Notes to the 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 for accounting periods beginning on or after 1 January 2013. 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 land and buildings (note 2E(ii));
- financial instruments classified as investments in securities other than those intended to be held to maturity (note 2L); and
- derivative financial instruments (note 2S).

(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 55.

(iii) The HKICPA has issued a number of new HKFRSs 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 the consolidated statement of comprehensive income in these accounts 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. To the extent that the requirements are applicable to the Group, the Group has provided those disclosures in note 29.

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. To the extent that the requirements are applicable to the Group, the Group has provided those disclosures in note 48.

2 Principal Accounting Policies *(continued)*

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

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.

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 1 January and 31 December 2012, with consequential adjustments to comparatives for the year ended 31 December 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 year ended 31 December 2012			
Expenses relating to Hong Kong transport operations – Staff costs and related expenses	(3,879)	(188)	(4,067)
Income tax	(1,893)	31	(1,862)
Profit for the year	13,671	(157)	13,514
Basic and diluted earnings per share	HK$2.34	(HK$0.03)	HK$2.31
Consolidated statement of comprehensive income for the year ended 31 December 2012			
Remeasurement of net liability of defined benefit plans	–	1,344	1,344
Total comprehensive income for the year	14,108	1,187	15,295
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
Consolidated balance sheet as at 1 January 2012			
Debtors, deposits and payments in advance	3,964	(186)	3,778
Creditors and accrued charges	16,402	2,875	19,277
Deferred tax liabilities	9,498	(505)	8,993
Other reserves – Retained profits	88,062	(2,556)	85,506
Balance sheet as at 31 December 2012			
Debtors, deposits and payments in advance	3,258	(228)	3,030
Creditors and accrued charges	10,460	1,411	11,871
Deferred tax liabilities	9,779	(270)	9,509
Other reserves – Retained profits	95,616	(1,369)	94,247
Balance sheet as at 1 January 2012			
Debtors, deposits and payments in advance	2,629	(186)	2,443
Creditors and accrued charges	11,418	2,875	14,293
Deferred tax liabilities	9,422	(505)	8,917
Other reserves – Retained profits	86,800	(2,556)	84,244

The Group has not applied any new or revised standard or interpretation that is not yet effective for the current accounting period (note 56).

2 Principal Accounting Policies *(continued)*

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 (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 represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Non-controlling interests are presented in the consolidated balance sheet within equity, separately from equity attributable to equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated profit and loss account and the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated balance sheet depending on the nature of the liability.

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 (note 2D).

Investments in subsidiaries are carried in the Company's balance sheet at cost less any impairment losses (note 2G (ii)).

D Associates

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.

An investment in an associate 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, 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 the Group's long-term interests that in substance form part of the Group's net investment in the associate.

Unrealised profits and losses resulting from transactions between the Group and its associates 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.

When the Group ceases to have significant influence over an associate, 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 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 balance sheet, investments in associates are stated at cost less impairment losses (note 2G(ii)).

2 Principal Accounting Policies *(continued)*

E Fixed Assets

(i) 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 balance sheet 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) Leasehold land registered and located in the Hong Kong Special Administrative Region is accounted for as being held under a finance lease and is stated at cost less accumulated depreciation and impairment losses (note 2G(ii)). Land held for own use under operating leases and buildings thereon, where the fair value of the leasehold interest in the land and buildings cannot be measured separately at inception of the lease, are accounted for as being held under a finance lease, unless the buildings are also clearly held under an operating lease. For these purposes, inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee, or at the date of construction of those buildings, if later. The self-occupied land and buildings are stated on the balance sheet at their fair value on the basis of their existing use at the date of revaluation less any subsequent accumulated depreciation. Revaluations are performed by independent qualified valuers 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 land and building is insufficient to cover a revaluation deficit of that property, the excess of the deficit is charged to the profit and loss account; and

(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.

(iii) Civil works and plant and equipment are stated at cost less accumulated depreciation and impairment losses (note 2G(ii)).

(iv) Assets under construction are stated at cost less impairment losses (note 2G(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.

(v) Leased Assets

(a) 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 policy as set out in notes 2H(iv) and 2G(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.

(b) Leases of assets, other than that mentioned in note 2E(ii), under which the lessor has not transferred substantially all the risks and rewards of ownership are classified as operating leases. Where the Group leases out assets under operating leases, the assets are included in the balance sheet according to their nature and, where applicable, are depreciated in accordance with the Group's depreciation policies. Impairment losses are accounted for in accordance with the accounting policies on impairment of assets (note 2G(ii)). Revenue arising from operating leases is recognised in accordance with the Group's revenue recognition policies as set out in note 2Y(ii).

(vi) Subsequent expenditure relating to the replacement of certain parts of an existing fixed 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 gain or loss arising therefrom dealt with in the profit and loss account.

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

Gains or losses arising from the retirement or disposal of a fixed asset or an investment property 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.

(vii) 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.

2 Principal Accounting Policies *(continued)*

E Fixed Assets *(continued)*

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 balance sheet date while the fair value of construction service is capitalised initially as service concession assets in the balance sheet 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 the replacement and/or upgrade of the assets subject to service concession is capitalised and amortised on a straight-line basis over the shorter of the assets' useful lives and the remaining period of the service concession.

Service concession assets are carried on the balance sheet as an intangible asset at cost less accumulated amortisation and impairment losses, if any (note 2G(ii)).

Income and expenditure and assets and liabilities in relation to the operation of the service concessions are accounted for in the Group's and the Company's profit and loss accounts and balance sheets.

F 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 balance sheet at cost less accumulated amortisation and impairment losses (note 2G(ii)). Property management rights are amortised to the profit and loss account on a straight-line basis over the terms of the management rights.

G Impairment of Assets

(i) Impairment of Debtors and Other Receivables

Debtors and other current and non-current receivables are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets) where the effect of discounting is material.

If in a subsequent period the amount of an impairment loss decreases, the impairment loss is reversed through the profit and loss account.

(ii) Impairment of Other Assets

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

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

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

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 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.

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

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

2 Principal Accounting Policies *(continued)*

H 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(vii)) 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 land and 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	4 – 50 years
Platform screen doors	25 – 35 years
Rail track	7 – 30 years
Environmental control systems, lifts and escalators, fire protection and drainage system	7 – 30 years
Power supply systems	7 – 40 years
Aerial ropeway and cabin	5 – 27 years
Automatic fare collection systems, metal station kiosks, and other mechanical equipment	20 – 25 years
Train control and signalling equipment, station announcement systems, telecommunication systems and advertising panels	5 – 25 years
Station architectural finishes	15 – 30 years
Fixtures and fittings	4 – 25 years
Maintenance equipment	4 – 40 years
Office furniture and equipment	2 – 15 years
Computer software licences and applications	2 – 10 years
Computer equipment	3 – 5 years
Cleaning equipment and tools	5 years
Motor vehicles	4 – 8 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.

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

2 Principal Accounting Policies *(continued)*

I Construction Costs

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

- where the proposed projects are at a preliminary review stage with no certainty of materialising, the costs concerned are charged to the profit and loss account; and
- where the proposed projects are at a detailed study stage, having been agreed in principle by the Members of the Board 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.

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

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

- where the Group receives payments from developers, 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 sale of the development and interests in any unsold units, income is initially recognised by the Group upon the issue of occupation permits provided the amounts of revenue and costs can be estimated reliably. The interest in any unsold properties is subsequently remeasured on a basis consistent with the policy set out in note 2J(iv); 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) Where properties are received as a profit distribution upon completion of development and are held for sale, those properties are stated at fair value upon receipt as their costs and subsequently carried at the lower of cost and net realisable value. Net realisable value represents the estimated selling price less costs to be incurred in selling the properties. When properties are sold, the carrying amount of those properties is recognised as cost of properties sold in the period in which the related revenue is recognised. 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.

(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.

K Joint Operations

The arrangements entered into by the Group with developers for property developments without establishing separate entities are considered to be joint operations pursuant to 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. Such costs are deductible from the proceeds of sale before surplus proceeds are shared. In respect of its interests in such operations, the Group accounts for the 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 2J(iii) after netting off any related balance in property development in progress at that time.

2 Principal Accounting Policies *(continued)*

L Investments in Securities

The Group's policies for investments in securities (other than investments in its subsidiaries and associates) are as follows:

(i) Investments in securities held for trading purpose are initially stated at fair value. At each balance sheet date, the fair value is remeasured with any resultant unrealised gain or loss being recognised in the profit and loss account.

(ii) Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments.

(iii) Interest income in relation to investment in securities is recognised as it accrues using the effective interest method.

(iv) Profit or loss on disposal of investments in securities are determined as the difference between the estimated net disposal proceeds and the carrying amount of the investments and are accounted for in the profit and loss account as they arise.

M Stores and Spares

Stores and spares used for business operation are categorised as either revenue or capital. Revenue spares are stated in the balance sheet 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 2G(ii)). Depreciation is charged at the rates applicable to the relevant fixed assets against which the capital spares are held in reserve.

N Long-term Contracts

The accounting policy for contract revenue is set out in note 2Y(iii). When the outcome of a fixed-price long-term contract can be estimated reliably, contract costs are recognised as expenses by reference to the stage of completion of the contract activity at the balance sheet date. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately. When the outcome of a long-term contract cannot be estimated reliably, contract costs are recognised as expenses in the period in which they are incurred.

Long-term contracts in progress at the balance sheet date are recorded in the balance sheet at the net amount of costs incurred plus recognised profits less recognised losses and progress billings, and are presented in the balance sheet as "Gross amount due from customers for contract work" (as an asset) or "Gross amount due to customers for contract work" (as a liability), as applicable. Progress billings not yet paid by the customer are included in the balance sheet under "Debtors, deposits and payments in advance". Amounts received before the related work is performed are included in the balance sheet as a liability under "Creditors and accrued charges".

O 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.

P Debtors, Deposits and Payments in Advance

Debtors, deposits and payments in advance are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method less impairment losses for bad and doubtful debts (note 2G(i)), except where the effect of discounting would be immaterial or the discount is not measurable as the receivables are interest-free loans made to related parties without any fixed repayment terms. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts.

Q Interest-bearing Borrowings

Interest-bearing borrowings are recognised 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. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the profit and loss account over the period of the borrowings using the effective interest method.

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.

R Creditors and Accrued Charges

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

2 Principal Accounting Policies *(continued)*

S 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 initially recognised at fair value and are subsequently remeasured at their fair value at each balance sheet date. 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; or (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.

(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) 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.

T Employee Benefits

(i) Salaries, annual leave, other allowances, contributions to defined contribution retirement plans, 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 plans is calculated separately for each plan 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 plan 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 plan or reductions in future contributions to the plan. 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. When the benefits of a plan are changed, or when a plan is curtailed, 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 and loss account or capitalised at the earlier of when the plan amendment or curtailment occurs and when related restructuring costs or termination benefits are recognised. 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 terms of the Group's obligations.

Remeasurements arising from defined benefit retirement plans are recognised in other comprehensive income and reflected immediately in retained earnings. Remeasurements comprise actuarial gains and losses, the return on plan 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).

2 Principal Accounting Policies *(continued)*

T Employee Benefits *(continued)*

(iii) Equity-settled share-based payments are measured at fair value at the date of grant. 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 (when it is transferred to the share premium account) or the option is lapsed/forfeited (when it is released directly to retained profits).

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 each balance sheet date.

(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.

U Retirement Schemes

The Group operates both defined contribution and defined benefit retirement schemes.

Employer's contributions to defined contribution retirement schemes including MPF Schemes are recognised in the accounts in accordance with the policy set out in note 2T(i).

Employer's contributions paid and payable in respect of employees of defined benefit retirement schemes as calculated annually by independent actuaries in accordance with the Retirement Scheme Rules and provisions of the Occupational Retirement Schemes Ordinance are used to satisfy the pension expenses recognised in the profit and loss account according to note 2T(ii). Any deficit or surplus thereof will be dealt with in the balance sheet as accrued or prepaid benefit expenses, as the case may be.

V 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 balance sheet date, and any adjustment to tax payable in respect of previous years.

(iii) Deferred tax assets and liabilities arise from deductible and taxable temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities and deferred tax assets, to the extent that it is probable that future taxable profits will be available against which the deferred tax assets can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried backward or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to the recognition of deferred tax assets and liabilities are those temporary differences arising from the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination) and investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the 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 balance sheet date 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 balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date 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.

2 Principal Accounting Policies *(continued)*

V Income Tax *(continued)*

(iv) Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if, and only if, the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

W 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 accrued charges. 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. In addition, provisions are recognised in accordance with note 2X if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in creditors and accrued charges in respect of that guarantee, i.e. the amount initially recognised less accumulated amortisation.

X Provisions and Contingent Liabilities

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

Y Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits associated with the transactions will flow to the Group and the amount of revenue can be measured reliably, revenue is recognised in the profit and loss account as follows:

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

(ii) Rental income from investment properties, station kiosks and other railway premises under operating leases is accounted for in accordance with the terms of the leases. Lease incentives granted are recognised in the profit and loss account as an integral part of the aggregate net lease payments receivable. Contingent rentals 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 using the percentage of completion method, measured by reference to the percentage of contract costs incurred to date to the estimated total contract costs for the contract. 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 it is probable 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.

Z Operating Lease Charges

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

2 Principal Accounting Policies *(continued)*

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

BB Foreign Currency Translation

Foreign currency transactions during the year are translated into Hong Kong dollars and recorded at exchange rates ruling at the transaction dates. Foreign currency monetary assets and liabilities are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. 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. Balance sheet items are translated into Hong Kong dollars at the closing exchange rates at the balance sheet date. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

CC 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.

DD 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 is a member of the key management personnel of the Group. An entity is related to the Group if the entity and the Group are members of the same group, or the entity is an associate of the Group, or post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group, or an individual who is a related party of the Group has control, jointly control, significant influence over that entity or is a member of the key management personnel of that entity.

EE Government Grants

Government grants are assistance by governments in the form of transfer of resources in return for the Group's compliance to 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 balance sheet. 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 balance sheet date 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

On 2 December 2007 (the "Appointed Day"), the Company's operations merged with those of Kowloon-Canton Railway Corporation ("KCRC") ("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. Key elements of the Rail Merger included the following:

- The expansion of the Company's existing franchise under the Mass Transit Railway Ordinance ("MTR Ordinance") to cover the construction, operation and regulation of railways in addition to the MTRC railway for an initial period of 50 years from the Appointed Day ("Franchise Period"), extendable pursuant to the provisions of the MTR Ordinance (note 53C);
- The Service Concession Agreement ("SCA") pursuant to which 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. The SCA also sets out the basis on which the KCRC system will be returned at the end of the Concession Period. 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 an annual fixed payment to KCRC for the duration of the Concession Period. Additionally, commencing after three years from the Appointed Day, the Company is obliged to pay variable annual payments to KCRC, 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;

3 Rail Merger with Kowloon-Canton Railway Corporation *(continued)*

- In the event that the Concession Period is extended, the fixed annual payment and the variable annual payment will continue to be payable by the Company. On such extension, the Capex Threshold may also be adjusted; and
- Property Package Agreements and Merger Framework Agreement setting out the acquisition of certain properties, property management rights and property development rights by the Company as well as the framework for the Rail Merger including the implementation of the Fare Adjustment Mechanism.

4 Revenue from Hong Kong Transport Operations

Revenue from Hong Kong transport operations comprises:

in HK$ million	2013	2012
Fare Revenue:		
– Domestic Service	**10,511**	10,035
– Cross-boundary Service	**2,923**	2,847
– Airport Express	**843**	795
– Light Rail and Bus	**600**	578
– Intercity Service	**144**	134
	15,021	14,389
Other rail-related income	**145**	134
	15,166	14,523

Domestic Service comprises the Kwun Tong, Tsuen Wan, Island, Tung Chung, Tseung Kwan O, Disneyland Resort, East Rail (excluding Cross-boundary Service), West Rail and Ma On Shan Lines. Other rail-related income includes mainly ancillary service income from Intercity Service, by-law infringement surcharge and Octopus load agent fees.

5 Revenue from Hong Kong Station Commercial Business

Revenue from Hong Kong station commercial business comprises:

in HK$ million	2013	2012
Duty free shops and kiosks rental	**2,933**	2,142
Advertising	**1,053**	1,000
Telecommunication income	**447**	396
Other station commercial income	**155**	142
	4,588	3,680

6 Revenue from Hong Kong Property Rental and Management Businesses

Revenue from Hong Kong property rental and management businesses comprises:

in HK$ million	2013	2012
Property rental income from:		
– Elements	**855**	726
– Telford Plaza	**766**	724
– Maritime Square	**477**	427
– Luk Yeung Galleria	**181**	171
– Citylink Plaza	**148**	139
– PopCorn	**142**	106
– Paradise Mall	**136**	129
– International Finance Centre	**442**	418
– Other properties	**400**	358
	3,547	3,198
Property management income	**231**	203
	3,778	3,401

7 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
2013						
Revenue	**3,325**	**9,269**	**506**	**13,100**	**146**	**13,246**
Expenses	**3,187**	**8,717**	**428**	**12,332**	**123**	**12,455**
2012						
Revenue	3,106	9,129	415	12,650	136	12,786
Expenses	3,050	8,662	354	12,066	118	12,184

8 Revenue from Other Businesses

Revenue from other businesses comprises incomes from:

in HK$ million	**2013**	2012
Ngong Ping 360	**316**	249
Consultancy business	**128**	102
Project management for HKSAR Government	**1,461**	968
Miscellaneous businesses	**24**	30
	1,929	1,349

9 Operating Expenses

A Total staff costs include:

in HK$ million	**2013**	2012 (Restated)
Amount charged to profit and loss account under:		
– staff costs and related expenses for Hong Kong transport operations	**4,198**	4,067
– maintenance and related works for Hong Kong transport operations	**86**	76
– other expense line items for Hong Kong transport operations	**63**	54
– expenses relating to Hong Kong station commercial business	**70**	59
– expenses relating to Hong Kong property rental and management businesses	**93**	80
– expenses relating to Mainland of China and international subsidiaries	**5,273**	5,200
– expenses relating to other businesses	**1,518**	1,048
– project study and business development expenses	**200**	155
– profit on Hong Kong property developments	**6**	9
Amount capitalised under:		
– railway construction in progress before offset by government grant	**447**	534
– property development in progress	**136**	91
– assets under construction and other projects	**383**	263
– service concession assets	**229**	183
Amounts recoverable	**473**	483
Total staff costs	**13,175**	12,302

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

9 Operating Expenses *(continued)*

The following expenditures are included in total staff costs:

in HK$ million	2013	2012 (Restated)
Share-based payments	**52**	59
Contributions to defined contribution retirement plans and Mandatory Provident Fund	**560**	486
Amounts recognised in respect of defined benefit retirement plans	**388**	384
	1,000	929

B The costs of maintenance and related works for Hong Kong transport operations relate mainly to contracted maintenance and revenue works. Other routine repairs and maintenance works are performed by in-house operations and the costs of which are included under staff costs and related expenses as well as stores and spares consumed.

C Project study and business development expenses comprise:

in HK$ million	2013	2012
Business development expenses	**452**	309
Miscellaneous project study expenses	**34**	14
	486	323

Business development expenses relate mainly to new business opportunities in the Mainland of China, Europe and Australia.

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

in HK$ million	2013	2012
Audit services	**12**	12
Tax services	**1**	1
Other audit related services	**5**	4
Non-audit services	**7**	–
	25	17

E The following charges/(credits) are included in operating expenses:

in HK$ million	2013	2012
Loss on disposal of fixed assets	**37**	29
Derivative financial instruments – transferred from hedging reserve (note 19B)	**(2)**	3
Unrealised loss/(gain) on revaluation of investments in securities	**2**	(6)

F Operating lease expenses charged to the consolidated profit and loss account comprise:

in HK$ million	2013	2012
Shopping centre, office building, staff quarters and bus depot	**87**	84
Rolling stock, stations, office buildings, depots, depot equipment and other minor assets for subsidiaries	**1,050**	1,002
Amount capitalised	**(3)**	(2)
	1,134	1,084

10 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
2013					
Members of the Board					
– Raymond Ch'ien Kuo-fung	1.2	–	–	–	1.2
– Pamela Chan Wong Shui (appointed on 4 July 2013)	0.1	–	–	–	0.1
– Dorothy Chan Yuen Tak-fai (appointed on 4 July 2013)	0.1	–	–	–	0.1
– Vincent Cheng Hoi-chuen	0.3	–	–	–	0.3
– Christine Fang Meng-sang	0.3	–	–	–	0.3
– Edward Ho Sing-tin	0.4	–	–	–	0.4
– Alasdair George Morrison	0.3	–	–	–	0.3
– Frederick Ma Si-hang (appointed on 4 July 2013)	0.1	–	–	–	0.1
– Ng Leung-sing	0.3	–	–	–	0.3
– Abraham Shek Lai-him	0.3	–	–	–	0.3
– T. Brian Stevenson	0.4	–	–	–	0.4
– Ceajer Chan Ka-keung	0.3	–	–	–	0.3
– Anthony Cheung Bing-leung	0.3	–	–	–	0.3
– Ingrid Yeung Ho Poi-yan	0.3	–	–	–	0.3
Members of the Executive Directorate					
– Jay H Walder	–	8.0	–*	5.0	13.0
– Lincoln Leong Kwok-kuen	–	6.3	1.0	2.4	9.7
– Morris Cheung Siu-wa	–	4.1	0.2	1.4	5.7
– Chew Tai-chong	–	7.1	0.8	2.0	9.9
– Jacob Kam Chak-pui	–	4.5	0.7	1.9	7.1
– Stephen Law Cheuk-kin (appointed on 2 July 2013)**	–	2.3	0.3	0.6	3.2
– Gillian Elizabeth Meller	–	3.5	0.5	1.3	5.3
– David Tang Chi-fai	–	3.7	0.6	1.4	5.7
– Jeny Yeung Mei-chun	–	3.7	0.5	1.5	5.7
	4.7	43.2	4.6	17.5	70.0

* The total contributions paid by the Company attributable to the financial year ended 31 December 2013 for Jay H Walder, who participated in the MTR MPF Scheme, was HK$15,000.

