018	
in HK$ million	Revenue	Expenses	Revenue	Expenses
Railway-related businesses outside of Hong Kong				
– Melbourne Train	**10,680**	**10,154**	10,994	10,500
– Sydney Metro Northwest	**1,110**	**1,073**	1,752	1,658
– Sydney Metro City & Southwest	**515**	**450**	–	–
– MTR Nordic*	**4,862**	**4,832**	4,891	5,050
– TfL Rail/Elizabeth Line (formerly known as London Crossrail)	**2,037**	**1,899**	1,782	1,723
– Shenzhen Metro Longhua Line	**761**	**599**	776	600
– Macao Light Rapid Transit Taipa Line	**949**	**687**	529	349
	20,914	**19,694**	20,724	19,880
Property rental and management businesses in Mainland of China	**171**	**66**	153	121
	21,085	**19,760**	20,877	20,001
Property development in Mainland of China	**–**	**25**	60	35
	21,085	**19,785**	20,937	20,036

* MTR Nordic comprises the Stockholm Metro, MTR Tech, MTR Express, Stockholm Commuter Rail ("Stockholms pendeltåg") and Emtrain (being the Group's subsidiary since September 2019 following the Group's acquisition of the remaining 50% interests) operations in Sweden.

The Group's 60% owned subsidiary, Metro Trains Sydney Pty Ltd, commenced the train services of Sydney Metro North West on 26 May 2019.

The Group's wholly owned subsidiary, MTR Operações Ferroviárias (Macau) Sociedade Unipessoal Lda., commenced the train services of Macao Light Rapid Transit Taipa Line on 10 December 2019.

8 Revenue from Other Businesses

Revenue from other businesses comprises income from:

in HK$ million	**2019**	2018
Ngong Ping 360	**392**	476
Consultancy business	**184**	188
Project management for HKSAR Government	**935**	1,293
Miscellaneous businesses	**34**	33
	1,545	1,990

9 Segmental Information

The Group's businesses consist of (i) recurrent businesses (comprising Hong Kong transport operations, Hong Kong station commercial businesses, Hong Kong property rental and management businesses, Mainland of China and international railway, property rental and management businesses and other businesses) and (ii) property development businesses (together with recurrent businesses referred to as underlying businesses).

The Group manages its businesses by the various business executive committees. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has identified the following reportable segments:

(i) Hong Kong transport operations: The provision of passenger operation and related services on the urban mass transit railway system in Hong Kong, the Airport Express serving both the Hong Kong International Airport and the AsiaWorld-Expo at Chek Lap Kok, cross-boundary railway connection with the border of Mainland of China at Lo Wu and Lok Ma Chau, the Guangzhou-Shenzhen-Hong Kong Express Rail Link (Hong Kong Section) ("High Speed Rail"), light rail and bus feeder with railway system in the north-west New Territories and intercity railway transport with certain cities in the Mainland of China.

(ii) Hong Kong station commercial businesses: Commercial activities including the letting of advertising, retail and car parking space at railway stations, the provision of telecommunication and bandwidth services in railway premises and other commercial activities within the Hong Kong transport operations network.

(iii) Hong Kong property rental and management businesses: The letting of retail, office and car parking space and the provision of estate management services in Hong Kong.

(iv) Hong Kong property development: Property development activities at locations near the railway systems in Hong Kong.

(v) Mainland of China and international railway, property rental and management businesses: The construction, operation and maintenance of mass transit railway systems including station commercial activities outside of Hong Kong and the letting of retail spaces and provision of estate management services in the Mainland of China.

(vi) Mainland of China property development: Property development activities in the Mainland of China.

(vii) Other businesses: Businesses not directly relating to transport operations or properties such as Ngong Ping 360, which comprises cable car operation in Tung Chung and related businesses at the Ngong Ping Theme Village, railway consultancy business and the provision of project management services to the HKSAR Government.

9 Segmental Information *(continued)*

The results of the reportable segments and reconciliation to the corresponding consolidated totals in the accounts are shown below:

					Mainland of China and international affiliates				
in HK$ million	Hong Kong transport operations	Hong Kong station commercial businesses	Hong Kong property rental and management businesses	Hong Kong property development	Mainland of China and international railway, property rental and management businesses	Mainland of China property development	Other businesses	Un-allocated amount	Total
2019									
Revenue from contracts with customers within the scope of HKFRS 15	19,938	2,026	304	–	20,902	–	1,529	–	44,699
– Recognised at a point in time	19,174	49	–	–	2,701	–	387	–	22,311
– Recognised over time	764	1,977	304	–	18,201	–	1,142	–	22,388
Revenue from other sources	–	4,773	4,833	–	183	–	16	–	9,805
– Lease payments that are fixed or depend on an index or a rate	–	4,511	4,702	–	182	–	14	–	9,409
– Variable lease payments that do not depend on an index or a rate	–	262	131	–	1	–	2	–	396
Total revenue	19,938	6,799	5,137	–	21,085	–	1,545	–	54,504
Operating expenses	(14,029)	(680)	(851)	–	(19,760)	(25)	(3,557)	–	(38,902)
Project study and business development expenses	–	–	–	–	(201)	–	–	(75)	(276)
Operating profit/(loss) before Hong Kong property development, depreciation, amortisation and variable annual payment	5,909	6,119	4,286	–	1,124	(25)	(2,012)	(75)	15,326
Profit on Hong Kong property development	–	–	–	5,707	–	–	–	–	5,707
Operating profit/(loss) before depreciation, amortisation and variable annual payment	5,909	6,119	4,286	5,707	1,124	(25)	(2,012)	(75)	21,033
Depreciation and amortisation	(4,728)	(192)	(16)	–	(236)	–	(65)	–	(5,237)
Variable annual payment	(1,772)	(805)	(6)	–	–	–	–	–	(2,583)
Share of profit or loss of associates and joint venture	–	–	–	–	54	–	234	–	288
Profit/(loss) before interest, finance charges and taxation	(591)	5,122	4,264	5,707	942	(25)	(1,843)	(75)	13,501
Interest and finance charges	–	–	–	–	(57)	80	–	(882)	(859)
Investment property revaluation	–	–	1,449	–	(77)	–	–	–	1,372
Income tax	–	–	–	(176)	(200)	(6)	–	(1,540)	(1,922)
Profit/(loss) for the year ended 31 December 2019	(591)	5,122	5,713	5,531	608	49	(1,843)	(2,497)	12,092
Assets									
Fixed assets	123,669	2,598	91,110	–	7,544	58	626	–	225,605
Other segment assets *	3,552	310	459	2,850	8,549	4,500	1,665	15,553	37,438
Goodwill and property management rights	–	–	21	–	56	–	–	–	77
Property development in progress	–	–	–	12,022	–	–	–	–	12,022
Deferred expenditure	140	–	7	–	–	–	1,801	–	1,948
Deferred tax assets	–	2	–	–	131	1	–	–	134
Investments in securities	–	–	–	–	–	–	386	–	386
Properties held for sale	–	–	–	1,034	–	211	–	–	1,245
Interests in associates and joint venture	–	–	–	–	9,335	–	1,024	–	10,359
Total assets	127,361	2,910	91,597	15,906	25,615	4,770	5,502	15,553	289,214
Liabilities									
Segment liabilities	11,694	2,126	2,379	10,434	9,449	864	3,162	51,958	92,066
Obligations under service concession	10,177	–	–	–	173	–	–	–	10,350
Total liabilities	21,871	2,126	2,379	10,434	9,622	864	3,162	51,958	102,416
Other information									
Capital expenditure on:									
Fixed assets	5,085	449	311	–	204	–	28	–	6,077
Property development in progress	–	–	–	3,819	–	–	–	–	3,819
Non-cash expenses other than depreciation and amortisation	29	1	–	–	19	–	2	–	51

* Other segment assets mainly include debtors, stores and spares, cash and cash equivalents and other assets employed in the operations of individual business segments.

9 Segmental Information *(continued)*

					Mainland of China and international affiliates				
in HK$ million	Hong Kong transport operations	Hong Kong station commercial businesses	Hong Kong property rental and management businesses	Hong Kong property development	Mainland of China and international railway, property rental and management businesses	Mainland of China property development	Other businesses	Un-allocated amount	Total
2018									
Revenue from contracts with customers within the scope of HKFRS 15	19,490	1,909	307	–	20,640	–	1,974	–	44,320
– Recognised at a point in time	19,258	52	–	–	2,801	–	469	–	22,580
– Recognised over time	232	1,857	307	–	17,839	–	1,505	–	21,740
Revenue from other sources	–	4,549	4,748	–	237	60	16	–	9,610
Total revenue	19,490	6,458	5,055	–	20,877	60	1,990	–	53,930
Operating expenses	(11,319)	(567)	(813)	–	(20,001)	(35)	(2,004)	–	(34,739)
Project study and business development expenses	–	–	–	–	(263)	–	–	(60)	(323)
Operating profit/(loss) before Hong Kong property development, depreciation, amortisation and variable annual payment	8,171	5,891	4,242	–	613	25	(14)	(60)	18,868
Profit on Hong Kong property development	–	–	–	2,574	–	–	–	–	2,574
Operating profit/(loss) before depreciation, amortisation and variable annual payment	8,171	5,891	4,242	2,574	613	25	(14)	(60)	21,442
Depreciation and amortisation	(4,578)	(174)	(12)	–	(154)	–	(67)	–	(4,985)
Variable annual payment	(1,608)	(692)	(5)	–	–	–	–	–	(2,305)
Share of profit or loss of associates and joint venture	–	–	–	–	437	–	221	–	658
Profit/(loss) before interest, finance charges and taxation	1,985	5,025	4,225	2,574	896	25	140	(60)	14,810
Interest and finance charges	–	–	–	–	2	134	–	(1,210)	(1,074)
Investment property revaluation	–	–	4,745	–	–	–	–	–	4,745
Income tax	–	–	–	(421)	(190)	(69)	–	(1,645)	(2,325)
Profit/(loss) for the year ended 31 December 2018	1,985	5,025	8,970	2,153	708	90	140	(2,915)	16,156
Assets									
Fixed assets	123,185	2,361	82,349	1	7,300	63	666	–	215,925
Other segment assets *	2,572	271	428	1,985	6,810	4,543	1,617	13,194	31,420
Goodwill and property management rights	–	–	26	–	58	–	–	–	84
Property development in progress	–	–	–	14,840	–	–	–	–	14,840
Deferred expenditure	77	–	41	–	–	–	1,760	–	1,878
Deferred tax assets	–	2	–	–	117	2	–	–	121
Investments in securities	–	–	–	–	–	–	294	–	294
Properties held for sale	–	–	–	1,156	–	213	–	–	1,369
Interests in associates and joint venture	–	–	–	–	7,779	–	977	–	8,756
Total assets	125,834	2,634	82,844	17,982	22,064	4,821	5,314	13,194	274,687
Liabilities									
Segment liabilities	11,132	2,270	2,278	5,498	7,645	920	2,117	51,799	83,659
Obligations under service concession	10,236	–	–	–	173	–	–	–	10,409
Total liabilities	21,368	2,270	2,278	5,498	7,818	920	2,117	51,799	94,068
Other information									
Capital expenditure on:									
Fixed assets	5,302	379	462	–	139	–	15	–	6,297
Property development in progress	–	–	–	1,121	–	–	–	–	1,121
Non-cash expenses other than depreciation and amortisation	40	2	–	–	1	–	1	–	44

* Other segment assets mainly include debtors, stores and spares, cash and cash equivalents and other assets employed in the operations of individual business segments.

9 Segmental Information *(continued)*

Unallocated assets and liabilities mainly comprise cash, bank balances and deposits, tax reserve certificates, derivative financial assets and liabilities, interest-bearing loans and borrowings, current taxation as well as deferred tax liabilities.

For the year ended 31 December 2019, revenue from one (2018: one) customer of the Mainland of China and international affiliates segment has exceeded 10% of the Group's revenue. Approximately 14.47% (2018: 13.76%) of the Group's total revenue was attributable to this customer.

The following table sets out information about the geographical location of the Group's revenue from external customers and the Group's fixed assets, goodwill and property management rights, property development in progress, deferred expenditure and interests in associates and joint venture ("specified non-current assets"). The geographical location of customers is based on the location at which the services were provided or goods were delivered. The geographical location of the specified non-current assets is based on the physical location of the asset in the case of property, plant and equipment and property development in progress, the location of the proposed capital project in the case of deferred expenditure, the location of the operation to which they are related in the case of service concession assets, goodwill and property management rights and the location of operation in the case of interests in associates and joint venture.

	Revenue from external customers		Specified non-current assets	
in HK$ million	**2019**	2018	**2019**	2018
Hong Kong SAR (place of domicile)	**33,357**	32,935	**233,019**	226,282
Australia	**12,305**	12,746	**941**	446
Mainland of China and Macao SAR	**1,934**	1,568	**15,155**	13,965
Sweden	**4,862**	4,891	**786**	699
United Kingdom	**2,046**	1,790	**110**	91
	21,147	20,995	**16,992**	15,201
	54,504	53,930	**250,011**	241,483

As at 31 December 2019, the aggregated amount of the transaction price allocated to the remaining performance obligation under the Group's existing contracts is HK$42,183 million (as at 31 December 2018: HK$13,053). This amount represents revenue expected to be recognised in the future mainly from the fixed annual payments in relation to High Speed Rail under the SSCA–HSR, as well as the construction, consultancy and project management contracts entered into with the Group's customers. The Group will recognise the expected revenue in future when or as the work is completed which is expected to occur over the next one to fifteen years.

The Group has applied the practical expedients in paragraph 121 of HKFRS 15 to exempt the disclosure of revenue expected to be recognised in the future arising from certain contracts with customers in existence at the reporting date that are billed based on the performance completed to date or have an original expected duration of one year or less.

10 Operating Expenses

A Total staff costs include:

in HK$ million	2019	2018
Amounts charged to consolidated profit and loss account under:		
– staff costs and related expenses for Hong Kong transport operations	**6,489**	5,847
– maintenance and related works for Hong Kong transport operations	**117**	131
– other expense line items for Hong Kong transport operations	**304**	115
– expenses relating to Hong Kong station commercial businesses	**117**	97
– expenses relating to Hong Kong property rental and management businesses	**149**	137
– expenses relating to Mainland of China and international subsidiaries	**9,006**	8,219
– expenses relating to other businesses	**1,384**	1,797
– project study and business development expenses	**271**	358
– profit on Hong Kong property development	**24**	26
Amounts capitalised under:		
– property development in progress	**194**	157
– assets under construction and other projects	**733**	634
– service concession assets	**359**	387
Amounts recoverable	**602**	566
Total staff costs	**19,749**	18,471

Amounts recoverable relate to property management, entrustment works and other agreements.

The following expenditures are included in total staff costs:

in HK$ million	2019	2018
Share-based payments	**122**	110
Contributions to defined contribution retirement schemes and Mandatory Provident Fund	**907**	849
Amounts recognised in respect of defined benefit retirement schemes	**469**	431
	1,498	1,390

B Auditors' remuneration charged to the consolidated profit and loss account include:

in HK$ million	2019	2018
Audit services	**19**	18
Tax services	**2**	2
Other audit related services	**6**	6
	27	26

C Loss on disposal of fixed assets of HK$57 million (2018: HK$45 million) is included in operating expenses.

11 Remuneration of Members of the Board and the Executive Directorate

A Remuneration of Members of the Board and the Executive Directorate

(i) The emoluments of Members of the Board and the Executive Directorate of the Company were as follows:

in HK$ million	Fees	Base pay, allowances and benefits in kind	Retirement scheme contribution	Variable remuneration related to performance	Total
2019					
Members of the Board					
– Frederick Ma Si-hang (retired on 1 July 2019)*	**0.9**	**–**	**–**	**–**	**0.9**
– Rex Auyeung Pak-kuen (appointed on 7 March 2019)**	**0.9**	**–**	**–**	**–**	**0.9**
– Andrew Clifford Winawer Brandler	**0.5**	**–**	**–**	**–**	**0.5**
– Walter Chan Kar-lok (appointed on 22 May 2019)**	**0.2**	**–**	**–**	**–**	**0.2**
– Pamela Chan Wong Shui	**0.4**	**–**	**–**	**–**	**0.4**
– Dorothy Chan Yuen Tak-fai	**0.5**	**–**	**–**	**–**	**0.5**
– Cheng Yan-kee (appointed on 22 May 2019)**	**0.3**	**–**	**–**	**–**	**0.3**
– Vincent Cheng Hoi-chuen (retired on 22 May 2019)*	**0.2**	**–**	**–**	**–**	**0.2**
– Anthony Chow Wing-kin	**0.5**	**–**	**–**	**–**	**0.5**
– Eddy Fong Ching	**0.5**	**–**	**–**	**–**	**0.5**
– James Kwan Yuk-choi	**0.5**	**–**	**–**	**–**	**0.5**
– Kaizer Lau Ping-cheung (retired on 22 May 2019)*	**0.2**	**–**	**–**	**–**	**0.2**
– Rose Lee Wai-mun	**0.4**	**–**	**–**	**–**	**0.4**
– Lucia Li Li Ka-lai	**0.5**	**–**	**–**	**–**	**0.5**
– Jimmy Ng Wing-ka (appointed on 22 May 2019)**	**0.3**	**–**	**–**	**–**	**0.3**
– Abraham Shek Lai-him (retired on 22 May 2019)*	**0.2**	**–**	**–**	**–**	**0.2**
– Benjamin Tang Kwok-bun	**0.4**	**–**	**–**	**–**	**0.4**
– Allan Wong Chi-yun	**0.5**	**–**	**–**	**–**	**0.5**
– Johannes Zhou Yuan	**0.5**	**–**	**–**	**–**	**0.5**
– James Henry Lau Jr	**0.4**	**–**	**–**	**–**	**0.4**
– Secretary for Transport and Housing	**0.4**	**–**	**–**	**–**	**0.4**
– Permanent Secretary for Development (Works)	**0.4**	**–**	**–**	**–**	**0.4**
– Commissioner for Transport	**0.4**	**–**	**–**	**–**	**0.4**
Members of the Executive Directorate					
– Lincoln Leong Kwok-kuen (retired on 1 April 2019)***	**–**	**4.4**	**0.3**	**–**	**4.7**
– Jacob Kam Chak-pui	**–**	**8.1**	**1.2**	**1.4**	**10.7**
– Roger Francis Bayliss (appointed on 18 March 2019)****	**–**	**4.0**	**–**~	**0.6**	**4.6**
– Margaret Cheng Wai-ching	**–**	**5.0**	**0.7**	**0.8**	**6.5**
– Peter Ronald Ewen	**–**	**4.5**	**0.6**	**0.7**	**5.8**
– Herbert Hui Leung-wah	**–**	**5.0**	**0.7**	**0.7**	**6.4**
– Adi Lau Tin-shing	**–**	**5.1**	**–**~~	**0.9**	**6.0**
– Gillian Elizabeth Meller	**–**	**4.5**	**0.7**	**0.7**	**5.9**
– Linda So Ka-pik	**–**	**4.5**	**0.6**	**0.7**	**5.8**
– David Tang Chi-fai	**–**	**5.1**	**0.7**	**0.8**	**6.6**
– Jeny Yeung Mei-chun	**–**	**4.9**	**0.7**	**0.8**	**6.4**
	10.0	**55.1**	**6.2**	**8.1**	**79.4**

* Frederick S H Ma, Vincent H C Cheng, Kaizer P C Lau and Abraham L H Shek retired as Members of the Board on the date shown in the above table. The amounts of their emolument shown in the above table cover the period from 1 January 2019 to the respective dates of retirement.

** Rex P K Auyeung, Walter K L Chan, Cheng Y K and Jimmy W K Ng were appointed as Members of the Board on the date shown in the above table. The amounts of their emolument shown in the above table covers the period from the date of their respective dates of appointment to 31 December 2019.

*** Lincoln K K Leong retired as a Member of the Executive Directorate on the date shown in the above table. The amount of his emolument shown in the above table covers the period from 1 January 2019 to his retirement date. Lincoln K K Leong agreed to waive his variable remuneration related to performance in 2019 of approximately HK$6,613,020.

**** Roger F Bayliss was appointed as a Member of the Executive Directorate on the date shown in the above table. The amount of his emolument shown in the above table covers the period from the date of his appointment to 31 December 2019.

~ The total contributions paid by the Company attributable to the financial year ended 31 December 2019 for Roger F Bayliss, who participated in Mandatory Provident Fund Scheme was HK$15,000.

~~ The total contributions paid by the Company attributable to the financial year ended 31 December 2019 for Adi T S Lau, who participated in MTR Retirement Scheme was nil, pursuant to the requirement of the scheme.

11 Remuneration of Members of the Board and the Executive Directorate *(continued)*

A Remuneration of Members of the Board and the Executive Directorate *(continued)*

in HK$ million	Fees	Base pay, allowances and benefits in kind	Retirement scheme contribution	Variable remuneration related to performance	Total
2018					
Members of the Board					
– Frederick Ma Si-hang	1.7	–	–	–	1.7
– Andrew Clifford Winawer Brandler	0.5	–	–	–	0.5
– Pamela Chan Wong Shui	0.4	–	–	–	0.4
– Dorothy Chan Yuen Tak-fai	0.5	–	–	–	0.5
– Vincent Cheng Hoi-chuen	0.4	–	–	–	0.4
– Anthony Chow Wing-kin	0.5	–	–	–	0.5
– Eddy Fong Ching	0.5	–	–	–	0.5
– James Kwan Yuk-choi	0.5	–	–	–	0.5
– Kaizer Lau Ping-cheung	0.5	–	–	–	0.5
– Rose Lee Wai-mun (appointed on 16 May 2018)[#]	0.3	–	–	–	0.3
– Lucia Li Li Ka-lai	0.5	–	–	–	0.5
– Alasdair George Morrison (retired on 16 May 2018)[##]	0.2	–	–	–	0.2
– Abraham Shek Lai-him	0.5	–	–	–	0.5
– Benjamin Tang Kwok-bun	0.4	–	–	–	0.4
– Allan Wong Chi-yun	0.5	–	–	–	0.5
– Johannes Zhou Yuan	0.5	–	–	–	0.5
– James Henry Lau Jr	0.4	–	–	–	0.4
– Secretary for Transport and Housing	0.4	–	–	–	0.4
– Permanent Secretary for Development (Works)	0.4	–	–	–	0.4
– Commissioner for Transport	0.4	–	–	–	0.4
Members of the Executive Directorate					
– Lincoln Leong Kwok-kuen	–	9.6	1.5	0.7	11.8
– Jacob Kam Chak-pui	–	6.9	1.1	3.4	11.4
– Margaret Cheng Wai-ching	–	4.8	0.7	2.3	7.8
– Morris Cheung Siu-wa (retired with effect from 17 July 2018)[###]	–	3.1	0.1	1.1	4.3
– Peter Ronald Ewen	–	4.1	0.6	1.9	6.6
– Herbert Hui Leung-wah	–	4.8	0.7	2.1	7.6
– Adi Lau Tin-shing	–	4.9	–^	2.3	7.2
– Gillian Elizabeth Meller	–	4.3	0.6	2.1	7.0
– Linda So Ka-pik	–	4.0	0.5	2.1	6.6
– David Tang Chi-fai	–	4.9	0.7	2.4	8.0
– Philco Wong Nai-keung (resigned with effect from 7 August 2018)[###]	–	5.3	0.5	0.4	6.2
– Jeny Yeung Mei-chun	–	4.7	0.7	2.3	7.7
	10.0	61.4	7.7	23.1	102.2

Rose W M Lee was appointed as a Member of the Board on the date shown in the above table. The amount of her emolument shown in the above table covers the period from the date of her appointment to 31 December 2018.

Alasdair G Morrison retired as a Member of the Board on the date shown in the above table. The amount of his emolument shown in the above table covers the period from 1 January 2018 to his retirement date.

Morris S W Cheung retired and Philco N K Wong resigned as Members of the Executive Directorate on the respective dates shown in the above table. The amount of their emoluments shown in the above table cover the period from 1 January 2018 to the respective dates of retirement or resignation.

^ The total contributions paid by the Company attributable to the financial year ended 31 December 2018 for Adi T S Lau, who participated in MTR Retirement Scheme, was HK$58,901.77.

11 Remuneration of Members of the Board and the Executive Directorate *(continued)*

A Remuneration of Members of the Board and the Executive Directorate *(continued)*

The above emoluments do not include the fair value of Award Shares granted under the Executive Share Incentive Scheme.

The director's fees in respect of the office of the Secretary for Transport and Housing (Frank Chan Fan), the office of the Permanent Secretary for Development (Works) (Hon Chi-keung for the period from 1 January 2018 to 12 October 2018 and Lam Sai-hung for the period from 13 October 2018 to 31 December 2019) and the office of the Commissioner for Transport (Mable Chan), each of whom was appointed Director by the Chief Executive of the HKSAR pursuant to Section 8 of the Mass Transit Railway Ordinance ("MTR Ordinance"), were received by Government rather than by the individuals concerned.

The director's fee in respect of James Henry Lau Jr, being the Secretary for Financial Services and the Treasury of Government, was received by Government rather than by the individual personally.

Alternate Directors were not entitled to director's fees.

