# Notes to the Unaudited Interim Financial Report

## 1 Basis of Preparation

This interim financial report is unaudited but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). KPMG's independent review report to the Board of Directors is set out on page 53. In addition, this interim financial report has been reviewed by the Company's Audit Committee.

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard ("HKAS") 34, *Interim Financial Reporting,* issued by the HKICPA.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses on a year-to-date basis. Actual results may differ from these estimates.

This interim financial report contains the condensed consolidated accounts and selected explanatory notes, which include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Company and its subsidiaries (collectively referred to as the "Group") and the Group's interest in associates since the issuance of the 2012 annual accounts. The condensed consolidated interim accounts and notes thereon do not include all of the information required for a complete set of accounts prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

The financial information relating to the financial year ended 31 December 2012 included in this interim financial report does not constitute the Company's statutory accounts for that financial year but is derived from those accounts. Statutory accounts for the year ended 31 December 2012, on which the auditors have expressed an unqualified opinion on those accounts in their report dated 11 March 2013, are available from the Company's registered office.

The accounting policies adopted for the preparation of this interim financial report are the same as those adopted in the preparation of the 2012 annual accounts except for the changes required for the first time adoption of new or revised HKFRSs as set out in the subsequent paragraphs.

The HKICPA has issued a number of new issues and amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's accounts:

- Amendments to HKAS 1, *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*
- HKFRS 10, *Consolidated Financial Statements*
- HKFRS 12, *Disclosure of Interests in Other Entities*
- HKFRS 13, *Fair Value Measurement*
- Revised HKAS 19, *Employee Benefits*

The amendments to HKAS 1 require entities to present the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met separately from those that would never be reclassified to profit or loss. The Group's presentation of other comprehensive income in this interim financial report has been modified accordingly.

HKFRS 10 introduces a single control model to determine whether an investee should be consolidated, by focusing on whether the entity has power over the investee, exposure or rights to variable returns from its involvement with the investee and the ability to use its power to affect the amount of those returns. The adoption does not change any of the control conclusions reached by the Group in respect of its involvement with other entities as at 1 January 2013, including that with Octopus Holdings Limited ("OHL") and OHL's subsidiaries, which, previously described as the Group's non-controlled subsidiaries, are now changed to be described as the Group's associates in accordance with the definition stated in HKFRS 10 and continue to be accounted for using the equity method.

HKFRS 12 brings together into a single standard all the disclosure requirements relevant to an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The disclosures required by HKFRS 12 are generally more extensive than those previously required by the respective standards. Since those disclosure requirements only apply to a full set of financial statements, the Group has not made additional disclosures in this interim financial report as a result of adopting HKFRS 12.

HKFRS 13 replaces existing guidance in individual HKFRSs with a single source of fair value measurement guidance. HKFRS 13 also contains extensive disclosure requirements about fair value measurements for both financial instruments and non-financial instruments. Some of the disclosures are specifically required for financial instruments in the interim financial report. The Group has provided those disclosures in note 24.

Revised HKAS 19 introduces a number of amendments to the accounting for defined benefit plans. Among them, Revised HKAS 19 eliminates the "corridor method" under which the recognition of actuarial gains and losses relating to defined benefit schemes could be deferred and recognised in profit or loss over the expected average remaining service lives of employees. Under the revised standard, all actuarial gains and losses are required to be recognised immediately in other comprehensive income. Revised HKAS 19 also changes the basis for determining income from plan assets from expected return to interest income calculated at the liability discount rate, and requires immediate recognition of past service cost, whether vested or not.

## 1 Basis of Preparation *(continued)*

As a result of the adoption of Revised HKAS 19, the Group has changed its accounting policy with respect to defined benefit plans, for which the corridor method was previously adopted. This change in accounting policy has been adopted retrospectively by restating the balances as at 31 December 2012, and the result for the six months ended 30 June 2012 as follows:

| in HK$ million | As previously reported | Effect of adoption of Revised HKAS 19 | As restated |
|---|---|---|---|
| **Consolidated profit and loss account for the half year ended 30 June 2012** | | | |
| Expenses relating to Hong Kong transport operations – Staff costs and related expenses | **(1,763)** | **(91)** | **(1,854)** |
| Income tax | **(796)** | **15** | **(781)** |
| Profit for the period | **5,942** | **(76)** | **5,866** |
| Basic and diluted earnings per share | **HK$1.01** | **(HK$0.01)** | **HK$1.00** |
| **Consolidated statement of comprehensive income for the half year ended 30 June 2012** | | | |
| Effect of remeasurement of net liability of defined benefit plans | **–** | **1,989** | **1,989** |
| Total comprehensive income for the period | **6,010** | **1,913** | **7,923** |
| **Consolidated balance sheet as at 31 December 2012** | | | |
| Debtors, deposits and payments in advance | **4,474** | **(228)** | **4,246** |
| Creditors and accrued charges | **15,119** | **1,411** | **16,530** |
| Deferred tax liabilities | **9,857** | **(270)** | **9,587** |
| Other reserves – Retained profits | **97,201** | **(1,369)** | **95,832** |

