

NOTES TO THE CONSOLIDATED ACCOUNTS

1 Statement of Compliance

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

The HKICPA has issued certain amendments to HKFRSs that are first effective or available for early adoption for accounting periods beginning on or after 1 January 2020. None of these have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented in this annual report. The Group has not applied any new standard or amendment to standards that is not yet effective for the current accounting period (note 48).

2 Principal Accounting Policies

A Basis of Preparation of the Consolidated Accounts

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

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

(ii) The preparation of the consolidated 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 consolidated accounts and estimates are discussed in note 47.

B Basis of Consolidation

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

C Subsidiaries and Non-controlling Interests

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

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

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

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

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

NOTES TO THE CONSOLIDATED ACCOUNTS

2 Principal Accounting Policies *(continued)*

D Associates and Joint Ventures

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

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

An investment in an associate or a joint venture is accounted for in the consolidated accounts of the Group using the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the investees' net assets and any impairment loss relating to the investment (note 21(ii)). At each reporting date, the Group assesses whether there is any objective evidence that the investment is impaired. The Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year is recognised in the consolidated profit and loss account, whereas the Group's share of the post-acquisition items of the investees' other comprehensive income is recognised in the consolidated statement of comprehensive income.

When the Group's share of losses equals or exceeds its interest in the associate or the joint venture, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest in the investee is the carrying amount of the investment under the equity method together with any other long-term interests that in substance form part of the Group's net investment in the associate or the joint venture (after applying the expected credit losses ("ECL") model to such other long-term interests where applicable (note 21(i))).

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

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

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

In the Company's statement of financial position, investments in associates and joint venture are stated at cost less impairment losses (note 21(ii)).

E Fixed Assets

(i) Investment Properties

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

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

(ii) Other Property, Plant and Equipment

Leasehold land registered and located in the Hong Kong Special Administrative Region is stated at cost less accumulated depreciation and impairment losses (note 21(ii)). Self-occupied leasehold buildings where the Group is the registered owner of the property interest are stated at their fair value at the date of revaluation less any subsequent accumulated depreciation. Revaluations are performed by independent qualified valuers semi-annually, with changes in the fair value arising on revaluations recorded as movements in the fixed assets revaluation reserve, except:

(a) where the balance of the fixed assets revaluation reserve relating to a self-occupied leasehold building is insufficient to cover a revaluation deficit of that property, the excess of the deficit is charged to the consolidated profit and loss account; and

(b) where a revaluation deficit had previously been charged to the consolidated profit and loss account and a revaluation surplus subsequently arises, this surplus is firstly credited to the consolidated profit and loss account to the extent of the deficit previously charged to the consolidated profit and loss account, and thereafter taken to the fixed assets revaluation reserve.

Civil works and plant and equipment, including right-of-use assets arising from freehold or leasehold properties where the Group is not the registered owner of the property interest, and right-of-use assets arising from leases of underlying plant and equipment are stated at cost less accumulated depreciation and impairment losses (note 21(ii)).

Assets under construction include capital works on operating railway and are stated at cost less impairment losses (note 21(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.

2 Principal Accounting Policies *(continued)*

E Fixed Assets *(continued)*

(iii) Service Concession Assets

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

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

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

Service concession assets are carried at cost less accumulated amortisation and impairment losses, if any (note 2I(ii)).

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

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

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

Gains or losses arising from the retirement or disposal of an asset are determined as the difference between the net disposal proceeds and the carrying amount of the asset. Such gains or losses are recognised as income or expense in the consolidated 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 consolidated profit and loss account.

F Leased Assets

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

(i) As a Lessee

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

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

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

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

NOTES TO THE CONSOLIDATED ACCOUNTS

2 Principal Accounting Policies *(continued)*

F Leased Assets *(continued)*

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

The lease liability is also remeasured when there is a change in the scope of a lease or the consideration for a lease that is not originally provided for in the lease contract ("lease modification") that is not accounted for as a separate lease. In this case the lease liability is remeasured based on the revised lease payments and lease term using a revised discount rate at the effective date of the modification.

(ii) As a Lessor

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

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

G Goodwill

Goodwill represents the excess of:

- (i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over
- (ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

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

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

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

H Property Management Rights

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

I Impairment of Assets

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

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

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

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

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

2 Principal Accounting Policies *(continued)*

I Impairment of Assets *(continued)*

(ii) Impairment of Other Assets

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

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

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

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

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

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

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

J Depreciation and Amortisation

(i) Investment properties are not depreciated.

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

Land and Buildings

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

Civil Works

Excavation and boringIndefinite
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

NOTES TO THE CONSOLIDATED ACCOUNTS

2 Principal Accounting Policies *(continued)*

J Depreciation and Amortisation *(continued)*

Plant and Equipment

Rolling stock and components	6 – 42 years
Platform screen doors	10 – 35 years
Rail track	15 – 50 years
Environmental control systems, lifts and escalators, fire protection and drainage system	7 – 45 years
Power supply systems	5 – 40 years
Aerial ropeway and cabin	10 – 27 years
Automatic fare collection systems, metal station kiosks, and other mechanical equipment	9 – 25 years
Train control and signalling equipment, station announcement systems, telecommunication systems and advertising panels	5 – 35 years
Station architectural finishes	20 – 30 years
Fixtures and fittings	10 – 25 years
Maintenance equipment	10 – 40 years
Office furniture and equipment	5 – 15 years
Computer software licences and applications	5 – 10 years
Computer equipment	3 – 5 years
Cleaning equipment and tools	5 years
Motor vehicles	5 – 12 years

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

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

K Construction Costs

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

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

(ii) After entering into a project agreement, all costs incurred in the construction of the railway are dealt with as railway construction in progress until commissioning of the railway line, whereupon the relevant construction costs are transferred to fixed assets.