(ii) Restricted Shares and Performance Shares were granted to Members of the Executive Directorate under the Company's Executive Share Incentive Scheme on 27 April 2015, 8 April 2016, 19 August 2016, 10 April 2017, 16 March 2018, 10 April 2018, 1 April 2019 and 8 April 2019. Performance Shares offered to Members of the Executive Directorate under such grants, in general, covered a period of three years from the date of grant. The entitlements of each of the Members of the Executive Directorate are as follows:

- Lincoln K K Leong was granted 60,200 Restricted Shares and 255,000 Performance Shares on 27 April 2015, 64,850 Restricted Shares on 8 April 2016, 63,900 Restricted Shares on 10 April 2017, 80,000 Contract–end Restricted Shares on 16 March 2018 and 73,300 Restricted Shares and 239,950 Performance Shares on 10 April 2018, of which a total of 217,518 Restricted Shares were vested in 2019 (2018: 62,984 Restricted Shares and 232,735 Performance Shares), and the respective fair value of the share–based payments recognised for the year ended 31 December 2019 was HK$6.5 million (2018: HK$8.3 million). No award shares were lapsed/forfeited in 2019 (2018: 22,265 Performance Shares);
- Jacob C P Kam was granted 22,050 Restricted Shares and 57,600 Performance Shares on 27 April 2015, 21,550 Restricted Shares on 8 April 2016, 22,050 Restricted Shares on 10 April 2017, 25,550 Restricted Shares and 50,450 Performance Shares on 10 April 2018, 120,000 Contract–end Restricted Shares on 1 April 2019 and 47,400 Restricted Shares and 91,750 Performance Shares on 8 April 2019, of which a total of 23,050 Restricted Shares were vested in 2019 (2018: 21,883 Restricted Shares and 52,570 Performance Shares), and the respective fair value of the share–based payments recognised for the year ended 31 December 2019 was HK$5.5 million (2018: HK$1.6 million). No award shares were lapsed/forfeited in 2019 (2018: 5,030 Performance Shares);
- Margaret W C Cheng was granted 71,428 Restricted Shares on 19 August 2016 and 16,950 Restricted Shares, 30,400 Performance Shares on 10 April 2017,17,600 Restricted Shares and 50,450 Performance Shares on 10 April 2018 and 16,550 Restricted Shares on 8 April 2019, of which a total of 35,326 Restricted Shares were vested in 2019 (2018: 29,459 Restricted Shares and 27,745 Performance Shares), and the respective fair value of the share–based payments recognised for the year ended 31 December 2019 was HK$1.7 million (2018: HK$2.1 million). No award shares were lapsed/forfeited in 2019 (2018: 2,655 Performance Shares);
- Peter Ronald Ewen was granted 35,700 Performance Shares on 8 April 2016, 15,050 Restricted Shares on 10 April 2017, 12,250 Restricted Shares and 50,450 Performance Shares on 10 April 2018 and 12,500 Restricted Shares on 8 April 2019, of which 9,099 Restricted Shares were vested in 2019 (2018: 5,016 Restricted Shares and 32,583 Performance Shares), and the respective fair value of the share–based payments recognised for the year ended 31 December 2019 was HK$1.3 million (2018: HK$1.1 million). No award shares were lapsed/forfeited in 2019 (2018: 3,117 Performance Shares);
- Herbert L W Hui was granted 15,200 Restricted Shares and 30,400 Performance Shares on 10 April 2017, 14,200 Restricted Shares and 50,450 Performance Shares on 10 April 2018 and 13,800 Restricted Shares on 8 April 2019, of which 9,799 Restricted Shares were vested in 2019 (2018: 5,066 Restricted Shares and 27,745 Performance Shares), and the respective fair value of the share–based payments recognised for the year ended 31 December 2019 was HK$1.3 million (2018: HK$1.3 million). No award shares were lapsed/forfeited in 2019 (2018: 2,655 Performance Shares);
- Adi T S Lau was granted 8,600 Restricted Shares and 12,550 Performance Shares on 27 April 2015, 8,400 Restricted Shares on 8 April 2016, 17,700 Restricted Shares and 25,050 Performance Shares on 10 April 2017, 16,450 Restricted Shares and 50,450 Performance Shares on 10 April 2018 and 16,250 Restricted Shares on 8 April 2019, of which a total of 14,183 Restricted Shares were vested in 2019 (2018: 11,568 Restricted Shares and 34,316 Performance Shares), and the respective fair value of the share–based payments recognised for the year ended 31 December 2019 was HK$1.5 million (2018: HK$1.4 million). No award shares were lapsed/forfeited in 2019 (2018: 3,284 Performance Shares);
- Gillian E Meller was granted 16,950 Restricted Shares and 57,600 Performance Shares on 27 April 2015, 17,300 Restricted Shares on 8 April 2016, 16,200 Restricted Shares on 10 April 2017, 16,050 Restricted Shares and 50,450 Performance Shares on 10 April 2018 and 13,400 Restricted Shares on 8 April 2019, of which a total of 16,518 Restricted Shares were vested in 2019 (2018: 16,816 Restricted Shares and 52,570 Performance Shares), and the respective fair value of the share–based payments recognised for the year ended 31 December 2019 was HK$1.4 million (2018: HK$1.3 million). No award shares were lapsed/forfeited in 2019 (2018: 5,030 Performance Shares);
- Linda K P So was granted 16,400 Restricted Shares and 44,050 Performance Shares on 8 April 2016, 15,300 Restricted Shares on 10 April 2017, 14,200 Restricted Shares and 50,450 Performance Shares on 10 April 2018 and 14,800 Restricted Shares on 8 April 2019, of which a total of 15,301 Restricted Shares were vested in 2019 (2018: 10,566 Restricted Shares and 40,203 Performance Shares), and the respective fair value of the share–based payments recognised for the year ended 31 December 2019 was HK$1.4 million (2018: HK$1.3 million). No award shares were lapsed/forfeited in 2019 (2018: 3,847 Performance Shares);

11 Remuneration of Members of the Board and the Executive Directorate *(continued)*

A Remuneration of Members of the Board and the Executive Directorate *(continued)*

- David C F Tang was granted 18,450 Restricted Shares and 57,600 Performance Shares on 27 April 2015, 17,950 Restricted Shares on 8 April 2016, 17,250 Restricted Shares on 10 April 2017, 16,850 Restricted Shares and 50,450 Performance Shares on 10 April 2018 and 17,200 Restricted Shares on 8 April 2019, of which a total of 17,350 Restricted Shares were vested in 2019 (2018: 17,883 Restricted Shares and 52,570 Performance Shares), and the respective fair value of the share–based payments recognised for the year ended 31 December 2019 was HK$1.5 million (2018: HK$1.3 million). No award shares were lapsed/forfeited in 2019 (2018: 5,030 Performance Shares);
- Jeny M C Yeung was granted 19,350 Restricted Shares and 57,600 Performance Shares on 27 April 2015, 18,850 Restricted Shares on 8 April 2016, 17,700 Restricted Shares on 10 April 2017, 17,350 Restricted Shares and 50,450 Performance Shares on 10 April 2018 and 16,350 Restricted Shares on 8 April 2019, of which a total of 17,967 Restricted Shares were vested in 2019 (2018: 18,633 Restricted Shares and 52,570 Performance Shares), and the respective fair value of the share–based payments recognised for the year ended 31 December 2019 was HK$1.5 million (2018: HK$1.3 million). No award shares were lapsed/forfeited in 2019 (2018: 5,030 Performance Shares); and
- Roger Francis Bayliss was granted 30,150 Performance Shares on 8 April 2019, of which nil was vested in 2019 (2018: nil), and the respective fair value of the share–based payments recognised for the year ended 31 December 2019 was HK$0.5 million (2018:HK$nil). No award shares were lapsed/forfeited in 2019 (2018: nil).

None of the Performance Shares awarded to the Members of the Executive Directorate were vested in 2019.

The details of Board Members' and Members of the Executive Directorate's interest in the Company's shares are disclosed in the Report of the Members of the Board and note 42.

(iii) For the year ended 31 December 2019, three (2018: four) Members of the Executive Directorate of the Company, whose emoluments are shown above, were among the five individuals whose emoluments were the highest. The total remuneration of the five highest paid individuals for the year is shown below:

in HK$ million	2019	2018
Base pay, allowances and benefits in kind	**30.1**	31.1
Variable remuneration related to performance	**6.2**	11.6
Retirement scheme contributions	**2.6**	4.0
	38.9	46.7

The emoluments of the top 5 highest paid individuals for the year are within the following bands:

	2019	2018
HK$6,000,001 – HK$6,500,000	**1**	–
HK$6,500,001 – HK$7,000,000	**2**	–
HK$7,500,001 – HK$8,000,000	**–**	3
HK$8,000,001 – HK$8,500,000	**1**	–
HK$10,500,001 – HK$11,000,000	**1**	–
HK$11,000,001 – HK$11,500,000	**–**	1
HK$11,500,001 – HK$12,000,000	**–**	1
	5	5

(iv) The aggregate emoluments and share–based payments of Members of the Board and the Executive Directorate for the year was HK$103.5 million (2018: HK$124.2 million).

(v) The Company has a service contract with each of the independent non-executive Directors ("INED")/non-executive Directors ("NED") (excluding three additional directors appointed pursuant to Section 8 of the MTR Ordinance) specifying the terms of his/her continuous appointments as an INED/a NED and a Member of the relevant Board Committees, for a period not exceeding three years. He/she is also subject to retirement by rotation and re-election at the Company's annual general meetings in accordance with the Articles of Association where applicable. Professor Frederick S H Ma was re-appointed by the Financial Secretary Incorporated ("FSI") on 19 November 2018 as non-executive Chairman of the Company for a term commencing from 1 January 2019 to 30 June 2019 (both dates inclusive). Mr Rex P K Auyeung was appointed by the FSI as non-executive Chairman of the Company for a term commencing from 1 July 2019 until 31 December 2021 (both dates inclusive).

11 Remuneration of Members of the Board and the Executive Directorate *(continued)*

B Share Options

Options exercised and outstanding in respect of each Member of the Executive Directorate as at 31 December 2019 are set out in the Report of the Members of the Board.

Under the 2007 Share Option Scheme (the "2007 Option Scheme") as described in note 42(i), all Members of the Executive Directorate were granted options to acquire shares between 2007 and 2014.

Under the vesting terms of the options, options granted will be evenly vested in respect of their underlying shares over a period of three years from the date of offer to grant such options. As all the share options granted to each Member of the Executive Directorate were vested prior to 2018, the respective fair value of the share based payments recognised for the year ended 31 December 2019 was HK$nil (2018: HK$nil).

C Award Shares

Award Shares outstanding in respect of each Member of the Executive Directorate as at 31 December 2019 are set out in the Report of the Members of the Board.

Under the Executive Share Incentive Scheme as described in note 42(ii), all Members of the Executive Directorate may be granted an award of Restricted Shares and/or Performance Shares (collectively known as "Award Shares"). Restricted Shares are awarded on the basis of individual performance. Performance Shares are awarded which vest subject to the performance of the Company over a pre-determined performance period, assessed by reference to such Board-approved performance metric and in respect of such performance period and any other performance conditions, as determined by the Remuneration Committee from time to time.

An award of Restricted Shares will vest ratably over three years in equal tranches (unless otherwise determined by the Remuneration Committee). An award of Performance Shares will vest upon certification by the Remuneration Committee that the relevant performance metric and performance conditions have been achieved.

12 Profit on Hong Kong Property Development

Profit on Hong Kong property development comprises:

in HK$ million	2019	2018
Share of surplus and interest in unsold properties from property development	**4,376**	2,480
Income from receipt of properties for investment purpose	**1,211**	–
Agency fee and other income from West Rail property development (note 22C)	**182**	139
Overheads and miscellaneous studies	**(62)**	(45)
	5,707	2,574

During the year ended 31 December 2019, profits attributable to joint operations of HK$5,587 million (2018: HK$2,480 million) were recognised.

13 Depreciation and Amortisation

Depreciation and amortisation comprise:

in HK$ million	2019	2018
Depreciation charge relating to:		
– Owned property, plant and equipment	**3,865**	3,837
– Right-of-use assets	**332**	189
	4,197	4,026
Amortisation charge:		
– Amortisation charge relating to service concession assets and other intangible assets	**1,439**	1,392
– Utilisation of government subsidy for Shenzhen Metro Longhua Line operation	**(399)**	(433)
	1,040	959
	5,237	4,985

14 Interest and Finance Charges

in HK$ million	2019		2018	
Interest expenses in respect of:				
– Bank loans, overdrafts and capital market instruments	**1,053**		1,042	
– Obligations under service concession	**700**		704	
– Lease liabilities	**58**		25	
– Others	**23**		22	
Finance charges	**42**		71	
Exchange gain	**(53)**		(159)	
		1,823		1,705
Utilisation of government subsidy for Shenzhen Metro Longhua Line operation		**(70)**		(96)
Derivative financial instruments:				
– Fair value hedges	**1**		27	
– Cash flow hedges:				
– transferred from hedging reserve to interest expenses	**(32)**		18	
– transferred from hedging reserve to offset exchange gain	**69**		211	
– Hedge of net investments:				
– ineffective portion	**(1)**		(1)	
		37		255
Interest expenses capitalised		**(449)**		(406)
		1,341		1,458
Interest income in respect of:				
– Deposits with banks	**(466)**		(382)	
– Others	**(16)**		(2)	
		(482)		(384)
		859		1,074

During the year ended 31 December 2019, interest expenses capitalised were calculated on a monthly basis at the pre–determined cost of borrowings and/or the relevant group companies' borrowing cost which varied from 2.5% to 2.9% per annum (2018: 2.4% to 3.2% per annum).

During the year ended 31 December 2019, interest and finance charges net of interest expenses capitalised in relation to the Shenzhen Metro Longhua Line were HK$70 million (2018: HK$96 million), which was fully offset by the subsidy received from the Shenzhen Municipal Government.

During the year ended 31 December 2019, the loss resulting from fair value changes of the underlying financial assets and liabilities being hedged under fair value hedge was HK$45 million (2018: HK$11 million) while the gain resulting from fair value changes of hedging instruments comprising interest rate and cross currency swaps was HK$44 million (2018: HK$16 million of loss), thus resulting in a net loss of HK$1 million (2018: HK$27 million of net loss).

15 Income Tax in the Profit and Loss Account

A Income tax in the consolidated profit and loss account represents:

in HK$ million	2019	2018
Current tax		
– Hong Kong Profits Tax	**1,191**	1,933
– Tax outside Hong Kong	**264**	325
	1,455	2,258
Less: Utilisation of government subsidy for Shenzhen Metro Longhua Line operation	**(71)**	(69)
	1,384	2,189
Deferred tax		
– Origination and reversal of temporary differences on:		
– tax losses	**(1)**	(102)
– depreciation allowances in excess of related depreciation	**620**	228
– revaluation of properties	**(5)**	–
– provisions and others	**(76)**	10
	538	136
	1,922	2,325

The provision for Hong Kong Profits Tax for the year ended 31 December 2019 is calculated at 16.5% (2018: 16.5%) on the estimated assessable profits for the year after deducting accumulated tax losses brought forward, if any. Current taxes for subsidiaries outside Hong Kong are charged at the appropriate current rates of taxation ruling in the relevant tax jurisdictions.

The Company is a qualifying corporation under the two-tiered Profits Tax rate regime in Hong Kong. Under the two-tiered Profits Tax rate regime, the first HK$2 million of assessable profits are taxed at 8.25% and the remaining assessable profits are taxed at 16.5%. The provision for Hong Kong Profits Tax for the Company was calculated on the same basis in 2019 and 2018.

The provision of Land Appreciation Tax is estimated according to the requirements set forth in the relevant Mainland of China tax laws and regulations. Land Appreciation Tax has been provided at ranges of progressive rates of the appreciation value, with certain allowable deductions. During the year ended 31 December 2019, Land Appreciation Tax of HK$nil (2018: HK$30 million) was charged to profit or loss.

Provision for deferred tax on temporary differences arising in Hong Kong is calculated at the Hong Kong Profits Tax rate at 16.5% (2018: 16.5%), while that arising outside Hong Kong is calculated at the appropriate current rates of taxation ruling in the relevant tax jurisdictions.

The Company purchased tax reserve certificates in connection with the tax deductibility of certain payments relating to the Rail Merger. Please refer to note 30 to the consolidated accounts for details.

B Reconciliation between tax expense and accounting profit at applicable tax rates:

	2019		2018	
	HK$ million	%	HK$ million	%
Profit before taxation	**14,014**		18,481	
Notional tax on profit before taxation, calculated at the rates applicable to profits in the tax jurisdictions concerned	**2,330**	**16.6**	3,153	17.1
Land Appreciation Tax (net of tax effect on deduction of Enterprise Income Tax)	**–**	**–**	30	0.2
Tax effect of non-deductible expenses	**1,241**	**8.8**	464	2.5
Tax effect of non-taxable revenue	**(1,562)**	**(11.1)**	(1,253)	(6.8)
Tax effect of unused tax losses not recognised	**(16)**	**(0.1)**	–	–
Utilisation of government subsidy for Shenzhen Metro Longhua Line operation	**(71)**	**(0.5)**	(69)	(0.4)
Actual tax expenses	**1,922**	**13.7**	2,325	12.6

16 Dividends

During the year, ordinary dividends paid and proposed to shareholders of the Company comprise:

in HK$ million	2019	2018
Ordinary dividends attributable to the year		
– Interim ordinary dividend declared of HK$0.25 (2018: HK$0.25) per share	**1,539**	1,526
– Final ordinary dividend proposed after the end of reporting period of HK$0.98 (2018: HK$0.95) per share	**6,035**	5,833
	7,574	7,359
Ordinary dividends attributable to the previous year		
– Final ordinary dividend of HK$0.95 (2018: HK$0.87 per share attributable to year 2017) per share approved and payable/paid during the year	**5,835**	5,228

The final ordinary dividend proposed after the end of reporting period has not been recognised as a liability at the end of reporting period.

For 2019 final ordinary dividend, the Board proposed that a scrip dividend option will be offered to all shareholders of the Company whose names appeared on the register of members of the Company as at the close of business on 29 May 2020 (except for those with registered addresses in New Zealand or the United States of America or any of its territories or possessions).

Details of ordinary dividends paid to the Financial Secretary Incorporated are disclosed in note 45O.

17 Earnings Per Share

A Basic Earnings Per Share

The calculation of basic earnings per share is based on the profit for the year attributable to shareholders of HK$11,932 million (2018: HK$16,008 million) and the weighted average number of ordinary shares in issue less shares held for Executive Share Incentive Scheme, which is calculated as follows:

	2019	2018
Issued ordinary shares at 1 January	**6,139,485,589**	6,007,777,302
Effect of scrip dividend issued	**6,682,480**	51,890,075
Effect of share options exercised	**2,130,711**	2,253,653
Less: Shares held for Executive Share Incentive Scheme	**(5,752,047)**	(5,330,351)
Weighted average number of ordinary shares less shares held for Executive Share Incentive Scheme at 31 December	**6,142,546,733**	6,056,590,679

B Diluted Earnings Per Share

The calculation of diluted earnings per share is based on the profit for the year attributable to shareholders of HK$11,932 million (2018: HK$16,008 million) and the weighted average number of ordinary shares in issue less shares held for Executive Share Incentive Scheme after adjusting for the dilutive effect of the Company's share option scheme and Executive Share Incentive Scheme, which is calculated as follows:

	2019	2018
Weighted average number of ordinary shares less shares held for Executive Share Incentive Scheme at 31 December	**6,142,546,733**	6,056,590,679
Effect of dilutive potential shares under the share option scheme	**2,218,657**	3,490,644
Effect of shares awarded under Executive Share Incentive Scheme	**5,759,306**	5,820,496
Weighted average number of shares (diluted) at 31 December	**6,150,524,696**	6,065,901,819

C Both basic and diluted earnings per share would have been HK$1.72 (2018: HK$1.86), if the calculation is based on profit attributable to shareholders of the Company arising from underlying businesses of HK$10,560 million (2018: HK$11,263 million).

18 Other Comprehensive Income

A Tax effects relating to each component of other comprehensive income of the Group are shown below:

	2019			2018		
in HK$ million	Before-tax amount	Tax expense	Net-of-tax amount	Before-tax amount	Tax (expense)/ benefit	Net-of-tax amount
Exchange differences on translation of:						
– Financial statements of overseas subsidiaries, associates and joint venture	**(344)**	**–**	**(344)**	(761)	–	(761)
– Non-controlling interests	**(15)**	**–**	**(15)**	(22)	–	(22)
	(359)	**–**	**(359)**	(783)	–	(783)
Surplus on revaluation of self-occupied land and buildings	**145**	**(24)**	**121**	622	(103)	519
Remeasurement of net liability of defined benefit schemes	**869**	**(139)**	**730**	(422)	74	(348)
Cash flow hedges: net movement in hedging reserve (note 18B)	**292**	**(48)**	**244**	(32)	5	(27)
Other comprehensive income	**947**	**(211)**	**736**	(615)	(24)	(639)

B The components of other comprehensive income of the Group relating to cash flow hedges are as follows:

in HK$ million	2019	2018
Cash flow hedges:		
Effective portion of changes in fair value of hedging instruments recognised during the year	**255**	(260)
Amounts charged to profit or loss:		
– Interest and finance charges (note 14)	**37**	229
– Other expenses	**–**	(1)
	292	(32)
Tax effect resulting from:		
– Changes in fair value of hedging instruments recognised during the year	**(42)**	43
– Amounts charged to profit or loss	**(6)**	(38)
	244	(27)

19 Investment Properties and Other Property, Plant and Equipment

A Investment Properties

Movements and analysis of the Group's investment properties, all of which being held in Hong Kong and Mainland of China and carried at fair value, are as follows:

in HK$ million	2019	2018
At 1 January, as previously reported	**82,676**	77,086
Effect of adoption of HKFRS 16	**361**	–
At 1 January, as restated	**83,037**	77,086
Additions	**7,316**	450
Transfer from property held for sale	**–**	395
Change in fair value	**1,372**	4,745
Exchange loss	**(13)**	–
At 31 December	**91,712**	82,676

All investment properties of the Group were revalued at 31 December 2019 and 2018. Details of the fair value measurement are disclosed in note 41. The net increase in fair value of HK$1,372 million (2018: HK$4,745 million) arising from the revaluation has been credited to the consolidated profit and loss account. Investment properties in Hong Kong and Mainland of China are revalued semi–annually by Jones Lang LaSalle Limited and Cushman & Wakefield Limited respectively. Future market condition changes may result in further gains or losses to be recognised through profit and loss account in subsequent periods.

Included in the Group's investment properties as at 31 December 2019, was HK$670 million (2018: HK$395 million) relating to a property in Mainland of China.

19 Investment Properties and Other Property, Plant and Equipment *(continued)*

B Other Property, Plant and Equipment

The Group

in HK$ million	Leasehold land	Self-occupied buildings	Civil works	Plant and equipment	Assets under construction	Total
2019						
Cost or Valuation						
At 1 January 2019, as previously reported	**1,757**	**4,234**	**62,385**	**86,696**	**5,115**	**160,187**
Effect of adoption of HKFRS 16	**–**	**363**	**–**	**128**	**–**	**491**
At 1 January 2019, as restated	**1,757**	**4,597**	**62,385**	**86,824**	**5,115**	**160,678**
Additions	**–**	**60**	**–**	**292**	**3,173**	**3,525**
Disposals/write-offs	**–**	**–**	**(2)**	**(315)**	**(6)**	**(323)**
Surplus on revaluation	**–**	**(7)**	**–**	**–**	**–**	**(7)**
Transfer to stores and spares	**–**	**–**	**–**	**(12)**	**–**	**(12)**
Transfer to additional concession property (note 20)	**–**	**–**	**–**	**(4)**	**(2)**	**(6)**
Other assets commissioned	**8**	**–**	**(5)**	**1,441**	**(1,444)**	**–**
Exchange differences	**–**	**–**	**–**	**(51)**	**(1)**	**(52)**
At 31 December 2019	**1,765**	**4,650**	**62,378**	**88,175**	**6,835**	**163,803**
At Cost	**1,765**	**423**	**62,378**	**88,175**	**6,835**	**159,576**
At 31 December 2019 Valuation	**–**	**4,227**	**–**	**–**	**–**	**4,227**
Aggregate depreciation						
At 1 January 2019	**340**	**–**	**8,865**	**48,206**	**–**	**57,411**
Charge for the year	**34**	**226**	**523**	**3,414**	**–**	**4,197**
Written back on disposals	**–**	**–**	**–**	**(270)**	**–**	**(270)**
Written back on revaluation	**–**	**(152)**	**–**	**–**	**–**	**(152)**
Exchange differences	**–**	**–**	**–**	**(15)**	**–**	**(15)**
At 31 December 2019	**374**	**74**	**9,388**	**51,335**	**–**	**61,171**
Net book value at 31 December 2019	**1,391**	**4,576**	**52,990**	**36,840**	**6,835**	**102,632**
2018						
Cost or Valuation						
At 1 January 2018	1,757	3,748	61,981	85,717	3,786	156,989
Additions	–	–	–	229	3,201	3,430
Disposals/write-offs	–	–	(5)	(572)	(3)	(580)
Surplus on revaluation	–	486	–	–	–	486
Reclassification within other property, plant and equipment	–	–	2	(2)	–	–
Transfer to additional concession property (note 20)	–	–	–	(2)	(12)	(14)
Other assets commissioned	–	–	407	1,449	(1,856)	–
Exchange differences	–	–	–	(123)	(1)	(124)
At 31 December 2018	1,757	4,234	62,385	86,696	5,115	160,187
At Cost	1,757	–	62,385	86,696	5,115	155,953
At 31 December 2018 Valuation	–	4,234	–	–	–	4,234
Aggregate depreciation						
At 1 January 2018	306	–	8,346	45,448	–	54,100
Charge for the year	34	136	520	3,336	–	4,026
Written back on disposals	–	–	(1)	(529)	–	(530)
Written back on revaluation	–	(136)	–	–	–	(136)
Exchange differences	–	–	–	(49)	–	(49)
At 31 December 2018	340	–	8,865	48,206	–	57,411
Net book value at 31 December 2018	1,417	4,234	53,520	38,490	5,115	102,776

19 Investment Properties and Other Property, Plant and Equipment *(continued)*

C Right-of-use Assets

The analysis of the net book value of right-of-use assets by class of underlying asset is as follows:

in HK$ million	Note	31 December 2019	1 January 2019
Ownership interests in leasehold land held for own use, with remaining lease term of:	(i)		
– less than 50 years		**1,391**	1,417
Ownership interests in self-occupied buildings held for own use, with remaining lease term of:	(i)		
– less than 50 years		**4,227**	4,234
Other self-occupied buildings leased for own use, with remaining lease term of:	(ii)		
– less than 10 years		**349**	363
Plant and equipment, with remaining lease term of:	(iii)		
– less than 10 years		**503**	523
		6,470	6,537
Ownership interests in leasehold investment property, with remaining lease term of:			
– 50 years or more		**15**	16
– less than 50 years		**91,412**	82,660
		91,427	82,676
Other leasehold investment property, with remaining lease term of:			
– less than 10 years		**285**	361
		91,712	83,037
		98,182	89,574

The analysis of expense items in relation to leases recognised in profit or loss is as follows:

in HK$ million	2019	2018
Depreciation charge of right-of-use assets by class of underlying asset:		
Ownership interests in leasehold land held for own use	**34**	34
Ownership interests in self-occupied buildings held for own use	**152**	136
Other self-occupied buildings leased for own use	**74**	–
Plant and equipment	**72**	19
	332	189
Interest on lease liabilities	**58**	25
Expense relating to short-term leases and other leases with remaining lease term ending on or before 31 December 2019	**37**	–
Expense relating to leases of low-value assets, excluding short-term leases of low-value assets	**22**	–
Total minimum lease payments for leases previously classified as operating leases under HKAS 17	**–**	1,760

During the year, additions to right–of–use assets were HK$7,438 million. This amount primarily related to additions of investment properties.