## 2 Revenue and Expenses relating to Mainland of China and International Subsidiaries

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

| | Railway subsidiaries outside of Hong Kong | | | | | |
|---|---|---|---|---|---|---|
| in HK$ million | Stockholm Metro | Melbourne Train | Shenzhen Metro Longhua Line | Total | Property activities in Mainland of China | Total Mainland of China and international subsidiaries |
| **Half year ended 30 June 2013** | | | | | | |
| Revenue | **1,666** | **5,060** | **228** | **6,954** | **71** | **7,025** |
| Expenses | **1,591** | **4,738** | **177** | **6,506** | **59** | **6,565** |
| Half year ended 30 June 2012 | | | | | | |
| Revenue | 1,562 | 4,582 | 191 | 6,335 | 67 | 6,402 |
| Expenses | 1,517 | 4,312 | 173 | 6,002 | 57 | 6,059 |

## 3 Profit on Hong Kong Property Developments

Profit on Hong Kong property developments comprises:

| in HK$ million | **Half year ended 30 June 2013** | Half year ended 30 June 2012 |
|---|---|---|
| Share of surplus from developments | **490** | 627 |
| Income from receipt of properties for investment purpose | **44** | – |
| Other overhead costs net of miscellaneous income | **(3)** | – |
| | **531** | 627 |

## 4 Interest and Finance Charges

Interest and finance charges comprise:

| in HK$ million | **Half year ended 30 June 2013** | Half year ended 30 June 2012 |
|---|---|---|
| Interest expenses | **757** | 735 |
| Utilisation of government subsidy for Shenzhen Metro Longhua Line operation | **(125)** | (125) |
| Derivative financial instruments | **32** | 28 |
| Interest expenses capitalised | **(127)** | (71) |
| | **537** | 567 |
| Interest income | **(110)** | (172) |
| Interest income capitalised | **8** | 37 |
| | **(102)** | (135) |
| | **435** | 432 |

## 5 Share of Profit or Loss of Associates

Share of profit or loss of associates comprises:

| in HK$ million | **Half year ended 30 June 2013** | Half year ended 30 June 2012 (Restated) |
|---|---|---|
| Share of profit or loss before taxation | **85** | 281 |
| Share of income tax (expense)/credit | **(34)** | 18 |
| | **51** | 299 |

## 6 Income Tax

Income tax in the consolidated profit and loss account represents:

| in HK$ million | **Half year ended 30 June 2013** | Half year ended 30 June 2012 (Restated) |
|---|---|---|
| Current tax | | |
| – Provision for Hong Kong Profits Tax at 16.5% (2012: 16.5%) for the period | **696** | 666 |
| – Mainland of China and overseas tax for the period | **105** | 87 |
| | **801** | 753 |
| Deferred tax | | |
| – Origination and reversal of temporary differences on: | | |
| – tax losses | **7** | – |
| – depreciation allowances in excess of related depreciation | **89** | 5 |
| – provision and others | **3** | 23 |
| | **99** | 28 |
| | **900** | 781 |

Current tax provision for Hong Kong Profits Tax for the half year ended 30 June 2013 is calculated at 16.5% (2012: 16.5%) on the estimated assessable profits for the period after deducting accumulated tax losses brought forward, if any. Current taxes for the Mainland of China and overseas subsidiaries are charged at the appropriate current rates of taxation ruling in the relevant countries.

Provision for deferred tax on temporary differences arising in Hong Kong is calculated at the Hong Kong Profits Tax rate at 16.5% (2012: 16.5%) while those arising in the Mainland of China and overseas are calculated at the appropriate current rates of taxation ruling in the relevant countries.

## 7 Dividends

Dividends paid and proposed to equity shareholders of the Company comprise:

| in HK$ million | **Half year ended 30 June 2013** | Half year ended 30 June 2012 |
|---|---|---|
| Dividends payable attributable to the period | | |
| – Interim dividend declared after the balance sheet date of HK$0.25 (2012: HK$0.25) per share | **1,449** | 1,447 |
| Dividends paid attributable to the previous year | | |
| – Final dividend of HK$0.54 (2011: HK$0.51) per share approved and paid during the period | **3,130** | 2,951 |

## 8 Earnings Per Share

### A Basic Earnings Per Share

The calculation of basic earnings per share is based on the profit attributable to equity shareholders for the half year ended 30 June 2013 of HK$6,158 million (2012: HK$5,785 million as restated) and the weighted average number of ordinary shares in issue during the period of 5,795,654,610 (2012: 5,785,696,289), calculated as follows:

| | **Half year ended 30 June 2013** | Half year ended 30 June 2012 |
|---|---|---|
| Issued ordinary shares at 1 January | **5,793,196,650** | 5,784,871,250 |
| Effect of share options exercised | **2,457,960** | 825,039 |
| Weighted average number of ordinary shares at 30 June | **5,795,654,610** | 5,785,696,289 |

### B Diluted Earnings Per Share

The calculation of diluted earnings per share is based on the profit attributable to equity shareholders for the half year ended 30 June 2013 of HK$6,158 million (2012: HK$5,785 million as restated) and the weighted average number of ordinary shares in issue during the period of 5,802,552,504 (2012: 5,788,779,216) after adjusting for the number of dilutive potential ordinary shares under the employee share option schemes, calculated as follows:

| | **Half year ended 30 June 2013** | Half year ended 30 June 2012 |
|---|---|---|
| Weighted average number of ordinary shares at 30 June | **5,795,654,610** | 5,785,696,289 |
| Effect of dilutive potential shares under the Company's share option schemes | **6,897,894** | 3,082,927 |
| Weighted average number of ordinary shares (diluted) at 30 June | **5,802,552,504** | 5,788,779,216 |

**C** Both basic and diluted earnings per share would have been HK$0.73 (2012: HK$0.70 as restated) if the calculation is based on profit attributable to equity shareholders of the Company arising from underlying businesses of HK$4,251 million (2012: HK$4,045 million as restated).