** Stephen C K Law was appointed as a Member of the Executive Directorate on 2 July 2013. The amount of his emoluments shown in the above table covers the period from the date of his appointment to 31 December 2013.

10 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
2012					
Members of the Board					
– Raymond Ch'ien Kuo-fung	1.2	–	–	–	1.2
– Vincent Cheng Hoi-chuen	0.3	–	–	–	0.3
– Christine Fang Meng-sang	0.3	–	–	–	0.3
– Edward Ho Sing-tin	0.4	–	–	–	0.4
– Alasdair George Morrison	0.3	–	–	–	0.3
– Ng Leung-sing	0.3	–	–	–	0.3
– Abraham Shek Lai-him	0.3	–	–	–	0.3
– T. Brian Stevenson	0.4	–	–	–	0.4
– Ceajer Chan Ka-keung	0.3	–	–	–	0.3
– Anthony Cheung Bing-leung (since 1 July 2012)	0.1	–	–	–	0.1
– Ingrid Yeung Ho Poi-yan (since 8 October 2012)	0.1	–	–	–	0.1
– Eva Cheng (up to 30 June 2012)	0.1	–	–	–	0.1
– Susie Ho Shuk-yee (since 16 July 2012 and up to 7 October 2012)	0.1	–	–	–	0.1
– Carolina Yip Lai-ching (since 28 May 2012 and up to 15 July 2012) ***	–	–	–	–	–
– Joseph Lai Yee-tak (up to 27 May 2012)	0.2	–	–	–	0.2
Members of the Executive Directorate					
– Jay H Walder (appointed on 1 January 2012)	–	7.6	–*	4.5	12.1
– Lincoln Leong Kwok-kuen	–	5.7	0.9	2.5	9.1
– William Chan Fu-keung (retired on 16 July 2012)	–	3.7	0.2	1.4	5.3
– Morris Cheung Siu-wa (appointed on 17 July 2012) **	–	1.7	0.2	0.8	2.7
– Chew Tai-chong	–	4.7	–*	2.1	6.8
– Jacob Kam Chak-pui	–	4.0	0.6	1.7	6.3
– Gillian Elizabeth Meller	–	3.3	0.5	1.3	5.1
– David Tang Chi-fai	–	3.5	0.6	1.4	5.5
– Jeny Yeung Mei-chun	–	3.4	0.5	1.5	5.4
	4.4	37.6	3.5	17.2	62.7

* During the year ended 31 December 2012, the total contributions paid by the Company for Jay H Walder and T C Chew, both of whom participated in the MTR MPF Scheme, were HK$13,750 each.

** Morris S W Cheung was appointed as a Member of the Executive Directorate on 17 July 2012. The amount of his emoluments shown in the above table covers the period from the date of his appointment to 31 December 2012.

*** Carolina L C Yip was in the post of Acting Commissioner for Transport during the period from 28 May 2012 to 15 July 2012 and had by virtue of her appointment become a Non-executive Director of the Company during that period. The fees paid to her during her appointment were HK$40,323.

William F K Chan received a lump sum benefit payment of HK$28.8 million from the MTR Retirement Scheme upon his retirement in July 2012. He received a pro-rated discretionary award of HK$35,690 in July 2013 in respect of his service and performance from 1 July 2012 to 16 July 2012.

The above emoluments do not include the fair value of share options as estimated at the date of grant, which is defined as the date of acceptance of the offer to grant the option.

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

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

Share options were granted to Members of the Executive Directorate under the Company's 2007 Share Option Scheme, which were offered to them on 10 December 2007, 8 December 2008, 12 June 2009, 8 December 2009, 28 June 2010, 16 December 2010, 23 March 2012, 26 April 2013 and 25 October 2013. The entitlements of each of the Members are as follows:

- Jay H Walder was granted options in respect of 391,500 shares on 30 March 2012 and 497,000 shares on 6 May 2013, of which 130,500 options were vested in 2013 (2012: nil), and the respective fair value of the share-based payments recognised for the year ended 31 December 2013 was HK$0.9 million (2012: HK$0.6 million);
- Lincoln K K Leong was granted options in respect of 170,000 shares each on 12 December 2007, 9 December 2008, 10 December 2009 and 17 December 2010, 201,000 shares on 30 March 2012 and 256,000 shares on 6 May 2013, of which 123,000 options were vested in 2013 (2012:113,000), and the respective fair value of the share-based payments recognised for the year ended 31 December 2013 was HK$0.6 million (2012: HK$0.7 million);
- Morris S W Cheung was granted options in respect of 65,000 shares each on 12 December 2007, 10 December 2008 and 11 December 2009, 35,000 shares on 21 July 2010, 65,000 shares on 20 December 2010, 122,000 shares on 30 March 2012 and 180,500 shares on 6 May 2013, of which 73,000 options were vested in 2013 (2012: 55,000), and the respective fair value of the share-based payments recognised for the year ended 31 December 2013 was HK$0.4 million (2012: HK$0.3 million);
- T C Chew was granted options in respect of 85,000 shares on 18 June 2009, 170,000 shares each on 10 December 2009 and 17 December 2010, 184,500 shares on 30 March 2012 and 225,500 shares on 6 May 2013, of which 117,500 options were vested in 2013 (2012: 141,000), and the respective fair value of the share-based payments recognised for the year ended 31 December 2013 was HK$0.5 million (2012: HK$0.6 million);
- Jacob C P Kam was granted options in respect of 75,000 shares on 13 December 2007, 65,000 shares each on 8 December 2008 and 14 December 2009, 50,000 shares on 21 July 2010, 170,000 shares on 17 December 2010, 172,000 shares on 30 March 2012 and 202,500 shares on 6 May 2013, of which 129,500 options were vested in 2013 (2012: 95,000), and the respective fair value of the share-based payments recognised for the year ended 31 December 2013 was HK$0.5 million (2012: HK$0.6 million);
- Stephen C K Law was granted options in respect of 196,000 shares on 1 November 2013 and the fair value of the share-based payments recognised for the year ended 31 December 2013 was HK$0.1 million;
- Gillian E Meller was granted options in respect of 55,000 shares on 12 December 2007, 70,000 shares on 11 December 2008, 65,000 shares on 10 December 2009, 90,000 shares on 17 December 2010, 158,500 shares on 30 March 2012 and 184,000 shares on 6 May 2013, of which 83,000 options were vested in 2013 (2012: 51,000), and the respective fair value of the share-based payments recognised for the year ended 31 December 2013 was HK$0.4 million (2012: HK$0.4 million);
- David C F Tang was granted options in respect of 65,000 shares each on 13 December 2007, 12 December 2008, 15 December 2009 and 17 December 2010, 163,500 shares on 30 March 2012 and 182,500 shares on 6 May 2013, of which 75,500 options were vested in 2013 (2012: 43,000), and the respective fair value of the share-based payments recognised for the year ended 31 December 2013 was HK$0.4 million (2012: HK$0.4 million);
- Jeny M C Yeung was granted options in respect of 75,000 shares on 12 December 2007 and 65,000 shares each on 10 December 2008, 10 December 2009 and 17 December 2010, 161,000 shares on 30 March 2012 and 187,000 shares on 6 May 2013, of which 75,000 options were vested in 2013 (2012: 43,000), and the respective fair value of the share-based payments recognised for the year ended 31 December 2013 was HK$0.4 million (2012: HK$0.4 million); and
- William F K Chan was granted options in respect of 170,000 shares each on 13 December 2007, 9 December 2008, 10 December 2009 and 17 December 2010 and 143,500 shares on 30 March 2012, of which 113,000 options were vested in 2012, and the respective fair value of the share-based payments recognised for the year ended 31 December 2012 was HK$0.6 million.

The details of Board Members' and Executive Directorate's interest in the Company's shares are disclosed in the Report of the Members of the Board and note 49.

For the year ended 31 December 2013, the five individuals whose emoluments were the highest for the year were four directors of the Company (2012: four). The remuneration in respect of the other one individual (2012: one) consisted of base pay, allowance and benefits in kind of HK$5.4 million (2012: HK$5.6 million), retirement scheme contribution of HK$0.1 million (2012: HK$0.1 million) and discretionary bonus of HK$2.4 million (2012: HK$2.0 million).

(ii) On appointment as the Chief Executive Officer of the Company, Jay H Walder was granted a derivative interest in respect of 300,000 shares in the Company within the meaning of Part XV of the Securities and Futures Ordinance. The derivative interest represents his entitlement to be paid an equivalent value in cash of 300,000 shares in the Company following 30 June 2014, being the date on which his initial term of office is expected to expire (35% of which was deemed to have been earned at 31 October 2013 subject to certain conditions specified in his employment contract). On 30 August 2013, he was re-appointed as the Chief Executive Officer until 31 August 2015. He was granted a derivative interest in respect of 230,000 shares in the Company within the meaning of Part XV of the Securities and Futures Ordinance. The derivative interest represents his entitlement to be paid an equivalent value in cash of 230,000 shares in the Company upon completion of his extended term of office on 31 August 2015.

(iii) The aggregate emoluments of Members of the Board and the Executive Directorate for the year pursuant to section 161 of the Hong Kong Companies Ordinance was HK$74.2 million (2012: HK$67.3 million).

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

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

(iv) The Company has a service contract with each of the non-executive Directors (including Dr. Raymond Ch'ien Kuo-fung and Professor Ceajer Chan Ka-keung but excluding two additional directors appointed pursuant to Section 8 of the Mass Transit Railway Ordinance (Chapter 556 of the Laws of Hong Kong)) specifying the terms of his/her continuous appointments as a non-executive Director 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 Articles 87 and 88 of the Company's Articles of Association. Dr. Raymond Ch'ien Kuo-fung, a Member of the Board and the non-executive Chairman of the Company since 1998 and 2003 respectively, was re-appointed by the HKSAR Government on 29 October 2012 as the non-executive Chairman of the Company until 31 December 2015.

B Share Options

Options exercised and outstanding in respect of each Member of the Executive Directorate as at 31 December 2013 are set out in the Report of the Members of the Board. Details of the options granted to Members of the Executive Directorate are as follows:

(i) New Joiners Share Option Scheme

Under the New Joiners Share Option Scheme (the "New Option Scheme") as described in note 49A(i), David C F Tang, Member of the Executive Directorate, was granted options to acquire 213,000 shares in May 2006.

(ii) 2007 Share Option Scheme

Under the 2007 Share Option Scheme (the "2007 Option Scheme") as described in note 49A(ii), all Members of the Executive Directorate were granted options to acquire shares in each year from 2007 to 2010 and from 2012 to 2013 (note 10A(i)).

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 (note 10A(i)).

11 Profit on Hong Kong Property Developments

Profit on Hong Kong property developments comprises:

in HK$ million	2013	2012
Share of surplus from property developments	**1,418**	3,186
Income from receipt of properties for investment purpose	**44**	–
Agency fee on West Rail property developments (note 26D)	**–**	49
Other overhead costs net of miscellaneous income	**(66)**	3
	1,396	3,238

12 Depreciation and Amortisation

Depreciation and amortisation comprise:

in HK$ million	2013	2012
Depreciation charge on assets relating to:		
– Hong Kong transport operations	**2,550**	2,458
– Hong Kong station commercial business	**113**	118
– Hong Kong property rental and management businesses	**10**	8
– Mainland of China and international subsidiaries	**72**	67
– Other businesses	**62**	60
	2,807	2,711
Amortisation charge on service concession assets relating to:		
– Rail Merger with KCRC	**550**	482
– Mainland of China and international subsidiaries	**333**	316
	883	798
– Utilisation of government subsidy for Shenzhen Metro Longhua Line operation	**(318)**	(301)
	565	497
	3,372	3,208

13 Interest and Finance Charges

in HK$ million	2013	2013	2012	2012
Interest expenses in respect of:				
– Bank loans, overdrafts and capital market instruments wholly repayable within 5 years	**313**		367	
– Bank loans and capital market instruments not wholly repayable within 5 years	**361**		330	
– Obligations under service concession	**719**		721	
– Other obligations (note 21E)	**17**		16	
Finance charges	**38**		61	
Exchange loss	**1**		26	
		1,449		1,521
Utilisation of government subsidy for Shenzhen Metro Longhua Line operation		**(254)**		(254)
Derivative financial instruments:				
– Fair value hedges	**(28)**		(7)	
– Cash flow hedges:				
– transferred from hedging reserve	**143**		64	
– ineffective portion	**(1)**		–	
		114		57
Interest expenses capitalised		**(368)**		(164)
		941		1,160
Interest income in respect of:				
– Deposits with banks and other financial institutions	**(220)**		(322)	
– Investment in bank medium term notes	**–**		(20)	
		(220)		(342)
Interest income capitalised		**11**		61
		732		879

During the year ended 31 December 2013, 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 0.9% to 6.5% per annum (2012: 0.9% to 2.5% per annum), while interest income capitalised was calculated on a monthly basis at the average return from deposits which varied from 0.9% to 1.3% per annum (2012: 1.4% to 1.8% per annum).

During the year ended 31 December 2013, interest and finance charges net of interest expenses capitalised in relation to the Shenzhen Metro Longhua Line were HK$254 million (2012: HK$254 million), which was fully offset by the subsidy received from the Shenzhen Municipal Government.

During the year ended 31 December 2013, the gain resulting from fair value changes of the underlying financial assets and liabilities being hedged was HK$265 million (2012: HK$114 million) while the loss resulting from fair value changes of hedging instruments comprising interest rate and cross currency swaps was HK$237 million (2012: HK$107 million), thus resulting in a net gain of HK$28 million (2012: HK$7 million).

14 Income Tax

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

in HK$ million	2013	2012 (Restated)
Current tax		
– Provision for Hong Kong Profits Tax at 16.5% (2012: 16.5%) for the year	**1,118**	1,469
– Mainland of China and overseas tax for the year	**181**	135
	1,299	1,604
Deferred tax		
– Origination and reversal of temporary differences on:		
– tax losses	**(5)**	4
– depreciation allowances in excess of related depreciation	**506**	350
– provision and others	**19**	(96)
	520	258
	1,819	1,862

The provision for Hong Kong Profits Tax for the year ended 31 December 2013 is calculated at 16.5% (2012: 16.5%) on the estimated assessable profits for the year 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 that arising in the Mainland of China and overseas is calculated at the appropriate current rates of taxation ruling in the relevant countries.

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

	2013		2012 (Restated)	
	HK$ million	%	HK$ million	%
Profit before taxation	**15,027**		15,376	
Notional tax on profit before taxation, calculated at the rates applicable to profits in the tax jurisdictions concerned	**2,506**	**16.7**	2,613	17.0
Tax effect of non-deductible expenses	**232**	**1.5**	131	0.9
Tax effect of non-taxable revenue	**(927)**	**(6.2)**	(874)	(5.7)
Tax effect of unused tax losses not recognised	**8**	**0.1**	(8)	(0.1)
Actual tax expenses	**1,819**	**12.1**	1,862	12.1

15 Profit Attributable to Equity Shareholders

The consolidated profit attributable to equity shareholders includes a profit of HK$12,702 million (2012: HK$13,052 million as restated), which has been dealt with in the accounts of the Company. Details of dividends paid and payable to equity shareholders of the Company are set out in note 16.

16 Dividends

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

in HK$ million	2013	2012
Dividends payable attributable to the year		
– Interim dividend declared after the balance sheet date of HK$0.25 (2012: HK$0.25) per share	**1,450**	1,447
– Final dividend proposed after the balance sheet date of HK$0.67 (2012: HK$0.54) per share	**3,885**	3,128
	5,335	4,575
Dividends paid attributable to the previous year		
– Final dividend of HK$0.54 (2011: HK$0.51) per share approved and paid during the year	**3,130**	2,951

Subject to the shareholders' approval for the Scrip Dividend Scheme having been obtained at the forthcoming Annual General Meeting, the Company proposes that a scrip dividend option will be offered to all shareholders except for shareholders with registered addresses in the United States of America or any of its territories or possessions.

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date. Details of dividends paid to the Company's majority shareholder, the Financial Secretary Incorporated, are disclosed in note 53N.

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 equity shareholders of HK$13,025 million (2012: HK$13,375 million as restated) and the weighted average number of ordinary shares in issue during the year of 5,796,829,998 (2012: 5,787,351,555), calculated as follows:

	2013	2012
Issued ordinary shares at 1 January	**5,793,196,650**	5,784,871,250
Effect of share options exercised	**3,633,348**	2,480,305
Weighted average number of ordinary shares at 31 December	**5,796,829,998**	5,787,351,555

B Diluted Earnings Per Share

The calculation of diluted earnings per share is based on the profit for the year attributable to equity shareholders of HK$13,025 million (2012: HK$13,375 million as restated) and the weighted average number of ordinary shares in issue during the year of 5,802,790,866 (2012: 5,790,914,436) after adjusting for the number of dilutive potential ordinary shares under the employee share option schemes, calculated as follows:

	2013	2012
Weighted average number of ordinary shares at 31 December	**5,796,829,998**	5,787,351,555
Effect of dilutive potential shares under the Company's share option schemes	**5,960,868**	3,562,881
Weighted average number of ordinary shares (diluted) at 31 December	**5,802,790,866**	5,790,914,436

C Both basic and diluted earnings per share would have been HK$1.48 (2012: HK$1.66 as restated) if the calculation is based on profit attributable to equity shareholders arising from underlying businesses of HK$8,600 million (2012: HK$9,618 million as restated).

18 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 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) 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 spaces, provision of estate management services and development of properties in the Mainland of China.

(vi) 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.

18 Segmental Information *(continued)*

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	Mainland of China and international affiliates	Other businesses	Un-allocated amount	Total
2013								
Revenue	**15,166**	**4,588**	**3,778**	**–**	**13,246**	**1,929**	**–**	**38,707**
Operating expenses	**(8,449)**	**(464)**	**(673)**	**–**	**(12,455)**	**(1,781)**	**–**	**(23,822)**
Project study and business development expenses	**–**	**–**	**–**	**–**	**–**	**–**	**(486)**	**(486)**
Operating profit before Hong Kong property developments, depreciation, amortisation and variable annual payment	**6,717**	**4,124**	**3,105**	**–**	**791**	**148**	**(486)**	**14,399**
Profit on Hong Kong property developments	**–**	**–**	**–**	**1,396**	**–**	**–**	**–**	**1,396**
Operating profit before depreciation, amortisation and variable annual payment	**6,717**	**4,124**	**3,105**	**1,396**	**791**	**148**	**(486)**	**15,795**
Depreciation and amortisation	**(3,078)**	**(135)**	**(10)**	**–**	**(87)**	**(62)**	**–**	**(3,372)**
Variable annual payment	**(923)**	**(321)**	**(3)**	**–**	**–**	**–**	**–**	**(1,247)**
Operating profit before interest and finance charges	**2,716**	**3,668**	**3,092**	**1,396**	**704**	**86**	**(486)**	**11,176**
Interest and finance charges	**–**	**–**	**–**	**–**	**10**	**–**	**(742)**	**(732)**
Investment property revaluation	**–**	**–**	**4,425**	**–**	**–**	**–**	**–**	**4,425**
Share of profit or loss of associates	**–**	**–**	**–**	**–**	**(67)**	**225**	**–**	**158**
Income tax	**–**	**–**	**–**	**(233)**	**(160)**	**–**	**(1,426)**	**(1,819)**
Profit for the year ended 31 December 2013	**2,716**	**3,668**	**7,517**	**1,163**	**487**	**311**	**(2,654)**	**13,208**
Assets								
Fixed assets	**91,017**	**1,450**	**61,336**	**1**	**8,521**	**831**	**–**	**163,156**
Other operational assets *	**1,489**	**281**	**732**	**1,392**	**2,977**	**641**	**15,456**	**22,968**
Property management rights	**–**	**–**	**31**	**–**	**–**	**–**	**–**	**31**
Railway construction in progress	**11,548**	**–**	**–**	**–**	**–**	**–**	**–**	**11,548**
Property development in progress	**–**	**–**	**–**	**8,335**	**2,898**	**–**	**–**	**11,233**
Deferred expenditure	**–**	**–**	**1**	**–**	**–**	**3**	**–**	**4**
Deferred tax assets	**–**	**3**	**–**	**–**	**25**	**1**	**–**	**29**
Investments in securities	**–**	**–**	**–**	**–**	**–**	**472**	**–**	**472**
Properties held for sale	**–**	**–**	**–**	**1,105**	**–**	**–**	**–**	**1,105**
Interests in associates	**–**	**–**	**–**	**–**	**4,790**	**487**	**–**	**5,277**
Total assets	**104,054**	**1,734**	**62,100**	**10,833**	**19,211**	**2,435**	**15,456**	**215,823**
Liabilities								
Segment liabilities	**6,596**	**1,719**	**2,857**	**843**	**6,803**	**1,954**	**31,068**	**51,840**
Obligations under service concession	**10,480**	**–**	**–**	**–**	**178**	**–**	**–**	**10,658**
Deferred income	**–**	**96**	**–**	**50**	**477**	**–**	**–**	**623**
Total liabilities	**17,076**	**1,815**	**2,857**	**893**	**7,458**	**1,954**	**31,068**	**63,121**
Other Information								
Capital expenditure on:								
Fixed assets	**3,970**	**92**	**1,538**	**1**	**400**	**32**	**–**	**6,033**
Railway construction in progress	**5,542**	**–**	**–**	**–**	**–**	**–**	**–**	**5,542**
Property development in progress	**–**	**–**	**–**	**493**	**320**	**–**	**–**	**813**
Non-cash expenses other than depreciation and amortisation	**24**	**4**	**–**	**–**	**6**	**3**	**–**	**37**

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

18 Segmental Information *(continued)*

in HK$ million	Hong Kong transport operations	Hong Kong station commercial business	Hong Kong property rental and management businesses	Hong Kong property developments	Mainland of China and international affiliates	Other businesses	Un-allocated amount	Total
2012 (Restated)								
Revenue	14,523	3,680	3,401	–	12,786	1,349	–	35,739
Operating expenses	(8,017)	(397)	(627)	–	(12,184)	(1,296)	–	(22,521)
Project study and business development expenses	–	–	–	–	–	–	(323)	(323)
Operating profit before Hong Kong property developments, depreciation, amortisation and variable annual payment	6,506	3,283	2,774	–	602	53	(323)	12,895
Profit on Hong Kong property developments	–	–	–	3,238	–	–	–	3,238
Operating profit before depreciation, amortisation and variable annual payment	6,506	3,283	2,774	3,238	602	53	(323)	16,133
Depreciation and amortisation	(2,919)	(139)	(8)	–	(82)	(60)	–	(3,208)
Variable annual payment	(706)	(175)	(2)	–	–	–	–	(883)
Operating profit before interest and finance charges	2,881	2,969	2,764	3,238	520	(7)	(323)	12,042
Interest and finance charges	–	–	–	–	(6)	–	(873)	(879)
Investment property revaluation	–	–	3,757	–	–	–	–	3,757
Share of profit or loss of associates	–	–	–	–	245	211	–	456
Income tax	–	–	–	(534)	(129)	–	(1,199)	(1,862)
Profit for the year ended 31 December 2012	2,881	2,969	6,521	2,704	630	204	(2,395)	13,514
Assets								
Fixed assets	89,908	1,423	55,363	1	8,336	863	–	155,894
Other operational assets *	1,492	272	574	1,900	3,338	695	16,900	25,171
Property management rights	–	–	31	–	–	–	–	31
Railway construction in progress	7,458	–	–	–	–	–	–	7,458
Property development in progress	–	–	–	7,923	2,507	–	–	10,430
Deferred expenditure	–	–	15	–	–	–	–	15
Deferred tax assets	–	10	–	–	9	2	–	21
Investments in securities	–	–	–	–	–	393	–	393
Properties held for sale	–	–	–	3,016	–	–	–	3,016
Interests in associates	–	–	–	–	3,825	433	–	4,258
Total assets	98,858	1,705	55,983	12,840	18,015	2,386	16,900	206,687
Liabilities								
Segment liabilities	8,936	1,903	1,545	700	8,938	1,119	29,257	52,398
Obligations under service concession	10,520	–	–	–	170	–	–	10,690
Deferred income	–	49	–	60	379	–	–	488
Total liabilities	19,456	1,952	1,545	760	9,487	1,119	29,257	63,576
Other Information								
Capital expenditure on:								
Fixed assets	2,429	104	124	–	473	20	–	3,150
Railway construction in progress	7,104	–	–	–	–	–	–	7,104
Property development in progress	–	–	–	737	38	–	–	775
Non-cash expenses other than depreciation and amortisation	23	2	2	–	–	2	–	29

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

18 Segmental Information *(continued)*

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

For the year ended 31 December 2013, revenue from one customer of the Mainland of China and international affiliates segment has exceeded 10% of the Group's revenue (2012: one). Approximately 18.71% (2012: 22.33%) of the Group's total turnover 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, property management rights, railway construction in progress, property development in progress, deferred expenditure and interests in associates ("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, railway construction in progress 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 and property management rights and the location of operation in the case of interests in associates.