Details of total cash outflow for leases and the maturity analysis of lease liabilities are set out in notes 40C and 33D, respectively.

(i) Ownership Interests in Leasehold Land and Buildings Held for Own Use

The lease of the land on which civil works as well as plant and equipment are situated for Hong Kong transport operations was granted to the Company under a running line lease which is coterminous with the Company's franchise to operate the mass transit railway under the Operating Agreement (notes 45A, 45B and 45C).

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 expenses relating to Hong Kong transport operations in the consolidated profit and loss account.

All self–occupied buildings of the Group in Hong Kong are held under medium–term leases and carried at fair value. The details of the fair value measurement are disclosed in note 41. The revaluation surplus of HK$145 million (2018: HK$622 million) and the related deferred tax expenses of HK$24 million (2018: HK$103 million) has been recognised in other comprehensive income and accumulated in the fixed assets revaluation reserve (note 39D). The carrying amount of the self–occupied buildings at 31 December 2019 would have been HK$692 million (2018: HK$718 million) had the buildings been stated at cost less accumulated depreciation.

19 Investment Properties and Other Property, Plant and Equipment *(continued)*

C Right-of-use Assets *(continued)*

(ii) Other Self-occupied Buildings Leased for Own Use

The Group has obtained the right to use other properties as its offices through tenancy agreements. The leases typically run for an initial period of 4 to 7 years.

(iii) Other Leases

The Group leases plant and equipment under leases expiring from 2 to 20 years. Some leases include an option to renew the lease when all terms are renegotiated, while some include an option to purchase the leased equipment at the end of the lease term at a price deemed to be a bargain purchase option. None of the leases includes variable lease payments.

D Properties Leased Out under Operating Leases

The Group leases out investment properties and station kiosks, including duty free shops, under operating leases. The leases typically run for an initial period of one to ten years, with an option to renew the lease after that date, at which time all terms will be renegotiated. Lease payments are adjusted periodically to reflect market rentals. Certain leases carry additional rental based on turnover, some of which are with reference to thresholds. Lease incentives granted are amortised in the consolidated profit and loss account as an integral part of the net lease payment receivable.

The gross carrying amount of investment properties of the Group held for use in operating leases were HK$84,624 million (2018: HK$82,676 million). The costs of station kiosks of the Group held for use in operating leases were HK$775 million (2018: HK$751 million) and the related accumulated depreciation charges were HK$493 million (2018: HK$452 million).

Total future minimum lease receipts under non-cancellable operating leases are receivable as follows:

in HK$ million	**2019**	2018
Within 1 year	**8,466**	8,388
After 1 year but within 2 years	**6,629**	6,364
After 2 year but within 3 years	**4,234**	4,638
After 3 year but within 4 years	**985**	2,971
After 4 year but within 5 years	**305**	651
After 5 years	**341**	481
	20,960	23,493

E In March 2003, the Group entered into a series of structured transactions with unrelated third parties to lease out and lease back certain of its passenger cars ("Lease Transaction") involving a total original cost of HK$2,562 million and a total net book value of HK$1,674 million as at 31 March 2003. Under the Lease Transaction, the Group has leased the assets to institutional investors in the United States (the "Investors"), who have prepaid all the rentals in relation to the lease agreement. Simultaneously, the Group has leased the assets back from the Investors based on terms ranging from 21 to 29 years with an obligation to pay rentals in accordance with a pre-determined payment schedule. The Group has an option to purchase the Investors' leasehold interest in the assets at the expiry of the lease term for fixed amounts. Part of the rental prepayments received from the Investors has been invested in debt securities to meet the Group's rental obligations and the amount payable for exercising the purchase option under the Lease Transaction. The Group has an obligation to replace these debt securities with other debt securities in the event those securities do not meet certain credit ratings requirements. In addition, the Group has provided standby letters of credit to the Investors to cover additional amounts payable by the Group in the event the transactions are terminated prior to the expiry of the lease terms.

The Group retains legal title to the assets and there are no restrictions on the Group's ability to utilise these assets in the operation of the railway business.

As a result of the Lease Transaction, an amount of approximately HK$3,688 million was received in an investment account and was used to purchase debt securities ("Defeasance Securities") to be used to settle the long-term lease payments with an estimated net present value of approximately HK$3,533 million in March 2003. This resulted in the Group having received in 2003 an amount of HK$141 million net of costs. As the Group is not able to control the investment account in pursuit of its own objectives and its obligations to pay the lease payments are funded by the proceeds of the above investments, those obligations and investments in the Defeasance Securities were not recognised in March 2003 as liabilities and assets of the Group. The net amount of cash received was accounted for as deferred income by the Group and amortised to the consolidated profit and loss account over the lease period until 2008, when credit ratings of some of these Defeasance Securities were downgraded and subsequently replaced by standby letters of credit, the charge on which had fully offset the remaining balance of the deferred income.

20 Service Concession Assets

Movements and analysis of the Group's service concession assets are as follows:

The Group

in HK$ million	KCRC Rail Merger: Initial concession property	KCRC Rail Merger: Additional concession property	Additional concession property (High Speed Rail)	Shenzhen Metro Longhua Line	MTR Nordic	TfL Rail/ Elizabeth Line	Total
2019							
Cost							
At 1 January 2019	**15,226**	**15,397**	**1**	**8,587**	**84**	**56**	**39,351**
Net additions during the year	**–**	**2,232**	**50**	**75**	**–**	**–**	**2,357**
Disposals	**–**	**(53)**	**–**	**(45)**	**(4)**	**–**	**(102)**
Transfer from other property, plant and equipment (note 19)	**–**	**6**	**–**	**–**	**–**	**–**	**6**
Exchange differences	**–**	**–**	**–**	**(157)**	**(4)**	**2**	**(159)**
At 31 December 2019	**15,226**	**17,582**	**51**	**8,460**	**76**	**58**	**41,453**
Accumulated amortisation							
At 1 January 2019	**3,375**	**2,825**	**–**	**2,584**	**65**	**29**	**8,878**
Charge for the year	**305**	**719**	**–**	**401**	**2**	**7**	**1,434**
Written-off on disposals	**–**	**(35)**	**–**	**(27)**	**(1)**	**–**	**(63)**
Exchange differences	**–**	**–**	**–**	**(55)**	**(3)**	**1**	**(57)**
At 31 December 2019	**3,680**	**3,509**	**–**	**2,903**	**63**	**37**	**10,192**
Net book value at 31 December 2019	**11,546**	**14,073**	**51**	**5,557**	**13**	**21**	**31,261**
2018							
Cost							
At 1 January 2018	15,226	13,114	–	9,000	84	59	37,483
Net additions during the year	–	2,353	1	63	–	–	2,417
Disposals	–	(84)	–	(19)	–	–	(103)
Transfer from other property, plant and equipment (note 19)	–	14	–	–	–	–	14
Exchange differences	–	–	–	(457)	–	(3)	(460)
At 31 December 2018	15,226	15,397	1	8,587	84	56	39,351
Accumulated amortisation							
At 1 January 2018	3,070	2,242	–	2,290	62	22	7,686
Charge for the year	305	641	–	435	3	8	1,392
Written-off on disposals	–	(58)	–	(6)	–	–	(64)
Exchange differences	–	–	–	(135)	–	(1)	(136)
At 31 December 2018	3,375	2,825	–	2,584	65	29	8,878
Net book value at 31 December 2018	11,851	12,572	1	6,003	19	27	30,473

Shenzhen Metro Longhua Line ("SZL4") forms part of the Shenzhen Metro, which is operated by a wholly-owned subsidiary, MTR Corporation (Shenzhen) Limited ("MTRSZ"). There has been no increase in fare since MTRSZ started operating the line in 2010. Currently, the Shenzhen Municipal Government is in the planning process to implement a fare adjustment mechanism in the Shenzhen Metro Network. Based on progress of the fare adjustment made to date, no impairment loss is recognised at 31 December 2019. If a suitable fare adjustment mechanism is not put in place, the long-term financial viability of SZL4 is expected to be impacted.

Initial concession property relates to the payments recognised at inception of the Rail Merger with KCRC while additional concession property relates to the expenditures for the upgrade of the initial concession property after inception of the Rail Merger. Additional concession property (High Speed Rail) relates to the expenditures for the upgrade of the concession property of High Speed Rail.

21 Railway Construction Projects under Entrustment by the HKSAR Government

A Hong Kong Section of the Guangzhou–Shenzhen–Hong Kong Express Rail Link ("High Speed Rail" or "HSR") Project

(a) HSR Preliminary Entrustment Agreement

On 24 November 2008, the HKSAR Government and the Company entered into an entrustment agreement for the design of and site investigation and procurement activities in relation to the HSR (the "**HSR Preliminary Entrustment Agreement**"). Pursuant to the HSR Preliminary Entrustment Agreement, the HKSAR Government is obligated to pay the Company the Company's in-house design costs and certain on-costs, preliminary costs and staff costs.

(b) HSR Entrustment Agreement

In 2009, the HKSAR Government decided that the Company should be asked to proceed with the construction, testing and commissioning of the HSR on the understanding that the Company would subsequently be invited to undertake the operation of the HSR under the service concession approach. On 26 January 2010, the HKSAR Government and the Company entered into another entrustment agreement for the construction, and commissioning of the HSR (the "**HSR Entrustment Agreement**"). Pursuant to the HSR Entrustment Agreement, the Company is responsible for carrying out or procuring the carrying out of the agreed activities for the planning, design, construction, testing and commissioning of the HSR and the HKSAR Government, as owner of HSR, is responsible for bearing and financing the full amount of the total cost of such activities (the "**Entrustment Cost**") and for paying to the Company a fee in accordance with an agreed payment schedule (the "**HSR Project Management Fee**") (subsequent amendments to these arrangements are described below). As at 31 December 2019 and up to the date of this annual report, the Company has received payments from the HKSAR Government in accordance with the originally agreed payment schedule.

The HKSAR Government has the right to claim against the Company if the Company breaches the HSR Entrustment Agreement (including, if the Company breaches the warranties it gave in respect of its project management services) and, under the HSR Entrustment Agreement, to be indemnified by the Company in relation to losses suffered by the HKSAR Government as a result of any negligence of the Company in performing its obligations under the HSR Entrustment Agreement or any breach of the HSR Entrustment Agreement by the Company. Under the HSR Entrustment Agreement, the Company's total aggregate liability to the HKSAR Government arising out of or in connection with the HSR Preliminary Entrustment Agreement and the HSR Entrustment Agreement (other than for death or personal injury) is subject to a cap equal to the HSR Project Management Fee and any other fees that the Company receives under the HSR Entrustment Agreement and certain fees received by the Company under the HSR Preliminary Entrustment Agreement (the "**Liability Cap**"). In accordance with general principles of law, such Liability Cap could not be relied upon if the Company were found to be liable for the fraudulent or other dishonest conduct of its employees or agents, to the extent that the relevant loss had been caused by such fraudulent or other dishonest conduct. Although the HKSAR Government has reserved the right to refer to arbitration the question of the Company's liability for the Current Cost Overrun (as defined hereunder) (if any) under the HSR Preliminary Entrustment Agreement and HSR Entrustment Agreement (as more particularly described in note 21A(c)(iv) below), up to the date of this annual report, no claim has been received from the HKSAR Government.

In April 2014, the Company announced that the construction period for the HSR project needed to be extended, with the target opening of the line for passenger service revised to the end of 2017.

On 30 June 2015, the Company reported to the HKSAR Government that the Company estimated:

- the HSR being completed in the third quarter of 2018 (including programme contingency of six months) (the "**HSR Revised Programme**"); and
- the total project cost of HK$85.3 billion (including contingency), based on the HSR Revised Programme.

As a result of adjustments being made to certain elements of the Company's estimated project cost of 30 June 2015, the HKSAR Government and the Company reached agreement that the estimated project cost be reduced to HK$84.42 billion (the "**Revised Cost Estimate**"). Further particulars relating to the Revised Cost Estimate are set out in notes 21A(c) and (e) below.

(c) HSR Agreement

On 30 November 2015, the HKSAR Government and the Company entered into an agreement (the "**HSR Agreement**") relating to the further funding and completion of the HSR. The HSR Agreement contains an integrated package of terms (subject to conditions as set out in note 21A(c)(vi) below) and provides that:

(i) The HKSAR Government will bear and finance the project cost up to HK$84.42 billion (which includes the original budgeted cost of HK$65 billion plus the agreed increase in the estimated project cost of HK$19.42 billion (the portion of the entrustment cost (up to HK$84.42 billion) that exceeds HK$65 billion being the "**Current Cost Overrun**"));

(ii) The Company will, if the project exceeds HK$84.42 billion, bear and finance the portion of the project cost which exceeds that sum (if any) (the "**Further Cost Overrun**") except for certain agreed excluded costs (namely, additional costs arising from changes in law, force majeure events or any suspension of construction contracts specified in the HSR Agreement);

(iii) The Company will pay a special dividend in cash of HK$4.40 in aggregate per share in two equal tranches (of HK$2.20 per share in cash in each tranche) ("**Special Dividend**"). The first tranche was paid on 13 July 2016 and the second tranche was paid on 12 July 2017;

21 Railway Construction Projects under Entrustment by the HKSAR Government *(continued)*

A Hong Kong Section of the Guangzhou–Shenzhen–Hong Kong Express Rail Link (“High Speed Rail” or “HSR”) Project *(continued)*

(iv) The HKSAR Government reserves the right to refer to arbitration the question of the Company’s liability for the Current Cost Overrun (if any) under the HSR Preliminary Entrustment Agreement and HSR Entrustment Agreement (“**Entrustment Agreements**”) (including any question the HKSAR Government may have regarding the validity of the Liability Cap). The Entrustment Agreements contain dispute resolution mechanisms which include the right to refer a dispute to arbitration. Under the HSR Entrustment Agreement, the Liability Cap is equal to the HSR Project Management Fee and any other fees that the Company receives under HSR Entrustment Agreement and certain fees received by the Company under the Preliminary Entrustment Agreement. Accordingly, the Liability Cap increases from up to HK$4.94 billion to up to HK$6.69 billion as the HSR Project Management Fee is increased in accordance with the HSR Agreement (as it will be equal to the increased HSR Project Management Fee under the HSR Entrustment Agreement of HK$6.34 billion plus the additional fees referred to above). If the arbitrator does not determine that the Liability Cap is invalid and determines that, but for the Liability Cap, the Company’s liability under the Entrustment Agreements for the Current Cost Overrun would exceed the Liability Cap, the Company shall:

- bear such amount as is awarded to the HKSAR Government up to the Liability Cap;
- seek the approval of its independent shareholders, at another General Meeting (at which the FSI, the HKSAR Government and their Close Associates and Associates and the Exchange Fund will be required to abstain from voting), for the Company to bear the excess liability; and
- if the approval of the independent shareholders (referred to immediately above) is obtained, pay the excess liability to the HKSAR Government. If such approval is not obtained, the Company will not make such payment to the HKSAR Government;

(v) Certain amendments are made to the HSR Entrustment Agreement to reflect the arrangements contained in the HSR Agreement, including an increase in HSR Project Management Fee payable to the Company under HSR Entrustment Agreement to an aggregate of HK$6.34 billion (which reflects the estimate of the Company’s expected internal costs in performing its obligations under HSR Entrustment Agreement in relation to HSR project) and to reflect the HSR Revised Programme;

(vi) The arrangements under the HSR Agreement (including the payment of the Special Dividend) were conditional on:

- independent shareholder approval (which was sought at the General Meeting held on 1 February 2016); and
- HKSAR Legislative Council approval in respect of the HKSAR Government’s additional funding obligations.

The HSR Agreement (and the Special Dividend) was approved by the Company’s independent shareholders at the General Meeting held on 1 February 2016 and became unconditional upon approval by the Legislative Council on 11 March 2016 of the HKSAR Government’s additional funding obligations.

(d) Operations of HSR

On 23 August 2018, the Company and KCRC entered into the SSCA–HSR to supplement the SCA dated 9 August 2007 in order for KCRC to grant a concession to the Company in respect of the HSR and to prescribe the operational and financial requirements that will apply to the HSR. The commercial operation of HSR began on 23 September 2018.

(e) Based on the Company’s latest review of the Revised Cost Estimate for the agreed scope of the project and having taken account of the opinion of independent experts including one on the review of the Revised Cost Estimate, the Company believes that, although the latest final project cost is likely to come close to the Revised Cost Estimate, the Revised Cost Estimate is still achievable and there is no current need to revise further such estimate. However, the final project cost can only be ascertained upon finalisation of all contracts, some of which will involve the resolution of commercial issues and may take several years to reach settlement based on past experience.

Having considered the number of contracts yet to be finalised and the contingency allowance currently available, there can be no absolute assurance that the final project cost will not exceed the Revised Cost Estimate, particularly if unforeseen difficulties arise in the resolution of commercial issues during the process of negotiating the final accounts. In such case, under the terms of the HSR Agreement, the Company will be required to bear and finance the portion of the project cost that exceeds the Revised Cost Estimate (if any) except for certain agreed excluded costs (as more particularly described in note 21A(c)(ii) above).

(f) The Company has not made any provision in its accounts in respect of:

(i) any possible liability of the Company for any Further Cost Overrun (if any), given the Company does not currently believe based on information available to date there is any need to revise further the Revised Cost Estimate. However, the final project cost can only be ascertained upon finalisation of all contracts, some of which will involve the resolution of commercial issues and may take several years to reach settlement;

(ii) any possible liability of the Company that may be determined in accordance with any arbitration that may take place, (as more particularly described in note 21A(c)(iv) above), given that (a) the Company has not received any notification from the HKSAR Government of any claim by the HKSAR Government against the Company or of any referral by the HKSAR Government to arbitration (which, as a result of the HSR Agreement, cannot take place until after commencement of commercial operations on the HSR) (as of 31 December 2019 and up to the date of this annual report); (b) the Company has the benefit of the Liability Cap; and (c) as a result of the HSR Agreement, the Company will not make any payment to the HKSAR Government in excess of the Liability Cap pursuant to a determination of the arbitrator without the approval of its independent shareholders; and

(iii) where applicable, because the Company is not able to measure with sufficient reliability the amount of the Company’s obligation or liability (if any).

21 Railway Construction Projects under Entrustment by the HKSAR Government *(continued)*

A Hong Kong Section of the Guangzhou–Shenzhen–Hong Kong Express Rail Link ("High Speed Rail" or "HSR") Project *(continued)*

(g) During the year ended 31 December 2019, HSR Project Management Fee of HK$78 million (2018: HK$402 million) was recognised in the consolidated profit and loss account. As at 31 December 2019, the total HSR Project Management Fee and the additional fees referred to above recognised to date in the consolidated profit and loss account amounted to HK$6,548 million (as at 31 December 2018: HK$6,470 million).

In relation to the sufficiency of the HSR Project Management Fee, the Company estimated that the total costs to complete performance of its obligations in relation to the HSR project are likely to exceed the HSR Project Management Fee. Accordingly, an appropriate amount of provision was recognised in the profit and loss account.

B Shatin to Central Link ("SCL") Project

(a) SCL Agreements

The Company and the HKSAR Government entered into the SCL Preliminary Entrustment Agreement ("**SCL EA1**") in 2008, the SCL Advance Works Entrustment Agreement ("**SCL EA2**") in 2011, and the SCL Entrustment Agreement ("**SCL EA3**") in 2012 (together, the "**SCL Agreements**"), in relation to the SCL.

Pursuant to the SCL EA1, the Company is responsible for carrying out or procuring the carrying out of the design, site investigation and procurement activities while the HKSAR Government is responsible for funding directly the total cost of such activities.

Pursuant to the SCL EA2, the Company is responsible for carrying out or procuring the carrying out of the agreed works while the HKSAR Government is responsible for bearing and paying to the Company all the work costs ("**EA2 Advance Works Costs**").

The funding for both SCL EA1 and SCL EA2 has been obtained by the HKSAR Government.

The SCL EA3 was entered into in 2012 for the construction and commissioning of the SCL. The HKSAR Government is responsible for bearing all the work costs specified in the SCL EA3 including costs to contractors and costs to the Company ("**Interface Works Costs**") (which the Company would pay upfront and recover from the HKSAR Government) except for certain costs of modification, upgrade or expansions of certain assets (including rolling stock, signalling, radio and main control systems) for which the Company is responsible under the existing service concession agreement with KCRC. The Company will contribute an amount in respect of the costs relating to such modifications, upgrades or expansions. This will predominantly be covered by the reduction in future maintenance capital expenditure which the Company would have otherwise incurred. The total sum entrusted to the Company by the HKSAR Government for the main construction works under the SCL EA3, including project management fee, is HK$70,827 million ("**Original Entrusted Amount**").

The Company is responsible for carrying out or procuring the carrying out of the works specified in the SCL Agreements for a SCL Project Management Fee of HK$7,893 million (the "**Original PMC**"). As at 31 December 2019 and up to the date of this annual report, the Company has received payments of the Original PMC from the HKSAR Government in accordance with the original agreed payment schedule. During the year ended 31 December 2019, Original PMC of HK$857 million (2018: HK$891 million) was recognised in the consolidated profit and loss account. As at 31 December 2019, the total Original PMC recognised to date in the consolidated profit and loss account amounted to HK$7,328 million (as at 31 December 2018: HK$6,471 million).

As mentioned above, the EA2 Advance Works Costs and the Interface Works Costs are payable by the HKSAR Government to the Company. During the year ended 31 December 2019, the total of these costs payable by the HKSAR Government to the Company were HK$343 million (2018: HK$401 million). As at 31 December 2019, the amount of such costs which remained outstanding from the HKSAR Government was HK$1,219 million (as at 31 December 2018: HK$1,107 million).

(b) SCL EA3 Cost Overrun

(i) Cost to Complete

The Company has previously announced that, due to the continuing challenges posed by external factors, the Original Entrusted Amount under SCL EA3 would not be sufficient to cover the total estimated cost to complete ("**CTC**") and would need to be revised upwards significantly. The Company carried out a detailed review of the estimated CTC for the main construction works in 2017 and submitted a revised estimated total CTC of HK$87,328 million ("**2017 CTC Estimate**") to the HKSAR Government on 5 December 2017, taking into account a number of factors, including issues such as archaeological relics, the HKSAR Government's requests for additional scope and late or incomplete handover of construction sites. The 2017 CTC Estimate represented an increase to the CTC of HK$16,501 million, including an increase in the SCL Project Management Fee payable to the Company. Since submission of the 2017 CTC Estimate to the HKSAR Government, the Company has been liaising with the HKSAR Government to facilitate their review and verification process.