## 9 Segmental Information

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 six 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 the Mainland of China at Lo Wu and Lok Ma Chau, 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 business: 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 developments: Property development activities at locations near the railway systems in Hong Kong.

(v) 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 Government of the Hong Kong Special Administrative Region (the "HKSAR Government").

## 9 Segmental Information *(continued)*

(vi) Mainland of China and international affiliates: The operation and maintenance of mass transit railway systems including station commercial activities outside of Hong Kong and the letting of retail space, provision of estate management services and development of properties in the Mainland of China.

During the year ended 31 December 2012, the Group made a realignment of the business segments to re-categorise its property development, rental and management activities in the Mainland of China with its railway operations outside of Hong Kong. Accordingly, the relevant comparatives of the consolidated profit and loss account and segmental information are reclassified. The realigned revenue and expenses in respect of property development, rental and management activities in the Mainland of China amounted to HK$67 million and HK$57 million respectively for the half year ended 30 June 2012.

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

| in HK$ million | Hong Kong transport operations | Hong Kong station commercial business | Hong Kong property rental and management businesses | Hong Kong property developments | Other businesses | Mainland of China and international affiliates | Un-allocated amount | Total |
|---|---|---|---|---|---|---|---|---|
| **Half year ended 30 June 2013** | | | | | | | | |
| Revenue | **7,258** | **2,194** | **1,842** | **–** | **895** | **7,025** | **–** | **19,214** |
| Operating expenses | **(3,822)** | **(206)** | **(304)** | **–** | **(830)** | **(6,565)** | **–** | **(11,727)** |
| Project study and business development expenses | **–** | **–** | **–** | **–** | **–** | **–** | **(155)** | **(155)** |
| Operating profit before Hong Kong property developments, depreciation, amortisation and variable annual payment | **3,436** | **1,988** | **1,538** | **–** | **65** | **460** | **(155)** | **7,332** |
| Profit on Hong Kong property developments | **–** | **–** | **–** | **531** | **–** | **–** | **–** | **531** |
| Operating profit before depreciation, amortisation and variable annual payment | **3,436** | **1,988** | **1,538** | **531** | **65** | **460** | **(155)** | **7,863** |
| Depreciation and amortisation | **(1,495)** | **(66)** | **(4)** | **–** | **(31)** | **(45)** | **–** | **(1,641)** |
| Variable annual payment | **(433)** | **(155)** | **(1)** | **–** | **–** | **–** | **–** | **(589)** |
| Operating profit before interest and finance charges | **1,508** | **1,767** | **1,533** | **531** | **34** | **415** | **(155)** | **5,633** |
| Interest and finance charges | **–** | **–** | **–** | **–** | **–** | **6** | **(441)** | **(435)** |
| Investment property revaluation | **–** | **–** | **1,907** | **–** | **–** | **–** | **–** | **1,907** |
| Share of profit or loss of associates | **–** | **–** | **–** | **–** | **102** | **(51)** | **–** | **51** |
| Income tax | **–** | **–** | **–** | **(84)** | **–** | **(107)** | **(709)** | **(900)** |
| Profit for the half year ended 30 June 2013 | **1,508** | **1,767** | **3,440** | **447** | **136** | **263** | **(1,305)** | **6,256** |
| Half year ended 30 June 2012 (Restated) | | | | | | | | |
| Revenue | 6,914 | 1,699 | 1,663 | – | 476 | 6,402 | – | 17,154 |
| Operating expenses | (3,625) | (188) | (278) | – | (476) | (6,059) | – | (10,626) |
| Project study and business development expenses | – | – | – | – | – | – | (100) | (100) |
| Operating profit before Hong Kong property developments, depreciation, amortisation and variable annual payment | 3,289 | 1,511 | 1,385 | – | – | 343 | (100) | 6,428 |
| Profit on Hong Kong property developments | – | – | – | 627 | – | – | – | 627 |
| Operating profit before depreciation, amortisation and variable annual payment | 3,289 | 1,511 | 1,385 | 627 | – | 343 | (100) | 7,055 |
| Depreciation and amortisation | (1,470) | (70) | (4) | – | (30) | (39) | – | (1,613) |
| Variable annual payment | (321) | (81) | – | – | – | – | – | (402) |
| Operating profit before interest and finance charges | 1,498 | 1,360 | 1,381 | 627 | (30) | 304 | (100) | 5,040 |
| Interest and finance charges | – | – | – | – | – | – | (432) | (432) |
| Investment property revaluation | – | – | 1,740 | – | – | – | – | 1,740 |
| Share of profit or loss of associates | – | – | – | – | 95 | 204 | – | 299 |
| Income tax | – | – | – | (103) | – | (81) | (597) | (781) |
| Profit for the half year ended 30 June 2012 | 1,498 | 1,360 | 3,121 | 524 | 65 | 427 | (1,129) | 5,866 |

## 9 Segmental Information *(continued)*

The following table sets out information about the geographical location of the Group's revenue from external customers. The geographical location of customers is based on the location at which the services were provided or goods were delivered.

| in HK$ million | **Half year ended 30 June 2013** | Half year ended 30 June 2012 |
|---|---|---|
| Hong Kong (place of domicile) | **12,170** | 10,732 |
| Australia | **5,060** | 4,582 |
| Mainland of China | **302** | 260 |
| Sweden | **1,666** | 1,562 |
| Other countries | **16** | 18 |
| | **7,044** | 6,422 |
| | **19,214** | 17,154 |