	Revenue from external customers		Specified non-current assets	
in HK$ million	**2013**	2012	**2013**	2012
Hong Kong (place of domicile)	**25,413**	22,906	**175,037**	163,421
Australia	**9,269**	9,129	**183**	250
Mainland of China	**658**	555	**15,871**	14,244
Sweden	**3,325**	3,106	**156**	163
Other countries	**42**	43	**2**	8
	13,294	12,833	**16,212**	14,665
	38,707	35,739	**191,249**	178,086

19 Other Comprehensive Income

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

	2013			2012 (Restated)		
in HK$ million	Before-tax amount	Tax (expense)/ benefit	Net-of-tax amount	Before-tax amount	Tax expense	Net-of-tax amount
Exchange differences on translation of:						
– Financial statements of overseas subsidiaries and associates	**109**	**–**	**109**	72	–	72
– Non-controlling interests	**(35)**	**–**	**(35)**	3	–	3
	74	**–**	**74**	75	–	75
Surplus on revaluation of self-occupied land and buildings	**356**	**(58)**	**298**	406	(67)	339
Remeasurement of net liability of defined benefit plans	**822**	**(136)**	**686**	1,610	(266)	1,344
Cash flow hedges: net movement in hedging reserve (note 19B)	**(73)**	**12**	**(61)**	28	(5)	23
Other comprehensive income	**1,179**	**(182)**	**997**	2,119	(338)	1,781

19 Other Comprehensive Income *(continued)*

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

in HK$ million	2013	2012 (Restated)
Cash flow hedges:		
Effective portion of changes in fair value of hedging instruments recognised during the year	**(214)**	(36)
Amounts transferred to initial carrying amount of hedged items	**–**	(3)
Amounts transferred to profit or loss:		
– Interest and finance charges (note 13)	**143**	64
– Other expenses (note 9E)	**(2)**	3
Tax effect resulting from:		
– Changes in fair value of hedging instruments recognised during the year	**35**	6
– Amounts transferred to profit or loss	**(23)**	(11)
	(61)	23

20 Investment Properties

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

	The Group		The Company	
in HK$ million	2013	2012	2013	2012
Cost or valuation				
At 1 January	**55,314**	51,453	**54,087**	50,287
Additions	**1,531**	104	**1,524**	100
Change in fair value	**4,425**	3,757	**4,314**	3,700
Transfer from deferred expenditure (note 27)	**15**	–	**15**	–
At 31 December	**61,285**	55,314	**59,940**	54,087
Long leases	**94**	90	**94**	90
Medium-term leases	**61,191**	55,224	**59,846**	53,997
	61,285	55,314	**59,940**	54,087

All investment properties of the Group were revalued at 31 December 2013 and 2012. Details of the fair value measurement are disclosed in note 48. The net increase in fair value of HK$4,425 million (2012: HK$3,757 million) arising from the revaluation has been credited to the consolidated profit and loss account. Additions during the year ended 31 December 2013 include investment properties under development of HK$1,285 million (2012: nil).

The Group's future minimum lease receipts in respect of investment properties under non-cancellable operating leases are disclosed together with those in respect of other properties under note 21D.

21 Other Property, Plant and Equipment

The Group

in HK$ million	Leasehold land	Self-occupied land and buildings	Civil works	Plant and equipment	Assets under construction	Total
2013						
Cost or Valuation						
At 1 January 2013	**732**	**3,216**	**46,681**	**65,197**	**1,367**	**117,193**
Additions	**–**	**–**	**2**	**139**	**2,681**	**2,822**
Disposals	**–**	**–**	**(1)**	**(674)**	**(23)**	**(698)**
Surplus on revaluation	**–**	**258**	**–**	**–**	**–**	**258**
Reclassification within other property, plant and equipment	**–**	**–**	**1**	**(1)**	**–**	**–**
Transfer to additional concession property (note 22)	**–**	**–**	**–**	**(6)**	**(90)**	**(96)**
Other assets commissioned	**–**	**–**	**44**	**2,720**	**(2,764)**	**–**
Exchange differences	**–**	**–**	**–**	**(46)**	**–**	**(46)**
At 31 December 2013	**732**	**3,474**	**46,727**	**67,329**	**1,171**	**119,433**
At Cost	**732**	**–**	**46,727**	**67,329**	**1,171**	**115,959**
At 31 December 2013 Valuation	**–**	**3,474**	**–**	**–**	**–**	**3,474**
Aggregate depreciation						
At 1 January 2013	**218**	**–**	**6,211**	**34,676**	**–**	**41,105**
Charge for the year	**13**	**98**	**401**	**2,295**	**–**	**2,807**
Written back on disposals	**–**	**–**	**(1)**	**(640)**	**–**	**(641)**
Written back on revaluation	**–**	**(98)**	**–**	**–**	**–**	**(98)**
Exchange differences	**–**	**–**	**–**	**(17)**	**–**	**(17)**
At 31 December 2013	**231**	**–**	**6,611**	**36,314**	**–**	**43,156**
Net book value at 31 December 2013	**501**	**3,474**	**40,116**	**31,015**	**1,171**	**76,277**
2012						
Cost or Valuation						
At 1 January 2012	732	2,894	46,651	63,116	2,048	115,441
Additions	–	–	–	153	1,606	1,759
Disposals	–	–	(2)	(321)	(15)	(338)
Surplus on revaluation	–	322	–	–	–	322
Reclassification within other property, plant and equipment	–	–	1	(1)	–	–
Transfer to additional concession property (note 22)	–	–	–	–	(4)	(4)
Other assets commissioned	–	–	31	2,237	(2,268)	–
Exchange differences	–	–	–	13	–	13
At 31 December 2012	732	3,216	46,681	65,197	1,367	117,193
At Cost	732	–	46,681	65,197	1,367	113,977
At 31 December 2012 Valuation	–	3,216	–	–	–	3,216
Aggregate depreciation						
At 1 January 2012	205	–	5,812	32,737	–	38,754
Charge for the year	13	84	400	2,214	–	2,711
Written back on disposals	–	–	(1)	(279)	–	(280)
Written back on revaluation	–	(84)	–	–	–	(84)
Exchange differences	–	–	–	4	–	4
At 31 December 2012	218	–	6,211	34,676	–	41,105
Net book value at 31 December 2012	514	3,216	40,470	30,521	1,367	76,088

21 Other Property, Plant and Equipment *(continued)*

The Company

in HK$ million	Leasehold land	Self-occupied land and buildings	Civil works	Plant and equipment	Assets under construction	Total
2013						
Cost or Valuation						
At 1 January 2013	**732**	**3,216**	**46,681**	**63,846**	**1,329**	**115,804**
Additions	**–**	**–**	**2**	**116**	**2,592**	**2,710**
Disposals	**–**	**–**	**(1)**	**(593)**	**(22)**	**(616)**
Surplus on revaluation	**–**	**258**	**–**	**–**	**–**	**258**
Reclassification within other property, plant and equipment	**–**	**–**	**1**	**(1)**	**–**	**–**
Transfer to additional concession property (note 22)	**–**	**–**	**–**	**(6)**	**(90)**	**(96)**
Other assets commissioned	**–**	**–**	**44**	**2,647**	**(2,691)**	**–**
At 31 December 2013	**732**	**3,474**	**46,727**	**66,009**	**1,118**	**118,060**
At Cost	**732**	**–**	**46,727**	**66,009**	**1,118**	**114,586**
At 31 December 2013 Valuation	**–**	**3,474**	**–**	**–**	**–**	**3,474**
Aggregate depreciation						
At 1 January 2013	**218**	**–**	**6,211**	**33,891**	**–**	**40,320**
Charge for the year	**13**	**98**	**401**	**2,184**	**–**	**2,696**
Written back on disposals	**–**	**–**	**(1)**	**(562)**	**–**	**(563)**
Written back on revaluation	**–**	**(98)**	**–**	**–**	**–**	**(98)**
At 31 December 2013	**231**	**–**	**6,611**	**35,513**	**–**	**42,355**
Net book value at 31 December 2013	**501**	**3,474**	**40,116**	**30,496**	**1,118**	**75,705**
2012						
Cost or Valuation						
At 1 January 2012	732	2,894	46,651	61,845	2,030	114,152
Additions	–	–	–	105	1,561	1,666
Disposals	–	–	(2)	(315)	(15)	(332)
Surplus on revaluation	–	322	–	–	–	322
Reclassification within other property, plant and equipment	–	–	1	(1)	–	–
Transfer to additional concession property (note 22)	–	–	–	–	(4)	(4)
Other assets commissioned	–	–	31	2,212	(2,243)	–
At 31 December 2012	732	3,216	46,681	63,846	1,329	115,804
At Cost	732	–	46,681	63,846	1,329	112,588
At 31 December 2012 Valuation	–	3,216	–	–	–	3,216
Aggregate depreciation						
At 1 January 2012	205	–	5,812	32,049	–	38,066
Charge for the year	13	84	400	2,116	–	2,613
Written back on disposals	–	–	(1)	(274)	–	(275)
Written back on revaluation	–	(84)	–	–	–	(84)
At 31 December 2012	218	–	6,211	33,891	–	40,320
Net book value at 31 December 2012	514	3,216	40,470	29,955	1,329	75,484

21 Other Property, Plant and Equipment *(continued)*

A The lease term of the Group's and the Company's leasehold land is analysed as follows:

The Group and the Company

in HK$ million	2013	2012
At net book value		
– long leases	**137**	140
– medium-term leases	**364**	374
	501	514

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 53A, 53B and 53C).

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.

B All self-occupied land and buildings of the Group are held in Hong Kong under medium-term leases and carried at fair value. The details of the fair value measurement are disclosed in note 48. The revaluation surplus of HK$356 million (2012: HK$406 million) and the related deferred tax expenses of HK$58 million (2012: HK$67 million) has been recognised in other comprehensive income and accumulated in the fixed assets revaluation reserve (note 46). The carrying amount of the self-occupied land and buildings at 31 December 2013 would have been HK$824 million (2012: HK$849 million) had the land and buildings been stated at cost less accumulated depreciation.

C Assets under construction include capital works on operating railway.

D 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 amounts of investment properties of the Group and the Company held for use in operating leases were HK$60,000 million (2012: HK$55,314 million) and HK$58,655 million (2012: HK$54,087 million) respectively. The costs of station kiosks of the Group and the Company held for use in operating leases were HK$648 million (2012: HK$609 million) and the related accumulated depreciation charges were HK$284 million (2012: HK$252 million).

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

	The Group		The Company	
in HK$ million	2013	2012	2013	2012
Within 1 year	**5,938**	5,502	**5,631**	5,127
After 1 year but within 5 years	**10,934**	12,145	**10,428**	11,188
Later than 5 years	**222**	75	**198**	68
	17,094	17,722	**16,257**	16,383

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.

21 Other Property, Plant and Equipment *(continued)*

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.

22 Service Concession Assets

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

The Group

	KCRC Rail Merger				
in HK$ million	Initial concession property	Additional concession property	Shenzhen Metro Longhua Line	Stockholm Metro	Total
2013					
Cost					
At 1 January 2013	**15,226**	**3,316**	**8,358**	**93**	**26,993**
Net additions during the year	**–**	**1,304**	**376**	**–**	**1,680**
Disposals	**–**	**(23)**	**–**	**(10)**	**(33)**
Transfer from other property, plant and equipment (note 21)	**–**	**96**	**–**	**–**	**96**
Exchange differences	**–**	**–**	**243**	**2**	**245**
At 31 December 2013	**15,226**	**4,693**	**8,977**	**85**	**28,981**
Accumulated amortisation					
At 1 January 2013	**1,548**	**447**	**467**	**39**	**2,501**
Charge for the year	**304**	**246**	**321**	**12**	**883**
Written-off on disposals	**–**	**(10)**	**–**	**(6)**	**(16)**
Exchange differences	**–**	**–**	**18**	**1**	**19**
At 31 December 2013	**1,852**	**683**	**806**	**46**	**3,387**
Net book value at 31 December 2013	**13,374**	**4,010**	**8,171**	**39**	**25,594**
2012					
Cost					
At 1 January 2012	15,226	2,458	7,855	88	25,627
Net additions during the year	–	861	426	–	1,287
Disposals	–	(7)	(3)	–	(10)
Transfer from other property, plant and equipment (note 21)	–	4	–	–	4
Exchange differences	–	–	80	5	85
At 31 December 2012	15,226	3,316	8,358	93	26,993
Accumulated amortisation					
At 1 January 2012	1,243	272	159	25	1,699
Charge for the year	305	177	304	12	798
Written-off on disposals	–	(2)	(2)	–	(4)
Exchange differences	–	–	6	2	8
At 31 December 2012	1,548	447	467	39	2,501
Net book value at 31 December 2012	13,678	2,869	7,891	54	24,492

22 Service Concession Assets *(continued)*

The Company

in HK$ million	Initial concession property	Additional concession property	Total
2013			
Cost			
At 1 January 2013	**15,226**	**3,316**	**18,542**
Net additions during the year	**–**	**1,304**	**1,304**
Disposals	**–**	**(23)**	**(23)**
Transfer from other property, plant and equipment (note 21)	**–**	**96**	**96**
At 31 December 2013	**15,226**	**4,693**	**19,919**
Accumulated amortisation			
At 1 January 2013	**1,548**	**447**	**1,995**
Charge for the year	**304**	**246**	**550**
Written-off on disposals	**–**	**(10)**	**(10)**
At 31 December 2013	**1,852**	**683**	**2,535**
Net book value at 31 December 2013	**13,374**	**4,010**	**17,384**
2012			
Cost			
At 1 January 2012	15,226	2,458	17,684
Net additions during the year	–	861	861
Disposals	–	(7)	(7)
Transfer from other property, plant and equipment (note 21)	–	4	4
At 31 December 2012	15,226	3,316	18,542
Accumulated amortisation			
At 1 January 2012	1,243	272	1,515
Charge for the year	305	177	482
Written-off on disposals	–	(2)	(2)
At 31 December 2012	1,548	447	1,995
Net book value at 31 December 2012	13,678	2,869	16,547

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 replacement and/or upgrade of the initial concession property after inception of the Rail Merger.

23 Property Management Rights

Property management rights relate to the rights acquired by the Company from KCRC in the Rail Merger in respect of existing and future managed properties on the Appointed Day.

The Group and The Company

in HK$ million	2013	2012
Cost at 1 January and 31 December	**40**	40
Accumulated amortisation at 1 January and 31 December	**9**	9
Net book value at 31 December	**31**	31

24 Railway Construction in Progress

The Group and The Company

in HK$ million	Balance at 1 January	Expenditure	Balance at 31 December
2013			
West Island Line Project			
Construction costs	**9,521**	**1,206**	**10,727**
Consultancy fees	**512**	**31**	**543**
Staff costs and other expenses	**1,354**	**215**	**1,569**
Interest income	**(196)**	**(11)**	**(207)**
Utilisation of government grant	**(11,191)**	**(1,441)**	**(12,632)**
	–	**–**	**–**
South Island Line (East) Project			
Construction costs	**4,166**	**2,923**	**7,089**
Consultancy fees	**472**	**58**	**530**
Staff costs and other expenses	**669**	**226**	**895**
Finance costs	**103**	**204**	**307**
	5,410	**3,411**	**8,821**
Kwun Tong Line Extension Project			
Construction costs	**1,464**	**544**	**2,008**
Consultancy fees	**188**	**10**	**198**
Staff costs and other expenses	**358**	**52**	**410**
Finance costs	**38**	**73**	**111**
	2,048	**679**	**2,727**
Total	**7,458**	**4,090**	**11,548**
2012			
West Island Line Project			
Construction costs	6,637	2,884	9,521
Consultancy fees	480	32	512
Staff costs and other expenses	1,058	296	1,354
Interest income	(136)	(60)	(196)
Utilisation of government grant	(8,039)	(3,152)	(11,191)
	–	–	–
South Island Line (East) Project			
Construction costs	1,694	2,472	4,166
Consultancy fees	431	41	472
Staff costs and other expenses	442	227	669
Finance costs	45	58	103
	2,612	2,798	5,410
Kwun Tong Line Extension Project			
Construction costs	518	946	1,464
Consultancy fees	176	12	188
Staff costs and other expenses	244	114	358
Finance costs	16	22	38
	954	1,094	2,048
Total	3,566	3,892	7,458

24 Railway Construction in Progress *(continued)*

A West Island Line ("WIL") Project

On 13 July 2009, the Company entered into a Project Agreement with the HKSAR Government for the financing, design, construction and operation of the WIL and related services and facilities.

Pursuant to the agreement, the HKSAR Government provided a grant of HK$12,252 million to the Company in March 2010 (having already made HK$400 million available in February 2008 under a preliminary project agreement). This grant is subject to a repayment mechanism whereby, within 24 months of commercial operations commencing on the WIL, the Company will pay to the HKSAR Government amounts to reflect the excess of the original estimation over actual costs incurred on certain capital expenditure, price escalation costs, land costs and the amount of contingency in relation to the railway and related works (together with interest).

The project is targeted to complete in 2014. Total capital cost for the project based on the defined scope of works and programme is estimated at HK$17,040 million. As at 31 December 2013, the Company has incurred net cumulative expenditure of HK$12,632 million (2012: HK$11,191 million), which was wholly offset by the government grant, and has authorised outstanding commitments on contracts totalling HK$1,193 million (2012: HK$2,531 million) (note 54).

B South Island Line (East) ("SIL(E)") Project

On 17 May 2011, the Company entered into a Project Agreement with the HKSAR Government for the financing, design, construction and operation of the SIL(E).

The project is targeted to complete in 2015. Total capital cost for the project based on the defined scope of works and programme is estimated at HK$14,327 million. As at 31 December 2013, the Company has incurred cumulative expenditure of HK$8,821 million (2012: HK$5,410 million) and has authorised outstanding commitments on contracts totalling HK$2,093 million (2012: HK$4,298 million) (note 54).

C Kwun Tong Line Extension ("KTE") Project

On 17 May 2011, the Company entered into a Project Agreement with the HKSAR Government for the financing, design, construction and operation of the KTE.

The project is targeted to complete in 2015. Total capital cost for the project based on the defined scope of works and programme is estimated at HK$6,172 million. As at 31 December 2013, the Company has incurred cumulative expenditure of HK$2,727 million (2012: HK$2,048 million) and has authorised outstanding commitments on contracts totalling HK$1,153 million (2012: HK$1,877 million) (note 54).

25 Other Railway Construction in Progress under Entrustment by Kowloon-Canton Railway Corporation or the HKSAR Government

A Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link ("XRL") Project

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 XRL ("XRL Preliminary Entrustment Agreement"). Pursuant to the XRL Preliminary Entrustment Agreement, the Company is responsible to carry out or procure the carrying out of the design, site investigation and procurement activities while the HKSAR Government is responsible to fund directly the total cost of such activities and pay to the Company a maximum amount of HK$1.5 billion in respect of certain costs incurred by the Company, including the Company's in-house design costs and certain on-costs and preliminary costs.