The Company then carried out and completed a further review and revalidation of the CTC and, on 10 February 2020, notified the HKSAR Government, in accordance with the terms of the SCL EA3, of the latest estimate of the CTC, being HK$82,999 million ("**2020 CTC Estimate**"), including additional project management fee payable to the Company of HK$1,371 million ("**Additional PMC**"), being the additional cost to the Company of carrying out its remaining project management responsibilities under the SCL EA3, as detailed in note 21B(b)(ii) below but excluding the Hung Hom Incidents Related Costs in respect of which the Company has already made a provision of HK$2 billion in its consolidated profit and loss account for the year ended 31 December 2019 (as detailed in note 21B(c) below). The 2020 CTC Estimate represents an increase of HK$12,172 million from the Original Entrusted Amount of HK$70,827 million, which is less than the increase in the 2017 CTC Estimate of HK$16,501 million.

21 Railway Construction Projects under Entrustment by the HKSAR Government *(continued)*

B Shatin to Central Link ("SCL") Project *(continued)*

In accordance with the terms of SCL EA3, the HKSAR Government will now seek the approval of Legislative Council for additional funding required for the SCL Project so that the SCL can be completed. For the avoidance of doubt, the amount sought by the HKSAR Government will exclude the Hung Hom Incidents Related Costs (as detailed in note 21B(c)(ii) below) and (as notified by the HKSAR Government and reflected its paper for the first stage of the Legislative Council process for the approval of additional funding for the SCL Project) any Additional PMC for the Company as further detailed in note 21B(b)(ii) below.

(ii) Additional PMC

As mentioned above, the Company is responsible for carrying out or procuring the execution of the works specified in the existing entrustment agreements relating to the SCL Project and the HKSAR Government, as the owner of the SCL, is responsible for bearing and financing the full amount of the total cost of such activities and for paying to the Company the Original PMC of HK$7,893 million in accordance with an agreed payment schedule. As detailed in note 21B(b)(i) above and as previously disclosed by the Company, the programme for the delivery of the SCL Project has been significantly impacted by certain key external events, including the discovery of archaeological relics in the Sung Wong Toi Station area, requests for additional scope and the late or incomplete handover by third parties of construction sites to the Company. Not only do these matters increase the cost of works they also increase the cost to the Company of carrying out its project management responsibilities under the relevant SCL entrustment agreement, this increase estimated to be around HK$1,371 million. Regular updates have been provided to, and discussions have been held with, the HKSAR Government on the delays to the programme for the delivery of the SCL Project and the associated impacts on the CTC including the Additional PMC.

Given such significant modifications to the project programme and the associated increase in the project management costs of the Company and following the Company's receipt of independent expert advice, the Company believes that it is entitled (in accordance with the terms of the SCL EA3) to an increase in the project management fee, to be agreed by way of good faith negotiations or otherwise determined in accordance with the provisions of the SCL EA3. Accordingly, as stated above, the Company has included the Additional PMC of HK$1,371 million in the 2020 CTC Estimate notified to the HKSAR Government, reflecting the additional scope of work and programme extension.

The HKSAR Government has advised the Company that: (i) the HKSAR Government considers there has been no material modification in respect of the SCL Project and, therefore, the HKSAR Government disagrees to the inclusion of any Additional PMC in the CTC; and (ii) in the HKSAR Government's applications to the Legislative Council for additional funding for the SCL Project, the HKSAR Government will not make any provision for any Additional PMC for the Company.

The Company notes that the HKSAR Government has issued its paper for the first stage of the Legislative Council process for the approval of additional funding for the SCL Project and that the HKSAR Government's paper does not include any provision by the HKSAR Government for any Additional PMC for the Company.

The Board is of the view that the Company's entitlement to any Additional PMC should be resolved with the HKSAR Government in accordance with the terms of the SCL EA3.

Despite the fact that this matter needs to be resolved, the Company will, in the interim, continue to comply with its project management obligations under the SCL EA3 and meet the costs thereof, to allow (subject to the availability of additional funding for the cost of the project works) the SCL Project to progress in accordance with the latest programme.

Given the uncertainty and potential financial impact to the Company in connection with the Additional PMC, at the appropriate time following further developments relating to this matter, the Company will recognise a provision in its consolidated profit and loss account for an amount of up to HK$1,371 million to reflect the additional cost to the Company of completing its remaining project management responsibilities.

(c) Hung Hom Incidents

As stated in the Company's announcement dated 18 July 2019, towards the end of the first half of 2018, there were allegations concerning workmanship in relation to the Hung Hom Station extension ("**First Hung Hom Incident**"). The Company took immediate steps to investigate the issues, report the Company's findings to the HKSAR Government and reserve the Company's position against relevant contractors. To address the First Hung Hom Incident, the Company submitted to the HKSAR Government a holistic proposal for the verification and assurance of the as-constructed conditions and workmanship quality of the Hung Hom Station extension.

In late-2018 and early 2019, the Company advised the HKSAR Government of an insufficiency of construction records and certain construction issues at the Hung Hom North Approach Tunnel, the South Approach Tunnel and the Hung Hom Stabling Sidings, forming an addition to the First Hung Hom Incident ("**Second Hung Hom Incident**"). To address the Second Hung Hom Incident, the Company submitted to the HKSAR Government a verification proposal for verification of the as-constructed condition and workmanship quality of these areas.

*(i) Commission of Inquiry ("**COI**")*

On 10 July 2018, the COI was set up by the HKSAR Chief Executive in Council pursuant to the Commissions of Inquiry Ordinance (Chapter 86 of the Laws of Hong Kong). The Company has cooperated fully with the COI. The COI process included hearing of evidence from factual witnesses and reviewing evidence from experts on project management and structural engineering issues. On 29 January 2019, the HKSAR Government made its closing submission to the first phase of the COI in which it stated its view that the Company ought to have provided the required skills and care reasonably expected of a professional and competent project manager but that the Company had failed to do so. On 19 February 2019, the HKSAR Government announced that the terms of reference of the COI had been expanded and approved a further extension of time for the COI to submit its report to the Chief Executive by 30 August 2019, or such time as the Chief Executive in Council may allow. Subsequently, the Chief Executive in Council extended the time for the COI to submit its final report to the Chief Executive to 31 March 2020.

21 Railway Construction Projects under Entrustment by the HKSAR Government *(continued)*

B Shatin to Central Link ("SCL") Project *(continued)*

*(i) Commission of Inquiry ("**COI**") (continued)*

On 25 February 2019, the COI submitted an interim report to the Chief Executive on its findings and recommendations on matters covered by the original terms of reference. On 26 March 2019, the HKSAR Government published the redacted interim report in which the COI, while recognising it to be an interim report, found that although the Hung Hom Station extension diaphragm wall and platform slab construction works are safe, they were not executed in accordance with the relevant contract in material aspects. The COI also made a number of comments regarding the Company's performance and systems as well as a number of recommendations for the future.

On 18 July 2019, the Company completed and submitted to the HKSAR Government two separate final reports, one in respect of the First Hung Hom Incident and one in respect of the Second Hung Hom Incident, containing, inter alia, proposals for suitable measures required at certain locations to achieve code compliance. These suitable measures are being implemented to enable the SCL Project to be completed for public use in accordance with the latest project programme.

On 22 January 2020, the HKSAR Government reiterated, in its closing submissions on factual evidence for the extended inquiry submitted to the COI, that there was failure on the part of both the Company and the contractor Leighton Contractors Asia Limited to perform the obligations which the two parties undertook for the SCL project and that the Company, which was entrusted by the HKSAR Government as the project manager of the SCL project, ought to have provided the requisite degree of skill and care reasonably expected of a professional and competent project manager. Up to the date of this annual report, no claim has been received from the HKSAR Government in relation to any SCL Agreement (as detailed in note 21B(c)(iii) below).

(ii) Hung Hom Incidents Related Costs

In July 2019, the HKSAR Government accepted the Company's recommendation that the Tuen Ma Line (Tai Wai to Hung Hom Section of the SCL) should open in phases, with the first phase involving the opening of commercial service on the Tuen Ma Line from Tai Wai Station to Kai Tak Station ("**Phased Opening**") which occurred on 14 February 2020.

In order to progress the SCL Project and to facilitate the Phased Opening in the first quarter of 2020, the Company announced in July 2019 that it would fund, on an interim and without prejudice basis, certain costs arising from the Hung Hom Incidents and certain costs associated with Phased Opening (being costs for alteration works, trial operations and other costs associated with the preparation activities for the Phased Opening) ("**Hung Hom Incidents Related Costs**"), whilst reserving the Company's position as to the ultimate liability for such costs. Currently, the Company's best estimate of such costs is around HK$2 billion in aggregate. However, there is no certainty that, ultimately, the entirety of this amount will need to be funded.

The Company and the HKSAR Government will continue discussions with a view to reaching an overall settlement in relation to the Hung Hom Incidents and their respective funding obligations relating to the CTC and the Hung Hom Incidents Related Costs. If no overall settlement is reached between the Company and the HKSAR Government within a reasonable period, the provisions of the SCL EA3 shall continue to apply (as they currently do) including in relation to such costs, and the responsibility for the funding of such costs shall be determined in accordance with the SCL EA3.

After taking into account the above and in light of the Company's decision to fund, on an interim and without prejudice basis, the Hung Hom Incidents Related Costs, the Company recognised a provision of HK$2,000 million in its consolidated profit and loss account for the year ended 31 December 2019. Up to 31 December 2019, the Company has committed and/or paid Hung Hom Incidents Related Costs totaling HK$915 million, and no provision was written back during the year. The provision is included in "**Expenses relating to other businesses**" in the consolidated profit and loss account and in "**Creditors, other payables and provisions**" in the consolidated statement of financial position.

This amount does not take into account any potential recovery from any other party (whether in the circumstances that no overall settlement is reached and/or as a result of an award, settlement or otherwise). Accordingly, if any such potential recovery becomes virtually certain, the amount of any such recovery will be recognised and credited to the Company's consolidated profit and loss account in that financial period.

(iii) Potential Claims from and Indemnification to the HKSAR Government

The HKSAR Government has the right to claim against the Company if the Company breaches the SCL Agreements (including, if the Company breaches the warranties it gave in respect of its project management services) and, under each SCL Agreement, to be indemnified by the Company in relation to losses incurred by the HKSAR Government as a result of the negligence of the Company in performing its obligations under the relevant SCL Agreement or breach thereof by the Company. Under the SCL EA3, the Company's total aggregate liability to the HKSAR Government arising out of or in connection with the SCL Agreements (other than for death or personal injury) is subject to a cap equal to the fees that the Company receives under the SCL Agreements. In accordance with general principles of law, such cap could not be relied upon if the Company were found to be liable for the fraudulent or other dishonest conduct of its employees or agents, to the extent that the relevant loss had been caused by such fraudulent or other dishonest conduct. Although the HKSAR Government has stated that it reserves all rights to pursue further actions against the Company and related contractors and has made the statements in its closing submission to the COI (as stated in note 21B(b) above), up to the date of this annual report, no claim has been received from the HKSAR Government in relation to any SCL Agreement. It is uncertain as to whether such claim will be made against the Company in the future and, if made, the nature and amount of such claim.

(iv) The eventual outcome of the discussions between the Company and the HKSAR Government on various matters including the timing of any overall settlement in relation to the Hung Hom Incidents and their respective funding obligations relating to the Hung Hom Incidents Related Costs, the level of recovery from relevant parties and the development and eventual outcome relating to the Additional PMC (as detailed in note 21B(b)(ii) above) remain highly uncertain at the current stage. As a result, no additional provision other than the HK$2,000 million referred to above has been made as the Company is currently not able to measure with sufficient reliability the ultimate amount of the Company's obligation or liability arising from the SCL Project as a whole in light of the significant uncertainties involved. While no other provision on the SCL Project related matters was recognised at 31 December 2019, the Company will reassess on an ongoing basis the need to recognise a further provision in future years in light of any further developments.

21 Railway Construction Projects under Entrustment by the HKSAR Government *(continued)*

B Shatin to Central Link ("SCL") Project *(continued)*

(d) Phased Opening of SCL

On 11 February 2020, the Company entered into relevant agreements with the HKSAR Government and KCRC to supplement and amend the current agreements to enable the Company to operate Tuen Ma Line Phase 1 in substantially the same manner as the existing railway network for a period of two years from 14 February 2020. Prior to the full opening of the Tuen Ma Line, the parties are obliged to commence exclusive negotiations in good faith with a view to agreeing the terms of a supplemental service concession agreement for the entire Tuen Ma Line (which is intended to replace the Supplemental Service Concession Agreement that was executed on 11 February 2020).

22 Property Development in Progress

Pursuant to the project agreements in respect of the construction of railway extensions and the Property Package Agreements in respect of the Rail Merger, the HKSAR Government has granted the Company with development rights on the land over the stations along railway lines.

As at 31 December 2019, the outstanding Hong Kong Property Development Projects of the Company include the Tseung Kwan O Extension Property Projects at the depot sites in Tseung Kwan O Area 86 (LOHAS Park) and at the ventilation building in Yau Tong, South Island Line Property Project at sites in Wong Chuk Hang, Kwun Tong Line Extension Property Project at sites in Ho Man Tin and the East Rail Line/Light Rail Property Projects at sites along the related railway lines.

A Property Development in Progress

The Group

in HK$ million	Balance at 1 January	Expenditure	Offset against payments received from developers	Transfer out to profit or loss	Balance at 31 December
2019					
Hong Kong Property Development Projects	**14,840**	**3,819**	**(662)**	**(5,975)**	**12,022**
2018					
Hong Kong Property Development Projects	14,810	1,121	(912)	(179)	14,840

Leasehold land in Hong Kong included under property development in progress are held under medium-term leases.

B Stakeholding Funds

Being the stakeholder under certain Airport Railway, Tseung Kwan O Extension and East Rail Line 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, are to be released to the developers for the reimbursement of costs of the respective developments in accordance with the terms and conditions of the HKSAR Government Consent Schemes and development agreements. Any balance remaining is to be released for distribution only after all obligations relating to the developments have been met. Accordingly, the balances of the stakeholding funds and the corresponding bank balances have not been included in the Group's and the Company's statement of financial position. As at 31 December 2019, the balance of the stakeholding funds was HK$21,283 million (2018: HK$12,075 million).

C West Rail Property Development

As part of the Rail Merger, the Company was appointed to act as the agent of KCRC and certain KCRC subsidiary companies ("West Rail Subsidiaries") in the development of specified development sites along the West Rail. The Company can receive an agency fee of 0.75% of the gross sale proceeds in respect of the developments except for the Tuen Mun development on which the Company can receive 10% of the net profits accrued under the development agreement. The Company can also recover from the West Rail Subsidiaries all the costs incurred in respect of the West Rail development sites plus 16.5% on-cost, together with interest accrued thereon. During the year ended 31 December 2019, HK$182 million (2018: HK$139 million) agency fee and other income in respect of West Rail property development was recognised (note 12). During the year ended 31 December 2019, the reimbursable costs incurred by the Company including on-cost and interest accrued were HK$81 million (2018: HK$94 million).

23 Deferred Expenditure

The Group

in HK$ million	**2019**	2018
Balance at 1 January	**1,878**	710
Expenditure during the year	**70**	1,168
Balance at 31 December	**1,948**	1,878

24 Investments in Subsidiaries

The following list contains the particulars of principal subsidiaries which contribute materially to the Group's results, assets or liabilities:

		Proportion of ownership interest				
Name of company	Issued and paid up ordinary share capital/ registered capital	Group's effective interest	Held by the Company	Held by subsidiary	Place of incorporation/ establishment and operation	Principal activities
MTR Academy (HK) Company Limited	HK$10,000	100%	–	100%	Hong Kong	Administering the operation of MTR Academy
MTR Telecommunication Company Limited	HK$100,000,000	100%	100%	–	Hong Kong	Mobile telecommunication services
Ngong Ping 360 Limited	HK$2	100%	100%	–	Hong Kong	Operating the Tung Chung to Ngong Ping cable car system and theme village in Ngong Ping
Pierhead Garden Management Company Limited	HK$50,000	100%	100%	–	Hong Kong	Property investment
TraxComm Limited	HK$15,000,000	100%	100%	–	Hong Kong	Fixed telecommunication network and related services
Metro Trains Melbourne Pty. Ltd.*	AUD39,999,900 AUD100	60% on ordinary shares; 30% on Class A shares	– –	100% on ordinary shares; 100% on Class A shares	Australia	Railway operations and maintenance
Metro Trains Sydney Pty Ltd*	AUD100	60%	–	60%	Australia	Railway operations and maintenance
MTR Corporation (Sydney) NRT Pty Limited	AUD2	100%	–	100%	Australia	Design and delivery of railway related systems
MTR Corporation (C.I.) Limited	US$1,000	100%	100%	–	Cayman Islands/ Hong Kong	Financing
MTR Consultadoria (Macau) Sociedade Unipessoal Lda.	MOP25,000	100%	–	100%	Macao	Railway consultancy services
MTR Operações Ferroviárias (Macau) Sociedade Unipessoal Lda. (also known as MTR Railway Operations (Macau) Company Limited)	MOP25,000	100%	–	100%	Macao	Railway operations, management and technical support services
MTR Express (Sweden) AB	SEK10,050,000	100%	–	100%	Sweden	Railway operations and maintenance, property investment and management
MTR Pendeltågen AB	SEK10,050,000	100%	–	100%	Sweden	Railway operations, maintenance and station management
MTR Tech AB	SEK30,000,000	100%	–	100%	Sweden	Railway maintenance
MTR Tunnelbanan AB	SEK40,000,000	100%	–	100%	Sweden	Railway operations and maintenance
MTR (Beijing) Commercial Facilities Management Co., Ltd.^	HK$93,000,000	100%	–	100%	The People's Republic of China	Property leasing and management
MTR Corporation (Shenzhen) Limited^	HK$2,636,000,000	100%	–	100%	The People's Republic of China	Railway construction, operations and management
MTR Property Development (Shenzhen) Company Limited#	HK$2,180,000,000	100%	–	100%	The People's Republic of China	Property development, operation, leasing, management and consultancy services
MTR Corporation (Crossrail) Limited	GBP1,000,000	100%	–	100%	United Kingdom	Railway operations and maintenance

* Subsidiaries not audited by KPMG
^ Wholly foreign owned enterprise registered under PRC Law
# Sino-foreign equity joint venture registered under PRC Law

25 Interests in Associates and Joint Venture

The following list contains the particulars of material associates and joint ventures, all of which are unlisted corporate entities whose quoted market price is not available:

		Proportion of ownership interest				
Name of company	Issued and paid up ordinary share capital/ registered capital	Group's effective interest	Held by the Company	Held by subsidiary	Place of incorporation/ establishment and operation	Principal activities
Associates						
Octopus Holdings Limited	HK$42,000,000	57.4%	57.4%	–	Hong Kong	Holding company of a group of companies which engage in the operation of a contactless smartcard common payment system in Hong Kong and consultancy services
Beijing MTR Corporation Limited ~	RMB6,380,000,000	49%	–	49%	The People's Republic of China	Metro investment, construction, operations and passenger services
Beijing MTR L16 Corporation Limited α	RMB5,000,000,000	49%	–	49%	The People's Republic of China	Metro investment, construction and operations
Hangzhou MTR Corporation Limited *~	RMB4,540,000,000	49%	–	49%	The People's Republic of China	Railway operations and management
First MTR South Western Trains Limited *	GBP100	30%	–	30%	United Kingdom	Railway operations and management
Joint venture						
Hangzhou MTR Line 5 Corporation Limited ~	RMB4,360,000,000	60%	–	60%	The People's Republic of China	Railway electrical and mechanical construction, operations and management

* Companies not audited by KPMG

~ Sino-foreign co-operative joint venture registered under PRC Law

α Limited liability company (wholly owned by a legal person) under PRC Law

All the associates and joint venture are accounted for using the equity method in the consolidated accounts and considered to be not individually material.

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25 Interests in Associates and Joint Venture *(continued)*

The summary financial information of the Group's effective interests in associates and joint venture is as follows:

in HK$ million	2019	2018
Assets	**28,085**	26,061
Liabilities	**(17,765)**	(17,305)
Net assets	**10,320**	8,756
Income	**8,424**	9,340
Expenses and others	**(7,794)**	(8,412)
Profit before taxation	**630**	928
Income tax	**(342)**	(270)
Net profit	**288**	658
Other comprehensive income	**(185)**	(393)
Total comprehensive income	**103**	265
Group's share of net assets of the associates and JV	**10,320**	8,756
Goodwill	**39**	–
Carrying amount in the consolidated statement of financial position	**10,359**	8,756

In March 2017, the Department for Transport of the United Kingdom ("DfT") awarded the South Western Railway franchise ("Franchise") to First MTR South Western Trains Limited ("SWR"), an associate of the Company which the Company holds a 30% shareholding and FirstGroup plc in the United Kingdom holds a 70% shareholding. Pursuant to a franchise agreement ("Franchise Agreement") with DfT, the period of the Franchise runs from 20 August 2017 for seven years, with an option for an eleven-month extension at the discretion of the DfT. As noted in the Company's 2018 annual accounts, the financial performance of SWR has been impacted by a number of adverse factors (and this has continued since March 2019). SWR continues to be engaged in discussions with the DfT and relevant third parties to agree potential commercial and contractual remedies but, at the current time, there is a range of potential outcomes. Given the level of uncertainty in these outcomes and the potential financial impact of some of the possible scenarios, the Franchise Agreement is considered as an onerous contract. As such, a provision of GBP43 million (HK$436 million) has been made under "share of profit or loss of associates and joint venture" in the consolidated profit and loss account for the year ended 31 December 2019 which represents the Company's 30% share of the maximum potential loss under the Franchise Agreement.

26 Investments in Securities

Investments in securities represented debt securities held by the overseas insurance underwriting subsidiary measured at FVPL. As at 31 December 2019, all debt securities were expected to mature within one year except for HK$332 million (2018: HK$240 million) which were expected to mature after one year.

27 Properties Held for Sale

The Group

in HK$ million	2019	2018
Properties held for sale		
– at cost	**1,125**	1,179
– at net realisable value	**120**	190
	1,245	1,369
Representing:		
Hong Kong property development	**1,034**	1,156
Mainland of China property development	**211**	213
	1,245	1,369

Properties held for sale of the Group at 31 December 2019 comprise properties from property developments in Hong Kong and Mainland of China.

For Hong Kong property development, the net realisable values as at 31 December 2019 and 2018 were determined by reference to an open market valuation of the properties as at those dates, undertaken by an independent firm of surveyors, Jones Lang LaSalle Limited, who have among their staff Members of the Hong Kong Institute of Surveyors.

Properties held for sale at net realisable value of the Group are stated net of provision of HK$12 million (2018: HK$18 million) made in order to state these properties at the lower of their cost and estimated net realisable value. Leasehold land in Hong Kong included under properties held for sale are held under medium-term leases.

28 Derivative Financial Assets and Liabilities

A Fair Value

The contracted notional amounts, fair values and maturities based on contractual undiscounted cash flows of derivative financial instruments outstanding are as follows:

The Group

in HK$ million	Notional amount	Fair value	Contractual undiscounted cash flows maturing in Less than 1 year	1-2 years	2-5 years	Over 5 years	Total
2019							
Derivative Financial Assets							
Gross settled:							
Foreign exchange forwards							
– cash flow hedges:	51	1					
– inflow			42	10	–	–	52
– outflow			(41)	(10)	–	–	(51)
– not qualified for hedge accounting:	721	19					
– inflow			640	84	–	–	724
– outflow			(622)	(82)	–	–	(704)
Cross currency swaps							
– fair value hedges:	698	9					
– inflow			1	1	5	700	707
– outflow			–	–	–	(698)	(698)
– cash flow hedges:	8,430	139					
– inflow			244	245	737	9,276	10,502
– outflow			(218)	(218)	(657)	(9,214)	(10,307)
– hedges of net investments:	64	1					
– inflow			67	–	–	–	67
– outflow			(66)	–	–	–	(66)
Net settled:							
Interest rate swaps							
– fair value hedges	8,841	12	14	2	2	–	18
– cash flow hedges	1,250	14	11	4	–	–	15
– not qualified for hedge accounting	1,913	3	2	2	2	–	6
	21,968	198	74	38	89	64	265
Derivative Financial Liabilities							
Gross settled:							
Foreign exchange forwards							
– cash flow hedges:	321	11					
– inflow			150	135	22	2	309
– outflow			(154)	(142)	(23)	(2)	(321)
– hedges of net investments:	1,984	16					
– inflow			1,984	–	–	–	1,984
– outflow			(2,000)	–	–	–	(2,000)
– not qualified for hedge accounting:	783	15					
– inflow			650	118	–	–	768
– outflow			(663)	(120)	–	–	(783)
Cross currency swaps							
– cash flow hedges:	5,446	350					
– inflow			78	79	504	8,136	8,797
– outflow			(101)	(100)	(633)	(8,343)	(9,177)
Net settled:							
Interest rate swaps							
– fair value hedges	3,785	11	(14)	(3)	(2)	–	(19)
– cash flow hedges	100	3	–	–	(1)	(1)	(2)
– not qualified for hedge accounting	783	2	–	–	–	–	–
	13,202	408	(70)	(33)	(133)	(208)	(444)
Total	35,170						

28 Derivative Financial Assets and Liabilities *(continued)*

A Fair Value *(continued)*

The Group

in HK$ million	Notional amount	Fair value	Contractual undiscounted cash flows maturing in: Less than 1 year	1-2 years	2-5 years	Over 5 years	Total
2018							
Derivative Financial Assets							
Gross settled:							
Foreign exchange forwards							
– cash flow hedges:	137	1					
– inflow			20	19	99	–	138
– outflow			(19)	(19)	(99)	–	(137)
– not qualified for hedge accounting:	73	–					
– inflow			37	36	–	–	73
– outflow			(37)	(36)	–	–	(73)
Cross currency swaps							
– cash flow hedges:	277	25					
– inflow			12	12	36	332	392
– outflow			(8)	(8)	(22)	(329)	(367)
Net settled:							
Interest rate swaps							
– fair value hedges	961	5	5	7	(1)	–	11
– cash flow hedges	1,350	30	11	12	7	2	32
	2,798	61	21	23	20	5	69
Derivative Financial Liabilities							
Gross settled:							
Foreign exchange forwards							
– cash flow hedges:	1,169	13					
– inflow			546	520	87	3	1,156
– outflow			(554)	(524)	(88)	(3)	(1,169)
– hedges of net investments:	2,039	14					
– inflow			2,022	–	–	–	2,022
– outflow			(2,036)	–	–	–	(2,036)
– not qualified for hedge accounting:	202	6					
– inflow			196	–	–	–	196
– outflow			(202)	–	–	–	(202)
Cross currency swaps							
– fair value hedges:	698	9					
– inflow			1	1	5	675	682
– outflow			–	–	–	(698)	(698)
– cash flow hedges:	10,935	469					
– inflow			311	310	1,203	11,534	13,358
– outflow			(312)	(312)	(1,278)	(11,948)	(13,850)
– hedges of net investments:	64	3					
– inflow			3	67	–	–	70
– outflow			(2)	(71)	–	–	(73)
Net settled:							
Interest rate swaps							
– fair value hedges	1,550	31	(6)	(8)	(16)	(2)	(32)
	16,657	545	(33)	(17)	(87)	(439)	(576)
Total	19,455						

The Group's derivative financial instruments consist predominantly of interest rate and cross currency swaps entered into exclusively by the Company, and the relevant interest rate swap curves as of 31 December 2019 and 2018 were used to discount the cash flows of financial instruments. Interest rates used ranged from 1.760% to 2.666% (2018: 2.110% to 2.485%) for Hong Kong dollars, 1.630% to 2.010% (2018: 2.411% to 3.005%) for US dollars, 0.809% to 1.768% (2018: 1.868% to 2.735%) for Australian dollars and 0.012% to 0.124% (2018: 0.008% to 0.380%) for Japanese yen.