## 10 Other Comprehensive Income

The changes in each component of equity arising from transactions recognised in other comprehensive income of the Group are as follows:

| in HK$ million | **Half year ended 30 June 2013** | Half year ended 30 June 2012 (Restated) |
|---|---|---|
| Fixed assets revaluation reserve | | |
| Changes in fair value recognised during the period | **305** | 142 |
| Tax effect | **(50)** | (23) |
| | **255** | 119 |
| Retained profits | | |
| Changes in net liability of defined benefit plans resulting from remeasurement recognised during the period | **–** | 2,382 |
| Tax effect | **–** | (393) |
| | **–** | 1,989 |
| Exchange reserve | | |
| Exchange differences on translation of financial statements of overseas subsidiaries and associates | **29** | (49) |
| Exchange differences on translation of non-controlling interests | **(26)** | (1) |
| | **3** | (50) |
| Hedging reserve | | |
| Effective portion of changes in fair value of hedging instruments recognised during the period | **14** | (32) |
| Amounts transferred to initial carrying amount of hedged items | **(1)** | (2) |
| Amounts transferred to profit or loss | **32** | 33 |
| Tax effect resulting from: | | |
| – Changes in fair value of hedging instruments recognised during the period | **(2)** | 5 |
| – Amounts transferred to profit or loss | **(5)** | (5) |
| | **38** | (1) |
| | **296** | 2,057 |

## 11 Investment Properties

All investment properties of the Group were revalued at open market value at 30 June 2012 and 2013 by an independent firm of surveyors, Jones Lang LaSalle Limited, who have among their staff Members of the Hong Kong Institute of Surveyors. The valuations are based on a "term and reversion basis", which capitalises the existing and reversionary net rental income having regard to market valuation checks on comparable sale and yields. The net increase in fair value of HK$1,907 million (2012: HK$1,740 million) arising from the revaluation has been credited to the consolidated profit and loss account.

## 12 Other Property, Plant and Equipment

### A Acquisitions and Disposals

During the half year ended 30 June 2013, the Group acquired or commissioned assets at a total cost of HK$621 million (2012: HK$723 million). Items of civil works and plant and equipment with a net book value of HK$28 million (2012: HK$21 million) were disposed during the same period, resulting in a net loss on disposal of HK$9 million (2012: HK$10 million).

### B Valuation

All of the Group's self-occupied land and buildings are held in Hong Kong under medium-term leases and carried at fair value. All self-occupied land and buildings were revalued at an open market value on an existing use basis at 30 June 2012 and 2013 by an independent firm of surveyors, Jones Lang LaSalle Limited, who have among their staff Members of the Hong Kong Institute of Surveyors. The valuation resulted in a revaluation surplus of HK$305 million (2012: HK$142 million), which, net of deferred tax provision of HK$50 million (2012: HK$23 million), has been recognised in other comprehensive income and accumulated in the fixed assets revaluation reserve account (note 10).

## 13 Service Concession Assets

During the half year ended 30 June 2013, the Group incurred HK$475 million (2012: HK$278 million) of expenditure for the replacement and upgrade of the rail and bus system leased from the Kowloon-Canton Railway Corporation ("KCRC") ("Additional Concession Property") under service concession arrangement in the Rail Merger and HK$232 million (2012: HK$242 million) of expenditure for asset additions in respect of Shenzhen Metro Longhua Line.

## 14 Railway Construction in Progress

Movements of railway construction in progress are as follows:

| in HK$ million | Balance at 1 January | Expenditure | Utilisation of government grant | Balance at 30 June/ 31 December |
|---|---|---|---|---|
| **At 30 June 2013 (Unaudited)** | | | | |
| West Island Line Project | **–** | **1,007** | **(1,007)** | **–** |
| South Island Line (East) Project | **5,410** | **1,757** | **–** | **7,167** |
| Kwun Tong Line Extension Project | **2,048** | **565** | **–** | **2,613** |
| | **7,458** | **3,329** | **(1,007)** | **9,780** |
| At 31 December 2012 (Audited) | | | | |
| West Island Line Project | – | 3,152 | (3,152) | – |
| South Island Line (East) Project | 2,612 | 2,798 | – | 5,410 |
| Kwun Tong Line Extension Project | 954 | 1,094 | – | 2,048 |
| | 3,566 | 7,044 | (3,152) | 7,458 |

## 15 Property Development in Progress

Movements of property development in progress during the half year ended 30 June 2013 and the year ended 31 December 2012 are as follows:

| in HK$ million | Balance at 1 January | Expenditure | Offset against payments received from developers | Transfer out on project completion | Exchange differences | Balance at 30 June/ 31 December |
|---|---|---|---|---|---|---|
| **At 30 June 2013 (Unaudited)** | | | | | | |
| Airport Railway Property Projects | **–** | **2** | **(2)** | **–** | **–** | **–** |
| Tseung Kwan O Extension Property Projects | **1,150** | **28** | **(2)** | **(2)** | **–** | **1,174** |
| East Rail Line/Kowloon Southern Link/ Light Rail Property Projects | **5,906** | **39** | **–** | **–** | **–** | **5,945** |
| South Island Line (East) Property Project | **692** | **159** | **–** | **–** | **–** | **851** |
| Kwun Tong Line Extension Property Project | **175** | **68** | **–** | **–** | **–** | **243** |
| Shenzhen Property Project | **2,507** | **47** | **–** | **–** | **36** | **2,590** |
| | **10,430** | **343** | **(4)** | **(2)** | **36** | **10,803** |
| At 31 December 2012 (Audited) | | | | | | |
| Airport Railway Property Projects | – | 3 | (3) | – | – | – |
| Tseung Kwan O Extension Property Projects | 1,088 | 67 | (5) | – | – | 1,150 |
| East Rail Line/Kowloon Southern Link/ Light Rail Property Projects | 8,081 | 150 | – | (2,325) | – | 5,906 |
| South Island Line (East) Property Project | 285 | 407 | – | – | – | 692 |
| Kwun Tong Line Extension Property Project | 65 | 110 | – | – | – | 175 |
| Shenzhen Property Project | 2,445 | 38 | – | – | 24 | 2,507 |
| | 11,964 | 775 | (8) | (2,325) | 24 | 10,430 |

## 16 Properties Held for Sale

| in HK$ million | **At 30 June 2013 (Unaudited)** | At 31 December 2012 (Audited) |
|---|---|---|
| Properties held for sale | | |
| – at cost | **1,990** | 2,967 |
| – at net realisable value | **51** | 49 |
| | **2,041** | 3,016 |

Properties held for sale at net realisable value are stated net of cost provision of HK$5 million (31 December 2012: HK$8 million) in order to state these properties at the lower of their costs and estimated net realisable values.

## 17 Derivative Financial Assets and Liabilities

The notional amounts and fair values of derivative financial assets and liabilities are as follows:

| | At 30 June 2013 (Unaudited) | | At 31 December 2012 (Audited) | |
|---|---|---|---|---|
| in HK$ million | Notional amount | Fair value | Notional amount | Fair value |
| **Derivative Financial Assets** | | | | |
| Foreign exchange forwards | | | | |
| – fair value hedges | **3,491** | **9** | – | – |
| – cash flow hedges | **27** | **1** | 147 | 7 |
| – not qualified for hedge accounting | **9** | **–** | 157 | 3 |
| Cross currency swaps | | | | |
| – fair value hedges | **2,017** | **12** | 2,021 | 33 |
| Interest rate swaps | | | | |
| – fair value hedges | **2,814** | **124** | 4,063 | 213 |
| | **8,358** | **146** | 6,388 | 256 |
| **Derivative Financial Liabilities** | | | | |
| Foreign exchange forwards | | | | |
| – fair value hedges | **–** | **–** | 3,491 | 17 |
| – cash flow hedges | **109** | **4** | 62 | 1 |
| – not qualified for hedge accounting | **130** | **2** | 40 | 1 |
| Cross currency swaps | | | | |
| – fair value hedges | **5,860** | **70** | 5,080 | 23 |
| Interest rate swaps | | | | |
| – fair value hedges | **1,150** | **59** | – | – |
| – cash flow hedges | **2,062** | **35** | 2,212 | 90 |
| | **9,311** | **170** | 10,885 | 132 |
| **Total** | **17,669** | | 17,273 | |

## 18 Debtors, Deposits and Payments in Advance

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 operations 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) 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.

(iii) Franchise revenue in Melbourne is collected either weekly or monthly depending on the revenue nature. The majority of the franchise revenue in Stockholm is collected in the transaction month with the remainder being collected in the following month.

(iv) 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.

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

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

(vii) 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.

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

## 18 Debtors, Deposits and Payments in Advance *(continued)*

The ageing of debtors is analysed as follows:

| in HK$ million | **At 30 June 2013 (Unaudited)** | At 31 December 2012 (Audited and restated) |
|---|---|---|
| Amounts not yet due | **2,307** | 3,373 |
| Overdue by 30 days | **257** | 127 |
| Overdue by 60 days | **46** | 15 |
| Overdue by 90 days | **2** | 9 |
| Overdue by more than 90 days | **5** | 13 |
| Total debtors | **2,617** | 3,537 |
| Deposits and payments in advance | **721** | 709 |
| | **3,338** | 4,246 |

Included in the balance as at 30 June 2013 was HK$925 million (31 December 2012: HK$1,849 million) in respect of property development projects.

## 19 Material Related Party Transactions

The Financial Secretary Incorporated (the "FSI") of the HKSAR Government, which holds approximately 76.5% 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 2009), *Related Party Disclosures*, and are identified separately in this interim financial report.

As at 30 June 2013, amounts due from/to the HKSAR Government and other related parties in respect of material related party transactions with the Group are stated below:

| in HK$ million | **At 30 June 2013 (Unaudited)** | At 31 December 2012 (Audited and restated) |
|---|---|---|
| Amounts due from: | | |
| – HKSAR Government | **682** | 698 |
| – KCRC | **7** | 14 |
| – associates | **66** | 73 |
| | **755** | 785 |
| Amounts due to: | | |
| – HKSAR Government | **23** | 27 |
| – KCRC | **1,088** | 1,008 |
| – an associate | **12** | 26 |
| | **1,123** | 1,061 |

As at 30 June 2013, 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 Hong Kong railway extension projects of West Island Line, South Island Line (East) and Kwun Tong Line Extension, 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 in respect of West Rail property developments, as well as receivables and retention for other entrustment and maintenance works. The amount due to the HKSAR Government mainly related to land administration charges in respect of the Hong Kong railway extension projects.