L Joint Operations

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

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

2 Principal Accounting Policies *(continued)*

M Property Development

- (i) Costs incurred by the Group in respect of site preparation, land costs, acquisition of development rights, aggregate cost of development, borrowing costs capitalised, provisions and other direct expenses are dealt with as property development in progress.
- (ii) Payments received from developers in respect of property developments are offset against the amounts in property development in progress attributable to that development. Payments received from developers in excess of the balance in property development in progress are transferred to deferred income which is included in creditors and other payables. In these cases, further costs subsequently incurred by the Group in respect of that development are charged against deferred income.
- (iii) Profits arising from the development of properties in Hong Kong undertaken in conjunction with property developers are recognised in the consolidated profit and loss account as follows:
- where the Group receives payments from developers, profits arising from such payments are recognised when the foundation and site enabling works are complete and acceptable for development, and after taking into account the outstanding risks and obligations, if any, retained by the Group in connection with the development;
 - where the Group receives a right to a share of the net surplus from the development, the Group's share of the profit is initially recognised once the amounts of revenue (including the fair value of any unsold properties) and costs for the development as a whole can be estimated reliably. The Group's interest in any unsold properties is subsequently remeasured on a basis consistent with the policy set out in note 2N and included within properties held for sale; and
 - where the Group receives a distribution of the assets of the development, profit is recognised based on the fair value of such assets at the time of receipt and after taking into account any outstanding risks and obligations retained by the Group in connection with the development.

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

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

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

N Properties Held for Sale

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

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

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

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

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

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

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2 Principal Accounting Policies *(continued)*

O Investments in Securities

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

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

P Stores and Spares

Stores and spares used for business operation are categorised as either revenue or capital. Revenue spares are stated 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 21(ii)). Depreciation is charged at the rates applicable to the relevant fixed assets against which the capital spares are held in reserve.

Q Contract Assets and Contract Liabilities

A contract asset is recognised when the Group recognises revenue (note 2AA) before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed for ECL in accordance with the policy set out in note 21(i) and are reclassified to receivables when the right to the consideration has become unconditional (note 25).

A contract liability is recognised when the customer pays consideration before the Group recognises the related revenue (note 2AA). A contract liability would also be recognised if the Group has an unconditional right to receive consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised (note 25).

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

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

R Cash and Cash Equivalents

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

S Debtors and Other Receivables

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognised before the Group has an unconditional right to receive consideration, the amount is presented as a contract asset (note 2Q). Receivables are stated at amortised cost using the effective interest method less allowance for credit losses (note 21(i)).

T Interest-bearing Borrowings

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

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

U Creditors and Other Payables

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

V Derivative Financial Instruments and Hedging Activities

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

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

2 Principal Accounting Policies *(continued)*

V Derivative Financial Instruments and Hedging Activities *(continued)*

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

(i) Fair Value Hedge

Changes in the fair value of derivatives that are designated and qualified as fair value hedges are recorded in the consolidated 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 consolidated profit and loss account.

Amounts previously recognised in other comprehensive income and accumulated in equity are transferred to the consolidated profit and loss account in the periods when the hedged item is recognised in the consolidated 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 consolidated profit and loss account.

(iii) Hedge of a Net Investment

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

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

(iv) Derivatives That Do Not Qualify for Hedge Accounting

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

W Employee Benefits

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

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

NOTES TO THE CONSOLIDATED ACCOUNTS

2 Principal Accounting Policies *(continued)*

W Employee Benefits *(continued)*

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

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

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

During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to the consolidated profit and loss account in the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the employee share-based capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to the employee share-based capital reserve). The equity amount is recognised in the employee share-based capital reserve until either the option is exercised which is transferred to the share capital account or the option is lapsed (on expiry of the share options) which is released directly to retained profits.

- For award shares under the Executive Share Incentive Scheme, the amounts to be expensed as staff costs are determined by reference to the fair value of the award shares granted, taking into account all non-vesting conditions associated with the grants. The total expense is recognised over the relevant vesting periods, with a corresponding credit to the employee share-based capital reserve under equity.

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

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

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

X Income Tax

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

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

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

2 Principal Accounting Policies *(continued)*

X Income Tax *(continued)*

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

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

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

Y Financial Guarantee Contracts

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

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

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

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

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

Z Provisions, Contingent Liabilities and Onerous Contracts

(i) Provisions and Contingent Liabilities

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

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

(ii) Onerous Contracts

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

NOTES TO THE CONSOLIDATED ACCOUNTS

2 Principal Accounting Policies *(continued)*

AA Revenue Recognition

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

- (i) Fare revenue is recognised when the journey is provided.
- (ii) Rental income from investment properties, station kiosks and other railway premises under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased assets. Lease incentives granted are recognised in the consolidated profit and loss account as an integral part of the aggregate net lease payments receivable. Variable lease payments that do not depend on an index or a rate are recognised as income in the accounting period in which they are earned.
- (iii) Contract revenue is recognised when the outcome of a consultancy, construction or service contract can be estimated reliably. Contract revenue is recognised progressively over-time using the cost-to-cost method, i.e. based on the proportion of the actual costs incurred relative to the estimated total costs. When the outcome of a consultancy, construction or service contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that are expected to be recovered.
- (iv) Income from other railway and station commercial businesses, property management, railway franchises and service concessions are recognised when the services are provided.

AB Interest and Finance Charges

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

Finance charges on lease liabilities are charged to the consolidated profit and loss account over the period of the lease so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

AC Foreign Currency Translation

Foreign currency transactions during the year are translated into Hong Kong dollars and recorded at exchange rates ruling at the transaction dates. Foreign currency monetary assets and liabilities are translated into Hong Kong dollars at the exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in the consolidated profit and loss account.