The table above details the remaining contractual maturities at the end of reporting period of the Group's derivative financial assets and liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of reporting period) and the earliest date the Group can be required to pay. The details of the fair value measurement are disclosed in note 41.

28 Derivative Financial Assets and Liabilities *(continued)*

B Financial Risks

The Group's operating activities and financing activities expose it to four main types of financial risks, namely liquidity risk, interest rate risk, foreign exchange risk and credit risk. The Group's overall risk management policy focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects of these financial risks on the Group's financial performance.

The Board of Directors provides principles for overall risk management and approves policies covering specific areas, such as liquidity risk, interest rate risk, foreign exchange risk, credit risk, concentration risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity. The Group's Preferred Financing Model (the "Model") for the Company is an integral part of its risk management policies. The Model specifies, amongst other things, the preferred mix of fixed and floating rate debts, the permitted level of foreign currency debts and an adequate length of financing horizon for coverage of forward funding requirements, against which the Company's financing related liquidity, interest rate and currency risk exposures are measured, monitored and controlled. The Board regularly reviews its risk management policies and authorises changes if necessary based on operating and market conditions and other relevant factors. The Board also reviews on an annual basis as part of the budgeting process and authorises changes if necessary to the Model in accordance with changes in market conditions and practical requirements.

The use of derivative financial instruments to control and hedge against interest rate and foreign exchange risk exposures is an integral part of the Group's risk management strategy. In accordance with Board policy, these instruments shall only be used for controlling or hedging risk exposures, and cannot be used for speculation purposes. All of the derivative instruments used by the Company are over-the-counter derivatives comprising principally interest rate swaps, cross currency swaps and foreign exchange forward contracts.

(i) Liquidity Risk

Liquidity risk refers to the risk that funds are not available to meet liabilities as they fall due, and it may result from timing and amount mismatches of cash inflow and outflow.

The Group employs projected cash flow analysis to manage liquidity risk by forecasting the amount of cash required, including working capital, debt repayments, dividend payments, capital expenditures and new investments, and by maintaining sufficient cash balance and/or undrawn committed banking facilities to ensure these requirements are met. It adopts a prudent approach and will maintain sufficient cash balance and committed banking facilities to provide forward coverage of at least 12 to 24 months of projected cash requirements at the parent company level as specified in the Model. The Company also conducts stress testing of its projected cash flow to analyse liquidity risk, and would arrange additional banking facilities or debt issuance or otherwise take appropriate actions if such stress tests reveal significant risk of material cash flow shortfall.

The following table details the remaining contractual maturities at the end of the reporting period of the Group's loans and other obligations other than lease liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of reporting period) and the earliest date the Group can be required to pay:

The Group

	2019				2018			
in HK$ million	Capital market instruments	Bank loans and overdrafts	Others	Total	Capital market instruments	Bank loans and overdrafts	Others	Total
Loans and other obligations								
Amounts repayable beyond 5 years	**25,138**	**887**	**–**	**26,025**	25,830	1,225	610	27,665
Amounts repayable within a period of between 2 and 5 years	**4,517**	**3,001**	**624**	**8,142**	4,470	6,583	–	11,053
Amounts repayable within a period of between 1 and 2 years	**1,029**	**254**	**–**	**1,283**	2,310	371	–	2,681
Amounts repayable within 1 year	**3,513**	**9,489**	**–**	**13,002**	1,199	8,345	–	9,544
	34,197	**13,631**	**624**	**48,452**	33,809	16,524	610	50,943

Others represent obligations under lease out/lease back transaction (note 19E).

28 Derivative Financial Assets and Liabilities *(continued)*

B Financial Risks *(continued)*

(ii) Interest Rate Risk

The Group's interest rate risk arises principally from its borrowing activities at the parent company level (including its financing vehicles). Borrowings based on fixed and floating rates expose the Group to fair value and cash flow interest rate risk respectively due to fluctuations in market interest rates. The Group manages and controls its interest rate risk exposure at the parent company level by maintaining a level of fixed rate debt between 45% and 75% (2018: 45% and 75%) of total debt outstanding as specified by the Model. Should the actual fixed rate debt level deviate substantially from the Model, derivative financial instruments such as interest rate swaps would be procured to align the fixed and floating mix with the Model. As at 31 December 2019, 63% (2018: 61%) of the Company's (including financing vehicles) total debt outstanding was denominated either in or converted to fixed interest rate after taking into account outstanding cross currency and interest rate swaps. Interest rate risk at subsidiary, associate and joint venture companies are managed separately based on their own borrowing requirement, circumstances and market practice.

As at 31 December 2019, it is estimated that a 100 basis points increase/100 basis points decrease in interest rates, with all other variables held constant, would decrease/increase the Group's profit after tax and retained profits by approximately HK$46 million/HK$51 million. Other components of consolidated equity would increase/decrease by approximately HK$30 million/HK$30 million.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to the exposure to interest rate risk for both derivative and non-derivative financial instruments in existence at that date. The interest rate assumptions represent management's assessment of a reasonable possible change in interest rates over the period until the next annual financial period.

In 2018, a similar analysis was performed based on the assumption of a 100 basis points increase/100 basis points decrease in interest rates, which would increase/decrease the Group's profit after tax and retained profits by approximately HK$117 million/HK$109 million. Other components of consolidated equity would increase/decrease by approximately HK$89 million/HK$97 million.

(iii) Foreign Exchange Risk

Foreign exchange risk arises when recognised assets and liabilities are denominated in a currency other than the functional currency of the Group's companies to which they relate. For the Group, it arises principally from its borrowing as well as overseas investment and procurement activities.

The Group manages and controls its foreign exchange risk exposure by maintaining a modest level of unhedged non-Hong Kong dollar debt at the parent company level as specified by the Model, and minimal foreign exchange open positions created by its investments and procurements overseas. Where the currency of a borrowing is not matched with that of the expected cash flows for servicing the debt, the Company would convert its foreign currency exposure resulting from the borrowing to Hong Kong dollar exposure through cross currency swaps. For investment and procurement in foreign currencies, the Group would purchase the foreign currencies in advance or enter into foreign exchange forward contracts to secure the necessary foreign currencies at pre-determined exchange rates for settlement.

The Company's exposure to US dollars due to its foreign currency borrowings is also offset by the amount of US dollar cash balances, bank deposits and investments that it maintains.

As most of the Group's receivables and payables are denominated in the respective Group companies' functional currencies (Hong Kong dollars, Renminbi, Australian dollars, British Pound or Swedish Krona) or United States dollars (with which Hong Kong dollars are pegged) and most of its payment commitments denominated in foreign currencies are covered by foreign exchange forward contracts, management does not expect that there will be any significant currency risk associated with them.

(iv) Credit Risk

Credit risk refers to the risk that a counterparty will be unable to pay amounts in full when due. For the Group, this arises mainly from the deposits it maintains and the derivative financial instruments that it has entered into with various banks and counterparties as well as from the Defeasance Securities it procured under the lease out/lease back transaction (note 19E). The Group limits its exposure to credit risk by placing deposits and transacting derivative financial instruments only with financial institutions with acceptable investment grade credit ratings or guarantee, and diversifying its exposure to various counterparties.

All derivative financial instruments are subject to a maximum counterparty limit based on the respective counterparty's credit ratings in accordance with policy approved by the Board. Credit exposure in terms of estimated fair market value of and largest potential loss arising from these instruments based on the "value-at-risk" concept is measured, monitored and controlled against their respective counterparty limits. To further reduce counterparty risk exposure, the Group also applies set-off and netting arrangements across all derivative financial instruments and other financial transactions with the same counterparty.

All deposits and investments are similarly subject to a separate maximum counterparty/issuer limit based on the respective counterparty/issuer's credit ratings and/or status as Hong Kong's note-issuing banks. There is also a limit on the length of time that the Group can maintain a deposit with a counterparty or investment from an issuer based upon the counterparty/issuer's credit ratings. Deposit/investment outstanding and maturity profile are monitored regularly to ensure they are within the limits established for the counterparties/issuers. In addition, the Group actively monitors the credit default swap levels of counterparties/issuers and their daily changes, and may on the basis of the observed levels and other considerations adjust its exposure and/or maximum counterparty/issuer limit to the relevant counterparty.

As at the end of the reporting period, the maximum exposure to credit risk of the Group with respect to derivative financial assets and bank deposits is represented respectively by the carrying amount of the derivative financial assets and the aggregate amount of deposits on its statement of financial position. As at the end of the reporting period, there was no significant concentration risk to a single counterparty.

In addition, the Company also manages and controls its exposure to credit risks in respect of receivables as stated in note 30.

29 Stores and Spares

As at 31 December 2019, stores and spares net of provision for obsolete stock of HK$21 million (2018: HK$14 million) amounted to HK$1,844 million (2018: HK$1,673 million), of which HK$1,310 million (2018: HK$1,134 million) is expected to be consumed within 1 year and HK$534 million (2018: HK$539 million) is expected to be consumed after 1 year. Stores and spares expected to be consumed after 1 year comprise mainly contingency spares and stocks kept to meet cyclical maintenance requirements.

30 Debtors and Other Receivables

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

(i) The majority of fare revenue from Hong Kong transport operation (except for that from the High Speed Rail as described in note 30(ii) below) is collected either through Octopus Cards with daily settlement on the next working day or in cash for other ticket types. A small portion of it is collected through pre-sale agents which settle the amounts due within 21 days.

(ii) In respect of the High Speed Rail, tickets are sold by the Company and other mainland train operators. The clearance centre of China Railway Corporation administers the revenue allocation and settlement system of the Guangzhou-Shenzhen-Hong Kong Express Rail Link and allocates the revenue of the High Speed Rail to the Company under a "section-based" approach with settlement in the following month.

(iii) Fare revenue from Shenzhen Metro Longhua Line is collected either through Shenzhen Tong Cards with daily settlement on the next working day or in cash for other ticket types. Fare revenue from MTR Express is collected through a third party financial institution with settlement within 14 days and sales through pre-sale agents are settled in the following month.

(iv) Franchise revenue in Melbourne is collected either daily or monthly depending on the revenue nature. The majority of the franchise revenue from operations in Stockholm is collected in the transaction month with the remainder being collected in the following month. Concession revenue for MTR Crossrail is collected once every 4 weeks. Service fees from Macao Light Rapid Transit Taipa Line are billed monthly with due dates in accordance with the terms of the service agreement.

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

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

(vii) Consultancy service incomes are billed monthly for settlement within 30 days upon work completion or on other basis stipulated in the consultancy contracts.

(viii) Debtors in relation to contracts and capital works entrusted to the Group, subject to any agreed retentions, are due within 30 days upon the certification of work in progress.

(ix) Amounts receivable in respect of property development are due in accordance with the terms of relevant development agreements or sale and purchase agreements.

The ageing of debtors is analysed as follows:

in HK$ million	2019	2018
Amounts not yet due	**2,775**	2,807
Overdue by 30 days	**153**	275
Overdue by 60 days	**59**	34
Overdue by 90 days	**41**	10
Overdue by more than 90 days	**192**	91
Total debtors	**3,220**	3,217
Other receivables and contract assets	**7,949**	6,359
	11,169	9,576

Included in other receivables as at 31 December 2019 was HK$2,813 million (2018: HK$1,959 million) in respect of property development profit in Hong Kong distributable from stakeholding funds based on the terms of the development agreements and sales and purchase agreements.

During the years ended 31 December 2017 and 2018, the Inland Revenue Department of Hong Kong ("IRD") issued notices of assessment/additional assessment for the years of assessment 2010/2011 to 2017/2018 following queries in connection with the tax deductibility of certain payments relating to the Rail Merger.

30 Debtors and Other Receivables *(continued)*

Based on the strength of advice from external senior counsels and tax advisor, the directors of the Company have determined to strongly contest the assessments raised by the IRD. The Company has lodged objections against these tax assessments and has applied to hold over the additional tax demanded. The IRD has agreed to the holdover of the additional tax demanded subject to the purchases of tax reserve certificates ("TRCs") amounting to HK$1,816 million and HK$462 million in 2017 and 2018 respectively. The purchases of TRCs do not prejudice the Company's tax position and the purchased TRCs were included in debtors and other receivables in the Group's consolidated statement of financial position. No additional tax provision has been made during the years ended 31 December 2018 and 2019 in respect of the above notices of assessment/ additional assessment.

On 23 March 2017, MTR Property (Tianjin) No.1 Company Limited ("MTR TJ No.1") entered into a Framework Agreement comprising, inter alia, a Share Transfer Agreement, with Tianjin Xingtai Jihong Real Estate Co., Ltd. ("TJXJRE"), a wholly-owned subsidiary of Beijing Capital Land Ltd., for the disposal of MTR TJ No.1's 49% equity interest in Tianjin TJ – Metro MTR Construction Company Limited ("Tianjin TJ – Metro MTR") at a consideration of RMB1.3 billion; and MTR TJ No.1's conditional future acquisition of a shopping centre to be developed on the same site at a consideration of RMB1.3 billion subject to the agreement of Tianjin TJ – Metro MTR. The disposal was completed on 10 July 2017 and consequently a prepayment is recognised on the consolidated statement of financial position. A performance bond in the amount of RMB1.6 billion issued by a Hong Kong licensed bank has been provided by TJXJRE to MTR TJ No.1 to guarantee its obligations under the Framework Agreement.

The Group's exposure to credit risk on debtors and other receivables mainly relates to debtors relating to rental receivables in Hong Kong and franchise fee/project fee receivables outside of Hong Kong. Given the Group's policy is to receive rental deposits from tenants in Hong Kong and the debtors in relation to the franchise fee/project fee receivables outside of Hong Kong are government related entities, the Group considers the credit risk is low and the expected credit loss is immaterial.

As at 31 December 2019, all debtors and other receivables were expected to be recovered within one year except for amounts relating to deposits and other receivables of HK$2,548 million (2018: HK$2,429 million) in the Group which were expected to be recovered after more than one year. The nominal values less credit losses are not discounted as it is considered that the effect of discounting would not be significant.

Included in debtors and other receivables are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

in million	2019	2018
Australian dollars	**8**	8
Renminbi	**66**	–
Macau pataca	**–**	63
United States dollars	**8**	8

31 Amounts Due from Related Parties

in HK$ million	2019	2018
Amounts due from:		
– HKSAR Government	**1,783**	1,713
– KCRC	**1,159**	215
– associates	**99**	160
	3,041	2,088

As at 31 December 2019, the amount due from the HKSAR Government mainly related to the recoverable cost for the advanced works in relation to the Shatin to Central Link, reimbursable costs for the essential public infrastructure works in respect of the South Island Line and Kwun Tong Line Extension projects, reimbursement of the fare revenue difference in relation to the Public Transport Fare Concession Scheme for the Elderly and Eligible Persons with Disabilities, agency fee receivables and reimbursable costs in respect of West Rail property development (note 22C), as well as receivables and retention for other entrustment and maintenance works.

The amount due from KCRC mainly related to the recoverable cost for certain capital works in accordance with the agreements in relation to the Rail Merger, as well as amounts in relation to the High Speed Rail.

The amounts due from associates as at 31 December 2019 included a loan to First MTR South Western Trains Limited of amount GBP nil (HK$nil) (2018: GBP9 million (HK$90 million)) net of impairment loss, with repayment due by 31 March 2023.

Given the amounts due from related parties mainly related to HKSAR Government and government related entity, the Group considers the credit risk is low and the expected credit loss is immaterial.

As at 31 December 2019, all amounts due from related parties were expected to be recovered within one year except for HK$1,156 million (2018: HK$333 million) which were expected to be recovered after more than one year. The carrying amounts of amounts due from the HKSAR Government and other related parties are considered not significantly different from their fair values.

32 Cash, Bank Balances and Deposits

in HK$ million	2019	2018
Deposits with banks and other financial institutions	**13,892**	11,229
Cash at banks and on hand	**7,294**	6,793
Cash, bank balances and deposits	**21,186**	18,022
Less: Bank deposits with more than three months to maturity when placed or pledged deposits (note 33E)	**(12,840)**	(9,157)
Cash and cash equivalents in the cash flow statement	**8,346**	8,865

Included in cash, bank balance and deposits in the consolidated statement of financial position are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

in million	2019	2018
Australian dollars	**16**	49
Euros	**8**	11
Japanese yen	**893**	109
Pound sterling	**8**	6
Renminbi	**1**	160

33 Loans and Other Obligations

A By Type

The Group

	2019			2018		
in HK$ million	Carrying amount	Fair value	Repayable amount	Carrying amount	Fair value	Repayable amount
Capital market instruments						
Listed or publicly traded:						
Debt issuance programme notes due during 2026 to 2047 (2018: due during 2026 to 2047)	**8,712**	**10,110**	**8,852**	8,738	9,367	8,853
Unlisted:						
Debt issuance programme notes due during 2020 to 2055 (2018: due during 2019 to 2055)	**15,492**	**17,418**	**15,973**	14,803	16,269	15,293
Total capital market instruments	**24,204**	**27,528**	**24,825**	23,541	25,636	24,146
Bank loans	**10,141**	**10,142**	**10,147**	11,312	11,312	11,331
Lease liabilities	**1,241**	**1,311**	**1,241**	450	553	450
Others	**499**	**573**	**499**	478	540	478
Loans and other obligations	**36,085**	**39,554**	**36,712**	35,781	38,041	36,405
Short-term loans	**3,371**	**3,371**	**3,371**	4,424	4,424	4,424
Total	**39,456**	**42,925**	**40,083**	40,205	42,465	40,829

Others include non-defeased obligations under lease out/lease back transaction (note 19E).

The fair values are based on the discounted cash flows method which discounts the future contractual cash flows at the current market interest and foreign exchange rates that is available to the Group for similar financial instruments. The carrying amounts of short-term loans and bank overdrafts approximated their fair values. Details of the fair value measurement are disclosed in note 41.

33 Loans and Other Obligations *(continued)*

A By Type *(continued)*

The amounts of borrowings, denominated in a currency other than the functional currency of the entity to which they relate, before and after currency hedging activities are as follows:

The Group

	Before hedging activities		After hedging activities	
in million	**2019**	2018	**2019**	2018
Australian dollars	**431**	431	**–**	–
Japanese yen	**15,000**	15,000	**–**	–
United States dollars	**1,130**	1,030	**–**	–

B By Repayment Terms

The Group

	2019					2018				
in HK$ million	Capital market instruments	Bank loans and overdrafts	Lease liabilities	Others	Total	Capital market instruments	Bank loans and overdrafts	Lease liabilities	Others	Total
Loans and other obligations										
Amounts repayable beyond 5 years	**18,738**	**978**	**27**	**–**	**19,743**	19,238	1,218	–	478	20,934
Amounts repayable within a period of between 2 and 5 years	**2,847**	**2,952**	**788**	**499**	**7,086**	2,760	6,164	404	–	9,328
Amounts repayable within a period of between 1 and 2 years	**413**	**217**	**194**	**–**	**824**	1,648	221	46	–	1,915
Amounts repayable within 1 year	**2,827**	**6,000**	**232**	**–**	**9,059**	500	3,728	–	–	4,228
	24,825	**10,147**	**1,241**	**499**	**36,712**	24,146	11,331	450	478	36,405
Short-term loans	**–**	**3,371**	**–**	**–**	**3,371**	–	4,424	–	–	4,424
	24,825	**13,518**	**1,241**	**499**	**40,083**	24,146	15,755	450	478	40,829
Less: Unamortised discount/ premium/finance charges outstanding	**(148)**	**(6)**	**–**	**–**	**(154)**	(155)	(19)	–	–	(174)
Adjustment due to fair value change of financial instruments	**(473)**	**–**	**–**	**–**	**(473)**	(450)	–	–	–	(450)
Total carrying amount of debt	**24,204**	**13,512**	**1,241**	**499**	**39,456**	23,541	15,736	450	478	40,205

The amounts repayable within 1 year in respect of capital market instruments and bank loans are included in long-term loans as these amounts are intended to be refinanced on a long-term basis.

C Bonds and Notes Issued and Redeemed

Notes issued during the years ended 31 December 2019 and 2018 comprise:

The Group

	2019		2018	
in HK$ million	Principal amount	Net consideration received	Principal amount	Net consideration received
Debt issuance programme notes	**1,183**	**1,183**	1,491	1,488

During the year ended 31 December 2019, MTR Corporation (C.I.) Limited did not issue any of its notes (2018: HK$1,491 million), while the Company issued HK$400 million and USD100 million (or HK$783 million) of its unlisted debt securities (2018: nil). The obligations of the notes issued by the subsidiary are direct, unsecured and unsubordinated to the other unsecured obligations of the subsidiary which are unconditionally and irrevocably guaranteed by the Company. The obligations of the Company under the guarantee are direct, unsecured, unconditional, and unsubordinated to other unsecured and unsubordinated obligations of the Company.

During the year ended 31 December 2019, the Group redeemed HK$500 million of its unlisted debt securities (2018: HK$750 million and USD60 million (or HK$465 million)) and did not redeem any of its listed debt securities (2018: HK$ nil).

33 Loans and Other Obligations *(continued)*

D Lease Liabilities

At 31 December 2019 and 2018, the Group had lease liabilities as follows:

in HK$ million	2019		2018	
	Present value of the minimum lease payments	Total minimum lease payments	Present value of the minimum lease payments	Total minimum lease payments
Within 1 year	**232**	**276**	–	22
After 1 year but within 2 years	**194**	**235**	46	89
After 2 years but within 5 years	**788**	**876**	404	451
After 5 years	**27**	**28**	–	–
	1,009	**1,139**	450	540
	1,241	**1,415**	450	562
Less: Total future interest expenses		**(174)**		(112)
Present value of lease obligations		**1,241**		450

E Guarantees and Pledges

(i) There were no guarantees given by the HKSAR Government in respect of the loan facilities of the Group as at 31 December 2019 and 2018.

(ii) As at 31 December 2019, MTR Corporation (Shenzhen) Limited, an indirect wholly owned subsidiary of the Company in the Mainland of China, has pledged the fare and non–fare revenue and the benefits of insurance contracts in relation to Phase 2 of Shenzhen Metro Longhua Line as security for the RMB1,847 million (2018: RMB2,041 million) bank loan facility granted to it.

Save as disclosed above and those disclosed elsewhere in the accounts, none of the other assets of the Group was charged or subject to any encumbrance as at 31 December 2019.

34 Creditors, Other Payables and Provisions

in HK$ million	2019	2018
Creditors and accrued charges	**19,315**	18,525
Other payables and provisions (note 21B(c)(ii))	**11,787**	5,306
Contract liabilities	**2,213**	2,116
	33,315	25,947

A Creditors and Accrued Charges

The analysis of creditors by due dates is as follows:

in HK$ million	2019	2018
Due within 30 days or on demand	**7,157**	6,152
Due after 30 days but within 60 days	**1,559**	1,142
Due after 60 days but within 90 days	**774**	911
Due after 90 days	**4,978**	4,398
	14,468	12,603
Rental and other refundable deposits	**2,857**	3,209
Accrued employee benefits	**1,990**	2,713
	19,315	18,525

The Group's general payment terms are one to two months from the invoice date.