The amount due from KCRC mainly related to the recoverable cost for certain capital works and property enabling works in accordance with the agreements in relation to the Rail Merger. The amount due to KCRC related to mandatory payments and related interest payable to KCRC in respect of a property development site along the Light Rail as well as the accrued portion of fixed and variable annual payments arising from the Rail Merger.

The amount due from associates included mainly receivables in relation to the daily Octopus card transactions with Octopus Cards Limited, the outstanding balances of a loan to Tunnelbanan Teknik Stockholm AB ("TBT") as well as staff secondment and other service fees receivable from Beijing (MTR) Corporation Limited ("Beijing MTR"). The amount due to an associate related to rolling stock maintenance service fees payable to TBT.

During the half year ended 30 June 2013, the Group received SEK10 million (HK$12 million) of repayment from TBT and distributed cash dividends of HK$2,395 million (2012: HK$2,262 million) to the FSI of the HKSAR Government.

## 19 Material Related Party Transactions *(continued)*

Details of major related party transactions entered into by the Group with the HKSAR Government in prior years that are still relevant for the current period and those with KCRC in respect of the Rail Merger were described in the Company's audited accounts for the year ended 31 December 2012.

During the half year ended 30 June 2013, the Group had the following transactions with its associates, namely Octopus Holdings Limited and its subsidiaries ("Octopus Group"), TBT, Beijing MTR and London Overground Rail Operations Ltd ("LOROL"):

| in HK$ million | **Half year ended 30 June 2013** | Half year ended 30 June 2012 |
|---|---|---|
| Octopus Group | | |
| – Expenses paid or payable in respect of central clearing services provided by Octopus Group | **62** | 60 |
| – Fees received or receivable in respect of load agent, Octopus card issuance and refund services, computer equipment and relating services, project administration services and warehouse storage space provided to Octopus Group | **15** | 14 |
| – Dividend received from Octopus Group | **34** | 149 |
| TBT | | |
| – Expenses paid or payable in respect of rolling stock maintenance and other supporting services provided by TBT for the Stockholm Metro operation | **320** | 302 |
| – Fees received or receivable in respect of staff secondment, depots and depot equipment rental and other support services provided to TBT | **66** | 71 |
| Beijing MTR | | |
| – Fees received or receivable in respect of staff secondment, information technology and other support services provided to Beijing MTR | **7** | 7 |
| LOROL | | |
| – Dividend received from LOROL | **–** | 52 |

## 20 Creditors and Accrued Charges

During the half year ended 30 June 2013, the price for Lot 1 of the Shenzhen Metro Longhua Line Depot Site of RMB1,977 million (HK$2,480 million) was fully settled. As at 30 June 2013, creditors and accrued charges included HK$454 million (31 December 2012: HK$1,461 million) of Government grant not yet utilised for the construction of the West Island Line. Other creditors and accrued charges mainly related to capital projects to be settled upon certification of work in progress. The Group has no significant balances of trade creditors resulting from its provision of transportation services.

The analysis of creditors as at 30 June 2013 by due dates is as follows:

| in HK$ million | **At 30 June 2013 (Unaudited)** | At 31 December 2012 (Audited and restated) |
|---|---|---|
| Due within 30 days or on demand | **3,586** | 5,418 |
| Due after 30 days but within 60 days | **1,907** | 2,326 |
| Due after 60 days but within 90 days | **475** | 535 |
| Due after 90 days | **2,215** | 2,124 |
| | **8,183** | 10,403 |
| Rental and other refundable deposits | **2,785** | 2,738 |
| Accrued employee benefits | **573** | 515 |
| Government grant on West Island Line Project un-utilised | **454** | 1,461 |
| Net obligations on defined benefit plan | **1,524** | 1,413 |
| | **13,519** | 16,530 |

## 21 Loans and Other Obligations

Notes issued by the Group during the half years ended 30 June 2013 and 2012 comprise:

| in HK$ million | Half year ended 30 June 2013 | | Half year ended 30 June 2012 | |
|---|---|---|---|---|
| | Principal amount | Net consideration received | Principal amount | Net consideration received |
| Debt issuance programme notes | **1,398** | **1,361** | 3,247 | 3,217 |

The above notes were issued in Hong Kong, comprising notes of USD90 million in principal amount (equivalent to HK$698 million) (2012: nil) issued by the Company and notes of HK$700 million in principal amount (2012: HK$3,247 million) issued by MTR Corporation (C.I.) Limited ("MTR (C.I.)"). The notes issued by MTR (C.I.) are unconditionally and irrevocably guaranteed by the Company, and are direct, unsecured, unconditional and unsubordinated to other unsecured and unsubordinated obligations of MTR (C.I.). 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 half year ended 30 June 2013, the Group redeemed HK$2,306 million of its unlisted debt securities but none of its listed debt securities. During the half year ended 30 June 2012, the Group did not redeem any of its listed or unlisted debt securities.