On 26 January 2010, the HKSAR Government and the Company entered into another entrustment agreement for the construction, testing and commissioning of the XRL ("XRL Entrustment Agreement"). Pursuant to the XRL Entrustment Agreement, the Company is responsible for the construction, testing and commissioning of the XRL while the HKSAR Government, as owner of XRL, is responsible to fund directly the total cost of such activities and pay to the Company HK$4,590 million in respect of the Company's management of the project. Such sum may be varied in accordance with the terms of the XRL Entrustment Agreement but is subject to a maximum annual limit of HK$2 billion and a total limit of HK$10 billion. In addition, the HKSAR Government has agreed that the Company will be invited to undertake the operation of the XRL under the service concession approach.

During the year ended 31 December 2013, project management fee of HK$800 million (2012: HK$684 million) was recognised in the consolidated profit and loss account.

B Shatin to Central Link ("SCL") Project

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 SCL ("SCL Preliminary Entrustment Agreement"). Pursuant to the SCL Preliminary Entrustment Agreement, the Company is responsible to carry out or procure the carrying out of the design, site investigation and procurement activities while the HKSAR Government is responsible to fund directly the total cost of such activities.

On 17 May 2011, the Company entered into another entrustment agreement with the HKSAR Government for the financing, construction, procurement of services and equipment and other matters associated with certain enabling works in relation to the SCL ("SCL Advance Works Entrustment Agreement"). Pursuant to the SCL Advance Works Entrustment Agreement, the Company is responsible to carry out or procure the carrying out of the agreed works while the HKSAR Government is responsible to bear and pay to the Company all the work costs.

25 Other Railway Construction in Progress under Entrustment by Kowloon-Canton Railway Corporation or the HKSAR Government *(continued)*

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

On 29 May 2012, the Company and the HKSAR Government entered into an entrustment agreement for the construction and commissioning of the SCL ("SCL Entrustment Agreement"). Pursuant to the SCL Entrustment Agreement, the Company is responsible to carry out or procure to the carrying out of the works specified in the SCL Entrustment Agreement (and the SCL Preliminary Entrustment Agreement and SCL Advance Works Entrustment Agreement) for a project management fee of HK$7,893 million. The HKSAR Government is responsible to bear all the work costs specified in the SCL Entrustment Agreement except for certain costs of modification, upgrade or expansions of certain assets for which the Company is responsible under the existing service concession agreement with KCRC.

During the year ended 31 December 2013, project management fee of HK$661 million (2012: HK$284 million) was recognised in the consolidated profit and loss account. Additionally, during the year ended 31 December 2013, the reimbursable costs from the HKSAR Government in relation to the project under the SCL Entrustment Agreement were HK$1,472 million (2012: HK$1,277 million). As at 31 December 2013, the amount to be recovered from the HKSAR Government was HK$414 million (2012: HK$429 million).

26 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 lands over the stations along railway lines.

As at 31 December 2013, the outstanding property developments of the Company include the Tseung Kwan O Extension Property Projects at the depot sites in Tseung Kwan O Area 86, the East Rail Line/Kowloon Southern Link/Light Rail Property Projects at four development sites along the East Rail Line, Kowloon Southern Link and Light Rail, South Island Line (East) Property Project at a site in Wong Chuk Hang and Kwun Tong Line Extension Property Project at a site in Ho Man Tin.

In 2011, the Company's two wholly owned subsidiaries, MTR Corporation (Shenzhen) Limited and MTR Property (Shenzhen) Company Limited, won the bid for Lot 1 of the Shenzhen Metro Longhua Line Depot Site. On 3 May 2012, the two subsidiaries established a project company in the Mainland of China, MTR Property Development (Shenzhen) Company Limited, to undertake residential and commercial development of the site ("Shenzhen Property Project"). Part of the net profits generated from this property development will be shared with the Shenzhen Municipal Government.

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	Exchange differences	Balance at 31 December
2013						
Airport Railway Property Projects	**–**	**4**	**(4)**	**–**	**–**	**–**
Tseung Kwan O Extension Property Projects	**1,150**	**61**	**(6)**	**(60)**	**–**	**1,145**
East Rail Line/Kowloon Southern Link/ Light Rail Property Projects	**5,906**	**81**	**–**	**(11)**	**–**	**5,976**
South Island Line (East) Property Project	**692**	**247**	**–**	**–**	**–**	**939**
Kwun Tong Line Extension Property Project	**175**	**100**	**–**	**–**	**–**	**275**
Shenzhen Property Project	**2,507**	**320**	**–**	**–**	**71**	**2,898**
	10,430	**813**	**(10)**	**(71)**	**71**	**11,233**
2012						
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

26 Property Development in Progress *(continued)*

A Property Development in Progress *(continued)*

The Company

in HK$ million	Balance at 1 January	Expenditure	Offset against payments received from developers/ investments in subsidiaries	Transfer out to profit or loss	Balance at 31 December
2013					
Airport Railway Property Projects	**–**	**4**	**(4)**	**–**	**–**
Tseung Kwan O Extension Property Projects	**1,150**	**61**	**(6)**	**(60)**	**1,145**
East Rail Line/Kowloon Southern Link/ Light Rail Property Projects	**5,906**	**81**	**–**	**(11)**	**5,976**
South Island Line (East) Property Project	**692**	**247**	**–**	**–**	**939**
Kwun Tong Line Extension Property Project	**175**	**100**	**–**	**–**	**275**
Shenzhen Property Project	**5**	**7**	**(12)**	**–**	**–**
	7,928	**500**	**(22)**	**(71)**	**8,335**
2012					
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	3	–	–	5
	9,521	740	(8)	(2,325)	7,928

East Rail Line/Kowloon Southern Link/Light Rail Property Projects include the acquisition cost for the property development rights on the development sites from KCRC and mandatory payments in respect of enabling works carried out by KCRC for such sites. As at 31 December 2013, outstanding mandatory payments including interest accrued amounted to HK$60 million (2012: HK$60 million). Leasehold land in Hong Kong included under property development in progress are held under medium-term leases.

Shenzhen Property Project includes the price for Lot 1 of the Shenzhen Metro Longhua Line Depot Site of RMB1,977 million (HK$2,532 million).

B Deferred Income on Property Development

The Group and The Company

in HK$ million	Balance at 1 January	Offset against development in progress (note 26A)	Balance at 31 December
2013			
Airport Railway Property Projects	**31**	**(4)**	**27**
Tseung Kwan O Extension Property Projects	**29**	**(6)**	**23**
Total (note 43)	**60**	**(10)**	**50**
2012			
Airport Railway Property Projects	34	(3)	31
Tseung Kwan O Extension Property Projects	34	(5)	29
Total (note 43)	68	(8)	60

26 Property Development in Progress *(continued)*

C 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 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 balance sheets. Movements in the stakeholding funds during the year are as follows:

The Group and The Company

in HK$ million	2013	2012
Balance as at 1 January	**7,611**	4,836
Stakeholding funds received	**13,680**	31,069
Add: Interest earned thereon	**20**	25
	21,311	35,930
Disbursements during the year	**(16,127)**	(28,319)
Balance as at 31 December	**5,184**	7,611
Represented by :		
Balances in designated bank accounts as at 31 December	**5,182**	7,609
Retention receivable	**2**	2
	5,184	7,611

D West Rail Property Developments

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 2013, nil (2012: HK$49 million) agency fee in respect of the Tuen Mun property development was received (note 11). During the year ended 31 December 2013, the reimbursable costs incurred by the Company including on-cost and interest accrued were HK$98 million (2012: HK$94 million).

27 Deferred Expenditure

The Group and The Company

in HK$ million	2013	2012
Balance at 1 January	**15**	14
Expenditure during the year	**4**	1
Transfer to investment properties (note 20)	**(15)**	–
Balance at 31 December	**4**	15

28 Investments in Subsidiaries

The Company

in HK$ million	2013	2012
Unlisted shares, at cost	**1,285**	1,260

28 Investments in Subsidiaries *(continued)*

The following list contains details of subsidiaries as at 31 December 2013 which have been consolidated into the Group's accounts.

Name of company	Issued and paid up ordinary share capital/ registered capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by subsidiary	Place of incorporation/ establishment and operation	Principal activities
Subsidiaries held throughout 2013						
Glory Goal Limited	HK$10,000	100%	100%	–	Hong Kong	Investment holding
Hanford Garden Property Management Company Limited	HK$10,000	100%	100%	–	Hong Kong	Property management
MTR (Estates Management) Limited	HK$1,000	100%	100%	–	Hong Kong	Investment holding and property management
MTR (Shanghai Project Management) Limited	HK$1,000	100%	100%	–	Hong Kong	Railway consultancy services, property investment and development
MTR Beijing Line 4 Investment Company Limited	HK$1	100%	100%	–	Hong Kong	Investment holding
MTR Building Works Company Limited	HK$2	100%	100%	–	Hong Kong	General building, maintenance and engineering works
MTR China Commercial Management No. 1 Holdings Limited	HK$1,000	100%	100%	–	Hong Kong	Investment holding
MTR China Consultancy Company Limited	HK$1,000	100%	100%	–	Hong Kong	Railway consultancy services
MTR China Property Holdings Limited	HK$1	100%	100%	–	Hong Kong	Investment holding
MTR China Property Limited	HK$1,000	100%	100%	–	Hong Kong	Property management
MTR Engineering Services Limited	HK$1,000	100%	100%	–	Hong Kong	Engineering and other consultancy services
MTR Hangzhou Line 1 Investment Company Limited	HK$1,000	100%	100%	–	Hong Kong	Investment holding
MTR Information Solutions Company Limited	HK$1,000	100%	100%	–	Hong Kong	License MTR software to MTR's subsidiaries and associates
MTR Property Agency Co. Limited	HK$2	100%	100%	–	Hong Kong	Property broking and administrative services
MTR Property (Beijing) No. 1 Company Limited	HK$1	100%	–	100%	Hong Kong	Property development, investment and management
MTR Property (Shenzhen) Company Limited	HK$1	100%	100%	–	Hong Kong	Property development, investment and management
MTR Property (Tianjin) No. 1 Company Limited	HK$1	100%	–	100%	Hong Kong	Property development, investment and management
MTR Property (Tianjin) No. 2 Company Limited	HK$1	100%	–	100%	Hong Kong	Property development, investment and management
MTR Rail Transport Training (International) Company Limited	HK$2,800,000	100%	100%	–	Hong Kong	Provide rail transport training in Mainland China
MTR Shenyang Holdings Limited	HK$1,000	100%	100%	–	Hong Kong	Investment holding

28 Investments in Subsidiaries *(continued)*

Name of company	Issued and paid up ordinary share capital/ registered capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by subsidiary	Place of incorporation/ establishment and operation	Principal activities
MTR Shenyang Investment Holdings Limited	HK$1	100%	100%	–	Hong Kong	Investment holding
MTR Shenyang Property No.1 Limited	HK$1	100%	–	100%	Hong Kong	Property development, investment and management
MTR Shenzhen Investment Holding Limited	HK$400,000	100%	100%	–	Hong Kong	Investment holding
MTR Telecommunication Company Limited	HK$100,000,000	100%	100%	–	Hong Kong	Mobile telecommunication services
MTR Travel Limited	HK$2,500,000	100%	100%	–	Hong Kong	Travel services
Ngong Ping 360 Limited	HK$2	100%	100%	–	Hong Kong	Operate 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 management
Royal Ascot Management Company Limited	HK$50,000	100%	100%	–	Hong Kong	Property management
Sun Tuen Mun Centre Management Company Limited	HK$50,000	100%	100%	–	Hong Kong	Property management
TraxComm Limited	HK$15,000,000	100%	100%	–	Hong Kong	Fixed telecommunication network and related services
V-Connect Limited	HK$1,000	100%	100%	–	Hong Kong	Mobile telecommunication services
360 Holidays Limited	HK$500,000	100%	–	100%	Hong Kong	Guided tour services
Metro Trains Melbourne Pty. Ltd. *	AUD16,250,000	60% on ordinary shares; 30% on Class A shares	60% on ordinary shares; 30% on Class A shares	–	Australia	Railway operations and maintenance
MTR Corporation (Australia) Pty. Limited	AUD2	100%	100%	–	Australia	Railway related consultancies and businesses
Fasttrack Insurance Ltd.	HK$77,500,000	100%	100%	–	Bermuda	Insurance underwriting
Candiman Limited *	US$1	100%	100%	–	British Virgin Islands	Investment holding
MTR Corporation (C.I.) Limited	US$1,000	100%	100%	–	Cayman Islands/ Hong Kong	Finance
MTR Finance Lease (001) Limited	US$1	100%	100%	–	Cayman Islands/ Hong Kong	Finance
MTR Nordic AB	SEK50,000	100%	–	100%	Sweden	Railway operations and maintenance, property investment and management
MTR Stockholm AB	SEK40,000,000	100%	–	100%	Sweden	Railway operations and maintenance

28 Investments in Subsidiaries *(continued)*

Name of company	Issued and paid up ordinary share capital/ registered capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by subsidiary	Place of incorporation/ establishment and operation	Principal activities
MTR (Beijing) Commercial Facilities Management Co. Ltd.	HK$93,000,000	100%	–	100%	The People's Republic of China	Property leasing and management
MTR (Beijing) Property Services Company Limited	RMB3,000,000	100%	100%	–	The People's Republic of China	Property management
MTR Commercial Management (Beijing) Company Limited *	HK$120,000	100%	–	100%	The People's Republic of China	Business management, business consultancy, commercial facilities strategy and consultancy services, and corporate training management
MTR Consultancy (Beijing) Co. Limited	HK$18,200,000	100%	100%	–	The People's Republic of China	Railway consultancy services, marketing and promotion
MTR Consulting (Shenzhen) Co. Ltd.	HK$1,000,000	100%	100%	–	The People's Republic of China	Railway consultancy services
MTR Corporation (Shenzhen) Limited	HK$2,636,000,000	100%	–	100%	The People's Republic of China	Railway construction, operations and management
MTR Corporation (Shenzhen) Training Centre *	RMB2,000,000	100%	–	100%	The People's Republic of China	Provide rail transport training
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 (Silverlink) Limited	GBP1	100%	–	100%	United Kingdom	Investment holding
MTR Corporation (UK) Limited	GBP29	100%	100%	–	United Kingdom	Investment holding
Subsidiaries established during 2013						
MTR Shenzhen Line 6 Investment Holding (Hong Kong) Limited	HK$10,000	100%	100%	–	Hong Kong	Investment holding
MTR Corporation (Sydney) NRT Pty Limited*	AUD2	100%	–	100%	Australia	Project bidding
Sunstone Resources Pty. Ltd.*	AUD10	60%	–	100%	Australia	Administrative support for railway operations and maintenance
MTR Berlin GmbH*	EUR25,000	100%	–	100%	Germany	Project bidding
MTR Beta AB	SEK50,000	100%	–	100%	Sweden	Railway operations and maintenance, property investment and management
MTR Express AB	SEK20,050,000	100%	–	100%	Sweden	Railway operations and maintenance, property investment and management

28 Investments in Subsidiaries *(continued)*

Name of company	Issued and paid up ordinary share capital/ registered capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by subsidiary	Place of incorporation/ establishment and operation	Principal activities
MTR Corporation (Crossrail) Limited*	GBP1	100%	–	100%	United Kingdom	Project bidding
MTR Corporation (Essex Thameside) Limited*	GBP1	100%	–	100%	United Kingdom	Project bidding
MTR Corporation (Scotrail) Limited*	GBP1	100%	–	100%	United Kingdom	Project bidding
MTR Corporation (TSGN) Limited*	GBP1	100%	–	100%	United Kingdom	Project bidding
MTR Corporation (UK) NRT Limited*	GBP1	100%	–	100%	United Kingdom	Project bidding

* Subsidiaries not audited by KPMG

Shanghai Hong Kong Metro Construction Management Co. Ltd. was wound up during the year ended 31 December 2013.

29 Interests in Associates

The Group

in HK$ million	**2013**	2012
Share of net assets	**5,277**	4,258

The Group and the Company had interests in the following major associates as at 31 December 2013:

Name of company	Issued and paid up ordinary share capital/ registered capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by subsidiary	Place of incorporation/ establishment and operation	Principal activities
Octopus Holdings Limited (note 55B(ii))	HK$42,000,000	57.4%	57.4%	–	Hong Kong	Investment holding
Beijing MTR Corporation Limited	RMB1,380,000,000	49%	–	49%	The People's Republic of China	Metro investment, construction, operations and passenger services
Hangzhou MTR Corporation Limited*	RMB4,540,000,000	49%	–	49%	The People's Republic of China	Railway operations and management
Tianjin TJ – Metro MTR Construction Company Limited*	RMB1,800,000,000	49%	–	49%	The People's Republic of China	Property development, rental and management
Tunnelbanan Teknik Stockholm AB	SEK30,000,000	50%	–	50%	Sweden	Railway maintenance
London Overground Rail Operations Ltd *	GBP2	50%	–	50%	United Kingdom	Railway operations and management

* Companies not audited by KPMG

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

29 Interests in Associates *(continued)*

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

in HK$ million	2013	2012
Assets	**11,964**	10,097
Liabilities	**(6,687)**	(5,839)
Net assets	**5,277**	4,258
Income	**2,888**	2,424
Expenses and others	**(2,647)**	(1,950)
Profit before taxation	**241**	474
Income tax	**(83)**	(18)
Net profit and total comprehensive income for the year	**158**	456

In July 2012, the Company's subsidiary, MTR Hangzhou Line 1 Investment Company Limited, signed a contract with a subsidiary of Hangzhou Metro Group Company Limited to set up a company, Hangzhou MTR Corporation Limited ("Hangzhou MTR"), to invest in and operate Hangzhou Metro Line 1 for a period of 25 years. Hangzhou MTR was set up on 5 September 2012 with a registered capital of RMB4,540 million, of which 49% is borne by the Group. Hangzhou Metro Line 1 commenced revenue operation on 24 November 2012.

In November 2012, Beijing MTR Corporation Limited ("Beijing MTR") initialled a concession agreement with the Beijing Municipal Government for the public-private-partnership project for the investment, construction and operations of Beijing Metro Line 14. Total capital cost of Beijing Metro Line 14 is approximately RMB50 billion. Beijing Infrastructure Investment Corporation Limited, the other investor of Beijing MTR, undertakes the project's civil construction, which represents about 70% of the total capital cost. Beijing MTR is responsible for the electrical and mechanical systems as well as rolling stock with an investment of approximately RMB15 billion or 30% of the total capital cost. The Company will contribute additional equity of approximately RMB2.2 billion to Beijing MTR to support the investment. As part of the concession agreement, Beijing MTR would also undertake the operations and maintenance of Beijing Metro Line 14 for a term of 30 years with opening of the first phase in May 2013 and opening of the remaining phases by 2015. The concession agreement is subject to approval by relevant authorities in the Mainland of China as of 31 December 2013. In accordance with a Management Service Agreement, Beijing MTR is assigned the rights to operate Beijing Metro Line 14 before its full-phased operation. During the year ended 31 December 2013, the Group provided staff secondment, information technology and other support services to Beijing MTR at a total amount of HK$33 million (2012: HK$15 million).

In February 2013, London Overground Rail Operations ("LOROL") was awarded by Transport for London a two-year extension of the franchise to operate and maintain the London Overground in Greater London until 10 November 2016 after completion of the original seven-year franchise period ending on 10 November 2014. During the year ended 31 December 2013, LOROL distributed GBP2 million (HK$25 million) (2012: GBP9 million or HK$108 million) of dividends to the Group and the Group provided management services to LOROL at a total amount of HK$19 million (2012: nil).

In August 2013, Tianjin TJ – Metro MTR Construction Company Limited ("Tianjin TJ – Metro MTR"), a company formed by the Company's subsidiary, MTR Property (Tianjin) No.1 Company Limited (49%), and Tianjin Metro (Group) Company Limited (51%), won the bidding for the land use right for a site at Beiyunhe Station on Tianjin Metro Line 6 at a price of RMB2,075 million. Tianjin TJ – Metro MTR was set up on 15 July 2013 with a registered capital of RMB1,800 million, of which 49% is borne by the Group. In January 2014, Tianjin TJ – Metro MTR Construction Company Limited increased its registered capital to RMB2,273 million and the Group had made a further equity contribution of RMB232 million (HK$294 million) to the associate.

On 30 September 2013, Shenyang MTR Corporation Limited was wound up.

During the year ended 31 December 2013, Tunnelbanan Teknik Stockholm AB provided rolling stock maintenance and other supporting services to MTR Stockholm AB at an amount of SEK563 million (HK$670 million) (2012: SEK535 million or HK$615 million). MTR Stockholm AB leased depots, depot equipment and provided other supporting services to Tunnelbanan Teknik Stockholm AB at a total amount of SEK111 million (HK$132 million) (2012: SEK106 million or HK$122 million).

During the year ended 31 December 2013, the Group incurred HK$129 million (2012: HK$125 million) of expenses for the central clearing services provided by Octopus Cards Limited ("OCL"), a wholly-owned subsidiary of Octopus Holdings Limited. OCL incurred HK$32 million (2012: HK$31 million) of expenses for the load agent and Octopus card issuance and refund services, computer equipment and relating services, project administration services as well as warehouse storage space provided by the Group. During the year, OHL distributed HK$172 million (2012: HK$358 million) of dividends to the Group.

30 Investments in Securities

Investments in securities, representing trading securities held by the overseas insurance underwriting subsidiary, comprise:

The Group

in HK$ million	2013	2012
Trading securities listed overseas, at fair value		
– maturing within 1 year	**113**	57
– maturing after 1 year	**359**	336
	472	393

31 Properties Held for Sale

The Group and The Company

in HK$ million	2013	2012
Properties held for sale		
– at cost	**1,054**	2,967
– at net realisable value	**51**	49
	1,105	3,016

Properties held for sale at 31 December 2013 comprise mainly residential units and car parking spaces at The Riverpark at Che Kung Temple Station and Lake Silver at Wu Kai Sha Station, both along the Ma On Shan Line, and The Palazzo at Fo Tan Station along the East Rail Line. They represent either properties received by the Company as sharing in kind or as part of the profit distribution upon completion of the development. The properties are stated on the balance sheet at the lower of cost, which is deemed to be their fair value upon initial recognition as determined by reference to an independent open market valuation at the date of receipt (notes 2J(iii) and (iv)), and their net realisable value at the balance sheet date. Net realisable value represents the estimated selling price less costs to be incurred in selling the properties. The net realisable values as at 31 December 2013 and 2012 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 are stated net of provision of HK$6 million (2012: HK$8 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.