34 Creditors, Other Payables and Provisions *(continued)*

A Creditors and Accrued Charges *(continued)*

Movements in contract liabilities of the Group during the year ended 31 December 2019 are as follows:

in HK$ million	2019	2018
Balance as at 1 January	**2,116**	2,525
Increase in contract liabilities as a result of billing in advance	**1,520**	1,582
Decrease in contract liabilities as a result of revenue recognised during the year that was included in the contract liabilities at the beginning of the period	**(1,410)**	(1,943)
Exchange differences	**(13)**	(48)
Balance as at 31 December	**2,213**	2,116

Contract liabilities mainly arise from construction contracts and other project arrangements, when the Group receives a deposit before the activity commences and until the revenue recognised on the project exceeds the amount of the deposit received. The payment terms are negotiated on a case by case basis with customers.

The nominal values of creditors and accrued charges are not significantly different from their fair values.

Included in creditors and accrued charges are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

in million	2019	2018
Australian dollars	**9**	11
Euros	**9**	14
Pound sterling	**3**	3
Renminbi	**8**	140
United States dollars	**12**	17

B Other Payables

Other payables comprised contract retentions and deferred income. Deferred income related to the surplus amounts of payments received from property developers in excess of the balance in property development in progress, the residual balance of deferred income on transfer of assets from customers, as well as the unutilised government subsidy for Shenzhen Metro Longhua Line operation.

As at 31 December 2019, all of the creditors and other payables were expected to be settled or recognised as income within one year except for HK$16,204 million (2018: HK$11,381 million), including contract liabilities of HK$801 million (2018: HK$502 million), of the Group which were expected to be settled or recognised as income after one year. The amounts due after one year for the Group as at 31 December 2019 mainly relate to rental deposits received from investment property and station kiosk tenants and advance income received, majority of which are due to be repaid within three years. The Group considers the effect of discounting would be immaterial.

35 Amounts Due to Related Parties

in HK$ million	2019	2018
Amounts due to:		
– HKSAR Government	117	70
– KCRC	2,873	2,475
– associates	–	131
	2,990	2,676

The amount due to the HKSAR Government as at 31 December 2019 relates to land administrative fees in relation to railway extensions.

The amount due to KCRC as at 31 December 2019 mainly relates to the accrued portion of the fixed annual payment and variable annual payment that is expected to be settled within 12 months.

The amount due to associates as at 31 December 2018 mainly related to the amount payable for the equity contribution to NRT Holdings 2 Pty Ltd which had been settled during the year ended 31 December 2019.

36 Obligations under Service Concession

Movements of the Group's obligations under service concessions are as follows:

in HK$ million	2019	2018
Balance as at 1 January	10,409	10,470
Add: Net increase in interest payable	3	3
Less: Amount repaid during the year	(59)	(56)
Exchange differences	(3)	(8)
Balance as at 31 December	10,350	10,409

The outstanding balances as at 31 December 2019 and 2018 are repayable as follows:

The Group

	2019			2018		
in HK$ million	Present value of payment obligations	Interest expense relating to future periods	Total payment obligations	Present value of payment obligations	Interest expense relating to future periods	Total payment obligations
Amounts repayable beyond 5 years	9,978	15,013	24,991	10,064	15,637	25,701
Amounts repayable within a period of between 2 and 5 years	238	1,990	2,228	223	2,061	2,284
Amounts repayable within a period of between 1 and 2 years	69	692	761	63	698	761
Amounts repayable within 1 year	65	696	761	59	697	756
	10,350	18,391	28,741	10,409	19,093	29,502

37 Loans from Holders of Non-controlling Interests

Loans from holders of non-controlling interests as at 31 December 2019 mainly represents the portion of total shareholder loan of AUD60 million (HK$328 million) granted to Metro Trains Australia Pty. Ltd. ("MTA") by the holders of its non-controlling interests. The loan carries an interest rate of 6.2% per annum and is repayable at the discretion of MTA or on 1 December 2024, whichever is earlier.

38 Income Tax in the Statement of Financial Position

A Current taxation in the consolidated statement of financial position comprises provision for Hong Kong Profits Tax for the Company and certain subsidiaries, chargeable at Hong Kong Profits Tax Rate at 16.5% (2018: 16.5%) and after netting off provisional tax paid, as well as tax outside Hong Kong chargeable at the appropriate current rates of taxation ruling in the relevant countries.

in HK$ million	2019	2018
Balance relating to Hong Kong Profits Tax	**1,904**	1,021
Balance relating to tax outside Hong Kong	**120**	140
	2,024	1,161
Representing:		
Current Taxation	**2,024**	1,161

B Deferred Tax Assets and Liabilities Recognised

The components of deferred tax assets and liabilities recognised in the consolidated statement of financial position and the movements during the year are as follows:

The Group

	Deferred tax arising from					
in HK$ million	Depreciation allowances in excess of related depreciation	Revaluation of properties	Provision and other temporary differences	Cash flow hedges	Tax losses	Total
2019						
Balance as at 1 January 2019, as previously reported	**12,385**	**751**	**(170)**	**(5)**	**(103)**	**12,858**
Effect of adoption of HKFRS 16	**–**	**8**	**(13)**	**–**	**–**	**(5)**
Balance as at 1 January 2019, as restated	**12,385**	**759**	**(183)**	**(5)**	**(103)**	**12,853**
Charged/(credited) to consolidated profit and loss account	**620**	**(5)**	**(76)**	**–**	**(1)**	**538**
Charged to reserves	**–**	**24**	**139**	**48**	**–**	**211**
Acquisition of subsidiary	**–**	**–**	**–**	**–**	**(12)**	**(12)**
Exchange differences	**2**	**–**	**(3)**	**–**	**6**	**5**
Balance as at 31 December 2019	**13,007**	**778**	**(123)**	**43**	**(110)**	**13,595**
2018						
Balance as at 1 January 2018	12,158	648	(107)	–	(8)	12,691
Charged/(credited) to consolidated profit and loss account	228	–	10	–	(102)	136
Charged/(credited) to reserves	–	103	(74)	(5)	–	24
Exchange differences	(1)	–	1	–	7	7
Balance as at 31 December 2018	12,385	751	(170)	(5)	(103)	12,858

in HK$ million	2019	2018
Net deferred tax assets	**(134)**	(121)
Net deferred tax liabilities	**13,729**	12,979
	13,595	12,858

C The Group has not recognised deferred tax assets in respect of some of its subsidiaries' cumulative tax losses of HK$326 million (2018: HK$158 million) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdictions and entities.

39 Share Capital, Shares Held for Executive Share Incentive Scheme, Company-level Movements in Components of Equity and Capital Management

A Share Capital

	2019		2018	
	Number of shares	HK$ million	Number of shares	HK$ million
Ordinary shares, issued and fully paid:				
At 1 January	**6,139,485,589**	**57,970**	6,007,777,302	52,307
Shares issued in respect of scrip dividend of 2018/2017 final ordinary dividend	**13,707,539**	**654**	93,790,912	4,175
Shares issued in respect of scrip dividend of 2019/2018 interim ordinary dividend	**1,494,283**	**71**	32,348,875	1,298
Vesting of shares of Executive Share Incentive Scheme	**–**	**5**	–	15
Shares issued under the share option scheme	**3,261,500**	**104**	5,568,500	175
At 31 December	**6,157,948,911**	**58,804**	6,139,485,589	57,970

In accordance with section 135 of the Companies Ordinance, the ordinary shares of the Company do not have a par value.

B Shares Held for Executive Share Incentive Scheme

During the year ended 31 December 2019, the Company awarded Performance Shares and Restricted Shares under the Company's Executive Share Incentive Scheme to certain eligible employees of the Company (note 42(ii)). In this regard, a total of 244,650 Performance Shares (2018: 1,772,900) and 2,062,150 Restricted Shares (2018: 2,288,950) were awarded and accepted by the grantees on 1 April 2019 and 8 April 2019 (2018: 16 March 2018, 10 April 2018). The fair values of these Award Shares were HK$48.90 per share on 1 April 2019 and HK$48.40 per share on 8 April 2019 (2018: HK$43.70 per share on 16 March 2018, HK$42.80 per share on 10 April 2018).

During the year ended 31 December 2019, the Trustee of the Executive Share Incentive Scheme, pursuant to the terms of the rules and the trust deed of the Executive Share Incentive Scheme, purchased on the Hong Kong Stock Exchange a total of 1,870,000 Ordinary Shares (2018: 5,351,600 Ordinary Shares) of the Company for a total consideration of approximately HK$88 million (2018: HK$239 million). During the year ended 31 December 2019, 64,088 Ordinary Shares of the Company (2018: 102,904 Ordinary Shares) were issued to the Executive Share Incentive Scheme in relation to scrip dividend issued amounting to HK$3 million (2018: HK$5 million).

During the year ended 31 December 2019, 2,230,420 shares (2018: 3,866,255 shares) were transferred to the awardees under the Executive Share Incentive Scheme upon vesting. The total cost of the vested shares was HK$93 million (2018: HK$152 million). During the year ended 31 December 2019, HK$5 million (2018: HK$15 million) was credited to share capital in respect of vesting of shares whose fair values at the grant date were higher than the costs of the vested shares. During the year ended 31 December 2019, 174,697 award shares (2018: 579,488 award shares) were lapsed/forfeited.

As at 31 December 2019, taking into account the shares acquired out of the dividends from the shares held under the trust, there were 5,853,726 shares held in trust under the Executive Share Incentive Scheme (excluding shares vested but not yet transferred to awardees).

C New Shares Issued and Fully Paid Up During the Year

	Number of shares	Weighted average exercise price HK$
Employee share options exercised:		
– 2007 Share Option Scheme	3,261,500	29.465

An analysis of the Company's outstanding share options as at 31 December 2019 is disclosed in note 42.

39 Share Capital, Shares Held for Executive Share Incentive Scheme, Company-level Movements in Components of Equity and Capital Management *(continued)*

D The fixed assets revaluation reserve is used to deal with the surpluses or deficits arising from the revaluation of self-occupied buildings (note 2E(ii)).

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges pending subsequent recognition of the hedged cash flow in accordance with the accounting policy adopted for cash flow hedges as explained in note 2V(ii).

The employee share-based capital reserve comprises the share-based payment expenses recognised in respect of share options under the share option scheme which are yet to be exercised, and in respect of award shares under the Executive Share Incentive Scheme granted which are yet to be vested, as explained in the accounting policy under note 2W(iii). The amount will either be transferred to the share capital account when the option is exercised, or be released directly to retained profits if the option is lapsed.

The exchange reserve comprises all foreign exchange differences arising from the translation of the accounts of foreign enterprises. The reserve is dealt with in accordance with the accounting policy set out in note 2AC.

Apart from retained profits, the other reserves are not available for distribution to shareholders because they do not constitute realised profits. In addition, the Company considers the cumulative surpluses on revaluation of investment properties of HK$60,964 million (2018: HK$59,551 million) included in retained profits are non–distributable as they do not constitute realised profits. As at 31 December 2019, the Company considers that the total amount of reserves available for distribution to shareholders amounted to HK$56,546 million (2018: HK$53,726 million).

Included in the Group's retained profits as at 31 December 2019 is an amount of HK$2,431 million (2018: HK$2,029 million), being the retained profits attributable to the associates and joint venture.

E Capital Management

The Group's primary objectives in managing capital are to safeguard its ability to continue as a going concern, and to generate sufficient profit to maintain growth and provide an adequate return to its shareholders.

The Group manages the amount of capital in proportion to risk, and makes adjustments to its capital structure through the amount of dividend payment to shareholders, issuance of scrip and new shares, and managing its debt portfolio in conjunction with projected financing requirement. The Financial Secretary Incorporated of the HKSAR Government is the majority shareholder of the Company holding 4,634,173,932 shares as at 31 December 2019, representing 75.26% of total equity interest in the Company.

The Group monitors capital on the basis of the net debt–to–equity ratio, which is calculated on net borrowings as a percentage of the total equity, where net borrowings are represented by the aggregate of loans and other obligations, bank overdrafts, obligations under service concession and loans from holders of non–controlling interests net of cash and cash equivalents and bank medium term notes. The Group's net debt-to-equity ratios over the past years had been trending downward since the Rail Merger from 46.5% at 31 December 2007 to 18.1% at 31 December 2018 and 15.4% at 31 December 2019.

Fasttrack Insurance Ltd. is required to maintain a minimum level of shareholders' fund based on the Bermuda Insurance Act. MTR Corporation (Shenzhen) Limited is required to maintain a registered capital at or above 40% of the total investment for the Shenzhen Metro Longhua Line project in accordance with the concession agreement. MTR Property Development (Shenzhen) Company Limited is required to maintain a registered capital at or above 33% of the total investment based on Jianfang [2015] No. 122. Metro Trains Melbourne Pty. Ltd. is required to maintain total shareholders' funds at a specified amount in accordance with the franchise agreement. All the Group's subsidiaries in Sweden are required to maintain total shareholders' fund at or above 50% of their respective registered share capital based on the Swedish Companies Act. MTR Travel Limited is required to maintain a certain level of paid-up capital in order to maintain membership of the Travel Industry Council of Hong Kong. As at 31 December 2019, all these capital requirements were met. Apart from these, neither the Company nor any of its other subsidiaries are subject to externally imposed capital requirements.

39 Share Capital, Shares Held for Executive Share Incentive Scheme, Company-level Movements in Components of Equity and Capital Management *(continued)*

F Company-level Movements in Components of Equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

				Other reserves				
in HK$ million	Note	Share capital	Shares held for Executive Share Incentive Scheme	Fixed assets revaluation reserve	Hedging reserve	Employee share-based capital reserve	Retained profits	Total equity
2019								
Balance as at 1 January 2019	48	**57,970**	**(265)**	**3,815**	**(99)**	**142**	**113,376**	**174,939**
Profit for the year		**–**	**–**	**–**	**–**	**–**	**10,805**	**10,805**
Other comprehensive income for the year		**–**	**–**	**121**	**271**	**–**	**702**	**1,094**
Total comprehensive income for the year		**–**	**–**	**121**	**271**	**–**	**11,507**	**11,899**
Amounts transferred from hedging reserve to initial carrying amount of hedged items		**–**	**–**	**–**	**3**	**–**	**–**	**3**
2018 final ordinary dividend		**–**	**–**	**–**	**–**	**–**	**(5,835)**	**(5,835)**
Shares issued in respect of scrip dividend of 2018 final ordinary dividend		**654**	**(2)**	**–**	**–**	**–**	**2**	**654**
2019 interim ordinary dividend		**–**	**–**	**–**	**–**	**–**	**(1,539)**	**(1,539)**
Shares issued in respect of scrip dividend of 2019 interim ordinary dividend		**71**	**(1)**	**–**	**–**	**–**	**1**	**71**
Shares purchased for Executive Share Incentive Scheme		**–**	**(88)**	**–**	**–**	**–**	**–**	**(88)**
Vesting and forfeiture of award shares of Executive Share Incentive Scheme		**5**	**93**	**–**	**–**	**(96)**	**(2)**	**–**
Employee share-based payments		**–**	**–**	**–**	**–**	**122**	**–**	**122**
Employee share options exercised		**104**	**–**	**–**	**–**	**(8)**	**–**	**96**
Balance as at 31 December 2019	48	**58,804**	**(263)**	**3,936**	**175**	**160**	**117,510**	**180,322**
2018								
Balance as at 1 January 2018		52,307	(173)	3,296	(143)	203	105,458	160,948
Profit for the year		–	–	–	–	–	15,052	15,052
Other comprehensive income for the year		–	–	519	44	–	(376)	187
Total comprehensive income for the year		–	–	519	44	–	14,676	15,239
2017 final ordinary dividend		–	–	–	–	–	(5,224)	(5,224)
Shares issued in respect of scrip dividend of 2017 final ordinary dividend		4,175	(4)	–	–	–	–	4,171
2018 interim ordinary dividend		–	–	–	–	–	(1,525)	(1,525)
Shares issued in respect of scrip dividend of 2018 interim ordinary dividend		1,298	(1)	–	–	–	–	1,297
Shares purchased for Executive Share Incentive Scheme		–	(239)	–	–	–	–	(239)
Vesting and forfeiture of award shares of Executive Share Incentive Scheme		15	152	–	–	(158)	(9)	–
Employee share-based payments		–	–	–	–	110	–	110
Employee share options exercised		175	–	–	–	(13)	–	162
Balance as at 31 December 2018	48	57,970	(265)	3,815	(99)	142	113,376	174,939

40 Other Cash Flow Information

A Reconciliation of the Group's operating profit before Hong Kong property development, depreciation, amortisation and variable annual payment from recurrent businesses to cash generated from operations is as follows:

in HK$ million	2019	2018
Operating profit before Hong Kong property development, depreciation, amortisation and variable annual payment from recurrent businesses	**15,351**	18,843
Adjustments for non-cash items	**1,836**	102
Operating profit before working capital changes	**17,187**	18,945
Increase in debtors and other receivables	**(1,372)**	(1,183)
Increase in stores and spares	**(188)**	(169)
Increase/(decrease) in creditors and other payables	**1,493**	(4,664)
Cash generated from operations	**17,120**	12,929

B Reconciliation of the Group's liabilities arising from financing activities is as follows:

	Loans and other obligations						
in HK$ million	Capital market instruments	Bank loans	Lease liabilities	Others	Short-term loans	Interest and finance charges payables	Total
2019							
At 1 January 2019, as previously reported	**23,541**	**11,312**	**450**	**478**	**4,424**	**113**	**40,318**
Effect of adoption of HKFRS 16	**–**	**–**	**865**	**–**	**–**	**–**	**865**
At 1 January 2019, as restated	**23,541**	**11,312**	**1,315**	**478**	**4,424**	**113**	**41,183**
Changes from financing cash flows:							
– Proceeds from loans and capital market instruments	**1,182**	**10,477**	**–**	**–**	**–**	**–**	**11,659**
– Repayment of loans and capital market instruments	**(500)**	**(11,619)**	**–**	**–**	**(1,053)**	**–**	**(13,172)**
– Capital element of lease rentals paid	**–**	**–**	**(165)**	**–**	**–**	**–**	**(165)**
– Interest and finance charges	**–**	**–**	**–**	**–**	**–**	**(1,054)**	**(1,054)**
	682	**(1,142)**	**(165)**	**–**	**(1,053)**	**(1,054)**	**(2,732)**
Exchange differences	**(3)**	**(42)**	**(54)**	**(2)**	**–**	**(8)**	**(109)**
Other changes:							
– Adjustment due to fair value change of financial instruments	**(16)**	**13**	**–**	**–**	**–**	**–**	**(3)**
– Recognition of lease liabilities	**–**	**–**	**145**	**–**	**–**	**–**	**145**
– Interest and finance charges	**–**	**–**	**–**	**23**	**–**	**1,094**	**1,117**
	(16)	**13**	**145**	**23**	**–**	**1,094**	**1,259**
At 31 December 2019	**24,204**	**10,141**	**1,241**	**499**	**3,371**	**145**	**39,601**

40 Other Cash Flow Information *(continued)*

in HK$ million	Loans and other obligations: Capital market instruments	Loans and other obligations: Bank loans	Loans and other obligations: Lease liabilities	Loans and other obligations: Others	Short-term loans	Interest and finance charges payables	Total
2018							
At 1 January 2018	23,451	17,313	492	458	325	123	42,162
Changes from financing cash flows:							
– Proceeds from loans and capital market instruments	1,488	31,377	–	–	4,099	–	36,964
– Repayment of loans and capital market instruments	(1,215)	(37,292)	(5)	–	–	–	(38,512)
– Interest and finance charges	–	–	–	–	–	(1,147)	(1,147)
	273	(5,915)	(5)	–	4,099	(1,147)	(2,695)
Exchange differences	–	(128)	(37)	2	–	2	(161)
Other changes:							
– Unamortised discount/premium/ finance charges outstanding	4	42	–	–	–	–	46
– Adjustment due to fair value change of financial instruments	(190)	–	–	–	–	–	(190)
– Interest and finance charges	–	–	–	18	–	1,138	1,156
– Discount on issurance of capital market instruments	3	–	–	–	–	(3)	–
	(183)	42	–	18	–	1,135	1,012
At 31 December 2018	23,541	11,312	450	478	4,424	113	40,318

C Total Cash Outflow for Leases

Amounts included in the cash flow statement for leases comprise the following:

in HK$ million	2019	2018
Within operating cash flows	**50**	1,760
Within financing cash flows	**213**	30
	263	1,790

These amounts relate to the leases of the following:

in HK$ million	2019	2018
Buildings	**189**	424
Plant and equipment	**74**	1,366
	263	1,790

41 Fair Value Measurement

In accordance with HKFRS 13, *Fair Value Measurement*, the level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

Level 1: Fair value measured using only Level 1 inputs, i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date

Level 2: Fair value measured using Level 2 inputs, i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available

Level 3: Fair value measured using significant unobservable inputs

A Fair Value Measurements of Fixed Assets

All of the Group's investment properties and self-occupied buildings measured at fair value on a recurring basis are categorised as Level 3 of the fair value hierarchy.

During the year ended 31 December 2019, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 in respect of the Group's investment properties and self-occupied buildings. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

All the Group's investment properties and self-occupied buildings were revalued as at 31 December 2019 and 2018 by independent qualified surveyors. The Group's senior management have discussion with the surveyors on the valuation assumptions and valuation results when the valuation is performed at each interim and annual reporting date.

The fair value of all the Group's self-occupied buildings is determined on a recurring basis using primarily the direct comparison approach assuming sale of properties in their existing state with vacant possession.

The property interests of all the shopping malls and office accommodation held by the Group as investment properties have been valued using the income capitalisation approach. Under this approach, the market value is derived from the capitalisation of the rental revenue to be received under existing tenancies and the estimated full market rental value to be received upon expiry of the existing tenancies with reference to the market rental levels prevailing as at the date of valuation by an appropriate single market yield rate. The range of market yield rate adopted for the valuation of major investment properties as at 31 December 2019 was 3.5% – 5.75% (2018: 3.5% – 5.75%) with a weighted average of 4.8% (2018: 4.8%). The fair value measurement is negatively correlated to the market yield rate.

The movements of investment properties during the year ended 31 December 2019 are shown in note 19A. All the fair value adjustment related to investment properties held as at 31 December 2019 was recognised under investment property revaluation in the consolidated profit and loss account.

B Fair Value Measurements of Financial Instruments

(i) Financial Assets and Liabilities Carried at Fair Value

All of the Group's investments in securities were carried at fair value using Level 1 measurements, the fair value of financial assets as at 31 December 2019 was HK$386 million (2018: HK$294 million). The Group's derivative financial instruments were carried at fair value using Level 2 measurements, as at 31 December 2019, the fair values of derivative financial assets and financial liabilities were HK$198 million (2018: HK$61 million) and HK$408 million (2018: HK$545 million) respectively.

There are no Level 3 measurements of financial instruments. During the years ended 31 December 2019 and 2018, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

The discounted cash flow method, which discounts the future contractual cash flows at the current market interest rates, is the main valuation technique used to determine the fair value of the Group's borrowings and derivative financial instruments. For interest rate swaps, cross currency swaps and foreign exchange forward contracts, the discount rates used were derived from the swap curves of the respective currencies and the cross currency basis curves of the respective currency pairs at the end of reporting period. Closing exchange rates at the end of reporting period were used to convert value in foreign currency to local currency.

41 Fair Value Measurement *(continued)*

B Fair Value Measurements of Financial Instruments *(continued)*

(ii) Financial Assets and Liabilities Not Carried at Fair Value

The carrying amounts of the Group's financial assets and liabilities not carried at fair value are not materially different from their fair values as at 31 December 2019 and 2018 except for capital market instruments and other obligations, for which their carrying amounts and fair values are disclosed below:

The Group

	At 31 December 2019		At 31 December 2018	
in HK$ million	Carrying amount	Fair value	Carrying amount	Fair value
Capital market instruments	**24,204**	**27,528**	23,541	25,636
Other obligations	**1,740**	**1,884**	928	1,093

The above fair value measurement is categorised as Level 2. The discounted cash flow method, which discounts the future contractual cash flows at the current market interest rates, is the main valuation technique used to determine the fair value of the Group's capital market instruments and other obligations. The discount rates used were derived from the swap curves of the respective currencies at the end of reporting period. Closing exchange rates at the end of the reporting period were used to convert value in foreign currency to local currency.

42 Share-based Payments

Equity-settled Share-based Payments

The Group granted share options under share option scheme and share awards under Executive Share Incentive Scheme to its Members of the Executive Directorate and certain employees. As at 31 December 2019, the Company maintained the 2007 Share Option Scheme and the Executive Share Incentive Scheme. Details of the schemes are as follows:

(i) 2007 Share Option Scheme

Following the expiry of the New Joiners Share Option Scheme (the "New Option Scheme") in May 2007, the 2007 Share Option Scheme (the "2007 Option Scheme") was submitted and approved at the 2007 Annual General Meeting to enhance the Company's ability to attract the best available personnel, to retain and motivate critical and key employees, to align their interest to the long-term success of the Company and to provide them with fair and market competitive remuneration. Under the Rules of the 2007 Option Scheme, a maximum of 277,461,072 shares, may be issued pursuant to the exercise of options granted after 7 June 2007 under all share option schemes of the Company including the 2007 Option Scheme. Options granted will be vested in respect of their underlying shares not less than 1 year from the date on which the relevant option is offered. The exercise price of any option granted under the 2007 Option Scheme is to be determined by the Company upon the offer of grant of the option and the exercise price should not be less than the greatest of (i) the average closing price of an MTR share for the five business days immediately preceding the day of offer of such option; (ii) the closing price of an MTR share on the day of offer of such option, which must be a business day; and (iii) the nominal value of an MTR share.