## 22 Deferred Tax Assets and Liabilities

**A** Movements of deferred tax assets and liabilities during the half year ended 30 June 2013 and the year ended 31 December 2012 are as follows:

| in HK$ million | Deferred tax arising from: Depreciation allowances in excess of related depreciation | Revaluation of properties | Provision and other temporary differences | Cash flow hedges | Tax losses | Total |
|---|---|---|---|---|---|---|
| **30 June 2013 (Unaudited)** | | | | | | |
| Balance as at 1 January 2013, as previously reported | **9,332** | **440** | **88** | **(12)** | **(12)** | **9,836** |
| Effect of adoption of Revised HKAS 19 | **–** | **–** | **(270)** | **–** | **–** | **(270)** |
| Balance as at 1 January 2013, as restated | **9,332** | **440** | **(182)** | **(12)** | **(12)** | **9,566** |
| Charged to consolidated profit and loss account | **89** | **–** | **3** | **–** | **7** | **99** |
| Charged to reserves | **–** | **50** | **–** | **7** | **–** | **57** |
| Exchange difference | **(3)** | **–** | **(1)** | **–** | **–** | **(4)** |
| Balance as at 30 June 2013 | **9,418** | **490** | **(180)** | **(5)** | **(5)** | **9,718** |
| 31 December 2012 (Audited and restated) | | | | | | |
| Balance as at 1 January 2012, as previously reported | 8,981 | 373 | 153 | (17) | (16) | 9,474 |
| Effect of adoption of Revised HKAS 19 | – | – | (505) | – | – | (505) |
| Balance as at 1 January 2012, as restated | 8,981 | 373 | (352) | (17) | (16) | 8,969 |
| Charged/(credited) to consolidated profit and loss account, as restated | 350 | – | (96) | – | 4 | 258 |
| Charged to reserves | – | 67 | 266 | 5 | – | 338 |
| Exchange difference | 1 | – | – | – | – | 1 |
| Balance as at 31 December 2012 | 9,332 | 440 | (182) | (12) | (12) | 9,566 |

**B** Deferred tax assets and liabilities recognised on the consolidated balance sheet are as follows:

| in HK$ million | At 30 June 2013 (Unaudited) | At 31 December 2012 (Audited and restated) |
|---|---|---|
| Net deferred tax assets recognised on the balance sheet | **(16)** | (21) |
| Net deferred tax liabilities recognised on the balance sheet | **9,734** | 9,587 |
| | **9,718** | 9,566 |

## 23 Share Capital, Share Premium and Capital Reserve

| in HK$ million | At 30 June 2013 (Unaudited) | At 31 December 2012 (Audited) |
|---|---|---|
| Authorised: | | |
| 6,500,000,000 shares of HK$1.00 each | **6,500** | 6,500 |
| Issued and fully paid: | | |
| 5,797,494,150 shares (2012: 5,793,196,650 shares) of HK$1.00 each | **5,797** | 5,793 |
| Share premium | **11,424** | 11,300 |
| Capital reserve | **27,188** | 27,188 |
| | **44,409** | 44,281 |

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

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

**B** New shares issued and fully paid up during the period comprise:

| | Number of shares | Option price HK$ | Proceeds received / Transfer from employee share-based capital reserve: Share capital account HK$ million | Share premium account HK$ million | Total HK$ million |
|---|---|---|---|---|---|
| Employee share options exercised | | | | | |
| – New Joiners Share Option Scheme | **213,000** | **15.97** | **–** | **4** | **4** |
| – 2007 Share Option Scheme | **779,500** | **18.30** | **1** | **16** | **17** |
| | **223,000** | **26.52** | **–** | **7** | **7** |
| | **1,328,000** | **26.85** | **1** | **41** | **42** |
| | **37,000** | **26.96** | **–** | **1** | **1** |
| | **296,000** | **27.48** | **–** | **9** | **9** |
| | **836,000** | **27.60** | **1** | **26** | **27** |
| | **585,000** | **28.84** | **1** | **20** | **21** |
| | **4,297,500** | | **4** | **124** | **128** |

**C** Key details of the Company's share option schemes are summarised as follows:

| | Half year ended 30 June 2013: New Joiners Share Option Scheme | Half year ended 30 June 2013: 2007 Share Option Scheme | Half year ended 30 June 2012: New Joiners Share Option Scheme | Half year ended 30 June 2012: 2007 Share Option Scheme |
|---|---|---|---|---|
| No. of previously vested share options exercised during the period | **213,000** | **4,084,500** | – | 1,630,200 |
| No. of share options granted during the period | **–** | **21,605,000** | – | 16,917,000 |
| No. of share options forfeited during the period | **–** | **325,000** | – | 533,500 |
| No. of share options vested during the period | **–** | **5,720,000** | – | 379,500 |
| No. of share options outstanding as at 30 June | **84,500** | **74,282,600** | 329,000 | 64,596,800 |

Details of the movements in respect of these share option schemes are set out under the Corporate Governance and Other Information section of this interim report.

**D** During the half year ended 30 June 2013, the Company offered to grant 21,605,000 share options under the Company's 2007 Share Option Scheme to Members of the Executive Directorate and certain eligible employees of the Company (the "Grantees") on 26 April 2013. All were accepted by the grantees on 6 May 2013.

## 24 Fair Value Measurement of Financial Instruments

### A Financial Assets and Liabilities Carried at Fair Value

The level of fair value hierarchy within which the fair value measurements are categorised is analysed below:

| in HK$ million | **Fair value at 30 June 2013** | **Fair value measurements as at 30 June 2013** | |
|---|---|---|---|
| | | Level 1 | Level 2 |
| **Financial Assets** | | | |
| Derivative financial assets | | | |
| – Foreign exchange forwards | **10** | **–** | **10** |
| – Cross currency swaps | **12** | **–** | **12** |
| – Interest rate swaps | **124** | **–** | **124** |
| | **146** | **–** | **146** |
| Investments in securities | **471** | **471** | **–** |
| | **617** | **471** | **146** |
| **Financial Liabilities** | | | |
| Derivative financial liabilities | | | |
| – Foreign exchange forwards | **6** | **–** | **6** |
| – Cross currency swaps | **70** | **–** | **70** |
| – Interest rate swaps | **94** | **–** | **94** |
| | **170** | **–** | **170** |