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

2 Principal Accounting Policies *(continued)*

AD Segment Reporting

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

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

AE Related Parties

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

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

AF Government Grants

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

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

Rail Merger

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

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

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

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

NOTES TO THE CONSOLIDATED ACCOUNTS

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

Operating Arrangements for High Speed Rail

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

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

Operating Arrangements for Tuen Ma Line Phase 1

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

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

4 Revenue from Hong Kong Transport Operations

Revenue from Hong Kong transport operations comprises:

in HK\$ million	2020	2019
Domestic Service	9,229	12,714
Cross-boundary Service	516	3,164
High Speed Rail	1,277	2,098
Airport Express	140	1,011
Light Rail and Bus	481	677
Intercity Service	20	175
Others	233	99
	11,896	19,938

Domestic Service comprises the Kwun Tong, Tsuen Wan, Island, South Island, Tung Chung, Tseung Kwan O, Disneyland Resort, East Rail (excluding Cross-boundary Service), West Rail and Ma On Shan Lines, and Tuen Ma Line Phase 1. Others include mainly by-law infringement surcharge, Octopus load agent fees and other rail-related income.

5 Revenue from Hong Kong Station Commercial Businesses

Revenue from Hong Kong station commercial businesses comprises:

in HK\$ million	2020	2019
Duty free shops and kiosks	2,021	4,800
Advertising	516	1,130
Telecommunication income	640	743
Other station commercial income	92	126
	3,269	6,799

6 Revenue from Hong Kong Property Rental and Management Businesses

Revenue from Hong Kong property rental and management businesses comprises:

in HK\$ million	2020	2019
Property rental income	4,817	4,833
Property management income	237	304
	5,054	5,137

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

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

in HK\$ million	2020		2019	
	Revenue	Expenses*	Revenue	Expenses*
Melbourne Train	10,308	10,280	10,680	10,154
Sydney Metro North West	681	752	1,110	1,073
Sydney Metro City & Southwest	1,493	1,474	515	450
MTR Nordic**	4,747	4,600	4,862	4,832
TfL Rail/Elizabeth Line	2,363	2,177	2,037	1,899
Shenzhen Metro Line 4 ("SZL4")	692	719	761	599
Others	1,144	893	1,120	753
	21,428	20,895	21,085	19,760
Property development in Mainland of China	–	13	–	25
Total Mainland of China and international subsidiaries	21,428	20,908	21,085	19,785

* Expenses include staff costs of HK\$9,260 million (2019: HK\$9,006 million) (note 10A), maintenance and related work costs of HK\$2,850 million (2019: HK\$3,322 million) and energy and utilities of HK\$782 million (2019: HK\$876 million).

** MTR Nordic comprises the Stockholm Metro, MTR Tech, MTRX (formerly known as "MTR Express"), Stockholm Commuter Rail ("Stockholms pendeltåg") and Emtrain operations in Sweden.

NOTES TO THE CONSOLIDATED ACCOUNTS

8 Revenue from Other Businesses

Revenue from other businesses comprises income from:

in HK\$ million	2020	2019
Ngong Ping 360	65	392
Consultancy business	231	184
Project management for HKSAR Government	565	935
Miscellaneous businesses	33	34
	894	1,545

9 Segmental Information

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

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

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

(ii) Hong Kong station commercial businesses: Commercial activities including the letting of advertising, retail and car parking spaces 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 spaces and the provision of estate management services in Hong Kong.

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

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

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

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

9 Segmental Information (continued)

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

in HK\$ million	Hong Kong transport operations	Hong Kong station commercial businesses	Hong Kong property rental and management businesses	Hong Kong property development	Mainland of China and international affiliates		Other businesses	Un-allocated amount	Total
					Mainland of China and international railway, property rental and management businesses	Mainland of China property development			
2020									
Revenue from contracts with customers within the scope of HKFRS 15	11,896	1,262	315	-	21,289	-	886	-	35,648
- Recognised at a point in time	11,140	29	-	-	1,994	-	67	-	13,230
- Recognised over time	756	1,233	315	-	19,295	-	819	-	22,418
Revenue from other sources	-	2,007	4,739	-	139	-	8	-	6,893
- Lease payments that are fixed or depend on an index or a rate	-	1,971	4,664	-	137	-	7	-	6,779
- Variable lease payments that do not depend on an index or a rate	-	36	75	-	2	-	1	-	114
Total revenue	11,896	3,269	5,054	-	21,428	-	894	-	42,541
Operating expenses	(12,318)	(509)	(850)	-	(20,895)	(13)	(2,496)	-	(37,081)
Project study and business development expenses	-	-	-	-	(183)	-	-	(96)	(279)
Operating (loss)/profit before Hong Kong property development, depreciation, amortisation and variable annual payment	(422)	2,760	4,204	-	350	(13)	(1,602)	(96)	5,181
Profit on Hong Kong property development	-	-	-	6,491	-	-	-	-	6,491
Operating (loss)/profit before depreciation, amortisation and variable annual payment	(422)	2,760	4,204	6,491	350	(13)	(1,602)	(96)	11,672
Depreciation and amortisation	(4,810)	(197)	(18)	-	(272)	-	(68)	-	(5,365)
Variable annual payment	(176)	(61)	(1)	-	-	-	-	-	(238)
Share of profit of associates and joint venture	-	-	-	-	424	-	181	-	605
(Loss)/profit before interest, finance charges and taxation	(5,408)	2,502	4,185	6,491	502	(13)	(1,489)	(96)	6,674
Interest and finance charges	-	-	-	-	(62)	93	-	(1,035)	(1,004)
Investment property revaluation loss	-	-	(9,090)	-	(100)	-	-	-	(9,190)
Income tax	-	-	-	(1,049)	(41)	(15)	-	(196)	(1,301)
(Loss)/profit for the year ended 31 December 2020	(5,408)	2,502	(4,905)	5,442	299	65	(1,489)	(1,327)	(4,821)
Assets									
Fixed assets	124,355	2,928	85,532	-	7,473	58	586	-	220,932
Other segment assets*	6,610	587	911	3,412	9,739	4,447	1,760	14,709	42,175
Goodwill and property management rights	-	-	16	-	63	-	-	-	79
Property development in progress	-	-	-	11,942	-	-	-	-	11,942
Deferred expenditure	326	-	16	3	-	-	771	-	1,116
Deferred tax assets	-	2	-	-	443	-	25	-	470
Investments in securities	-	-	-	-	5	249	214	-	468
Properties held for sale	-	-	-	1,572	-	228	-	-	1,800
Interests in associates and joint venture	-	-	-	-	10,530	-	1,062	-	11,592
Total assets	131,291	3,517	86,475	16,929	28,253	4,982	4,418	14,709	290,574
Liabilities									
Segment liabilities	8,045	2,090	2,588	12,924	11,024	875	3,417	62,335	103,298
Obligations under service concession	10,114	-	-	-	181	-	-	-	10,295
Total liabilities	18,159	2,090	2,588	12,924	11,205	875	3,417	62,335	113,593
Other information									
Capital expenditure on:									
Fixed assets	5,928	497	3,516	-	249	-	30	-	10,220
Property development in progress	-	-	-	687	-	-	-	-	687