Subject to the rules of the 2007 Option Scheme, the Company may, from time to time during the scheme period, offer to grant share options to any eligible employees at its absolute discretion. Under the 2007 Option Scheme, the date of grant is defined as the date of acceptance of the offer to grant the option. The 2007 Option Scheme expired in June 2014. All the share options granted were vested prior to 2018.

The following table summarises the outstanding share options as at 31 December 2019 granted under the 2007 Option Scheme since inception:

Date of grant	Number of share options	Exercise price HK$	Exercisable period
2013 Award 6 May 2013	1,385,500	31.40	on or prior to 26 April 2020
2014 Award 30 May 2014	3,523,500	28.65	on or prior to 23 May 2021

42 Share-based Payments *(continued)*

Equity-settled Share-based Payments *(continued)*

Movements in the number of share options outstanding and their related weighted average exercise prices were as follows:

	2019		2018	
	Number of share options	Weighted average exercise price HK$	Number of share options	Weighted average exercise price HK$
Outstanding as at 1 January	**8,170,500**	**29.441**	13,794,000	29.298
Exercised during the year	**(3,261,500)**	**29.465**	(5,568,500)	29.094
Forfeited during the year	**–**	**–**	(55,000)	28.650
Outstanding as at 31 December	**4,909,000**	**29.426**	8,170,500	29.441
Exercisable as at 31 December	**4,909,000**	**29.426**	8,170,500	29.441

The weighted average closing price in respect of the share options exercised during the year was HK$47.750 (2018: HK$41.700).

Share options outstanding at 31 December 2019 had the following exercise prices and remaining contractual lives:

	2019		2018	
Exercise price	Number of share options	Remaining contractual life years	Number of share options	Remaining contractual life years
HK$27.48	**–**	**–**	840,000	–
HK$31.40	**1,385,500**	**–**	2,709,000	1
HK$28.65	**3,523,500**	**1**	4,621,500	2
	4,909,000		8,170,500	

During the year ended 31 December 2019, no expense was recognised for the equity-settled share-based payments relating to the 2007 Share Option Scheme (2018: HK$nil).

(ii) Executive Share Incentive Scheme

On 15 August 2014, the Board of the Company approved the adoption of the Executive Share Incentive Scheme, following the expiry of the 2007 Option Scheme on 6 June 2014. The purposes of the Executive Share Incentive Scheme are to retain management and key employees, to align participants' interest with the long-term success of the Company and to drive the achievement of strategic objectives of the Company. The Executive Share Incentive Scheme took effect on 1 January 2015 for a term of 10 years, under which an award holder may be granted an award of Restricted Shares and/or Performance Shares (collectively known as "Award Shares"). Restricted Shares are awarded to selective eligible employees. Performance Shares are awarded to eligible employees which vest subject to the performance of the Company over a pre-determined performance period, assessed by reference to such Board-approved performance metric and in respect of such performance period and any other performance conditions as determined by the Remuneration Committee from time to time.

Subject to the Scheme Rules, the Remuneration Committee shall determine the vesting criteria and conditions or periods for the Award Shares to be vested, subject to review from time to time. An award of Restricted Shares will vest ratably over three years in equal tranches (unless otherwise determined by the Remuneration Committee). An award of Performance Shares will vest upon certification by the Remuneration Committee that the relevant performance metric and performance conditions have been achieved. The Executive Share Incentive Scheme will be administered by the Company in accordance with the Scheme Rules and the Company has entered into a Trust Deed with the Trustee for the purpose of implementing the Scheme. The number of Award Shares will be acquired in the market at the cost of the Company by the Trustee. Award Shares will be held on trust by the Trustee until the end of each vesting period.

42 Share-based Payments *(continued)*

Equity-settled Share-based Payments *(continued)*

As at 31 December 2019, the following awards of shares were offered to Members of the Executive Directorate and selected employees of the Company under the Executive Share Incentive Scheme:

	Number of Award Shares granted		Average fair value per share	Vesting period	
Date of award	Restricted Shares	Performance Shares	HK$	From	To
27 April 2015	2,348,150	1,681,050	38.60	20 April 2015	20 April 2018 (Restricted Shares) 20 April 2018 (Performance Shares)
8 April 2016	2,401,150	187,200	38.65	1 April 2016	1 April 2019 (Restricted Shares) 20 April 2018 (Performance Shares)
19 August 2016	71,428	–	42.50	15 August 2016	15 August 2019
10 April 2017	2,245,200	112,200	44.45	3 April 2017	3 April 2020 (Restricted Shares) 20 April 2018 (Performance Shares)
16 March 2018	80,000	–	43.70	16 March 2018	31 March 2019
10 April 2018	2,208,950	1,772,900	42.80	3 April 2018	3 April 2021 (Restricted Shares) 3 April 2021 (Performance Shares)
1 April 2019	120,000	–	48.90	1 April 2019	31 March 2022
8 April 2019	1,942,150	244,650	48.40	1 April 2019	1 April 2022 (Restricted Shares) 3 April 2021 (Performance Shares)

Movement in the number of Award Shares outstanding was as follows:

	2019	2018
	Number of Award Shares	Number of Award Shares
Outstanding as at 1 January	**5,758,295**	6,142,188
Awarded during the year	**2,306,800**	4,061,850
Vested during the year	**(2,230,420)**	(3,866,255)
Forfeited during the year	**(174,697)**	(579,488)
Outstanding as at 31 December	**5,659,978**	5,758,295

Award Shares outstanding at 31 December 2019 had the following remaining vesting periods:

Award Shares	Remaining vesting period years	Number of Award Shares
Restricted Shares		
10 April 2017	0.26	595,986
10 April 2018	1.26	1,239,092
1 April 2019	2.25	120,000
8 April 2019	2.25	1,884,800
Performance Shares		
10 April 2018	1.26	1,585,950
8 April 2019	1.26	234,150

The details of the Executive Share Incentive Scheme are also disclosed in the Remuneration Report.

During the year ended 31 December 2019, the equity-settled share-based payments relating to the Executive Share Incentive Scheme recognised as an expense amounted to HK$122 million (2018: HK$110 million).

43 Retirement Schemes

The Group operates a number of retirement schemes in Hong Kong, the Mainland of China, United Kingdom, Sweden and Australia. The assets of these schemes are held under the terms of separate trust arrangements so that the assets are kept separate from those of the Group. The majority of the Group's employees are covered by the retirement schemes operated by the Company.

A Retirement Schemes Operated by the Company in Hong Kong

The Company operated four retirement schemes under trust in Hong Kong during the year ended 31 December 2019, including the MTR Corporation Limited Retirement Scheme (the "MTR Retirement Scheme"), the MTR Corporation Limited Provident Fund Scheme (the "MTR Provident Fund Scheme") and two Mandatory Provident Fund ("MPF") Schemes, the "MTR MPF Scheme" and the "KCRC MPF Scheme".

Currently, new eligible employees can choose between the MTR Provident Fund Scheme and the MTR MPF Scheme while the MTR MPF Scheme covers employees who did not opt for or who are not eligible to join the MTR Provident Fund Scheme.

(i) MTR Retirement Scheme

The MTR Retirement Scheme is a defined benefit scheme registered under the Occupational Retirement Schemes Ordinance (Cap. 426) (the "ORSO") and has been granted with an MPF Exemption Certificate by the Mandatory Provident Fund Schemes Authority (the "MPFA").

The MTR Retirement Scheme has been closed to new employees from 1 April 1999 onwards. It is administrated in accordance with the Trust Deed and Rules by the Board of Trustees, comprising management and employee representatives, and independent non–employer trustees. It provides benefits based on the greater of a multiple of final salary times service and a factor times the accumulated member contributions with investment returns. Members' contributions are based on fixed percentages of base salary. The Company's contributions are determined by reference to an annual actuarial valuation carried out by an independent actuarial consulting firm. As at 31 December 2019, the total number of member was 3,356 (2018: 3,600). In 2019, members contributed HK$69 million (2018: HK$72 million) and the Company contributed HK$351 million (2018: HK$183 million) to the MTR Retirement Scheme. The net asset value of the MTR Retirement Scheme excluding the portion attributable to members' voluntary contributions as at 31 December 2019 was HK$9,417 million (2018: HK$8,662 million).

The actuarial valuations as at 31 December 2018 and 2019 to determine the accounting obligations in accordance with HKAS 19, *Employee benefits*, were carried out by an independent actuarial consulting firm, Willis Towers Watson, using the Projected Unit Credit Method. The results of the valuation are shown in note 44.

The actuarial valuations as at 31 December 2018 and 2019 to determine the cash funding requirements were also carried out by Willis Towers Watson using the Attained Age Method. The principal actuarial assumptions used for the valuation as at 31 December 2019 included a long–term rate of investment return net of salary increases of –0.25% (2018: 1.17%) per annum, together with appropriate allowances for expected rates of mortality, turnover and retirement. Willis Towers Watson confirmed that, as at the valuation date of 31 December 2019:

(a) the MTR Retirement Scheme was solvent, covering 105.8% (2018: 98.6%) of the aggregate vested liability had all members left service with their leaving service benefits secured, resulting in a solvency surplus of HK$529 million; and

(b) on the assumption that the MTR Retirement Scheme would continue in force, its value of assets was more than sufficient to cover the aggregate past service liability, with a funding level of 101.3% (2018: 98.0%), representing a past service surplus of HK$127 million.

(ii) MTR Provident Fund Scheme

The MTR Provident Fund Scheme is a defined contribution scheme registered under the ORSO and has been granted an MPF Exemption Certificate by the MPFA. All benefits payable under the MTR Provident Fund Scheme are calculated by reference to members' own contributions and the Company's contributions, together with investment returns on these contributions. Both members' and the Company's contributions are based on fixed percentages of members' base salary.

As at 31 December 2019, the total number of employees participating in the MTR Provident Fund Scheme was 10,571 (2018: 10,177). In 2019, total members' contributions were HK$153 million (2018: HK$138 million) and total contributions from the Company were HK$362 million (2018: HK$335 million). The net asset value as at 31 December 2019 was HK$6,843 million (2018: HK$5,992 million).

(iii) MTR MPF Scheme

The MTR MPF Scheme is a defined contribution scheme covered under an MPF master trust registered with the MPFA. It covers those employees who did not opt for or who are not eligible to join the MTR Retirement Scheme or the MTR Provident Fund Scheme. Both members and the Company each contribute to the MTR MPF Scheme at the mandatory levels as required by the Mandatory Provident Fund Schemes Ordinance (Cap. 485) (the "MPFSO"). The Company makes additional contributions above the mandatory level for eligible members who joined the MTR MPF Scheme before 1 April 2008, subject to individual terms of employment.

As at 31 December 2019, the total number of employees participating in the MTR MPF Scheme was 5,747 (2018: 5,809). In 2019, total members' contributions were HK$50 million (2018: HK$50 million) and total contribution from the Company were HK$56 million (2018: HK$55 million).

(iv) KCRC MPF Scheme

The KCRC MPF Scheme is a defined contribution scheme covered under an MPF master trust registered with the MPFA. It covers those former KCRC employees who were previously members of the KCRC MPF Scheme and are eligible to join the MTR Provident Fund Scheme but opt to re-join the KCRC MPF Scheme. Both members and the Company each contribute to the KCRC MPF Scheme at the mandatory levels as required by the MPFSO.

As at 31 December 2019, the total number of employees participating in the KCRC MPF Scheme was 372 (2018: 429). In 2019, total members' contributions were HK$5 million (2018: HK$5 million) and total contribution from the Company were HK$5 million (2018: HK$5 million).

43 Retirement Schemes *(continued)*

B Retirement Schemes for Employees of Mainland of China and Overseas Offices and Subsidiaries

Employees not eligible for joining the retirement schemes operated by the Company in Hong Kong are covered by the retirement schemes established by their respective subsidiary companies or in accordance with respective applicable labour regulations.

Certain employees of the Group's Australian subsidiary are entitled to receive retirement benefits from the Emergency Services Superannuation Scheme operated in Australia. The benefit amounts are calculated based on the member's years of service and final average salary. The Group does not recognise any defined benefit liability in respect of this scheme because the Group has no legal or constructive obligation to pay future benefits relating to its employees; its only obligation is to pay contributions as they fall due. As at 31 December 2019, total number of the Group's employees participating in this scheme was 546 (2018: 575). In 2019, total members' contributions were HK$23 million (2018: HK$26 million) and total contribution from the Group was HK$59 million (2018: HK$54 million).

Certain employees of the Group's Swedish subsidiaries are entitled to receive retirement benefits from the ITP 2 Retirement Scheme operated in Sweden. The benefit amounts are calculated based on the member's years of service and annual salary. The Group does not recognise any defined benefit liability in respect of this scheme because the Group has no legal or constructive obligation to pay future benefits relating to its employees; its only obligation is to pay contributions as they fall due. As at 31 December 2019, total number of the Group's employees participating in this scheme was 741 (2018: 607). In 2019, total contribution from the Group was HK$23 million (2018: HK$23 million).

Certain employees of the Group's MTR Crossrail subsidiary are entitled to join the MTR Corporation (Crossrail) section of the Railway Pension Scheme in the United Kingdom. The scheme is a shared cost arrangement whereby the Group is only responsible for a share of the cost. The benefit amounts are calculated based on the member's years of service and final average salary. The Group does not recognise any net defined benefit liability in respect of this scheme because the Group has no legal or constructive obligation for any deficit in the value of the scheme. Its only obligation is to pay contributions as they fall due. As at 31 December 2019, total number of the Group's employees participating in this scheme was 621 (2018: 535). In 2019, total members' contributions were HK$22 million (2018: HK$17 million) and total contribution from the Group was HK$32 million (2018: HK$26 million). Pension expense of HK$67 million (2018: HK$53 million) was recognised in profit and loss and actuarial gain of HK$28 million (2018: HK$28 million) was recognised in the statement of other comprehensive income.

Except for the retirement schemes described above, all other retirement schemes to cover employees in overseas offices or in subsidiaries in Hong Kong, the Mainland of China, Macao or overseas are defined contribution schemes. For Hong Kong employees, these schemes are registered under the MPFSO in Hong Kong. For the Mainland of China, Macao or overseas employees, these schemes are operated in accordance with the respective local laws and regulations. As at 31 December 2019, the total number of employees of the Group participating in these schemes was 14,015 (2018: 12,875). In 2019, total members' contributions were HK$95 million (2018: HK$95 million) and total contribution from the Group was HK$484 million (2018: HK$454 million).

44 Defined Benefit Retirement Scheme

During the year ended 31 December 2019, the Company makes contributions to and recognises defined benefit liabilities in respect of MTR Retirement Scheme which provides employees with benefits upon retirement or termination of services for other reasons (note 43). This defined benefit scheme exposes the Group to actuarial risks, such as interest rate, salary increase and investment risks. The information about the MTR Retirement Scheme is summarised as below:

A Amounts Recognised in the Consolidated Statement of Financial Position

The Group

in HK$ million	**2019**	2018
Present value of defined benefit obligations	**(9,905)**	(10,022)
Fair value of scheme assets	**9,417**	8,662
Net liabilities	**(488)**	(1,360)

The net liabilities are recognised under "Creditors, other payables and provisions" in the consolidated statement of financial position. A portion of the above liabilities is expected to be paid after more than one year. However, it is not practicable to segregate this amount from the amounts to be paid in the next twelve months, as future contributions will also relate to future services rendered and future changes in actuarial assumptions and market conditions. The Company expects to pay HK$263 million in contribution to the MTR Retirement Scheme in 2020.

44 Defined Benefit Retirement Scheme *(continued)*

B Scheme Assets

The Group

in HK$ million	2019	2018
Equity securities		
– Financial institutions	**482**	638
– Non-financial institutions	**4,046**	3,697
	4,528	4,335
Bonds		
– Government	**2,173**	2,229
– Non-government	**2,614**	1,851
	4,787	4,080
Cash	**297**	415
	9,612	8,830
Voluntary units	**(195)**	(168)
	9,417	8,662

The scheme assets include no amount invested in the ordinary shares of the Company as at 31 December 2019 (2018: HK$nil). Also, there were no investment in other shares and debt securities of the Company as at 31 December 2019 and 2018. All of the equity securities and bonds have quoted prices in active markets.

An asset–liability modelling review is performed periodically to analyse the strategic investment policies of the MTR Retirement Scheme. Based on the latest study, the long–term strategic asset allocation of the MTR Retirement Scheme is set at 42.5% in equities and 57.5% in bonds and cash as at 31 December 2019 (2018: 52.5% in equities and 47.5% in bonds and cash).

C Movements in the Present Value of the Defined Benefit Obligations

The Group

in HK$ million	2019	2018
At 1 January	**10,022**	10,672
Remeasurements:		
– Actuarial losses/(gains) arising from changes in liability experience	**252**	(97)
– Actuarial losses arising from changes in demographic assumptions	**–**	13
– Actuarial gains arising from changes in financial assumptions	**(96)**	(172)
	156	(256)
Members' contributions paid to the scheme	**69**	72
Benefits paid by the scheme	**(876)**	(1,002)
Current service cost	**285**	303
Interest cost	**249**	233
At 31 December	**9,905**	10,022

The weighted average duration of the present value of the defined benefit obligations was 6.0 years as at 31 December 2019 (2018: 6.3 years).

44 Defined Benefit Retirement Scheme *(continued)*

D Movements in Scheme Assets

The Group

in HK$ million	2019	2018
At 1 January	**8,662**	9,903
Company's contributions paid to the scheme	**351**	183
Members' contributions paid to the scheme	**69**	72
Benefits paid by the scheme	**(876)**	(1,002)
Administrative expenses paid from scheme assets	**(5)**	(6)
Interest income	**219**	218
Return on scheme assets, excluding interest income	**997**	(706)
At 31 December	**9,417**	8,662

E Expenses Recognised in the Profit and Loss and Other Comprehensive Income

in HK$ million	2019	2018
Current service cost	**285**	303
Net interest on net defined benefit liability	**30**	15
Administrative expenses paid from scheme assets	**5**	6
	320	324
Less: Amount capitalised	**(41)**	(40)
Net amount recognised in profit or loss	**279**	284
Actuarial losses/(gains)	**156**	(256)
Return on scheme assets, excluding interest income	**(997)**	706
Amount recognised in other comprehensive income	**(841)**	450

The retirement scheme expense is recognised under staff costs and related expenses in the consolidated profit and loss account.

F Significant Actuarial Assumptions (Expressed as Weighted Average) and Sensitivity Analysis

	2019	2018
Discount rate	**2.61%**	2.65%
Future salary increase	**4.00%**	4.08%
Unit value increase	**3.75%**	5.25%

The below analysis shows how the present value of the defined benefit obligations as at 31 December 2019 would have increased/(decreased) as a result of 0.25% change in the significant actuarial assumptions:

	2019		2018	
	Increase in 0.25% HK$ million	Decrease in 0.25% HK$ million	Increase in 0.25% HK$ million	Decrease in 0.25% HK$ million
Discount rate	**(142)**	**146**	(153)	157
Future salary increases	**127**	**(122)**	131	(124)
Unit value increase	**13**	**(11)**	22	(18)

The above sensitivity analysis is based on the assumption that changes in actuarial assumptions are not correlated and therefore it does not take into account the correlations between the actuarial assumptions.

45 Material Related Party Transactions

The Financial Secretary Incorporated, which holds approximately 75.26% of the Company's issued share capital on trust for the HKSAR Government, is the majority shareholder of the Company. Transactions between the Group and the HKSAR Government departments or agencies, or entities controlled by the HKSAR Government, other than those transactions such as the payment of fees, taxes, leases and rates, etc. that arise in the normal dealings between the HKSAR Government and the Group, are considered to be related party transactions pursuant to HKAS 24 (revised), *Related party disclosures*, and are identified separately in these accounts.

Major related party transactions entered into by the Group which are relevant for the current year include:

A On 30 June 2000, the Company was granted by the HKSAR Government a franchise, for an initial period of 50 years, to operate the then existing mass transit railway, and to operate and construct any extension to the railway. On the same day, the Company and the HKSAR Government entered into an operating agreement which laid down the detailed provisions for the design, construction, maintenance and operation of the railway under the franchise. With the Rail Merger, the operating agreement was replaced with effect from 2 December 2007 by a new operating agreement, details of which are set out in note 45C below.

B On 14 July 2000, the Company received a comfort letter from the HKSAR Government pursuant to which the HKSAR Government agreed to extend the period of certain of the Company's land interests so that they are coterminous with the Company's franchise period. To prepare for the Rail Merger, on 3 August 2007, the HKSAR Government wrote to KCRC confirming that, subject to all necessary approvals being obtained, the period of certain of KCRC's land interests (which are the subject of the service concession under the Rail Merger) will be extended so that they are coterminous with the concession period of the Rail Merger.

C In connection with the Rail Merger (note 3), on 9 August 2007, the Company and the HKSAR Government entered into a new operating agreement ("OA"), which is based on the then existing operating agreement referred to in note 45A above. On the Appointed Day, the Company's then existing franchise under the Mass Transit Railway Ordinance was expanded to cover railways other than the then existing MTR railway for an initial period of 50 years from the Appointed Day ("expanded franchise"). A detailed description of the OA is contained in the circular to shareholders in respect of the Extraordinary General Meeting convened to approve the Rail Merger. Such transaction is considered to be a related party transaction and also constitute continuing connected transaction as defined under the Listing Rules.

D Other than the OA described in note 45C above, the Company also entered into principal agreements with KCRC and the HKSAR Government in connection with the Rail Merger. These principal agreements are: (i) Merger Framework Agreement, (ii) Service Concession Agreement, (iii) Sale and Purchase Agreement, (iv) West Rail Agency Agreement, and (v) Property Package Agreements. For the year ended 31 December 2019, amounts recoverable or invoiced by the Company under West Rail Agency Agreement and Property Package Agreement are HK$84 million (2018: HK$105 million) and HK$3 million (2018: HK$5 million) respectively and amount payable or paid by the Company under Service Concession Agreement is HK$3,333 million (2018: HK$3,055 million).

The above transactions under the West Rail Agency Agreement and Property Package Agreement are considered to be related party transactions and also constitute continuing connected transactions as defined under the Listing Rules. A detailed description of each of the agreements is contained under the paragraph "Continuing Connected Transactions" in the Report of the Members of the Board.

E The Company entered into the following principal agreements with KCRC and the HKSAR Government in connection with the operation of the High Speed Rail:

(i) An amendment operating agreement, which was entered into with the HKSAR Government on 23 August 2018, to amend and supplement the OA, in order to prescribe the operational requirements that will apply to the High Speed Rail.

(ii) A supplemental service concession agreement, which was entered into with KCRC on 23 August 2018, to supplement the SCA, in order for KCRC to grant a concession to the Company in respect of the High Speed Rail and to prescribe the operational and financial requirements that will apply to the High Speed Rail. During the year ended 31 December 2019, net revenue received or receivable from KCRC in respect of High Speed Rail amounted to HK$717 million (2018: HK$104 million).

The above transactions are considered to be related party transactions and also constitute continuing connected transactions as defined under the Listing Rules. A detailed description of each of the above agreements is contained under the paragraph "Continuing Connected Transactions" in the Report of the Members of the Board.

45 Material Related Party Transactions *(continued)*

F The Company entered into the following principal agreements with KCRC and the HKSAR Government in connection with the operation of the Tuen Ma Line Phase 1:

(i) An amendment operating agreement and a supplemental operating agreement, which were entered into with the HKSAR Government on 11 February 2020, to amend and supplement, respectively, the OA, in order to prescribe the operational requirements that will apply to the Tuen Ma Line Phase 1.

(ii) A supplemental service concession agreement, which was entered into with KCRC on 11 February 2020, to supplement the SCA, in order for KCRC to grant a concession to the Company in respect of the Tuen Ma Line Phase 1 and to prescribe the operational and financial requirements that will apply to the Tuen Ma Line Phase 1.

The above transactions are considered to be related party transactions and also constitute continuing connected transactions as defined under the Listing Rules. A detailed description of each of the above agreements is contained under the paragraph "Continuing Connected Transactions" in the Report of the Members of the Board.

G The Company and the HKSAR Government entered into Preliminary Project Agreement, which was signed on 6 February 2008, and Project Agreement, which was signed on 13 July 2009 in respect of the Island Line Extension to the Western District. Pursuant to the agreements, the Company has received from the HKSAR Government a total of HK$12,652 million of government grant as funding support subject to a repayment mechanism. The timeframe for the repayment mechanism was extended for a period ended on or before 30 June 2019 pursuant to various supplementary agreements between the Company and the HKSAR Government. During the year ended 31 December 2019, the Company has made a final repayment to the HKSAR Government with a principal of HK$114 million and interest of HK$59 million under the repayment mechanism (2018: HK$nil). Such transactions are considered to be related party transactions and also constitute continuing connected transactions as defined under the Listing Rules. A detailed description of the Project Agreement is contained under the paragraph "Continuing Connected Transactions" in the Report of the Members of the Board.

H The Company entered into entrustment agreements with the HKSAR Government for the design, site investigation, procurement activities, construction, testing and commissioning of HSR and SCL. Detailed description of the agreements and the amount of project management fees recognised for the year ended 31 December 2019 are provided in notes 21A and 21B. In addition, an amount of HK$891 million was paid/payable to the HKSAR Government in 2019 (2018: HK$1,221 million) under SCL EA3's payment arrangement with the HKSAR Government and relevant contractors.