| in HK$ million | Fair value at 31 December 2012 | Fair value measurements as at 31 December 2012 | |
|---|---|---|---|
| | | Level 1 | Level 2 |
| Financial Assets | | | |
| Derivative financial assets | | | |
| – Foreign exchange forwards | 10 | – | 10 |
| – Cross currency swaps | 33 | – | 33 |
| – Interest rate swaps | 213 | – | 213 |
| | 256 | – | 256 |
| Investments in securities | 393 | 393 | – |
| | 649 | 393 | 256 |
| Financial Liabilities | | | |
| Derivative financial liabilities | | | |
| – Foreign exchange forwards | 19 | – | 19 |
| – Cross currency swaps | 23 | – | 23 |
| – Interest rate swaps | 90 | – | 90 |
| | 132 | – | 132 |

## 24 Fair Value Measurement of Financial Instruments *(continued)*

### A Financial Assets and Liabilities Carried at Fair Value *(continued)*

The levels of the fair value hierarchy are defined as follows:

Level 1: Fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments

Level 2: Fair values measured using inputs other than quoted prices included in Level 1 that are observable for the financial instrument, either directly (as prices) or indirectly (derived from prices)

Level 3: Fair values measured using inputs for the asset or liability that are not based on observable market data (unobservable inputs)

There are no Level 3 measurements of financial instruments. During the six months ended 30 June 2013 and 2012, 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 at the balance sheet date. Closing exchange rates at the balance sheet date were used to convert value in foreign currency to local currency.

### B 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 30 June 2013 and 31 December 2012 except for loans and other obligations, for which their carrying amounts and fair values are disclosed below:

| | **At 30 June 2013** | | At 31 December 2012 | |
|---|---|---|---|---|
| in HK$ million | Carrying amount | Fair value | Carrying amount | Fair value |
| Capital market instruments | **17,795** | **18,766** | 18,968 | 20,373 |
| Bank loans | **5,061** | **5,061** | 3,887 | 3,887 |
| Others | **374** | **451** | 367 | 493 |
| Loans and other obligations | **23,230** | **24,278** | 23,222 | 24,753 |

## 25 Cash Generated from Operations

Reconciliation of operating profit before property developments, depreciation, amortisation and variable annual payment to cash generated from operations is as follows:

| in HK$ million | **Half year ended 30 June 2013 (Unaudited)** | Half year ended 30 June 2012 (Unaudited and restated) |
|---|---|---|
| Operating profit before Hong Kong property developments, depreciation, amortisation and variable annual payment | **7,332** | 6,428 |
| Adjustments for: | | |
| – Decrease in provision for obsolete stock | **(2)** | (1) |
| – Loss on disposal of fixed assets | **11** | 10 |
| – Amortisation of deferred income from transfers of assets from customers | **(7)** | (5) |
| – Decrease/(increase) in fair value of derivative instruments | **4** | (3) |
| – Unrealised loss/(gain) on revaluation of investment in securities | **4** | (6) |
| – Employee share-based payment expenses | **22** | 27 |
| – Exchange loss/(gain) | **5** | (1) |
| Operating profit from recurrent businesses before working capital changes | **7,369** | 6,449 |
| Increase in debtors, deposits and payments in advance | **(187)** | (22) |
| Increase in stores and spares | **(62)** | (67) |
| Increase in creditors and accrued charges | **735** | 1,457 |
| Cash generated from operations | **7,855** | 7,817 |

## 26 Capital Commitments

**A** Outstanding capital commitments as at 30 June 2013 not provided for in the accounts were as follows:

| in HK$ million | Hong Kong transport, station commercial and other businesses | Hong Kong railway extension projects | Hong Kong property rental and development | Mainland of China and overseas operations | Total |
|---|---|---|---|---|---|
| **At 30 June 2013 (Unaudited)** | | | | | |
| Authorised but not yet contracted for | **3,031** | **–** | **578** | **2** | **3,611** |
| Authorised and contracted for | **4,474** | **6,668** | **108** | **678** | **11,928** |
| | **7,505** | **6,668** | **686** | **680** | **15,539** |
| At 31 December 2012 (Audited) | | | | | |
| Authorised but not yet contracted for | 2,627 | – | 808 | 1 | 3,436 |
| Authorised and contracted for | 3,793 | 8,706 | 279 | 104 | 12,882 |
| | 6,420 | 8,706 | 1,087 | 105 | 16,318 |

**B** The capital commitments under Hong Kong transport operations, Hong Kong station commercial business and other businesses comprise the following:

| in HK$ million | Improvement and enhancement works | Acquisition of property, plant and equipment | Additional concession property | Total |
|---|---|---|---|---|
| **At 30 June 2013 (Unaudited)** | | | | |
| Authorised but not yet contracted for | **1,515** | **138** | **1,378** | **3,031** |
| Authorised and contracted for | **636** | **142** | **3,696** | **4,474** |
| | **2,151** | **280** | **5,074** | **7,505** |
| At 31 December 2012 (Audited) | | | | |
| Authorised but not yet contracted for | 1,339 | 205 | 1,083 | 2,627 |
| Authorised and contracted for | 545 | 320 | 2,928 | 3,793 |
| | 1,884 | 525 | 4,011 | 6,420 |

## 27 Approval of Interim Financial Report

The interim financial report was approved by the Board on 26 August 2013.