32 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 and The Company

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
2013							
Derivative Financial Assets							
Gross settled:							
Foreign exchange forwards							
– fair value hedges :	3,491	10					
– inflow			–	–	3,501	–	3,501
– outflow			–	–	(3,491)	–	(3,491)
– cash flow hedges :	102	3					
– inflow			59	30	16	–	105
– outflow			(58)	(29)	(15)	–	(102)
– not qualified for hedge accounting :	124	4					
– inflow			126	15	–	–	141
– outflow			(123)	(14)	–	–	(137)
Cross currency swaps							
– fair value hedges :	1,629	13					
– inflow			25	25	1,281	–	1,331
– outflow			(15)	(19)	(1,284)	–	(1,318)
Net settled:							
Interest rate swaps							
– fair value hedges	2,563	85	56	25	47	–	128
	7,909	115	70	33	55	–	158
Derivative Financial Liabilities							
Gross settled:							
Foreign exchange forwards							
– cash flow hedges :	47	3					
– inflow			37	6	1	–	44
– outflow			(40)	(6)	(1)	–	(47)
– not qualified for hedge accounting :	27	–					
– inflow			9	–	–	–	9
– outflow			(9)	–	–	–	(9)
Cross currency swaps							
– fair value hedges :	5,856	75					
– inflow			5,850	32	371	–	6,253
– outflow			(5,845)	(19)	(459)	–	(6,323)
– cash flow hedges :	1,887	227					
– inflow			51	50	148	2,403	2,652
– outflow			(72)	(72)	(214)	(2,534)	(2,892)
Net settled:							
Interest rate swaps							
– fair value hedges	1,150	65	8	5	(27)	(60)	(74)
– cash flow hedges	1,482	19	(17)	(9)	(2)	–	(28)
	10,449	389	(28)	(13)	(183)	(191)	(415)
Total	18,358						

32 Derivative Financial Assets and Liabilities *(continued)*

A Fair Value *(continued)*

The Group and The Company

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
2012							
Derivative Financial Assets							
Gross settled:							
Foreign exchange forwards							
– cash flow hedges :	147	7					
– inflow			99	34	21	–	154
– outflow			(95)	(32)	(20)	–	(147)
– not qualified for hedge accounting :	157	3					
– inflow			135	10	15	–	160
– outflow			(132)	(11)	(14)	–	(157)
Cross currency swaps							
– fair value hedges :	2,021	33					
– inflow			829	18	816	461	2,124
– outflow			(795)	(10)	(807)	(464)	(2,076)
Net settled:							
Interest rate swaps							
– cash flow hedges	4,063	213	112	64	81	6	263
	6,388	256	153	73	92	3	321
Derivative Financial Liabilities							
Gross settled:							
Foreign exchange forwards							
– fair value hedges :	3,491	17					
– inflow			–	–	3,473	–	3,473
– outflow			–	–	(3,490)	–	(3,490)
– cash flow hedges :	62	1					
– inflow			60	1	–	–	61
– outflow			(61)	(1)	–	–	(62)
– not qualified for hedge accounting :	40	1					
– inflow			40	–	–	–	40
– outflow			(41)	–	–	–	(41)
Cross currency swaps							
– fair value hedges :	5,080	23					
– inflow			27	6,225	406	–	6,658
– outflow			(21)	(6,222)	(432)	–	(6,675)
Net settled:							
Interest rate swaps							
– cash flow hedges	2,212	90	(53)	(18)	(25)	(7)	(103)
	10,885	132	(49)	(15)	(68)	(7)	(139)
Total	17,273						

The Group's derivative financial instruments consist predominantly of interest rate and cross currency swaps, and the relevant interest rate swap curves as of 31 December 2013 and 2012 were used to discount the cash flows of financial instruments. Interest rates used ranged from 0.085% to 2.984% (2012: 0.175% to 1.412%) for Hong Kong dollars, 0.169% to 1.828% (2012: 0.304% to 1.292%) for US dollars, 2.565% to 5.150% (2012: 2.980% to 3.315%) for Australian dollars and 0.111% to 1.429% (2012: nil) for Japanese yen.

32 Derivative Financial Assets and Liabilities *(continued)*

A Fair Value *(continued)*

The table above details the remaining contractual maturities at the balance sheet date of the Group's and the Company's derivative financial liabilities and assets, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the balance sheet date) and the earliest date the Group and the Company can be required to pay. The details of the fair value measurement are disclosed in note 48.

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") 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 Group'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 Group 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 6 to 15 months of projected cash requirements as specified in the Model. The Group 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 balance sheet date of the Group's and the Company's non-derivative financial 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 balance sheet date) and the earliest date the Group and the Company can be required to pay:

The Group

	2013				2012			
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	**6,965**	**3,551**	**604**	**11,120**	3,817	3,854	583	8,254
Amounts repayable within a period of between 2 and 5 years	**8,466**	**2,238**	**3**	**10,707**	7,614	650	–	8,264
Amounts repayable within a period of between 1 and 2 years	**905**	**1,082**	**–**	**1,987**	5,588	418	3	6,009
Amounts repayable within 1 year	**5,682**	**844**	**3**	**6,529**	4,028	1,070	4	5,102
	22,018	**7,715**	**610**	**30,343**	21,047	5,992	590	27,629

32 Derivative Financial Assets and Liabilities *(continued)*

B Financial Risks *(continued)*

The Company

in HK$ million	2013 Capital market instruments	2013 Bank loans and overdrafts	2013 Others	2013 Total	2012 Capital market instruments	2012 Bank loans and overdrafts	2012 Others	2012 Total
Loans and other obligations								
Amounts repayable beyond 5 years	**1,605**	**–**	**604**	**2,209**	498	–	583	1,081
Amounts repayable within a period of between 2 and 5 years	**675**	**512**	**3**	**1,190**	116	133	–	249
Amounts repayable within a period of between 1 and 2 years	**70**	**443**	**–**	**513**	39	191	–	230
Amounts repayable within 1 year	**69**	**247**	**–**	**316**	39	848	–	887
	2,419	**1,202**	**607**	**4,228**	692	1,172	583	2,447

Others represent obligations under lease out/lease back transaction (note 21E).

(ii) Interest Rate Risk

The Group's interest rate risk arises principally from its borrowing activities. 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 by maintaining a level of fixed rate debt between 50% and 80% 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 2013, 58% of the Group's total debt outstanding was denominated either in or converted to fixed interest rate after taking into account outstanding cross currency and interest rate swaps.

The Group's exposure due to its floating rate borrowings is offset by the floating rate interest income it earns from its cash balances, bank deposits and other investment instruments. As at 31 December 2013, the Group had total cash, bank balances and deposits of HK$16,748 million from which it derived floating rate interest income, compared with total floating rate borrowings of HK$10,168 million.

As at 31 December 2013, it is estimated that a 100 basis points increase / 100 basis points decrease in interest rates, with all other variables held constant, would increase/decrease the Group's profit after tax and retained profits by approximately HK$136 million/HK$123 million. Other components of consolidated equity would increase/decrease by approximately HK$72 million/HK$76 million.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the balance sheet date 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 balance sheet date.

In 2012, a similar analysis was performed based on the assumption of a 100 basis points increase / 25 basis points decrease in interest rates, which would increase/decrease the Group's profit after tax and retained profits by approximately HK$84 million/HK$23 million. Other components of consolidated equity would increase/decrease by approximately HK$41 million/HK$11 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 and overseas procurement activities.

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

The Group'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 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.

32 Derivative Financial Assets and Liabilities *(continued)*

B Financial Risks *(continued)*

(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 21E). 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 balance sheet date, 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 balance sheet. As at balance sheet date, 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 34.

33 Stores and Spares

	The Group		The Company	
in HK$ million	**2013**	2012	**2013**	2012
Stores and spares expected to be consumed:				
– within 1 year	**821**	792	**637**	601
– after 1 year	**466**	434	**377**	353
	1,287	1,226	**1,014**	954
Less: Provision for obsolete stock	**(6)**	(6)	**(6)**	(6)
	1,281	1,220	**1,008**	948

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

34 Debtors, Deposits and Payments in Advance

	The Group		The Company	
in HK$ million	**2013**	2012 (Restated)	**2013**	2012 (Restated)
Debtors, deposits and payments in advance relate to:				
– Property development projects	**1,389**	1,849	**1,389**	1,849
– Railway subsidiaries outside of Hong Kong	**1,106**	1,135	**–**	–
– Hong Kong operations and others	**1,126**	1,262	**952**	1,181
	3,621	4,246	**2,341**	3,030

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.

34 Debtors, Deposits and Payments in Advance *(continued)*

(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 telecommunications 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 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 relevant development agreements or sale and purchase agreements.

The ageing of debtors is analysed as follows:

	The Group		The Company	
in HK$ million	**2013**	2012 (Restated)	**2013**	2012 (Restated)
Amounts not yet due	**2,596**	3,374	**1,892**	2,543
Overdue by 30 days	**387**	127	**287**	43
Overdue by 60 days	**50**	15	**20**	4
Overdue by 90 days	**9**	9	**1**	–
Overdue by more than 90 days	**4**	13	**2**	4
Total debtors	**3,046**	3,538	**2,202**	2,594
Deposits and payments in advance	**575**	708	**139**	436
	3,621	4,246	**2,341**	3,030

Included in amounts not yet due as at 31 December 2013 was HK$1,389 million (2012: HK$1,849 million) in respect of property development, comprising receivable on profits distributable based on the terms of the development agreements and sales and purchase agreements, receivable from certain stakeholding funds (note 26C) awaiting finalisation of the respective development accounts as well as other receivables on miscellaneous recoverable expenses.

As at 31 December 2013, all debtors, deposits and payments in advance were expected to be recovered within one year except for amounts relating to deposits and receivables of HK$279 million (2012: HK$132 million) and of HK$37 million (2012: HK$73 million) respectively in the Group and the Company which were expected to be recovered more than one year. The nominal values less impairment losses for bad and doubtful debts are not discounted as it is considered that the effect of discounting would not be significant.

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

	The Group		The Company	
	2013	2012	**2013**	2012
Pound Sterling (in million)	**1**	2	**1**	2
Swiss Franc (in million)	**19**	–	**–**	–
United States Dollars (in million)	**6**	11	**6**	10

35 Amounts Due from Related Parties

in HK$ million	The Group 2013	The Group 2012	The Company 2013	The Company 2012
Amounts due from:				
– HKSAR Government	**600**	698	**600**	698
– KCRC	**9**	14	**9**	14
– associates	**45**	73	**45**	47
– subsidiaries (net of impairment losses)	**–**	–	**10,229**	7,396
	654	785	**10,883**	8,155

As at 31 December 2013, the amount due from HKSAR Government 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 West Island Line, South Island Line (East) 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, reimbursable costs in respect of West Rail property developments (note 26D), as well as receivables and retention for other entrustment and maintenance works.

The amount due from KCRC 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 amounts due from associates of the Group as at 31 December 2013 included the outstanding balance of loan to Tunnelbanan Teknik Stockholm AB ("TBT") amounting to HK$12 million (SEK11 million) (2012: HK$36 million or SEK30 million). During the year ended 31 December 2013, the Group received HK$24 million (SEK19 million) of loan repayment from TBT. The outstanding balance of loan to TBT of HK$12 million (SEK11 million) as at 31 December 2013 bears an interest rate of 4% per annum above the 3-month Stockholm Inter Bank Offer Rate published by the Riksbank with repayment due by 1 November 2017.

All contract retentions on the entrusted works mentioned above were due for release within one year. Except the outstanding balance of loan to TBT that was expected to be settled in 2017, all other amounts due from the HKSAR Government and other related parties were expected to be received within 24 months. The nominal values of amounts due from the HKSAR Government and other related parties are considered not significantly different from their fair values.

36 Cash, Bank Balances and Deposits

in HK$ million	The Group 2013	The Group 2012	The Company 2013	The Company 2012
Deposits with banks and other financial institutions	**15,835**	16,979	**15,392**	16,284
Cash at banks and on hand	**1,462**	1,685	**286**	332
Cash, bank balances and deposits	**17,297**	18,664	**15,678**	16,616
Less: Bank deposits with more than three months to maturity when placed or pledged (note 37D)	**(10,041)**	(13,504)	**(9,673)**	(13,250)
Less: Bank overdrafts (note 37A)	**(47)**	(55)	**(47)**	(55)
Cash and cash equivalents in the cash flow statement	**7,209**	5,105	**5,958**	3,311

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

	The Group 2013	The Group 2012	The Company 2013	The Company 2012
Australian Dollars (in million)	**14**	7	**14**	7
Euros (in million)	**10**	4	**10**	4
Japanese Yen (in million)	**28**	16	**28**	16
New Taiwan Dollars (in million)	**14**	10	**14**	10
Pound Sterling (in million)	**3**	5	**3**	5
Renminbi (in million)	**538**	72	**534**	71
United States Dollars (in million)	**793**	1,052	**792**	1,047

37 Loans and Other Obligations

A By Type

The Group

in HK$ million	2013 Carrying amount	2013 Fair value	2013 Repayable amount	2012 Carrying amount	2012 Fair value	2012 Repayable amount
Capital market instruments						
Listed or publicly traded:						
Debt issuance programme notes due during 2014 to 2043 (2012: due during 2014 to 2017)	**9,622**	**9,728**	**9,628**	8,986	9,365	8,930
Unlisted:						
Debt issuance programme notes due during 2014 to 2043 (2012: due during 2013 to 2022)	**8,869**	**9,444**	**9,019**	9,982	11,008	9,808
Total capital market instruments	**18,491**	**19,172**	**18,647**	18,968	20,373	18,738
Bank loans	**5,593**	**5,593**	**5,593**	3,887	3,887	3,887
Others	**380**	**439**	**380**	367	493	367
Loans and others	**24,464**	**25,204**	**24,620**	23,222	24,753	22,992
Bank overdrafts	**47**	**47**	**47**	55	55	55
Short-term loans	**–**	**–**	**–**	300	300	300
Total	**24,511**	**25,251**	**24,667**	23,577	25,108	23,347

The Company

in HK$ million	2013 Carrying amount	2013 Fair value	2013 Repayable amount	2012 Carrying amount	2012 Fair value	2012 Repayable amount
Capital market instruments						
Listed or publicly traded:						
Debt issuance programme notes due in 2043	**664**	**663**	**698**	–	–	–
Unlisted:						
Debt issuance programme notes due in 2018 (2012: due in 2018)	**832**	**980**	**857**	456	661	465
Total capital market instruments	**1,496**	**1,643**	**1,555**	456	661	465
Bank loans	**1,120**	**1,120**	**1,120**	810	810	810
Others	**377**	**437**	**377**	359	486	359
Loans and others	**2,993**	**3,200**	**3,052**	1,625	1,957	1,634
Bank overdrafts	**47**	**47**	**47**	55	55	55
Short-term loans	**–**	**–**	**–**	300	300	300
Total	**3,040**	**3,247**	**3,099**	1,980	2,312	1,989

Others include non-defeased obligations under lease out/lease back transaction (note 21E).

As at 31 December 2013, the Group had a number of uncommitted facilities with undrawn amounts totalling HK$16,042 million (2012: HK$7,662 million), comprising a debt issuance programme and short-term bank loan facilities.

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 48.

37 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	
	2013	2012	**2013**	2012
Australian Dollars (in million)	**150**	50	**–**	–
Japanese Yen (in million)	**15,000**	–	**–**	–
United States Dollars (in million)	**1,300**	1,310	**90**	–
Renminbi (in million)	**–**	1,000	**–**	–

The Company

	Before hedging activities		After hedging activities	
	2013	2012	**2013**	2012
Japanese Yen (in million)	**5,000**	–	**–**	–
United States Dollars (in million)	**150**	60	**90**	–

B By Repayment Terms

The Group

	2013				2012			
in HK$ million	Capital market instruments	Bank loans and overdrafts	Others	Total	Capital market instruments	Bank loans and overdrafts	Others	Total
Long-term loans and others								
Amounts repayable beyond 5 years	**5,385**	**3,042**	**377**	**8,804**	3,315	3,001	359	6,675
Amounts repayable within a period of between 2 and 5 years	**7,599**	**1,458**	**–**	**9,057**	6,885	432	–	7,317
Amounts repayable within a period of between 1 and 2 years	**500**	**722**	**–**	**1,222**	5,163	232	4	5,399
Amounts repayable within 1 year	**5,163**	**371**	**3**	**5,537**	3,375	222	4	3,601
	18,647	**5,593**	**380**	**24,620**	18,738	3,887	367	22,992
Bank overdrafts	**–**	**47**	**–**	**47**	–	55	–	55
Short-term loans	**–**	**–**	**–**	**–**	–	300	–	300
	18,647	**5,640**	**380**	**24,667**	18,738	4,242	367	23,347
Less: Unamortised discount/premium/ finance charges outstanding	**(37)**	**–**	**–**	**(37)**	(2)	–	–	(2)
Adjustment due to fair value change of financial instruments	**(119)**	**–**	**–**	**(119)**	232	–	–	232
Total carrying amount of debt	**18,491**	**5,640**	**380**	**24,511**	18,968	4,242	367	23,577

37 Loans and Other Obligations *(continued)*

B By Repayment Terms *(continued)*

The Company

in HK$ million	2013 Capital market instruments	2013 Bank loans and overdrafts	2013 Others	2013 Total	2012 Capital market instruments	2012 Bank loans and overdrafts	2012 Others	2012 Total
Long-term loans and others								
Amounts repayable beyond 5 years	**1,090**	**–**	**377**	**1,467**	465	–	359	824
Amounts repayable within a period of between 2 and 5 years	**465**	**500**	**–**	**965**	–	432	–	432
Amounts repayable within a period of between 1 and 2 years	**–**	**431**	**–**	**431**	–	189	–	189
Amounts repayable within 1 year	**–**	**189**	**–**	**189**	–	189	–	189
	1,555	**1,120**	**377**	**3,052**	465	810	359	1,634
Bank overdrafts	**–**	**47**	**–**	**47**	–	55	–	55
Short-term loans	**–**	**–**	**–**	**–**	–	300	–	300
	1,555	**1,167**	**377**	**3,099**	465	1,165	359	1,989
Less: Unamortised discount/premium/ finance charges outstanding	**(37)**	**–**	**–**	**(37)**	(4)	–	–	(4)
Adjustment due to fair value change of financial instruments	**(22)**	**–**	**–**	**(22)**	(5)	–	–	(5)
Total carrying amount of debt	**1,496**	**1,167**	**377**	**3,040**	456	1,165	359	1,980

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 2013 and 2012 comprise:

The Group

in HK$ million	2013 Principal amount	2013 Net consideration received	2012 Principal amount	2012 Net consideration received
Debt issuance programme notes	**3,285**	**3,248**	5,985	5,998

The Company

in HK$ million	2013 Principal amount	2013 Net consideration received	2012 Principal amount	2012 Net consideration received
Debt issuance programme notes	**1,091**	**1,057**	–	–

During the year ended 31 December 2013, notes of HK$700 million, AUD100 million (or HK$700 million) and JPY10 billion (or HK$794 million) were issued in Hong Kong by a subsidiary, MTR Corporation (C.I.) Limited while notes of USD90 million (or HK$698 million) and JPY5 billion (HK$393 million) were issued by the Company. The notes issued by the subsidiary are unconditionally and irrevocably guaranteed by the Company, and are direct, unsecured, unconditional and unsubordinated to other unsecured and unsubordinated obligations of MTR Corporation (C.I.) Limited. The obligations of the Company under the guarantee are direct, unsecured, unconditional, and unsubordinated to other unsecured and unsubordinated obligations of the Company.

During the year ended 31 December 2013, the Group redeemed HK$3,336 million of its unlisted debt securities (2012: HK$102 million). During the years ended 31 December 2013 and 2012, the Group did not redeem any of its listed securities.

37 Loans and Other Obligations *(continued)*

D 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 2013 and 2012.

(ii) As at 31 December 2013, 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 RMB4,000 million (2012: RMB4,000 million) bank loan facility granted to it.

(iii) As at 31 December 2013, MTR Property Development (Shenzhen) Company Limited, an indirectly wholly owned subsidiary of the Company in the Mainland of China, has mortgaged its land use rights and pledged its accounts receivable in relation to the property development project at Shenzhen Metro Longhua Line Depot Site Phase 1 as security for a RMB1,950 million bank loan facility granted to it.

(iv) As at 31 December 2013, Metro Trains Melbourne Pty. Ltd., a 60% owned subsidiary of the Company in Australia, has pledged its bank deposits of the same amount as security for an AUD5 million (2012: AUD9 million) bank loan facility granted to it.

Apart from the 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 2013.

38 Creditors and Accrued Charges

	The Group		The Company	
in HK$ million	**2013**	2012 (Restated)	**2013**	2012 (Restated)
Creditors and accrued charges				
– West Island Line Project	**486**	731	**486**	731
– South Island Line (East) Project	**473**	637	**473**	637
– Kwun Tong Line Extension Project	**260**	244	**260**	244
– Shenzhen Metro Longhua Line Project	**599**	754	**–**	–
– Hong Kong property development projects	**603**	643	**603**	643
– Mainland of China property development project	**144**	1,988	**–**	–
– Railway subsidiaries outside of Hong Kong	**1,424**	1,307	**–**	–
– Hong Kong operations and others	**9,784**	8,750	**9,087**	8,140
Gross amount due to customers for contract works	**–**	15	**–**	15
Government grant on West Island Line Project un-utilised	**20**	1,461	**20**	1,461
	13,793	16,530	**10,929**	11,871

In respect of the contract works to which the gross amount due to customers relates, the aggregate amount of contract costs incurred plus recognised profits less recognised losses as at 31 December 2013 was HK$279 million (2012: HK$294 million).