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

NOTES TO THE CONSOLIDATED ACCOUNTS

9 Segmental Information (continued)

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

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

9 Segmental Information (continued)

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

For the year ended 31 December 2020, revenue from two customers (2019: one customer) of the Mainland of China and international railway, property rental and management businesses segment has exceeded 10% of the Group's revenue. Approximately 16.49% and 10.60% of the Group's total revenue was attributable to each of the two customers respectively (2019: Approximately 14.47% of the Group's total revenue was attributable to the customer).

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

in HK\$ million	Revenue from external customers		Specified non-current assets	
	2020	2019	2020	2019
Hong Kong SAR (place of domicile)	21,043	33,357	227,537	233,019
Australia	12,482	12,305	1,309	941
Mainland of China and Macao SAR	1,896	1,934	15,935	15,155
Sweden	4,747	4,862	819	786
United Kingdom	2,373	2,046	61	110
	21,498	21,147	18,124	16,992
	42,541	54,504	245,661	250,011

As at 31 December 2020, the aggregated amount of the transaction price allocated to the remaining performance obligation under the Group's existing contracts is HK\$41,913 million (2019: HK\$42,183 million). This amount represents revenue expected to be recognised in the future mainly from the fixed annual payments in relation to High Speed Rail under the SSCA-HSR, as well as the construction, consultancy and project management contracts entered into with the Group's customers. The Group will recognise the expected revenue in future when or as the work is completed which is expected to occur over the next one to fifteen years.

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

NOTES TO THE CONSOLIDATED ACCOUNTS

10 Operating Expenses

A Total staff costs include:

in HK\$ million	2020	2019
Amounts charged to consolidated profit and loss account under:		
– staff costs and related expenses for Hong Kong transport operations	6,317	6,489
– maintenance and related works for Hong Kong transport operations	105	117
– other expense line items for Hong Kong transport operations	505	304
– expenses relating to Hong Kong station commercial businesses	120	117
– expenses relating to Hong Kong property rental and management businesses	147	149
– expenses relating to Mainland of China and international subsidiaries	9,260	9,006
– expenses relating to other businesses	884	1,384
– project study and business development expenses	212	271
– profit on Hong Kong property development	18	24
Amounts capitalised under:		
– property development in progress	204	194
– assets under construction and other projects	759	733
– service concession assets	449	359
Amounts recoverable	596	602
Total staff costs	19,576	19,749

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

The following expenditures are included in total staff costs:

in HK\$ million	2020	2019
Share-based payments	121	122
Contributions to defined contribution retirement schemes and Mandatory Provident Fund	921	907
Amounts recognised in respect of defined benefit retirement schemes	451	469
	1,493	1,498

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

in HK\$ million	2020	2019
Audit services	19	19
Tax services	2	2
Other audit related services	6	6
	27	27

C Loss on disposal of fixed assets of HK\$104 million (2019: HK\$57 million) is included in operating expenses.