The above transactions are considered to be related party transactions and also constitute continuing connected transactions as defined under the Listing Rules. A detailed description of each of the above agreements is contained under the paragraph "Continuing Connected Transactions" in the Report of the Members of the Board.

I In connection with certain property developments along the railway system, the Company has been granted land lots by the HKSAR Government or allowed to proceed with the development at the following sites during the year:

Property development site	Land grant/land premium offer acceptance date	Total land premium in HK$ million	Land premium settlement date
Site C2 of the Remaining Portion of Tseung Kwan O Town Lot No. 70	7 May 2019	3,055	21 June 2019
Site D of Aberdeen Inland Lot No. 467	5 November 2019	6,758	11 December 2019

J On 14 February 2020, the Company accepted an offer from the HKSAR Government to proceed with the proposed LOHAS Park Package Twelve Property Development at Site D of the Remaining Portion of Tseung Kwan O Town Lot No.70 at a land premium of HK$2,725 million and on the terms and conditions of the relevant New Grant No.9689. The land premium and the modification are expected to be paid and executed on or before 31 March 2020.

45 Material Related Party Transactions *(continued)*

K On 5 July 2013, the Company renewed the maintenance contract with the Hong Kong Airport Authority ("HKAA") in respect of the automated people mover system ("System") serving the Hong Kong International Airport upon the expiry of the previous five–year contract. The renewed contract covers a period of seven years effective from 6 July 2013. In respect of the services provided, HK$82 million was recognised as consultancy income during the year ended 31 December 2019 (2018: HK$97 million).

On 18 May 2018, the Company provided a sub-contractor warranty to the HKAA as a result of obtaining a subcontract from a third party for the modification works of the existing System for a seven year period, effective from 25 September 2017 (the "Subcontract"). The Subcontract contains provisions covering the provision and modification of the power distribution, communication and control subsystems in respect of the System.

The above transactions are considered to be related party transactions and also constitute continuing connected transactions as defined under the Listing Rules. A detailed description of each of the above agreements is contained under the paragraph "Continuing Connected Transactions" in the Report of the Members of the Board.

L During the year ended 31 December 2019, the Group incurred HK$148 million (2018: HK$156 million) of expenses for the central clearing services provided by Octopus Cards Limited ("OCL"), a wholly owned subsidiary of Octopus Holdings Limited ("OHL"). OCL incurred HK$42 million (2018: HK$56 million) of expenses for the load agent and Octopus card issuance and refund services, computer equipment and relating services as well as warehouse storage space provided by the Group. During the year, OHL distributed HK$187 million (2018: HK$155 million) of dividends to the Group.

During the year ended 31 December 2019, MTR Corporation (Sydney) NRT Pty. Limited, through its joint operation, provided services in respect of the design and delivery of electrical and mechanical systems and rolling stock to NRT Pty. Limited at a total amount of AUD106 million (HK$587 million) (2018: AUD275 million or HK$1,608 million). Metro Trains Sydney Pty. Limited also provided mobilisation and operations and maintenance services in respect of Sydney Metro Northwest to NRT Pty. Limited at a total amount of AUD96 million (HK$523 million) (2018: AUD25 million or HK$144 million).

M Other than those stated in notes 45A to 45L, the Company has business transactions with the HKSAR Government, entities related to the HKSAR Government and the Company's associates in the normal course of business operations. Details of the transactions and the amounts involved for the reporting period are disclosed in notes 31 and 35.

N The Group has paid remuneration to Members of the Board and the Executive Directorate. Details of these transactions are described in note 11A. In addition, Members of the Executive Directorate were granted share options under the Company's 2007 Share Option Scheme and award shares under the Executive Share Incentive Scheme. Details of the terms of these options and award shares are disclosed in note 11B, note 11C and the Report of the Members of the Board. Their gross remuneration charged to the profit and loss account is summarised as follows:

in HK$ million	2019	2018
Short-term employee benefits	**73.2**	94.5
Post-employment benefits	**6.2**	7.7
Equity compensation benefits	**24.1**	22.0
	103.5	124.2

The above remuneration is included in staff costs and related expenses disclosed in note 10A.

O During the year, the following dividends were paid to the Financial Secretary Incorporated of the HKSAR Government:

in HK$ million	2019	2018
Ordinary dividends		
– Cash dividends paid	**5,561**	–
– Shares allotted in respect of scrip dividends	**–**	5,081
	5,561	5,081

46 Commitments

A Capital Commitments

(i) Outstanding capital commitments as at 31 December 2019 not provided for in the accounts were as follows:

The Group

in HK$ million	Hong Kong transport operations, station commercial and other businesses	Hong Kong railway extension projects	Hong Kong property rental and development	Mainland of China and overseas operations	Total
At 31 December 2019					
Authorised but not yet contracted for	**8,476**	**–**	**2,442**	**9**	**10,927**
Authorised and contracted for	**13,558**	**170**	**1,183**	**20**	**14,931**
	22,034	**170**	**3,625**	**29**	**25,858**
At 31 December 2018					
Authorised but not yet contracted for	8,444	–	2,560	19	11,023
Authorised and contracted for	14,109	194	4,756	16	19,075
	22,553	194	7,316	35	30,098

In addition to the above, the Group has the following capital commitments in respect of its investments in associates and joint venture:

In respect of Beijing Metro Line 14, the Group's equity contribution is RMB2.45 billion. Up to the end of December 2019, the Group has contributed equity of RMB2,332 million to Beijing MTR in respect of Beijing Metro Line 14.

In respect of Sydney Metro City & Southwest, the Group's share of investment is expected to represent equity contribution of approximately AUD12.7 million and loans of approximately AUD47.5 million. Up to 31 December 2019, the Group has not contributed equity or loan to the project.

(ii) The commitments under Hong Kong transport operations, station commercial and other businesses comprise the following:

The Group

in HK$ million	Improvement, enhancement and replacement works	Acquisition of property, plant and equipment	Additional concession property	Total
At 31 December 2019				
Authorised but not yet contracted for	**4,090**	**746**	**3,640**	**8,476**
Authorised and contracted for	**10,267**	**246**	**3,045**	**13,558**
	14,357	**992**	**6,685**	**22,034**
At 31 December 2018				
Authorised but not yet contracted for	4,577	573	3,294	8,444
Authorised and contracted for	10,113	250	3,746	14,109
	14,690	823	7,040	22,553

B Operating Lease Commitments

The Group had operating leases on office buildings, staff quarters, bus depot as well as a shopping centre in Beijing as at 31 December 2018. The Group's total future minimum lease payments under non-cancellable operating leases amounted to HK$137 million, of which HK$132 million was payable within one year and HK$5 million was payable after one but within five years.

As at 31 December 2018, the Group also had future operating lease commitments of HK$8,698 million in respect of railway-related subsidiaries outside of Hong Kong over the respective franchise periods, of which HK$1,534 million is payable within one year, HK$5,518 million is payable after one but within five years and HK$1,646 million is payable over five years. These railway-related subsidiaries generate franchise revenue to the Group.

46 Commitments *(continued)*

C Liabilities and Commitments in respect of Property Management Contracts

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

As at 31 December 2019, the Group had total outstanding liabilities and contractual commitments of HK$3,101 million (2018: HK$2,767 million) in respect of these works and services. Cash funds totalling HK$2,820 million (2018: HK$2,496 million) obtained through monthly payments of management service charges from the managed properties are held by the Group on behalf of those properties for settlement of works and services provided.

D Material Financial and Performance Guarantees

In respect of the debt securities issued by MTR Corporation (C.I.) Limited (note 33C), the Company has provided guarantees to the investors of approximately HK$19,763 million (in notional amount) as at 31 December 2019. The proceeds from the debts issued are on lent to the Company. As such, the primary liabilities have been recorded in the Company's statement of financial position.

In respect of the lease out/lease back transaction ("Lease Transaction") (note 19E), the Group has provided standby letters of credit ("standby LC's") to the Investors to cover additional amounts payable by the Group in the event the transactions are terminated prior to the expiry of the lease terms, and such standby LC's amounted to US$89.2 million (HK$694 million) as at 31 December 2019. The Group has also provided standby LC's to certain of the Investors under the Lease Transaction to replace some of the Defeasance Securities previously used to support the corresponding long-term lease payments as a result of credit rating downgrades of these securities, and such standby LC's amounted to US$59.2 million (HK$461 million) as at 31 December 2019.

In respect of the lease on the shopping centre in Beijing, the Group provided a bank guarantee of RMB12.5 million (HK$14 million) and a parent company guarantee of RMB52.5 million (HK$59 million) in respect of the quarterly rental payments to the landlord.

In respect of the Shenzhen Metro Longhua Line concession, the Group has provided to the Shenzhen Municipal Government a parent company guarantee in respect of MTR Corporation (Shenzhen) Limited's performance and other obligations under the concession agreement, which can be called if the performance and other obligations are not met. The Group also issued a performance guarantee of RMB15.3 million (HK$17 million) to the Shenzhen Municipal Government in respect of a consultancy agreement.

In respect of the lease for premises in Sydney, the Group provided a rental guarantee of AUD0.1 million (HK$0.5 million) to the landlord.

In respect of the Melbourne train system franchise, the Group and the other shareholders of the Group's 60% owned subsidiary, Metro Trains Melbourne Pty. Ltd. ("MTM"), have provided to the Public Transport Victoria a joint and several parent company guarantee of AUD147.3 million (HK$804 million) and a performance bond of AUD57.0 million (HK$311 million) for MTM's performance and other obligations under the franchise agreement, with each shareholder bearing its share of liability based on its shareholdings in MTM. In respect of the lease of the office premises, MTM has provided bank guarantees of AUD2.4 million (HK$13 million) for the monthly rental payments to the landlords.

In respect of the Stockholm metro franchise, the Group has provided to the Stockholm transport authority a guarantee of SEK1,000 million (HK$833 million), which can be called if the franchise is terminated early as a result of default by MTR Tunnelbanan AB, the wholly owned subsidiary of the Group to undertake the franchise.

In respect of the Stockholms pendeltåg franchise, the Group has provided to the Stockholm transport authorities a guarantee of SEK1,000 million (HK$833 million), which can be called if the franchise is terminated early as a result of default by MTR Pendeltågen AB, the wholly owned subsidiary of the Group to undertake the franchise.

In respect of the London Crossrail Franchise, the Group has provided to the Rail for London Limited a parent company guarantee of GBP80 million (HK$819 million) and a performance bond of GBP25 million (HK$256 million) for MTR Corporation (Crossrail) Limited's performance and other obligations under the franchise agreement.

In respect of the Sydney Metro Northwest Franchise, the Group has provided to NRT Pty. Limited, an associate of the Group, a parent company guarantee with a liability cap of AUD1,526 million (HK$8,330 million) for the design and construction contract as well as the mobilisation phase of the operations and maintenance contract (the cap being subject to the usual exclusions of losses arising from wilful misconduct, fraudulent and criminal actions and, in addition, losses arising from abandonment of the contracts). The Group has also provided a performance bond of AUD17.8 million (HK$97 million) for the performance and other obligations under the design and construction sub–contract. The Group has also provided a parent company guarantee with a liability cap of AUD147.6 million (HK$806 million) for the operation and maintenance of Sydney Metro North West, which can be called if the franchise is terminated early as a result of default by Metro Trains Sydney Pty Limited. The Group has also provided bank guarantee amounting to AUD25.3 million (HK$138 million) as at 31 December 2019 for the operation and maintenance of Sydney Metro North West.

46 Commitments *(continued)*

D Material Financial and Performance Guarantees *(continued)*

In respect of the Sydney Metro City & Southwest Franchise, the Group has provided to NRT CSW Pty. Limited, an associate of the Group, a parent company guarantee with a liability cap of approximately AUD602 million (HK$3,286 million) for the integrator works under the integrator contract (the cap being subject to the usual exclusions of losses arising from wilful misconduct, fraudulent and criminal actions and, in addition, losses arising from abandonment of the contracts). The Group has also provided a parent company guarantee with a liability cap of approximately AUD27.5 million (HK$150 million) for the mobilisation phase of the operation and maintenance of Sydney Metro City & Southwest. The Group has also provided a parent company guarantee to Metro Trains Sydney Pty Ltd with a liability cap of approximately AUD221 million (HK$1,206 million) and a parent company guarantee to MTR Corporation (Sydney) SMCSW Pty Limited with a liability cap of approximately AUD221 million (HK$1,206 million) for the interface works under Sydney Metro Northwest and Sydney Metro City & Southwest.

In respect of the South Western Trains Franchise, the Group has provided to the Secretary of State for Transport a parent company guarantee of GBP13.1 million (HK$134 million), a parent company support facility of GBP1.1 million (HK$11 million), a performance bond of GBP4.8 million (HK$49 million) and a season ticket bond amounting to GBP22.5 million (HK$230 million) as at 31 December 2019 for the performance and other obligations under the franchise agreement.

In respect of the Macao Light Rapid Transit Taipa Line, the Group has provided to Macao Light Rapid Transit Corporation, Limited a number of bank guarantees amounting to MOP247.4 million (HK$241 million) as at 31 December 2019 for the performance and other obligations under the project.

In respect of the Hangzhou Metro Line 1 and Line 5 concessions, the Group is required to provide handover bank bonds to the Hangzhou Municipal Government before the end of the concessions for a period of three years to cover any non–compliance of handover requirements under the concession agreements.

Except for the provision of SWR as discussed in note 25, no other provision was recognised in respect of the above financial and performance guarantees as at 31 December 2019.

E Service Concession in respect of the Rail Merger

Pursuant to the Rail Merger, the Company is obliged under the SCA to pay an annual fixed payment of HK$750 million to KCRC over the period of the service concession. Additionally, commencing after three years from the Appointed Day, the Company is obliged to pay a variable annual payment to KCRC based on the revenue generated from the KCRC system above certain thresholds. Furthermore, under the SCA, the Company is obliged to maintain, repair, replace and/or upgrade the KCRC system over the period of the service concession which is to be returned at the expiry of the service concession.

47 Non-adjusting Events after the Reporting Period

A Effect on the Group of Novel Coronavirus ("COVID-19")

With the outbreak of the COVID-19 in 2020, the Group's Hong Kong transport operations, Hong Kong station commercial and property rental businesses, and its Mainland China businesses, are being significantly affected as a result of the COVID-19.

(i) Cross Boundary Services and Related Business

As a result of the HKSAR Government's announcement of the closure of the boundary between Hong Kong and Mainland China in phases, the Company has had to close: (a) Lo Wu and Lok Ma Chau stations of the East Rail Line; (b) the High Speed Rail service; (c) the intercity rail service from Hong Kong to Guangdong, Shanghai and Beijing; and (d) station shops at Lo Wu, Lok Ma Chau and West Kowloon stations. These closures have, in turn, resulted in there being no cross boundary patronage and loss of rental income from shops in these stations during the period of such closures.

(ii) Domestic Services

As a result of: (a) the implementation by the HKSAR Government and certain commercial organisations of measures to permit their employees to work from home; (b) the delayed resumption of school classes, following the Chinese New Year holiday, until 20 April 2020 the earliest (pending further assessment); and (c) a significant reduction in tourism to Hong Kong and local leisure travel within Hong Kong, there has been a significant negative impact on the patronage of the Group's domestic services.

When taking into account the rail and property businesses as a whole, the directors of the Company is of the view that the overall financial position of the Group remains sound. The Company will continue to monitor the effect of COVID-19 on the financial position and business prospects of the Group.

B The Company's Purchase of the Remaining Economic Interests in Two Commercial Accommodations (Now Known as "Telford Plaza II" and "PopCorn 2") in Hong Kong

On 26 February 2020, the Company entered into a supplemental deed with Joint Profit Limited and New World Development Company Limited ("NWDCL") and purchased their economic interests in the commercial accommodation (now known as Telford Plaza II) in New Kowloon Inland Lot No.6201 and a further supplemental deed with Jade Gain Enterprises Limited, Chow Tai Fook Enterprises Limited and NWDCL and purchased their economic interests in the commercial accommodation (now known as PopCorn 2) in Tseung Kwan O Town Lot No.75 for a total consideration of HK$3 billion. After completion of the said purchases which is to take place on or before 31 March 2020, 100% of the economic interests of the said Telford Plaza II and PopCorn 2 shall belong to the Company absolutely.

48 Company-level Statement of Financial Position

in HK$ million	**At 31 December 2019**	At 31 December 2018
Assets		
Fixed assets		
– Investment properties	**89,105**	80,396
– Other property, plant and equipment	**100,681**	101,319
– Service concession assets	**25,638**	24,392
	215,424	206,107
Property management rights	**21**	26
Property development in progress	**12,022**	14,840
Deferred expenditure	**1,948**	1,878
Investments in subsidiaries	**1,955**	1,784
Interests in associates	**24**	24
Properties held for sale	**1,034**	1,156
Derivative financial assets	**198**	61
Stores and spares	**1,200**	1,166
Debtors and other receivables	**6,727**	5,743
Amounts due from related parties	**18,413**	16,236
Cash, bank balances and deposits	**12,934**	10,757
	271,900	259,778
Liabilities		
Short-term loans	**3,342**	4,395
Creditors, other payables and provisions	**25,829**	19,776
Current taxation	**1,842**	1,006
Amounts due to related parties	**23,322**	23,268
Loans and other obligations	**13,117**	12,810
Obligations under service concession	**10,177**	10,236
Derivative financial liabilities	**408**	545
Deferred tax liabilities	**13,541**	12,803
	91,578	84,839
Net assets	**180,322**	174,939
Capital and reserves		
Share capital	**58,804**	57,970
Shares held for Executive Share Incentive Scheme	**(263)**	(265)
Other reserves	**121,781**	117,234
Total equity	**180,322**	174,939

Approved and authorised for issue by the Members of the Board on 5 March 2020

Rex P K Auyeung
Chairman

Jacob C P Kam
Chief Executive Officer

Herbert L W Hui
Finance Director

49 Accounting Estimates and Judgements

A Key sources of accounting estimates and estimation uncertainty include the following:

(i) Estimated Useful Life and Depreciation and Amortisation of Property, Plant and Equipment and Service Concession Assets

The Group estimates the useful lives of the various categories of property, plant and equipment and service concession assets on the basis of their design lives, planned asset maintenance programme and actual usage experience. Depreciation is calculated using the straight-line method at rates sufficient to write off their cost or valuation over their estimated useful lives (note 2J).

(ii) Impairment of Long-lived Assets

The Group reviews its long-lived assets for indications of impairment at the end of each reporting period according to accounting policies set out in note 2I(ii). Long-lived assets are reviewed for impairment at each reporting date or whenever events or changes in circumstances indicate that the carrying amount of the assets exceeds its recoverable amount. The recoverable amount of an asset is the greater of the fair value less costs of disposal and value in use. In estimating the value in use, the Group uses projections of future cash flows from the assets based on management's assignment of a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

(iii) Pension Costs

The Group employs independent valuation professionals to conduct annual assessment of the actuarial position of the MTR Retirement Scheme. The determination of the Group's obligation and expense for the defined benefit element of the scheme is dependent on certain assumptions and factors provided by the Company, which are disclosed in notes 43A(i) and 44E.

(iv) Profit Recognition on Hong Kong Property Development

Recognition of Hong Kong property development profits requires management's estimation of the final project costs upon completion, assessment of outstanding transactions and market values of unsold units and, in the case of sharing-in-kind properties, the properties' fair value upon recognition. The Group takes into account independent qualified surveyors' reports, past experience on sales and marketing costs when estimating final project costs on completion and makes reference to professionally qualified valuers' reports in determining the estimated fair value of sharing-in-kind properties.

(v) Properties Held for Sale

The Group values unsold properties at the lower of their costs and net realisable values (note 27) at the end of each reporting period. In ascertaining the properties' net realisable values, which are represented by the estimated selling prices less costs to be incurred in relation to the sales, the Group employs independent valuation professionals to assess the properties' estimated selling prices and makes estimations on further selling and property holding costs to be incurred based on past experience and with reference to general market practice.

(vi) Valuation of Investment Properties

The valuation of investment properties requires management's input of various assumptions and factors relevant to the valuation. The Group conducts semi-annual revaluation of its investment properties by independent professionally qualified valuers based on these assumptions agreed with the valuers prior to adoption.

(vii) Franchise in Hong Kong

The current franchise under which the Group is operating in Hong Kong allows the Group to run the mass transit railway system in Hong Kong until 1 December 2057. Pursuant to the terms of the OA and the MTR Ordinance, the Company may apply for extensions of the franchise and the Secretary for Transport and Housing shall, subject to certain provisions, recommend to the Chief Executive in Council that the franchise should be extended for a further period of 50 years (from a date relating to certain capital expenditure requirements) if the Company has satisfied such capital expenditure requirements, at no additional payment for any such extension. If the franchise is not extended, it will expire on 1 December 2057. Following such expiry, the HKSAR Government has the right to take possession of railway property (and, where the HKSAR Government has taken possession of any such property which is not concession property, the Company may require the HKSAR Government to take possession of any other property which the HKSAR Government was entitled to take possession of, but did not take possession of), but must compensate the Company: (i) in the case of such property which is not concession property, at the higher of fair value and depreciated book value, and (ii) in the case of such property which is concession property and to the extent that the capital expenditure exceeds an agreed threshold ("Capex Threshold"), in an amount equal to any above-threshold expenditure at the end of the Concession Period with such reimbursement to be on the basis of depreciated book value. The Group's depreciation policies (note 2J) for such property which is not concession property with assets' lives which extend beyond 2057 reflect the above.

(viii) Income Tax

Certain treatments adopted by the Group in its Hong Kong Profits Tax returns in the past years are yet to be finalised with the Hong Kong Inland Revenue Department. In assessing the Group's income tax and deferred taxation in the 2019 accounts, the Company has predominantly followed the tax treatments it has adopted in these tax returns, which may be different from the final outcome in due course.

As detailed in note 30, there are tax queries from the IRD with the Company on tax deductibility of certain expenses and payments for which the ultimate tax determination is uncertain up to the date of this annual report. The Group recognises tax provision for these tax matters based on estimates of whether additional taxes will eventually be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such difference will impact the income tax expenses in the period when such determination is made.

49 Accounting Estimates and Judgements *(continued)*

A Key sources of accounting estimates and estimation uncertainty include the following: *(continued)*

(ix) Project Provisions

The Group establishes project provisions for the settlement of estimated claims that may arise due to time delays, additional costs or other unforeseen circumstances common to major construction contracts. The claims provisions are estimated based on an assessment of the Group's liabilities under each contract by professionally qualified personnel, which may differ from the actual claims settlement.

(x) Deferred Expenditure

As disclosed in note 2K(i), the Group capitalises proposed railway and property development project costs in deferred expenditure when the projects are at a detailed study stage and having been agreed based on a feasible financial plan. Such decision involves the Board's judgement on the outcome of the proposed project.

(xi) Fair Value of Derivatives and Other Financial Instruments

In determining the fair value of financial instruments, the Group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. For financial instruments that are not traded in active markets, the fair values were derived using the discounted cash flows method which discounts the future contractual cash flows at the current market interest or foreign exchange rates, as applicable, for similar financial instruments that were available to the Group at the time.

(xii) Obligations under Service Concession

In determining the present value of the obligations under service concession, the discount rate adopted was the relevant Group company's estimated long-term incremental cost of borrowing at inception after due consideration of the relevant Group company's existing fixed rate borrowing cost, future interest rate and inflation trends.

(xiii) Determining the Lease Term

In determining the lease term at the commencement date for leases that include renewal or termination options exercisable by the Group, the Group evaluates the likelihood of exercising the renewal or termination options taking into account all relevant facts and circumstances that create an economic incentive for the Group to exercise the option, including favourable terms, leasehold improvements undertaken and the importance of that underlying asset to the Group's operation. The lease term is reassessed when there is a significant event or significant change in circumstance that is within the Group's control. Any increase or decrease in the lease term would affect the amount of lease liabilities and right-of-use assets recognised in future years.

B Critical accounting judgements in applying the Group's accounting policies include the following:

Provisions and Contingent Liabilities

The Group recognises provisions for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event (including in relation to those under entrustment arrangements), and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as contingent liability. Other than set out in note 21, as at 31 December 2019, the Group considered that it had no disclosable contingent liabilities as there were neither pending litigations nor events with potential obligation which were probable to result in material outflow of economic benefits from the Group.

50 Possible Impact of Amendments, New Standards and Interpretations Issued but Not Yet Effective for the Annual Accounting Year Ended 31 December 2019

Up to the date of issue of these accounts, the HKICPA has issued a number of amendments and a new standard, HKFRS 17, *Insurance contracts*, which are not yet effective for the year ended 31 December 2019 and which have not been adopted in these accounts. These developments include the following which may be relevant to the Group:

	Effective for accounting periods beginning on or after
HKFRS 17, *Insurance contracts*	1 January 2020
Amendments to HKFRS 3, *Definition of a business*	1 January 2020
Amendments to HKAS 1 and HKAS 8, *Definition of material*	1 January 2020

The Group is in the process of making an assessment of what the impact of these new issues or amendments is expected to be in the period of initial application. So far, the Group considers that the adoption of them is unlikely to have a significant impact on the Group's accounts.

51 Approval of the Consolidated Accounts

The consolidated accounts were approved by the Board on 5 March 2020.