The analysis of creditors by due dates is as follows:

	The Group		The Company	
in HK$ million	**2013**	2012 (Restated)	**2013**	2012 (Restated)
Due within 30 days or on demand	**4,820**	5,418	**2,567**	1,244
Due after 30 days but within 60 days	**2,031**	2,326	**1,973**	2,276
Due after 60 days but within 90 days	**534**	535	**501**	525
Due after 90 days	**2,351**	2,126	**2,048**	1,899
	9,736	10,405	**7,089**	5,944
Rental and other refundable deposits	**2,657**	2,738	**2,580**	2,672
Accrued employee benefits	**1,380**	1,926	**1,240**	1,794
Government grant on West Island Line Project un-utilised	**20**	1,461	**20**	1,461
	13,793	16,530	**10,929**	11,871

Creditors and accrued charges were expected to be settled within one year except for HK$3,896 million (2012: HK$4,301 million (restated)) in the Group and HK$3,657 million (2012: HK$4,153 million (restated)) in the Company which were expected to be settled after one year. The amounts due after one year are mainly rental deposits received from investment property and station kiosk tenants and advance income received from telecommunication service operators, majority of which are due to be repaid within three years. The Group considers the effect of discounting these deposits would be immaterial.

38 Creditors and Accrued Charges *(continued)*

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:

	The Group		The Company	
	2013	2012	**2013**	2012
Australian Dollars (in million)	**3**	2	**1**	1
Euros (in million)	**6**	4	**6**	4
Japanese Yen (in million)	**115**	75	**91**	75
Pound Sterling (in million)	**1**	2	**1**	2
Renminbi (in million)	**–**	1,578	**–**	–
United States Dollars (in million)	**18**	19	**2**	1

39 Contract Retentions

The Group

in HK$ million	Due for release within 12 months	Due for release after 12 months	Total
2013			
Hong Kong railway extension projects	**81**	**560**	**641**
Hong Kong businesses	**96**	**97**	**193**
Mainland of China and international subsidiaries	**149**	**3**	**152**
	326	**660**	**986**
2012			
Hong Kong railway extension projects	22	573	595
Hong Kong businesses	73	72	145
Mainland of China and international subsidiaries	205	3	208
	300	648	948

The Company

in HK$ million	Due for release within 12 months	Due for release after 12 months	Total
2013			
Hong Kong railway extension projects	**81**	**560**	**641**
Hong Kong businesses	**96**	**97**	**193**
	177	**657**	**834**
2012			
Hong Kong railway extension projects	22	573	595
Hong Kong businesses	73	71	144
	95	644	739

The effect of discounting these contract retentions is considered immaterial as these amounts are substantially due to be released within 24 months.

40 Amounts Due to Related Parties

	The Group		The Company	
in HK$ million	**2013**	2012	**2013**	2012
Amounts due to:				
– HKSAR Government	**4**	27	**4**	27
– KCRC	**1,371**	1,008	**1,371**	1,008
– an associate	**13**	26	**–**	–
– subsidiaries	**–**	–	**17,636**	17,726
	1,388	1,061	**19,011**	18,761

The amount due to the HKSAR Government relates to land administrative fees in relation to railway extensions.

The amount due to KCRC as at 31 December 2013 relates to mandatory payments and related interest payable to KCRC in respect of the property development site along the Light Rail as well as 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 an associate relates to rolling stock maintenance service fees payable to Tunnelbanan Teknik Stockholm AB and is expected to be settled within 12 months.

The amount due to the Company's subsidiaries included HK$17,231 million (2012: HK$17,468 million) due to MTR Corporation (C.I.) Limited in respect of the proceeds from and accrued interest on bonds and notes issued by the subsidiary and on-lent to the Company for its general corporate purposes with specified repayment dates and interest rates (note 37C). The amount is stated at fair value. The remaining balance of the amount due to subsidiaries is non-interest bearing and has not been discounted as it does not have any fixed repayment terms and is not material. Out of the total amount due to subsidiaries as at 31 December 2013, HK$11,887 million (2012: HK$15,080 million) is expected to be settled after one year.

41 Obligations under Service Concession

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

	The Group		The Company	
in HK$ million	**2013**	2012	**2013**	2012
Balance as at 1 January	**10,690**	10,724	**10,520**	10,557
Add: Net increase in interest payable	**3**	2	**–**	–
Less: Amount repaid/payable during the year	**(40)**	(37)	**(40)**	(37)
Exchange difference	**5**	1	**–**	–
Balance as at 31 December	**10,658**	10,690	**10,480**	10,520

The outstanding balances as at 31 December 2013 and 2012 are repayable as follows:

The Group

	2013			2012		
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	**10,415**	**19,127**	**29,542**	10,462	19,825	30,287
Amounts repayable within a period of between 2 and 5 years	**156**	**2,113**	**2,269**	146	2,123	2,269
Amounts repayable within a period of between 1 and 2 years	**45**	**711**	**756**	42	714	756
Amounts repayable within 1 year	**42**	**714**	**756**	40	716	756
	10,658	**22,665**	**33,323**	10,690	23,378	34,068

41 Obligations under Service Concession *(continued)*

The Company

in HK$ million	2013 Present value of payment obligations	2013 Interest expense relating to future periods	2013 Total payment obligations	2012 Present value of payment obligations	2012 Interest expense relating to future periods	2012 Total payment obligations
Amounts repayable beyond 5 years	**10,237**	**18,950**	**29,187**	10,292	19,645	29,937
Amounts repayable within a period of between 2 and 5 years	**156**	**2,094**	**2,250**	146	2,104	2,250
Amounts repayable within a period of between 1 and 2 years	**45**	**705**	**750**	42	708	750
Amounts repayable within 1 year	**42**	**708**	**750**	40	710	750
	10,480	**22,457**	**32,937**	10,520	23,167	33,687

42 Loan from Holders of Non-controlling Interests

Loan from holders of non-controlling interests represents that portion of total shareholder loan of AUD48.75 million (HK$337 million) granted to Metro Trains Melbourne Pty. Ltd. ("MTM") by the holders of its non-controlling interests. The loan carries an interest rate of 7.5% (2012: 7.5%) per annum and is repayable at the discretion of MTM or on the expiry of the operation and maintenance franchise on 29 November 2017, whichever is earlier.

43 Deferred Income

Movements of deferred income are as follows:

The Group

in HK$ million	Balance at 1 January	Amount received during the year	Offset against development in progress	Amount recognised in profit and loss account	Exchange difference	Balance at 31 December
2013						
Deferred income on property development (note 26B)	**60**	**–**	**(10)**	**–**	**–**	**50**
Deferred income on transfer of assets from customers	**49**	**64**	**–**	**(17)**	**–**	**96**
Deferred income on government subsidy for Shenzhen Metro Longhua Line operation	**379**	**661**	**–**	**(572)**	**9**	**477**
	488	**725**	**(10)**	**(589)**	**9**	**623**
2012						
Deferred income on property development (note 26B)	68	–	(8)	–	–	60
Deferred income on transfer of assets from customers	47	12	–	(10)	–	49
Deferred income on government subsidy for Shenzhen Metro Longhua Line operation	288	637	–	(555)	9	379
	403	649	(8)	(565)	9	488

The Company

in HK$ million	Balance at 1 January	Amount received during the year	Offset against development in progress	Amount recognised in profit and loss account	Exchange difference	Balance at 31 December
2013						
Deferred income on property development (note 26B)	**60**	**–**	**(10)**	**–**	**–**	**50**
2012						
Deferred income on property development (note 26B)	68	–	(8)	–	–	60

44 Income Tax in the Balance Sheets

A Current taxation in the consolidated balance sheet comprises provision for Hong Kong Profits Tax for the Company and certain subsidiaries for the year ended 31 December 2013, chargeable at Hong Kong Profits Tax Rate at 16.5% (2012: 16.5%) and after netting off provisional tax paid, and Mainland of China and overseas tax chargeable at the appropriate current rates of taxation ruling in the relevant countries.

	The Group		The Company	
in HK$ million	**2013**	2012	**2013**	2012
Provision for Hong Kong Profits Tax for the year (note 14)	**1,118**	1,469	**1,090**	1,452
Hong Kong Provisional Profits Tax paid	**(830)**	(1,113)	**(815)**	(1,100)
	288	356	**275**	352
Balance relating to Mainland of China and overseas tax	**61**	50	**–**	–
	349	406	**275**	352

B Deferred Tax Assets and Liabilities Recognised

The components of deferred tax assets and liabilities recognised in the balance sheet 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
2013						
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/(credited) to consolidated profit and loss account	**506**	**–**	**19**	**–**	**(5)**	**520**
Charged/(credited) to reserves	**–**	**58**	**136**	**(12)**	**–**	**182**
Exchange difference	**(5)**	**–**	**(3)**	**–**	**–**	**(8)**
Balance as at 31 December 2013	**9,833**	**498**	**(30)**	**(24)**	**(17)**	**10,260**
2012 (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, as restated	9,332	440	(182)	(12)	(12)	9,566

44 Income Tax in the Balance Sheets *(continued)*

B Deferred Tax Assets and Liabilities Recognised *(continued)*

The Company

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	Total
2013					
Balance as at 1 January 2013, as previously reported	**9,270**	**440**	**81**	**(12)**	**9,779**
Effect of adoption of Revised HKAS 19	**–**	**–**	**(270)**	**–**	**(270)**
Balance as at 1 January 2013, as restated	**9,270**	**440**	**(189)**	**(12)**	**9,509**
Charged to profit and loss account	**508**	**–**	**19**	**–**	**527**
Charged/(credited) to reserves	**–**	**58**	**136**	**(12)**	**182**
Balance as at 31 December 2013	**9,778**	**498**	**(34)**	**(24)**	**10,218**
2012 (Restated)					
Balance as at 1 January 2012, as previously reported	8,925	373	141	(17)	9,422
Effect of adoption of Revised HKAS 19	–	–	(505)	–	(505)
Balance as at 1 January 2012, as restated	8,925	373	(364)	(17)	8,917
Charged/(credited) to profit and loss account, as restated	345	–	(91)	–	254
Charged to reserves	–	67	266	5	338
Balance as at 31 December 2012, as restated	9,270	440	(189)	(12)	9,509

in HK$ million	The Group 2013	The Group 2012 (Restated)	The Company 2013	The Company 2012 (Restated)
Net deferred tax assets recognised in the balance sheet	**(29)**	(21)	**–**	–
Net deferred tax liabilities recognised in the balance sheet	**10,289**	9,587	**10,218**	9,509
	10,260	9,566	**10,218**	9,509

C The Group has not recognised deferred tax assets in respect of some of its subsidiaries' cumulative tax losses of HK$227 million (2012: HK$254 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.

45 Share Capital and Capital Management

A Share Capital, Share Premium and Capital Reserve

	2013 Number of shares	2013 HK$ million	2012 Number of shares	2012 HK$ million
Authorised:				
Ordinary shares of HK$1.00 each	**6,500,000,000**	**6,500**	6,500,000,000	6,500
Ordinary shares, issued and fully paid:				
At 1 January	**5,793,196,650**	**5,793**	5,784,871,250	5,785
Shares issued under share option schemes	**5,345,000**	**5**	8,325,400	8
At 31 December	**5,798,541,650**	**5,798**	5,793,196,650	5,793
Share premium		**11,456**		11,300
Capital reserve		**27,188**		27,188
		44,442		44,281

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.

45 Share Capital and Capital Management *(continued)*

A Share Capital, Share Premium and Capital Reserve *(continued)*

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

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

	Number of shares	Weighted average exercise price	Proceeds received / Transfer from employee share-based capital reserve: Share capital account	Share premium account	Total
		HK$	HK$ million	HK$ million	HK$ million
Employee share options exercised					
– New Joiners Share Option Scheme	**213,000**	**15.97**	**–**	**4**	**4**
– 2007 Share Option Scheme	**5,132,000**	**25.86**	**5**	**152**	**157**
	5,345,000		**5**	**156**	**161**

An analysis of the Company's outstanding share options as at 31 December 2013 are disclosed in note 49.

B 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 4,434,552,207 shares as at 31 December 2013, representing 76.5% 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 loan 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% (restated) at 31 December 2007 to 11.0% (restated) at 31 December 2012 and increased slightly to 11.8% at 31 December 2013.

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. Metro Trains Melbourne Pty. Ltd. is required to maintain total shareholders' funds at a specified amount in accordance with the franchise agreement. MTR Stockholm AB, MTR Beta AB, MTR Express AB and MTR Nordic AB 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 2013, 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.

46 Other Reserves

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:

in HK$ million	Fixed assets revaluation reserve	Hedging reserve	Employee share-based capital reserve	Retained profits	Total other reserves
2013					
Balance as at 1 January 2013, as previously reported	**2,227**	**(67)**	**219**	**95,616**	**97,995**
Effect of adoption of Revised HKAS 19	**–**	**–**	**–**	**(1,369)**	**(1,369)**
Balance as at 1 January 2013, as restated	**2,227**	**(67)**	**219**	**94,247**	**96,626**
Profit for the year	**–**	**–**	**–**	**12,702**	**12,702**
Other comprehensive income for the year	**298**	**(61)**	**–**	**686**	**923**
Total comprehensive income for the year	**298**	**(61)**	**–**	**13,388**	**13,625**
2012 final dividend	**–**	**–**	**–**	**(3,130)**	**(3,130)**
2013 interim dividend	**–**	**–**	**–**	**(1,450)**	**(1,450)**
Employee share-based payments	**–**	**–**	**48**	**–**	**48**
Employee share options exercised	**–**	**–**	**(25)**	**–**	**(25)**
Employee share options forfeited	**–**	**–**	**(2)**	**2**	**–**
Balance as at 31 December 2013	**2,525**	**(128)**	**240**	**103,057**	**105,694**
2012 (Restated)					
Balance as at 1 January 2012, as previously reported	1,888	(90)	201	86,800	88,799
Effect of adoption of Revised HKAS 19	–	–	–	(2,556)	(2,556)
Balance as at 1 January 2012, as restated	1,888	(90)	201	84,244	86,243
Profit for the year, as restated	–	–	–	13,052	13,052
Other comprehensive income for the year, as restated	339	23	–	1,344	1,706
Total comprehensive income for the year, as restated	339	23	–	14,396	14,758
2011 final dividend	–	–	–	(2,951)	(2,951)
2012 interim dividend	–	–	–	(1,447)	(1,447)
Employee share-based payments	–	–	56	–	56
Employee share options exercised	–	–	(33)	–	(33)
Employee share options forfeited	–	–	(5)	5	–
Balance as at 31 December 2012, restated	2,227	(67)	219	94,247	96,626

The fixed assets revaluation reserve is used to deal with the surpluses or deficits arising from the revaluation of self-occupied land and 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 2S(ii).

The employee share-based capital reserve comprises the fair value of share options granted which are yet to be exercised, as explained in the accounting policy under note 2T(iii). The amount will either be transferred to the share premium account when the option is exercised, or be released directly to retained profits if the option is lapsed or forfeited.

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 2BB.

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$42,005 million (2012: HK$37,691 million) included in retained profits are non-distributable as they do not constitute realised profits. As at 31 December 2013, the Company considers that the total amount of reserves available for distribution to equity shareholders amounted to HK$60,924 million (2012: HK$56,489 million as restated).

Included in the Group's retained profits as at 31 December 2013 is an amount of HK$617 million (2012: HK$656 million), being the retained profits attributable to the associates.

47 Cash Generated from Operations

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

in HK$ million	2013	2012 (Restated)
Operating profit before Hong Kong property developments, depreciation, amortisation and variable annual payment	**14,399**	12,895
Adjustments for:		
– Loss on disposal of fixed assets	**37**	29
– Amortisation of deferred income from transfers of assets from customers	**(17)**	(10)
– Decrease/(increase) in fair value of derivative instruments	**85**	(11)
– Unrealised loss/(gain) on revaluation of investment in securities	**2**	(6)
– Employee share-based payment expenses	**52**	59
– Exchange (gain)/loss	**(7)**	7
Operating profit from recurrent businesses before working capital changes	**14,551**	12,963
Decrease in debtors, deposits and payments in advance	**36**	149
Increase in stores and spares	**(88)**	(81)
Increase in creditors and accrued charges	**947**	1,670
Cash generated from operations	**15,446**	14,701

48 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

During the year ended 31 December 2013, 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 land and 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 land and buildings were revalued as at 31 December 2013 and 2012 by an independent firm of surveyors, Jones Lang LaSalle Limited, who have among their staff Members of the Hong Kong Institute of 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 land and buildings is determined 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 2013 was 4.25% - 7.50% with a weighted average of 5.4%. The fair value measurement is negatively correlated to the market yield rate.

The movements of investment properties during the year ended 31 December 2013 are shown in note 20. All the fair value adjustment related to investment properties held as at 31 December 2013 and was recognised under investment property revaluation in the consolidated profit and loss account.

48 Fair Value Measurement *(continued)*

B Fair Value Measurements of Financial Instruments

(i) 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:

The Group

in HK$ million	Fair value at 31 December 2013	Fair value measurements as at 31 December 2013	
		Level 1	Level 2
Financial Assets			
Derivative financial assets			
– Foreign exchange forwards	**17**	**–**	**17**
– Cross currency swaps	**13**	**–**	**13**
– Interest rate swaps	**85**	**–**	**85**
	115	**–**	**115**
Investments in securities	**472**	**472**	**–**
	587	**472**	**115**
Financial Liabilities			
Derivative financial liabilities			
– Foreign exchange forwards	**3**	**–**	**3**
– Cross currency swaps	**302**	**–**	**302**
– Interest rate swaps	**84**	**–**	**84**
	389	**–**	**389**

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

48 Fair Value Measurement *(continued)*

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

The Company

in HK$ million	Fair value at 31 December 2013	Fair value measurements as at 31 December 2013	
		Level 1	Level 2
Financial Assets			
Derivative financial assets			
– Foreign exchange forwards	**17**	**–**	**17**
– Cross currency swaps	**13**	**–**	**13**
– Interest rate swaps	**85**	**–**	**85**
	115	**–**	**115**
Financial Liabilities			
Derivative financial liabilities			
– Foreign exchange forwards	**3**	**–**	**3**
– Cross currency swaps	**302**	**–**	**302**
– Interest rate swaps	**84**	**–**	**84**
	389	**–**	**389**

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
Financial Liabilities			
Derivative financial liabilities			
– Foreign exchange forwards	19	–	19
– Cross currency swaps	23	–	23
– Interest rate swaps	90	–	90
	132	–	132

There are no Level 3 measurements of financial instruments. During the year ended 31 December 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.

48 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 and the Company's financial assets and liabilities not carried at fair value are not materially different from their fair values as at 31 December 2013 and 2012 except for capital market instruments and other obligations, for which their carrying amounts and fair values are disclosed below:

The Group

	At 31 December 2013		At 31 December 2012	
in HK$ million	Carrying amount	Fair value	Carrying amount	Fair value
Capital market instruments	**18,491**	**19,172**	18,968	20,373
Other obligations	**380**	**439**	367	493

The Company

	At 31 December 2013		At 31 December 2012	
in HK$ million	Carrying amount	Fair value	Carrying amount	Fair value
Capital market instruments	**1,496**	**1,643**	456	661
Other obligations	**377**	**437**	359	486

The above fair value measurement is categorised as Level 2. The discount 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 balance sheet date. Closing exchange rates at the balance sheet date were used to convert value in foreign currency to local currency.

49 Share-based Payments

A Equity-settled Share-based Payments

The Group granted equity-settled share options to its Members of the Executive Directorate and certain employees under share option schemes. As at 31 December 2013, the Company maintained two share option schemes, namely, the New Joiners Share Option Scheme and the 2007 Share Option Scheme. Details of the schemes are as follows:

(i) New Joiners Share Option Scheme

In May 2002, the New Joiners Share Option Scheme (the "New Option Scheme") was adopted at the 2002 Annual General Meeting to provide share options to new members of the top and senior management of the Company who did not participate in the Pre-IPO Option Scheme (which expired and the options were lapsed in 2010). Under the Rules of the New Option Scheme, a maximum of 5,056,431 shares, which represent 0.1% of the issued share capital of the Company as at 31 December 2013, may be issued pursuant to the exercise of options granted under the New Option Scheme. Options granted will be evenly vested in respect of their underlying shares over a period of three years from the date on which the relevant option is offered. The exercise price of any option granted under the New 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. The New Option Scheme expired on 16 May 2007 and no options can be granted under this Scheme on or after that date.

The following table summarises the outstanding share options granted under the New Option Scheme since inception:

Date of grant	Number of share options	Exercise price HK$	Exercisable period
15 May 2006	22,000	20.66	on or prior to 25 April 2016
5 October 2006	62,500	19.732	on or prior to 29 September 2016

49 Share-based Payments *(continued)*

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

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

	2013		2012	
	Number of share options	Weighted average exercise price HK$	Number of share options	Weighted average exercise price HK$
Outstanding at 1 January	**297,500**	**17.107**	329,000	17.358
Exercised during the year	**(213,000)**	**15.970**	(31,500)	19.732
Outstanding at 31 December	**84,500**	**19.974**	297,500	17.107
Exercisable at 31 December	**84,500**	**19.974**	297,500	17.107

The weighted average closing price in respect of the share options exercised during the year was HK$28.100 (2012: HK$30.050).

Share options outstanding at 31 December 2013 had the following exercise prices and remaining contractual lives:

	2013		2012	
Exercise price	Number of share options	Remaining contractual life years	Number of share options	Remaining contractual life years
HK$15.97	**–**	**–**	213,000	3
HK$20.66	**22,000**	**2**	22,000	3
HK$19.732	**62,500**	**3**	62,500	4
	84,500		297,500	

(ii) 2007 Share Option Scheme

Following the expiry of 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, which represent 4.8% of the issued share capital of the Company as at 31 December 2013, 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.