11 Remuneration of Members of the Board and the Executive Directorate

A Remuneration of Members of the Board and the Executive Directorate

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

in HK\$ million	Fees	Base pay, allowances and benefits in kind	Retirement scheme contribution	Variable remuneration related to performance	Total
2020					
Members of the Board					
– Rex Auyeung Pak-kuen	1.6	–	–	–	1.6
– Andrew Clifford Winawer Brandler	0.5	–	–	–	0.5
– Bunny Chan Chung-bun (appointed on 20 May 2020)**	0.2	–	–	–	0.2
– Walter Chan Kar-lok	0.4	–	–	–	0.4
– Pamela Chan Wong Shui	0.5	–	–	–	0.5
– Dorothy Chan Yuen Tak-fai	0.5	–	–	–	0.5
– Cheng Yan-kee	0.5	–	–	–	0.5
– Anthony Chow Wing-kin	0.4	–	–	–	0.4
– Eddy Fong Ching	0.5	–	–	–	0.5
– James Kwan Yuk-choi	0.4	–	–	–	0.4
– Rose Lee Wai-mun	0.4	–	–	–	0.4
– Lucia Li Li Ka-lai	0.4	–	–	–	0.4
– Jimmy Ng Wing-ka	0.4	–	–	–	0.4
– Benjamin Tang Kwok-bun	0.4	–	–	–	0.4
– Allan Wong Chi-yun (retired on 20 May 2020)*	0.2	–	–	–	0.2
– Johannes Zhou Yuan	0.4	–	–	–	0.4
– James Henry Lau Jr (resigned on 1 June 2020)	0.2	–	–	–	0.2
– Christopher Hui Ching-yu (appointed on 1 June 2020)	0.2	–	–	–	0.2
– Secretary for Transport and Housing	0.4	–	–	–	0.4
– Permanent Secretary for Development (Works)	0.4	–	–	–	0.4
– Commissioner for Transport	0.4	–	–	–	0.4
Members of the Executive Directorate					
– Jacob Kam Chak-pui	–	8.0	1.2	0.8	10.0
– Adi Lau Tin-shing	–	5.6	–	0.3	5.9
– Roger Francis Bayliss	–	4.6	–	0.3	4.9
– Margaret Cheng Wai-ching	–	5.2	0.7	0.3	6.2
– Linda Choy Siu-min (appointed on 2 March 2020)****	–	3.2	0.5	0.2	3.9
– Peter Ronald Ewen (retired on 22 February 2021)	–	4.3	0.7	0.2	5.2
– Herbert Hui Leung-wah	–	4.8	0.7	0.3	5.8
– Tony Lee Kar-yun (appointed on 1 January 2020)****	–	4.2	0.7	0.2	5.1
– Gillian Elizabeth Meller	–	4.3	0.7	0.3	5.3
– Linda So Ka-pik (resigned on 16 January 2020)***	–	0.5	–	–	0.5
– David Tang Chi-fai	–	4.8	0.7	0.3	5.8
– Jeny Yeung Mei-chun	–	4.7	0.7	0.3	5.7
	9.3	54.2	6.6	3.5	73.6

* Allan C Y Wong retired as a Member of the Board on the date shown in the above table. The amount of his emolument shown in the above table covers the period from 1 January 2020 to the date of his retirement.

** Bunny C B Chan was appointed as a Member of the Board on the date shown in the above table. The amount of his emolument shown in the above table covers the period from the date of his appointment to 31 December 2020.

*** Linda K P So resigned as a Member of the Executive Directorate on the date shown in the above table. The amount of her emolument shown in the above table covers the period from 1 January 2020 to the date of her resignation.

**** Linda S M Choy and Tony K Y Lee were appointed as Members of the Executive Directorate on the date shown in the above table. The amounts of their emolument shown in the above table cover the period from the dates of their respective dates of appointment to 31 December 2020.

~ The total contributions paid by the Company attributable to the financial year ended 31 December 2020 for Adi T S Lau, who participated in MTR Retirement Scheme was HK\$20,475, pursuant to the requirement of the scheme.

~~ The total contributions paid by the Company attributable to the financial year ended 31 December 2020 for Roger F Bayliss, who participated in Mandatory Provident Fund Scheme was HK\$18,000.

~~~ The total contributions under MTR Provident Fund Scheme paid by the Company and the pro-rated variable remuneration related to performance for the period from 1 January 2020 to the date of resignation for Linda K P So was HK\$24,024 and HK\$10,174 respectively.

All Members of the Board except Bunny Chan Chung-bun (appointed on 20 May 2020) and Christopher Hui Ching-yu (appointed on 1 June 2020) agreed to waive HK\$25,000 of each of their director fees for the year ended 31 December 2020. The aggregate amount of such remuneration waived was donated by the Company for charity use. The amounts waived are excluded from the above table.

All Members of the Executive Directorate except Linda So Ka-pik (resigned on 16 January 2020) agreed to waive a portion of their remuneration for the year ended 31 December 2020 (HK\$566,040 for Jacob Kam Chak-pui, HK\$378,000 for Adi Lau Tin-shing, HK\$329,220 for Roger Francis Bayliss, HK\$326,400 for Margaret Cheng Wai-ching, HK\$270,000 for Linda Choy Siu-min, HK\$299,580 for Peter Ronald Ewen, HK\$325,560 for Herbert Hui Leung-wah, HK\$282,000 for Tony Lee Kar-yun, HK\$309,120 for Gillian Elizabeth Meller, HK\$345,600 for David Tang Chi-fai and HK\$337,320 for Jeny Yeung Mei-chun). The aggregate amount of such remuneration waived was donated by the Company for charity use. The amounts waived are excluded from the above table.

# NOTES TO THE CONSOLIDATED ACCOUNTS

## 11 Remuneration of Members of the Board and the Executive Directorate

(continued)

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

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

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

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

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

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

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

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



# 11 Remuneration of Members of the Board and the Executive Directorate

(continued)

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

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

The director's fees in respect of the office of the Secretary for Transport and Housing (Frank Chan Fan), the office of the Permanent Secretary for Development (Works) (Lam Sai-hung) and the office of the Commissioner for Transport (Mable Chan for the period from 1 January 2020 to 31 July 2020 and Rosanna Law Shuk-pui for the period from 9 September 2020 to 31 December 2020), each of whom was appointed Director by the Chief Executive of the HKSAR pursuant to Section 8 of the Mass Transit Railway Ordinance ("MTR Ordinance"), were received by Government rather than by the individuals concerned.

The director's fee in respect of James Henry Lau Jr (for the period from 1 January 2020 to 31 May 2020) and Christopher Hui Ching-yu (for the period from 1 June 2020 to 31 December 2020), being the Secretary for Financial Services and the Treasury of Government for the respective periods, was received by Government rather than by the individuals personally.

Alternate Directors were not entitled to director's fees.

(ii) Restricted Shares and Performance Shares were granted to Members of the Executive Directorate under the Company's Executive Share Incentive Scheme. Performance Shares offered to Members of the Executive Directorate under such grants, in general, covered a period of three years from the date of grant. The entitlements of each of the Members of the Executive Directorate with vesting periods falling in the years ended 31 December 2019 and 2020, if any, are as follows:

- Jacob C P Kam was granted 21,550 Restricted Shares on 8 April 2016, 22,050 Restricted Shares on 10 April 2017, 25,550 Restricted Shares and 50,450 Performance Shares on 10 April 2018, 120,000 Contract-end Restricted Shares on 1 April 2019, 47,400 Restricted Shares and 91,750 Performance Shares on 8 April 2019, and 89,300 Restricted Shares on 8 April 2020, of which a total of 31,666 Restricted Shares were vested in 2020 (2019: 23,050 Restricted Shares), and the respective fair value of the share-based payments recognised for the year ended 31 December 2020 was HK\$7.6 million (2019: HK\$5.5 million). No award shares were lapsed/forfeited in 2020 (2019: nil);
- Adi T S Lau was granted 8,400 Restricted Shares on 8 April 2016, 17,700 Restricted Shares on 10 April 2017, 16,450 Restricted Shares and 50,450 Performance Shares on 10 April 2018, 16,250 Restricted Shares on 8 April 2019 and 39,100 Restricted Shares on 8 April 2020, of which a total of 16,799 Restricted Shares were vested in 2020 (2019: 14,183 Restricted Shares), and the respective fair value of the share-based payments recognised for the year ended 31 December 2020 was HK\$1.9 million (2019: HK\$1.5 million). No award shares were lapsed/forfeited in 2020 (2019: nil);
- Roger Francis Bayliss was granted 30,150 Performance Shares on 8 April 2019 and 30,250 Restricted Shares on 8 April 2020, of which nil was vested in 2020 (2019: nil), and the respective fair value of the share-based payments recognised for the year ended 31 December 2020 was HK\$1.3 million (2019: HK\$0.5 million). No award shares were lapsed/forfeited in 2020 (2019: nil);
- Margaret W C Cheng was granted 71,428 Restricted Shares on 19 August 2016, 16,950 Restricted Shares on 10 April 2017, 17,600 Restricted Shares and 50,450 Performance Shares on 10 April 2018, 16,550 Restricted Shares on 8 April 2019 and 32,450 Restricted Shares on 8 April 2020, of which a total of 17,032 Restricted Shares were vested in 2020 (2019: 35,326 Restricted Shares), and the respective fair value of the share-based payments recognised for the year ended 31 December 2020 was HK\$1.8 million (2019: HK\$1.7 million). No award shares were lapsed/forfeited in 2020 (2019: nil);
- Peter Ronald Ewen was granted 15,050 Restricted Shares on 10 April 2017, 12,250 Restricted Shares and 50,450 Performance Shares on 10 April 2018, 12,500 Restricted Shares on 8 April 2019 and 26,500 Restricted Shares on 8 April 2020, of which 13,267 Restricted Shares were vested in 2020 (2019: 9,099 Restricted Shares), and the respective fair value of the share-based payments recognised for the year ended 31 December 2020 was HK\$1.6 million (2019: HK\$1.3 million). No award shares were lapsed/forfeited in 2020 (2019: nil);
- Herbert L W Hui was granted 15,200 Restricted Shares on 10 April 2017, 14,200 Restricted Shares and 50,450 Performance Shares on 10 April 2018, 13,800 Restricted Shares on 8 April 2019 and 29,050 Restricted Shares on 8 April 2020, of which 14,401 Restricted Shares were vested in 2020 (2019: 9,799 Restricted Shares), and the respective fair value of the share-based payments recognised for the year ended 31 December 2020 was HK\$1.6 million (2019: HK\$1.3 million). No award shares were lapsed/forfeited in 2020 (2019: nil);
- Tony K Y Lee was granted 7,150 Restricted Shares on 8 April 2016, 6,800 Restricted Shares on 10 April 2017, 7,900 Restricted Shares and 10,500 Performance Shares on 10 April 2018, 8,300 Restricted Shares on 8 April 2019 and 15,500 Restricted Shares on 8 April 2020, of which a total of 7,667 Restricted Shares were vested in 2020 (2019: 7,283 Restricted Shares), and the respective fair value of the share-based payments recognised for the year ended 31 December 2020 was HK\$0.6 million. No award shares were lapsed/forfeited in 2020;