49 Share-based Payments *(continued)*

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

As at 31 December 2013, the following awards of share options were offered to Members of the Executive Directorate and selected employees of the Company under the 2007 Option Scheme:

Awards of share options	Date of offer	Number of share options offered and accepted	Date of acceptance
2008 Award	10 December 2007	8,273,000	11 December 2007 to 7 January 2008
	26 March 2008	2,749,000	28 March 2008 to 23 April 2008
2009 Award	8 December 2008	12,712,000	8 December 2008 to 30 December 2008
	12 June 2009	345,000	18 June 2009 to 9 July 2009
2010 Award	8 December 2009	15,718,000	9 December 2009 to 22 December 2009
	28 June 2010	355,000	21 July 2010
2011 Award	16 December 2010	15,546,500	16 December 2010 to 23 December 2010
	27 June 2011	215,000	7 July 2011
2012 Award	23 March 2012	16,917,000	30 March 2012
2013 Award	26 April 2013	21,605,000	6 May 2013
	25 October 2013	384,500	1 November 2013

The following table summarises the outstanding share options as at 31 December 2013 granted under the 2007 Option Scheme since inception:

Date of grant	Number of share options	Exercise price HK$	Exercisable period
2008 Award			
12 December 2007	913,000	27.60	on or prior to 10 December 2014
13 December 2007	1,316,000	27.60	on or prior to 10 December 2014
14 December 2007	550,000	27.60	on or prior to 10 December 2014
15 December 2007	88,000	27.60	on or prior to 10 December 2014
17 December 2007	623,000	27.60	on or prior to 10 December 2014
18 December 2007	190,000	27.60	on or prior to 10 December 2014
19 December 2007	80,000	27.60	on or prior to 10 December 2014
20 December 2007	190,000	27.60	on or prior to 10 December 2014
24 December 2007	118,000	27.60	on or prior to 10 December 2014
28 December 2007	35,000	27.60	on or prior to 10 December 2014
31 December 2007	130,000	27.60	on or prior to 10 December 2014
2 January 2008	35,000	27.60	on or prior to 10 December 2014
3 January 2008	40,000	27.60	on or prior to 10 December 2014
28 March 2008	139,000	26.52	on or prior to 26 March 2015
31 March 2008	192,000	26.52	on or prior to 26 March 2015
1 April 2008	164,000	26.52	on or prior to 26 March 2015
2 April 2008	219,000	26.52	on or prior to 26 March 2015
3 April 2008	75,000	26.52	on or prior to 26 March 2015
4 April 2008	23,000	26.52	on or prior to 26 March 2015
5 April 2008	17,000	26.52	on or prior to 26 March 2015
7 April 2008	236,000	26.52	on or prior to 26 March 2015
8 April 2008	69,000	26.52	on or prior to 26 March 2015
9 April 2008	43,000	26.52	on or prior to 26 March 2015
10 April 2008	58,000	26.52	on or prior to 26 March 2015
11 April 2008	89,000	26.52	on or prior to 26 March 2015
12 April 2008	31,000	26.52	on or prior to 26 March 2015
14 April 2008	40,000	26.52	on or prior to 26 March 2015
15 April 2008	34,000	26.52	on or prior to 26 March 2015
16 April 2008	40,000	26.52	on or prior to 26 March 2015
17 April 2008	107,000	26.52	on or prior to 26 March 2015
18 April 2008	15,000	26.52	on or prior to 26 March 2015
19 April 2008	25,000	26.52	on or prior to 26 March 2015
21 April 2008	66,000	26.52	on or prior to 26 March 2015
23 April 2008	19,000	26.52	on or prior to 26 March 2015

49 Share-based Payments *(continued)*

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

Date of grant	Number of share options	Exercise price HK$	Exercisable period
2009 Award			
8 December 2008	20,000	18.30	on or prior to 8 December 2015
9 December 2008	257,000	18.30	on or prior to 8 December 2015
10 December 2008	891,400	18.30	on or prior to 8 December 2015
11 December 2008	1,047,500	18.30	on or prior to 8 December 2015
12 December 2008	701,000	18.30	on or prior to 8 December 2015
13 December 2008	40,500	18.30	on or prior to 8 December 2015
14 December 2008	45,000	18.30	on or prior to 8 December 2015
15 December 2008	468,200	18.30	on or prior to 8 December 2015
16 December 2008	289,000	18.30	on or prior to 8 December 2015
17 December 2008	260,500	18.30	on or prior to 8 December 2015
18 December 2008	126,500	18.30	on or prior to 8 December 2015
19 December 2008	63,000	18.30	on or prior to 8 December 2015
20 December 2008	19,000	18.30	on or prior to 8 December 2015
22 December 2008	233,500	18.30	on or prior to 8 December 2015
23 December 2008	118,000	18.30	on or prior to 8 December 2015
24 December 2008	182,000	18.30	on or prior to 8 December 2015
25 December 2008	45,000	18.30	on or prior to 8 December 2015
29 December 2008	59,000	18.30	on or prior to 8 December 2015
18 June 2009	130,000	24.50	on or prior to 12 June 2016
6 July 2009	45,000	24.50	on or prior to 12 June 2016
2010 Award			
9 December 2009	520,000	26.85	on or prior to 8 December 2016
10 December 2009	1,839,000	26.85	on or prior to 8 December 2016
11 December 2009	1,783,000	26.85	on or prior to 8 December 2016
12 December 2009	385,000	26.85	on or prior to 8 December 2016
13 December 2009	12,500	26.85	on or prior to 8 December 2016
14 December 2009	1,891,500	26.85	on or prior to 8 December 2016
15 December 2009	1,957,500	26.85	on or prior to 8 December 2016
16 December 2009	941,500	26.85	on or prior to 8 December 2016
17 December 2009	615,000	26.85	on or prior to 8 December 2016
18 December 2009	280,000	26.85	on or prior to 8 December 2016
19 December 2009	70,000	26.85	on or prior to 8 December 2016
20 December 2009	75,000	26.85	on or prior to 8 December 2016
21 December 2009	329,000	26.85	on or prior to 8 December 2016
22 December 2009	172,000	26.85	on or prior to 8 December 2016
21 July 2010	175,000	27.73	on or prior to 28 June 2017
2011 Award			
16 December 2010	194,000	28.84	on or prior to 16 December 2017
17 December 2010	4,798,000	28.84	on or prior to 16 December 2017
18 December 2010	673,000	28.84	on or prior to 16 December 2017
19 December 2010	98,000	28.84	on or prior to 16 December 2017
20 December 2010	3,863,000	28.84	on or prior to 16 December 2017
21 December 2010	2,477,000	28.84	on or prior to 16 December 2017
22 December 2010	913,000	28.84	on or prior to 16 December 2017
23 December 2010	119,000	28.84	on or prior to 16 December 2017
7 July 2011	163,000	26.96	on or prior to 27 June 2018
2012 Award			
30 March 2012	15,950,500	27.48	on or prior to 23 March 2019
2013 Award			
6 May 2013	21,272,000	31.40	on or prior to 26 April 2020
1 November 2013	384,500	29.87	on or prior to 25 October 2020

49 Share-based Payments *(continued)*

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

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

	2013		2012	
	Number of share options	**Weighted average exercise price HK$**	Number of share options	Weighted average exercise price HK$
Outstanding at 1 January	**57,087,100**	**26.720**	49,843,500	25.756
Granted during the year	**21,989,500**	**31.373**	16,917,000	27.480
Exercised during the year	**(5,132,000)**	**25.861**	(8,293,900)	22.366
Forfeited during the year	**(943,500)**	**29.153**	(1,379,500)	27.403
Outstanding at 31 December	**73,001,100**	**28.151**	57,087,100	26.720
Exercisable at 31 December	**40,518,600**	**26.610**	35,425,100	26.074

The weighted average closing price in respect of the share options exercised during the year was HK$31.006 (2012: HK$29.186).

Share options outstanding at 31 December 2013 had the following exercise prices and remaining contractual lives:

	2013		2012	
Exercise price	**Number of share options**	**Remaining contractual life years**	Number of share options	Remaining contractual life years
HK$27.60	**4,308,000**	**1**	5,229,000	2
HK$26.52	**1,701,000**	**1**	1,960,000	2
HK$18.30	**4,866,100**	**2**	5,787,600	3
HK$24.50	**175,000**	**2**	175,000	3
HK$26.85	**10,871,000**	**3**	12,525,000	4
HK$27.73	**175,000**	**3**	190,000	4
HK$28.84	**13,135,000**	**4**	14,333,000	5
HK$26.96	**163,000**	**4**	215,000	5
HK$27.48	**15,950,500**	**5**	16,672,500	6
HK$31.40	**21,272,000**	**6**	–	–
HK$29.87	**384,500**	**7**	–	–
	73,001,100		57,087,100	

According to the Black-Scholes pricing model, the fair values of options granted during the year ended 31 December 2013 were as follows:

		Inputs into the Black-Scholes pricing model					
Date of grant	Fair value of options granted HK$	Share price immediately before grant date HK$	Exercise price HK$	Expected volatility	Expected life years	Risk-free interest rate %	Expected dividend per share HK$
6 May 2013	**2.33**	**31.95**	**31.40**	**0.15**	**3.5**	**0.21**	**0.79**
1 November 2013	**3.04**	**30.05**	**29.87**	**0.14**	**3.5**	**0.69**	**0.79**

When computing fair values of the options granted, expected volatility was determined by calculating the historical volatility of the Group's share price over the previous 3.5 years and the expected life adopted was assumed to be 3.5 years after granting of the options, with expected dividends based on historical dividends. In addition, vesting terms under the grants have been taken into account whilst no market conditions associated with the share option grants have been considered. Changes in the subjective input assumptions could materially affect the fair value estimate.

(iii) During the year ended 31 December 2013, the equity-settled share-based payments recognised as an expense amounted to HK$47.5 million (2012: HK$55.9 million), all relating to the 2007 Share Option Scheme.

49 Share-based Payments *(continued)*

B Cash-settled Share-based Payments

Jay H Walder is entitled to an equivalent value in cash of 300,000 shares in the Company following 30 June 2014, being the date on which his initial term of office is expected to expire (35% of which was deemed to have been earned at 31 October 2013 subject to certain conditions specified in his employment contract). On 30 August 2013, Jay H Walder was re-appointed as the Chief Executive Officer until 31 August 2015. He is entitled to an equivalent value in cash of 230,000 shares in the Company upon completion of his extended term of office on 31 August 2015. For the year ended 31 December 2013, HK$4.3 million (2012: HK$3.5 million) was recorded as share-based payment expense. The fair value of the outstanding entitlement is calculated based on the closing price of the Company's shares at year-end. As at 31 December 2013, the fair value of these shares was HK$29.35 per share.

50 Retirement Schemes

The Group operates a number of retirement schemes in Hong Kong, 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 operates five retirement schemes under trust in Hong Kong, including the MTR Corporation Limited Retirement Scheme (the "MTR Retirement Scheme"), the MTR Corporation Limited Retention Bonus Scheme (the "MTR RBS"), 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 (Chapter 426 of the Laws of Hong Kong) ("ORSO") and has been granted with an MPF Exemption by the Mandatory Provident Fund Schemes Authority ("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, 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 with reference to an actuarial valuation carried out by an independent actuarial consulting firm. As at 31 December 2013, the total membership was 4,661 (2012: 4,832). In 2013, members contributed HK$73 million (2012: HK$72 million) and the Company contributed HK$125 million (2012: HK$184 million) to the MTR Retirement Scheme. The net asset value of the MTR Retirement Scheme excluding the portion attributable to members' voluntary contribution as at 31 December 2013 was HK$9,031 million (2012: HK$8,709 million).

The actuarial valuations as at 31 December 2012 and 2013 to determine the accounting obligations in accordance with Revised HKAS 19, *Employee benefits*, were carried out by an independent actuarial consulting firm, Towers Watson, using the Projected Unit Credit Method. The results of the valuation are shown in note 51.

The actuarial valuations as at 31 December 2012 and 2013 to determine the cash funding requirements were also carried out by Towers Watson using the Attained Age Method. The principal actuarial assumptions used for the valuation as at 31 December 2013 included a long-term rate of investment return net of salary increases of 1.9% (2012: 1.9%) per annum, together with appropriate allowances for expected rates of mortality, turnover, redundancy and retirement. Towers Watson confirmed that, as at the valuation date of 31 December 2013:

(a) the MTR Retirement Scheme was solvent, with assets more than adequate to cover the aggregate value of members' vested benefits had all members left the MTR Retirement Scheme; and

(b) on the assumption that the MTR Retirement Scheme continued in force, the value of assets was more than sufficient to cover the aggregate past service liability, with a funding level of 107.6% (2012: 109.1%).

(ii) MTR RBS

The MTR RBS is a defined benefit scheme registered under the ORSO and is administered in accordance with the Trust Deed and Rules by the Board of Trustees, comprising management and an independent non-employer trustee. It is a top-up scheme to supplement the MTR Retirement Scheme for employees who are classified by the Company as staff working on designated projects and who are not on gratuity terms. It provides eligible members with benefits only in the event of redundancy for service accrued up to 31 December 2002, offset by any benefits payable from the MTR Retirement Scheme and other applicable schemes. Members are not required to contribute to the MTR RBS while the Company's contributions are determined with reference to an actuarial valuation carried out by an independent actuarial consulting firm. As at 31 December 2013, MTR RBS had 5 members who were eligible for benefits (2012: 31).

During 2012 and 2013, the Company was not required to make any contribution to the MTR RBS. The net asset value of the MTR RBS as at 31 December 2013 was HK$0.5 million (2012: HK$0.5 million).

The actuarial valuations as at 31 December 2012 and 2013 to determine the accounting obligations in accordance with Revised HKAS 19, *Employee benefits*, were carried out by Towers Watson using the Projected Unit Credit Method. The results of the valuations are shown in note 51.

50 Retirement Schemes *(continued)*

A Retirement Schemes Operated by the Company in Hong Kong *(continued)*

In accordance with the terms of the Trust Deed and Rules and pursuant to the actuarial valuation conducted as at 30 June 2012 by Towers Watson using the Attained Age Method, past service surplus of HK$11 million was refunded to the Company during the year ended 31 December 2012. The actuary confirmed that the level of assets remained in the MTR RBS after such refund would be sufficient to support the expected future benefit payments from the MTR RBS.

The actuarial valuations as at 31 December 2012 and 2013 to determine the cash funding requirements were carried out by Towers Watson using the Attained Age Method. The principal actuarial assumptions used for the valuation as at 31 December 2013 included an expected weighted rate of investment return net of salary increases, of approximately -3.5% (2012: -4.0%) per annum, together with appropriate allowance for expected rates of mortality and redundancy. Towers Watson confirmed that, as at the valuation date of 31 December 2013:

(a) due to the nature of the MTR RBS which provides for benefits only on redundancy, there was no aggregate vested liability, and thus the MTR RBS was technically solvent; and

(b) on the assumption that the MTR RBS continued in force, the value of assets was more than sufficient to cover the aggregate past service liability.

(iii) MTR Provident Fund Scheme

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

As at 31 December 2013, the total number of employees participating in the MTR Provident Fund Scheme was 7,569 (2012: 7,075). In 2013, total members' contributions were HK$76 million (2012: HK$64 million) and total contribution from the Company was HK$209 million (2012: HK$181 million). The net asset value as at 31 December 2013 was HK$4,577 million (2012: HK$4,098 million).

(iv) 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 MPF Ordinance. 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 2013, the total number of employees of the Company participating in the MTR MPF Scheme was 4,993 (2012: 4,253). In 2013, total members' contributions were HK$36 million (2012: HK$26 million) and total contribution from the Company was HK$40 million (2012: HK$30 million).

(v) 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 MPF Ordinance.

As at 31 December 2013, the total number of employees of the Company participating in the KCRC MPF Scheme was 738 (2012: 791). In 2013, total members' contributions were HK$6 million (2012: HK$6 million) and total contribution from the Company was HK$7 million (2012: HK$7 million).

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.

(i) Defined Benefit Plan

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 2013, total number of the Group's employees participating in this scheme was 763 (2012: 792). In 2013, total members' contributions were HK$36 million (2012: HK$37 million) and total contribution from the Group was HK$46 million (2012: HK$52 million).

(ii) Defined Contribution Plans

Except for the defined benefit plan stated in note 50B(i), all other retirement schemes to cover employees in overseas offices or in subsidiaries in Hong Kong, the Mainland of China or overseas are defined contribution schemes. For Hong Kong employees, these schemes are registered under the MPF Ordinance in Hong Kong. For the Mainland of China or overseas employees, these schemes are operated in accordance with the respective local laws and regulations. As at 31 December 2013, the total number of employees of the Group participating in these schemes was 8,116 (2012: 7,968). In 2013, total members' contributions were HK$110 million (2012: HK$114 million) and total contribution from the Group was HK$304 million (2012: HK$268 million).

51 Defined Benefit Retirement Plans

The Company makes contributions to and recognises defined benefit liabilities in respect of two defined benefit plans that provide employees with benefits upon retirement or termination of services for other reasons (note 50). These two defined benefit plans expose the Group to actuarial risks, such as interest rate, salary increase and investment risks. The information about these two plans is summarised as below:

A The amounts recognised in the consolidated balance sheet are as follows:

The Group and The Company

	2013			2012 (Restated)		
in HK$ million	MTR Retirement Scheme	MTR RBS	Total	MTR Retirement Scheme	MTR RBS	Total
Present value of defined benefit obligations	**(9,839)**	**–**	**(9,839)**	(10,122)	–	(10,122)
Fair value of plan assets	**9,031**	**1**	**9,032**	8,709	1	8,710
Net (liabilities)/assets	**(808)**	**1**	**(807)**	(1,413)	1	(1,412)

A portion of the above assets/(liabilities) is expected to be recovered/paid after more than one year. However, it is not practicable to segregate this amount from the amounts to be recovered/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$118 million in contribution to the MTR Retirement Scheme in 2014.

B Plan assets consist of the following:

The Group and The Company

	2013			2012		
in HK$ million	MTR Retirement Scheme	MTR RBS	Total	MTR Retirement Scheme	MTR RBS	Total
Equity securities						
– Financial institutions	**803**	**–**	**803**	663	–	663
– Non-financial institutions	**4,025**	**–**	**4,025**	4,169	–	4,169
	4,828	**–**	**4,828**	4,832	–	4,832
Bonds						
– Government	**1,810**	**–**	**1,810**	1,880	–	1,880
– Non-government	**2,248**	**–**	**2,248**	1,702	–	1,702
	4,058	**–**	**4,058**	3,582	–	3,582
Cash	**256**	**1**	**257**	392	1	393
	9,142	**1**	**9,143**	8,806	1	8,807
Voluntary units	**(111)**	**–**	**(111)**	(97)	–	(97)
	9,031	**1**	**9,032**	8,709	1	8,710

The plan assets include no investment in the ordinary shares and the debt securities of the Company in 2012 and 2013. 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 strategic asset allocation of the MTR Retirement Scheme is 50% in equities and 50% in bonds.

51 Defined Benefit Retirement Plans *(continued)*

C Movements in the Present Value of the Defined Benefit Obligations

The Group and The Company

in HK$ million	2013 MTR Retirement Scheme	2013 MTR RBS	2013 Total	2012 MTR Retirement Scheme	2012 MTR RBS	2012 Total
At 1 January	**10,122**	**–**	**10,122**	10,669	–	10,669
Remeasurements:						
– Actuarial losses arising from changes in liability experience	**229**	**–**	**229**	102	–	102
– Actuarial losses arising from changes in demographic assumptions	**–**	**–**	**–**	1	–	1
– Actuarial gains arising from changes in financial assumptions	**(641)**	**–**	**(641)**	(895)	–	(895)
	(412)	**–**	**(412)**	(792)	–	(792)
Members' contributions paid to the Schemes	**73**	**–**	**73**	72	–	72
Benefits paid by the Schemes	**(511)**	**–**	**(511)**	(409)	–	(409)
Current service cost	**303**	**–**	**303**	303	–	303
Interest cost	**264**	**–**	**264**	279	–	279
At 31 December	**9,839**	**–**	**9,839**	10,122	–	10,122

The weighted average duration of the present value of the defined benefit obligations is 8.0 years (2012: 8.6 years).

D Movements in Plan Assets

The Group and The Company

in HK$ million	2013 MTR Retirement Scheme	2013 MTR RBS	2013 Total	2012 MTR Retirement Scheme	2012 MTR RBS	2012 Total
At 1 January	**8,709**	**1**	**8,710**	7,794	12	7,806
Company's contributions paid to the Schemes	**125**	**–**	**125**	184	–	184
Members' contributions paid to the Schemes	**73**	**–**	**73**	72	–	72
Benefits paid by the Schemes	**(511)**	**–**	**(511)**	(409)	–	(409)
Surplus refunded to the Company	**–**	**–**	**–**	–	(11)	(11)
Administrative expenses paid from plan assets	**(5)**	**–**	**(5)**	(6)	–	(6)
Interest income	**230**	**–**	**230**	256	–	256
Return on plan assets, excluding interest income	**410**	**–**	**410**	818	–	818
At 31 December	**9,031**	**1**	**9,032**	8,709	1	8,710

51 Defined Benefit Retirement Plans *(continued)*

E Expenses recognised in the profit and loss and other comprehensive income are as follows:

The Group and The Company

in HK$ million	2013 MTR Retirement Scheme	2013 MTR RBS	2013 Total	2012 (Restated) MTR Retirement Scheme	2012 (Restated) MTR RBS	2012 (Restated) Total
Current service cost	**303**	**–**	**303**	303	–	303
Net interest on net defined benefit liability	**34**	**–**	**34**	23	–	23
Administrative expenses paid from plan assets	**5**	**–**	**5**	6	–	6
	342	**–**	**342**	332	–	332
Less: Amount capitalised	**(54)**	**–**	**(54)**	(24)	–	(24)
Net amount recognised in profit or loss	**288**	**–**	**288**	308	–	308
Actuarial gains	**(412)**	**–**	**(412)**	(792)	–	(792)
Return on plan assets, excluding interest income	**(410)**	**–**	**(410)**	(818)	–	(818)
Amount recognised in other comprehensive income	**(822)**	**–**	**(822)**	(1,610)	–	(1,610)

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

F The significant actuarial assumptions (expressed as weighted average) and sensitivity analysis are as follows:

	2013 MTR Retirement Scheme	2013 MTR RBS	2012 MTR Retirement Scheme	2012 MTR RBS
Discount rate	**3.5%**	**0.9%**	2.7%	1.0%
Future salary increases	**4.1%**	**5.0%**	4.1%	5.5%
Unit value increase of MTR Retirement Scheme	**6.0%**	**6.0%**	6.0%	6.0%

The below analysis shows how the present value of the defined benefit obligations as at 31 December 2013 would have increased/(decreased) as a result of 0.25% change in the significant actuarial assumptions:

	MTR Retirement Scheme Increase in 0.25% HK$ million	MTR Retirement Scheme Decrease in 0.25% HK$ million	MTR RBS Increase in 0.25% HK$ million	MTR RBS Decrease in 0.25% HK$ million
Discount rate	**(188)**	**194**	**–**	**–**
Future salary increases	**51**	**(41)**	**–**	**–**
Unit value increase of MTR Retirement Scheme	**148**	**(134)**	**–**	**–**

52 Interests in Joint Operations

The Group has the following joint operations in respect of its awarded property development projects in Hong Kong as at 31 December 2013:

Location/Development Package	Land Use	Total Gross Floor Area (sq.m.)	Actual or Expected Date of Completion of Construction Works *
Hong Kong Station	Office/Retail/Hotel	415,894	Completed by phases from 1998–2005
Kowloon Station			
Package One	Residential	147,547	Completed in 2000
Package Two	Residential	210,319	Completed by phases from 2002–2003
Package Three	Residential/Cross Border Bus Terminus	105,113	Completed in 2005
Package Four	Residential	128,845	Completed in 2003
Package Five, Six and Seven	Residential/Office/Retail/Hotel/ Service Apartment/Kindergarten	504,345	Completed by phases from 2006–2010
Olympic Station			
Package One	Residential/Office/Retail/Indoor Sports Hall	309,069	Completed in 2000
Package Two	Residential/Retail/Market	268,650	Completed in 2001
Package Three	Residential/Kindergarten	104,452	Completed in 2006
Tsing Yi Station	Residential/Retail/Kindergarten	292,795	Completed in 1999
Tung Chung Station			
Package One	Residential/Office/Retail/Hotel/Kindergarten	361,531	Completed by phases from 1999–2005
Package Two	Residential/Retail/Kindergarten	255,949	Completed by phases from 2002–2008
Package Three	Residential/Retail/Wet Market/Kindergarten	413,154	Completed by phases from 2002–2008
Hang Hau Station	Residential/Retail	142,152	Completed in 2004
Tiu Keng Leng Station	Residential/Retail	253,765	Completed by phases from 2006–2007
Tseung Kwan O Station			
Area 55b	Residential/Retail	96,797	Completed in 2006
Area 57a	Residential/Retail	29,642	Completed in 2005
Area 56	Residential/Hotel/Retail/Office	163,130	Completed by phases from 2011–2012
Tseung Kwan O Area 86			
Package One	Residential/Retail/Residential Care Home for the Elderly	139,840	Completed in 2008
Package Two	Residential/Kindergarten	310,496	Completed by phases from 2010–2012
Package Three	Residential/Kindergarten	129,544	2014
Choi Hung Park-and-Ride	Residential/Retail	21,538	Completed in 2005
Che Kung Temple Station	Residential/Retail/Kindergarten	90,655	Completed in 2012
Austin Station			
Sites C & D	Residential	119,116	2014

* Completion based on issuance of occupation permit

The Group's assets held in relation to these joint operations include various site foundation works and related staff and overhead costs, land costs, acquisition cost of development rights and interest expense. These are set off against any payments received from developers in relation to that development package, and the balance is shown on the balance sheet either as property development in progress (note 26) or deferred income (note 43) as the case may be. As at 31 December 2013, total property development in progress in respect of these joint operations was HK$4,654 million (2012: HK$4,581 million) and total deferred income was HK$50 million (2012: HK$60 million).

During the year ended 31 December 2013, profits attributable to joint operations of HK$1,464 million (2012: HK$3,189 million) were recognised (note 11).

52 Interests in Joint Operations *(continued)*

In connection with the Rail Merger, the Company entered into agreements with KCRC relating to the property development projects on the following three awarded sites:

Location/Development Package	Land Use	Total Gross Floor Area (sq.m.)	Actual or Expected Date of Completion of Construction Works *
Fo Tan Station			
Ho Tung Lau	Residential/Retail	122,900	Completed in 2008
Wu Kai Sha Station	Residential/Retail/Kindergarten	172,650	Completed in 2009
Tai Wai Maintenance Centre	Residential	313,955	Completed by phases from 2010–2011

* Completion based on issuance of occupation permit

Under these agreements, the Company was appointed as KCRC's agent to exercise the rights and to perform the obligations of KCRC as stipulated in the agreements. The Company received a right to share the net surplus from the sale of these property development projects.

53 Material Related Party Transactions

The Financial Secretary Incorporated, 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 these accounts.

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

Major related party transactions entered into by the Group 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 ("OA") which laid down the detailed provisions for the design, construction, maintenance and operation of the railway under the franchise. Pursuant to the terms of the OA, the Company's franchise will be extended for further periods of 50 years upon satisfying certain capital expenditure requirements at no payment and without any change in the terms of the franchise. The OA also provides that upon extension of the franchise and subject to the HKSAR Government's prevailing land policy on the date on which the franchise is extended, certain consequential amendments will be made to agreements between the HKSAR Government and the Company in relation to the mass transit railway, including the renewal of various railway running line leases and land leases at nominal cost. With the Rail Merger, the OA was replaced with effect from 2 December 2007 by a new operating agreement, details of which are set out in note 53C below.

B On 14 July 2000, the Company received a comfort letter from the 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 ("new OA"), which is based on the then existing OA referred to in note 53A 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"). The new OA detailed the design, construction, maintenance and operation of the railways under the expanded franchise. Pursuant to the terms of the new OA and the MTR Ordinance, the Company's franchise may be extended for further periods of 50 years (from the date of the extension) upon satisfying certain capital expenditure requirements at no payment and without any change in the terms of the franchise. The new OA also sets out a framework for the award of new railway projects in Hong Kong and introduces a fare adjustment mechanism which is subject to review periodically. A detailed description of the new OA is contained in the circular to shareholders in respect of the Extraordinary General Meeting convened to approve the Rail Merger.

53 Material Related Party Transactions *(continued)*

D Other than the new OA described in note 53C above, the Company also entered into the following principal agreements with KCRC and the HKSAR Government in connection with the Rail Merger:

(i) Merger Framework Agreement, which was entered into on 9 August 2007, contains provisions for the overall structure and certain specific aspects of the Rail Merger;

(ii) Service Concession Agreement, which was entered into on 9 August 2007, contains provisions in relation to the grant and operation of a service concession and licence granted by KCRC to the Company;

(iii) Sale and Purchase Agreement, which was entered into on 9 August 2007, sets out the terms pursuant to which the Company acquired certain assets and contracts from KCRC;

(iv) West Rail Agency Agreement, which was entered into on 9 August 2007, sets out the terms on which the Company was appointed to act as KCRC's agent to exercise certain rights and perform certain obligations relating to specified development sites along the West Rail;

(v) Property Package Agreements, which were entered into on 9 August 2007, set out the arrangements in respect of the acquisition of the property package; and

(vi) US Cross Border Lease ("CBL") Assumption Agreements, which were entered into with KCRC on 30 November 2007, and US CBL Allocation Agreement, which was entered into with KCRC and KCRC's subsidiaries on 2 December 2007, set out the terms on which the Company has undertaken to perform, on a joint and several basis with KCRC, the obligations of KCRC under the respective CBLs, and delineate and allocate the obligations and responsibility for risks relating to the CBLs. Details of the commitment of the Company in connection with these agreements are specified in note 54E.

The above transactions are considered to be related party transactions and also constitute 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" of the Report of the Members of the Board.

E The Company entered into project agreements with the HKSAR Government for the design, construction, financing and operation of new railway extensions and, where applicable, the granting of land for commercial and residential property developments along these railway extensions. Project agreements on railway extensions that are still under construction or the property developments in respect of which have not been completed in the current year include:

(i) TKE Project Agreement in respect of the Tseung Kwan O Extension, which was signed on 4 November 1998 and includes the granting of property development rights at four sites along the extension;

(ii) Preliminary Project Agreement, which was signed on 6 February 2008, and Project Agreement, which was signed on 13 July 2009 in respect of the West Island Line. 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 (note 24A). Such transactions are considered to be related party transactions and also constitute continuing connected transactions as defined under the Listing Rules;

(iii) Project Agreement in respect of the SIL(E), which was signed on 17 May 2011 and includes the granting of property development rights at a site in Wong Chuk Hang (note 24B); and

(iv) Project Agreement in respect of the KTE, which was signed on 17 May 2011 and includes the granting of property development rights at a site in Ho Man Tin (note 24C).

F The Company entered into entrustment agreements with the HKSAR Government for the design, site investigation, procurement activities, construction, testing and commissioning of new railway extensions, pursuant to which the HKSAR Government funds the costs of such activities while the Company is paid a fee for its project management service. Entrustment agreements on railway extensions that are still under construction in the year ended 31 December 2013 include:

(i) The XRL Preliminary Entrustment Agreement, which was signed on 24 November 2008, and the XRL Entrustment Agreement, which was signed on 26 January 2010, in respect of the Guangzhou-Shenzhen-Hong Kong Express Rail Link ("XRL"). The two agreements together entrust the Company with the project management of activities leading to the completion of XRL. Detailed description of the agreements and the amount of project management fees recognised for the year ended 31 December 2013 are provided in note 25A; and

(ii) The SCL Preliminary Entrustment Agreement, which was signed on 24 November 2008, the SCL Advance Works Entrustment Agreement, which was signed on 17 May 2011, and the SCL Entrustment Agreement, which was signed on 29 May 2012, in respect of the Shatin to Central Link ("SCL"). The three agreements together entrust the Company with the project management of activities leading to the completion of SCL. Detailed description of the agreements and the amount of project management fees recognised for the year ended 31 December 2013 are provided in note 25B.

The above transactions are considered to be related party transactions and also constitute continuing connected transactions as defined under the Listing Rules.

53 Material Related Party Transactions *(continued)*

G On 19 November 2003, the Company entered into a project agreement with the HKSAR Government to develop the Tung Chung Cable Car system together with a Theme Village at Ngong Ping on the Lantau Island under a franchise granted by the HKSAR Government for a period of 30 years commencing 24 December 2003. The project was completed with operation commencement on 18 September 2006.

H In connection with the construction of various railway projects, certain essential project works are embedded within the infrastructure works to be undertaken by the HKSAR Government or certain of its related parties. These works have been entrusted to the HKSAR Government and its related parties and are payable on an actual cost basis according to architectural certifications. The HKSAR Government and certain of its related parties, on the other hand, have entered into entrustment agreements with the Company for the construction of various other infrastructure works that are also reimbursable according to actual costs certified. Details of the amounts receivable and the amounts paid and payable as at 31 December 2013 are provided in notes 35 and 40 respectively.

I In connection with certain property developments along the railway system, the Company has been granted land lots by and paid land premiums to the HKSAR Government in accordance with the terms of the development agreements in respect of the following sites:

Property development site	Land grant acceptance date	Total land premium HK$ million	Land premium settlement date
Site F of Tseung Kwan O Town Lot No. 70, Area 86	24 January 2005	2,319	14 April 2005
Sha Tin Town Lot No. 519	23 April 2008	3,662	14 July 2008
Kowloon Inland Lot No. 11126 and 11129 (Sites C and D, Canton Road, Kowloon)	12 March 2010	11,708	7 June 2010

In addition to the above, the Company paid 10% of the land premium of an investment property development site at Tsing Yi Town Lot No. 135 amounting to HK$126 million on 4 November 2013. The remaining 90% of the land premium of HK$1,136 million had been accrued in 2013 with settlement on 14 January 2014.

J On 16 November 2011, the Company and KCRC entered into an Outsourcing Agreement pursuant to which the Company will provide certain administrative and financial activities to KCRC. The Agreement has no specific term but can be terminated by either party giving notice period specified in the Agreement. The fee payable pursuant to the Agreement and the scope of services are to be reviewed on an annual basis and amended upon the mutual agreement of the parties.

K On 5 July 2013, the Company renewed the maintenance agreement with the Hong Kong Airport Authority in respect of the automatic people mover system serving the Hong Kong International Airport upon the expiry of the previous five-year agreement. The renewed agreement covers a period of seven years effective from 6 July 2013. In respect of the service provided, HK$48 million was recognised as consultancy income during the year ended 31 December 2013 (2012: HK$50 million). Such transactions are considered to be related party transactions and also constitute continuing connected transactions as defined under the Listing Rules.

L Other than those stated in notes 53A to 53K, 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 29, 35 and 40.

M The Group has paid remuneration to Members of the Board and the Executive Directorate. Details of these transactions are described in note 10A. In addition, Members of the Executive Directorate were granted share options under the Company's New Joiners Share Option Scheme and 2007 Share Option Scheme. Details of the terms of these options are disclosed in note 10B 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	2013	2012
Short-term employee benefits	**65.4**	59.2
Post-employment benefits	**4.6**	3.5
Equity compensation benefits	**8.5**	8.1
	78.5	70.8

The above remuneration is included in staff costs and related expenses disclosed in note 9A.

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

in HK$ million	2013	2012
Cash dividends paid	**3,503**	3,370

54 Commitments

A Capital Commitments

(i) Outstanding capital commitments as at 31 December 2013 not provided for in the accounts were as follows:

The Group

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
2013					
Authorised but not yet contracted for	**3,017**	**–**	**89**	**3**	**3,109**
Authorised and contracted for	**5,602**	**4,439**	**500**	**2,363**	**12,904**
	8,619	**4,439**	**589**	**2,366**	**16,013**
2012					
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

The Company

in HK$ million	Hong Kong transport, station commercial and other businesses	Hong Kong railway extension projects	Hong Kong property rental and development	Total
2013				
Authorised but not yet contracted for	**2,958**	**–**	**88**	**3,046**
Authorised and contracted for	**5,561**	**4,439**	**500**	**10,500**
	8,519	**4,439**	**588**	**13,546**
2012				
Authorised but not yet contracted for	2,601	–	808	3,409
Authorised and contracted for	3,723	8,706	278	12,707
	6,324	8,706	1,086	16,116

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

The Group

in HK$ million	Improvement and enhancement works	Acquisition of property, plant and equipment	Additional concession property	Total
2013				
Authorised but not yet contracted for	**1,432**	**247**	**1,338**	**3,017**
Authorised and contracted for	**529**	**199**	**4,874**	**5,602**
	1,961	**446**	**6,212**	**8,619**
2012				
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

54 Commitments *(continued)*

A Capital Commitments *(continued)*

The Company

in HK$ million	Improvement and enhancement works	Acquisition of property, plant and equipment	Additional concession property	Total
2013				
Authorised but not yet contracted for	**1,373**	**247**	**1,338**	**2,958**
Authorised and contracted for	**488**	**199**	**4,874**	**5,561**
	1,861	**446**	**6,212**	**8,519**
2012				
Authorised but not yet contracted for	1,313	205	1,083	2,601
Authorised and contracted for	475	320	2,928	3,723
	1,788	525	4,011	6,324

B Operating Lease Commitments

The Group had operating leases on office buildings, staff quarters, bus depot and a shopping centre in Beijing as at 31 December 2013. The total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group		The Company	
in HK$ million	**2013**	2012	**2013**	2012
Payable within one year	**143**	141	**13**	14
Payable after one but within five years	**12**	15	**10**	11
	155	156	**23**	25

The above includes HK$3 million (2012: HK$3 million) in respect of the office accommodation and quarters for construction project staff, majority of which are subject to rent reviews.

In addition to the above, the Group has future operating lease commitments of HK$3,883 million (2012: HK$4,905 million) in respect of railway subsidiaries outside of Hong Kong over the respective franchise periods, of which HK$1,032 million (2012: HK$1,039 million) is payable within one year, HK$2,848 million (2012: HK$3,842 million) is payable after one but within five years and HK$3 million (2012: HK$24 million) is payable over five years. These railway subsidiaries will generate franchise revenue to the Group.

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 2013, the Group had total outstanding liabilities and contractual commitments of HK$1,859 million (2012: HK$1,611 million) in respect of these works and services. Cash funds totalling HK$1,860 million (2012: HK$1,781 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 37C), the Company has provided guarantees to the investors of approximately HK$16,943 million (in notional amount) as at 31 December 2013. The proceeds from the debts issued are on lent to the Company. As such, the primary liabilities have been recorded in the Company's balance sheet.

In respect of the lease out/lease back transaction ("Lease Transaction") (note 21E), 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$116 million (HK$899 million) as at 31 December 2013. 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$43 million (HK$332 million) as at 31 December 2013.

54 Commitments *(continued)*

D Material Financial and Performance Guarantees *(continued)*

In respect of the operating lease on the shopping centre in Beijing, the Group provided a bank guarantee of RMB12.5 million (HK$16 million) and a parent company guarantee of RMB52.5 million (HK$67 million) in respect of the quarterly rental payments to the landlord.

In respect of the Melbourne Metropolitan Train 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 AUD139 million (HK$959 million) and a performance bond of AUD81 million (HK$560 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 operating lease on the office premises, MTM has provided bank guarantees of AUD2 million (HK$12 million) for the monthly rental payments to the landlords. In respect of the project activities, MTM has provided a bank guarantee of AUD1 million (HK$8 million) to the contractor for contract payments.

In respect of the Stockholm Metro Franchise, the Group has provided to the Stockholm transport authority a guarantee of SEK1,000 million (HK$1,208 million), which can be called if the franchise is terminated early as a result of default by MTR Stockholm AB, the wholly owned subsidiary of the Group to undertake the franchise.

In respect of the London Overground Franchise, the Group has provided a performance bond of GBP6 million (HK$77 million) to Transport for London (TfL) which may be called by TfL if the franchise is terminated early as a result of default.

In respect of the Shenzhen property development, the Group has provided payment guarantees of RMB71 million (HK$91 million) to the counterparties of the construction contracts.

E US Cross Border Lease ("CBL") Agreements

In connection with the Rail Merger, the Company entered into a number of agreements ("US CBL Assumption Agreements") with respect to the CBLs that KCRC had entered into with its CBL counterparties in relation to certain of its property and equipment ("CBL Property") between 1998 and 2003. Pursuant to the US CBL Assumption Agreements, the Company has undertaken to perform, on a joint and several basis with KCRC, the obligations of KCRC under the respective CBLs.

In addition, the Company has entered into a US CBL Allocation Agreement with KCRC, whereby the rights, obligations and responsibility for risks relating to the CBLs are delineated and allocated between the Company and KCRC. Generally, the Company is responsible for operational matters, such as repair, maintenance and insurance of the CBL Property, and KCRC is responsible for all other obligations, including payment of periodic rents and collateral related obligations. Despite this allocation of obligations, the Company is prima facie jointly and severally liable to the CBL counterparties for any failure of KCRC to perform its obligations under the CBLs.

KCRC and the HKSAR Government have agreed to indemnify the Company for its reasonable costs incurred as a result of the due and proper performance by the Company of its obligations under the CBLs (unless such costs would have been incurred in any event). In addition, KCRC has agreed to indemnify the Company for losses and reasonable costs incurred arising from KCRC not complying with its obligations under the CBLs or from any breach of KCRC's representations, covenants and agreements provided for in relation to the CBLs.

The Company has agreed to indemnify each of the HKSAR Government and KCRC for losses and reasonable costs incurred arising from any breach of the Company's representations, covenants and agreements provided for in relation to the CBLs.

F Service Concession in respect of the Rail Merger

Pursuant to the Rail Merger, the Company is obliged under the Service Concession Agreement ("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.

55 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 2H).

(ii) Impairment of Long-lived Assets

The Group reviews its long-lived assets for indications of impairment at each balance sheet date according to accounting policies set out in note 2G(ii). In analysing potential impairments identified, 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.

55 Accounting Estimates and Judgements *(continued)*

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

(iii) Pension Costs

The Group employs independent valuation professionals to conduct annual assessment of the actuarial position of the Group's retirement plans. The determination of the Group's obligation and expense for the defined benefit element of these plans is dependent on certain assumptions and factors provided by the Company, which are disclosed in notes 50A(i), 50A(ii) and 51F.

(iv) Revenue Recognition on Property Development

Recognition of 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 31) at each balance sheet date. 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 stipulated in the new Operating Agreement with the HKSAR Government, the Company considers that it has the legal right to extend the franchise for further periods of 50 years upon expiry of each franchise term (note 53C). The Group's depreciation policies (note 2H) in respect of certain assets' lives which extend beyond 2057 are set on this basis.

(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 2013 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.

(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 2I(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 approved in principle by the Members of the Board. 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 each balance sheet date. 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.

55 Accounting Estimates and Judgements *(continued)*

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

(i) 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, 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. As at 31 December 2013, 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.

(ii) Associates

The Group regards Octopus Holdings Limited and its subsidiaries (the "OHL Group") as associates. In determining whether the Group has control over these associates, the Group has taken into account its voting right conferred to it under the Shareholder's Agreement of OHL and the effective influence it may exercise over the decision of OHL's Board. Throughout the year ended 31 December 2013, the Group considered that its voting right in the OHL Group has been maintained at 49% despite an equity interest of 57.4%. As such, the OHL Group was accounted for as associates in the Group's accounts.

56 Possible Impact of Amendments, New Standards and Interpretations Issued but Not Yet Effective for the Annual Accounting Year Ended 31 December 2013

Up to the date of issue of these accounts, the HKICPA has issued a number of amendments and new standards which are not yet effective for the year ended 31 December 2013 and have not been adopted in these accounts. These include the following which may be relevant to the Group:

	Effective for accounting periods beginning on or after
Amendments to HKAS 32, *Offsetting Financial Assets and Financial Liabilities*	1 January 2014
Amendments to HKAS 36, *Impairment of Assets – Recoverable Amount Disclosures for Non-financial Assets*	1 January 2014
Amendments to HKAS 39, *Novation of Derivatives and Continuation of Hedge Accounting*	1 January 2014
HKFRS 9, *Financial Instruments*	To be decided

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.

57 Comparative Figures

As a result of the retrospective application (note 2A(iii)) of Revised HKAS 19, *Employees Benefits*, certain comparative figures have been restated or adjusted to conform to current year's presentation.

58 Approval of Accounts

The accounts were approved by the Board on 11 March 2014.