- Gillian E Meller was granted 17,300 Restricted Shares on 8 April 2016, 16,200 Restricted Shares on 10 April 2017, 16,050 Restricted Shares and 50,450 Performance Shares on 10 April 2018, 13,400 Restricted Shares on 8 April 2019 and 27,000 Restricted Shares on 8 April 2020, of which a total of 15,216 Restricted Shares were vested in 2020 (2019: 16,518 Restricted Shares), and the respective fair value of the share-based payments recognised for the year ended 31 December 2020 was HK\$1.6 million (2019: HK\$1.4 million). No award shares were lapsed/forfeited in 2020 (2019: nil);
- Linda K P So was granted 16,400 Restricted Shares on 8 April 2016, 15,300 Restricted Shares on 10 April 2017, 14,200 Restricted Shares and 50,450 Performance Shares on 10 April 2018 and 14,800 Restricted Shares on 8 April 2019, of which nil was vested in 2020 (2019: 15,301 Restricted Shares), and the respective fair value of the share-based payments recognised for the year ended 31 December 2019 was HK\$1.4 million. 79,817 award shares were lapsed/forfeited in 2020 (2019: nil);
- David C F Tang was granted 17,950 Restricted Shares on 8 April 2016, 17,250 Restricted Shares on 10 April 2017, 16,850 Restricted Shares and 50,450 Performance Shares on 10 April 2018, 17,200 Restricted Shares on 8 April 2019 and 31,350 Restricted Shares on 8 April 2020, of which a total of 17,099 Restricted Shares were vested in 2020 (2019: 17,350 Restricted Shares), and the respective fair value of the share-based payments recognised for the year ended 31 December 2020 was HK\$1.8 million (2019: HK\$1.5 million). No award shares were lapsed/forfeited in 2020 (2019: nil);

# NOTES TO THE CONSOLIDATED ACCOUNTS

## 11 Remuneration of Members of the Board and the Executive Directorate

(continued)

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

- Jeny M C Yeung was granted 18,850 Restricted Shares on 8 April 2016, 17,700 Restricted Shares on 10 April 2017, 17,350 Restricted Shares and 50,450 Performance Shares on 10 April 2018, 16,350 Restricted Shares on 8 April 2019 and 32,650 Restricted Shares on 8 April 2020, of which a total of 17,133 Restricted Shares were vested in 2020 (2019: 17,967 Restricted Shares), and the respective fair value of the share-based payments recognised for the year ended 31 December 2020 was HK\$1.8 million (2019: HK\$1.5 million). No award shares were lapsed/forfeited in 2020 (2019: nil); and
- Lincoln K K Leong was granted 64,850 Restricted Shares on 8 April 2016, 63,900 Restricted Shares on 10 April 2017, 80,000 Contract-end Restricted Shares on 16 March 2018 and 73,300 Restricted Shares and 239,950 Performance Shares on 10 April 2018, of which a total of 217,518 Restricted Shares were vested in 2019, and the respective fair value of the share-based payments recognised for the year ended 31 December 2019 was HK\$6.5 million. No award shares were lapsed/forfeited in 2019.

None of the Performance Shares awarded to the Members of the Executive Directorate were vested in 2020 (2019: nil).

The details of Board Members' and Members of the Executive Directorate's interest in the Company's shares are disclosed in the Report of the Members of the Board and note 41.

(iii) For the year ended 31 December 2020, two (2019: three) Members of the Executive Directorate of the Company, whose emoluments are shown above, were among the five individuals whose emoluments were the highest. The total remuneration of the five highest paid individuals for the year is shown below:

| in HK\$ million                              | 2020 | 2019 |
|----------------------------------------------|------|------|
| Base pay, allowances and benefits in kind    | 29.6 | 30.1 |
| Variable remuneration related to performance | 2.0  | 6.2  |
| Retirement scheme contributions              | 4.3  | 2.6  |
|                                              | 35.9 | 38.9 |

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

|                                 | 2020 | 2019 |
|---------------------------------|------|------|
| HK\$6,000,001 – HK\$6,500,000   | 3    | 1    |
| HK\$6,500,001 – HK\$7,000,000   | –    | 2    |
| HK\$7,000,001 – HK\$7,500,000   | 1    | –    |
| HK\$8,000,001 – HK\$8,500,000   | –    | 1    |
| HK\$10,000,001 – HK\$10,500,000 | 1    | –    |
| HK\$10,500,001 – HK\$11,000,000 | –    | 1    |
|                                 | 5    | 5    |

(iv) The aggregate emoluments and share-based payments of Members of the Board and the Executive Directorate for the year was HK\$95.2 million (2019: HK\$103.5 million).

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

### B Share Options

Options exercised and outstanding in respect of each Member of the Executive Directorate as at 31 December 2020 are set out in the Report of the Members of the Board.

Under the 2007 Share Option Scheme (the "2007 Option Scheme") as described in note 41(i), all Members of the Executive Directorate were granted options to acquire shares between 2007 and 2014. No grant was made after the scheme's expiry date on 6 June 2014.

Under the vesting terms of the options, options granted will be evenly vested in respect of their underlying shares over a period of three years from the date of offer to grant such options. As all the share options granted to each Member of the Executive Directorate were vested prior to 2018, the respective fair value of the share based payments recognised for the year ended 31 December 2020 was HK\$nil (2019: HK\$nil).

## 11 Remuneration of Members of the Board and the Executive Directorate

(continued)

### C Award Shares

Award Shares outstanding in respect of each Member of the Executive Directorate as at 31 December 2020 are set out in the Report of the Members of the Board.

Under the Executive Share Incentive Scheme as described in note 41(ii), all Members of the Executive Directorate may be granted an award of Restricted Shares and/or Performance Shares (collectively known as "Award Shares"). Restricted Shares are awarded on the basis of individual performance. Performance Shares are awarded which vest subject to the performance of the Company over a pre-determined performance period, assessed by reference to such Board-approved performance metric and in respect of such performance period and any other performance conditions, as determined by the Remuneration Committee from time to time.

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

## 12 Profit on Hong Kong Property Development

Profit on Hong Kong property development comprises:

| in HK\$ million                                                                      | 2020  | 2019  |
|--------------------------------------------------------------------------------------|-------|-------|
| Share of surplus, income and interest in unsold properties from property development | 6,481 | 4,376 |
| Income from receipt of properties for investment purpose                             | –     | 1,211 |
| Agency fee and other income from West Rail property development (note 22C)           | 42    | 182   |
| Overheads and miscellaneous studies                                                  | (32)  | (62)  |
|                                                                                      | 6,491 | 5,707 |

During the year ended 31 December 2020, profit attributable to joint operations of HK\$6,481 million (2019: HK\$5,587 million) was recognised.

## 13 Depreciation and Amortisation

Depreciation and amortisation comprise:

| in HK\$ million                                                                         | 2020  | 2019  |
|-----------------------------------------------------------------------------------------|-------|-------|
| Depreciation charge relating to:                                                        |       |       |
| – Owned property, plant and equipment                                                   | 3,788 | 3,865 |
| – Right-of-use assets                                                                   | 357   | 332   |
|                                                                                         | 4,145 | 4,197 |
| Amortisation charge:                                                                    |       |       |
| – Amortisation charge relating to service concession assets and other intangible assets | 1,601 | 1,439 |
| – Utilisation of government subsidy for SZL4 operation                                  | (381) | (399) |
|                                                                                         | 1,220 | 1,040 |
|                                                                                         | 5,365 | 5,237 |

# NOTES TO THE CONSOLIDATED ACCOUNTS

## 14 Interest and Finance Charges

| in HK\$ million                                                   | 2020         | 2019  |
|-------------------------------------------------------------------|--------------|-------|
| Interest expenses in respect of:                                  |              |       |
| – Bank loans, overdrafts and capital market instruments           | <b>1,001</b> | 1,053 |
| – Obligations under service concession                            | <b>696</b>   | 700   |
| – Lease liabilities                                               | <b>56</b>    | 58    |
| – Others                                                          | <b>25</b>    | 23    |
| Finance charges                                                   | <b>52</b>    | 42    |
| Exchange loss/(gain)                                              | <b>234</b>   | (53)  |
|                                                                   | <b>2,064</b> | 1,823 |
| Utilisation of government subsidy for SZL4 operation              | <b>(58)</b>  | (70)  |
| Derivative financial instruments:                                 |              |       |
| – Fair value hedges                                               | <b>2</b>     | 1     |
| – Cash flow hedges:                                               |              |       |
| – transferred from hedging reserve to interest expenses           | <b>(21)</b>  | (32)  |
| – transferred from hedging reserve to offset exchange (loss)/gain | <b>(240)</b> | 69    |
| – Hedge of net investments:                                       |              |       |
| – ineffective portion                                             | <b>–</b>     | (1)   |
| – Derivatives not adopted hedge accounting                        | <b>1</b>     | –     |
|                                                                   | <b>(258)</b> | 37    |
| Interest expenses capitalised                                     | <b>(360)</b> | (449) |
|                                                                   | <b>1,388</b> | 1,341 |
| Interest income in respect of:                                    |              |       |
| – Deposits with banks                                             | <b>(348)</b> | (466) |
| – Others                                                          | <b>(36)</b>  | (16)  |
|                                                                   | <b>(384)</b> | (482) |
|                                                                   | <b>1,004</b> | 859   |

During the year ended 31 December 2020, interest expenses capitalised were calculated on a monthly basis at the pre-determined cost of borrowings and/or the relevant group companies' borrowing cost which varied from 2.0% to 2.9% per annum (2019: 2.5% to 2.9% per annum).

During the year ended 31 December 2020, interest and finance charges net of interest expenses capitalised in relation to the SZL4 were HK\$58 million (2019: HK\$70 million), which was fully offset by the subsidy received from the Shenzhen Municipal Government.

During the year ended 31 December 2020, the loss resulting from fair value changes of the underlying financial assets and liabilities being hedged under fair value hedge was HK\$140 million (2019: HK\$45 million) while the gain resulting from fair value changes of hedging instruments comprising interest rate and cross currency swaps was HK\$138 million (2019: HK\$44 million), thus resulting in a net loss of HK\$2 million (2019: HK\$1 million).

## 15 Income Tax in the Consolidated Profit and Loss Account

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

| in HK\$ million                                             | 2020         | 2019  |
|-------------------------------------------------------------|--------------|-------|
| <b>Current tax</b>                                          |              |       |
| – Hong Kong Profits Tax                                     | <b>958</b>   | 1,191 |
| – Tax outside Hong Kong                                     | <b>328</b>   | 264   |
|                                                             | <b>1,286</b> | 1,455 |
| Less: Utilisation of government subsidy for SZL4 operation  | <b>(28)</b>  | (71)  |
|                                                             | <b>1,258</b> | 1,384 |
| <b>Deferred tax</b>                                         |              |       |
| – Origination and reversal of temporary differences on:     |              |       |
| – tax losses                                                | <b>(20)</b>  | (1)   |
| – depreciation allowances in excess of related depreciation | <b>356</b>   | 620   |
| – revaluation of properties                                 | <b>(1)</b>   | (5)   |
| – provisions and others                                     | <b>(292)</b> | (76)  |
|                                                             | <b>43</b>    | 538   |
|                                                             | <b>1,301</b> | 1,922 |

Except for the Company which is a qualifying corporation under the two-tiered Profits Tax rate regime in Hong Kong, the provision for Hong Kong Profits Tax for the year ended 31 December 2020 is calculated at 16.5% (2019: 16.5%) on the estimated assessable profits for the year after deducting accumulated tax losses brought forward, if any. Under the two-tiered Profits Tax rate regime, the Company's first HK\$2 million of assessable profits are taxed at 8.25% and the remaining assessable profits are taxed at 16.5%. The provision for Hong Kong Profits Tax for the Company was calculated on the same basis in 2020 and 2019.

Current taxes for subsidiaries outside Hong Kong are charged at the appropriate current rates of taxation ruling in the relevant tax jurisdictions.

Provision for deferred tax on temporary differences arising in Hong Kong is calculated at the Hong Kong Profits Tax rate at 16.5% (2019: 16.5%), while that arising outside Hong Kong is calculated at the appropriate current rates of taxation ruling in the relevant tax jurisdictions.

The Company purchased tax reserve certificates in connection with the tax deductibility of certain payments relating to the Rail Merger. Please refer to note 29 to the consolidated accounts for details.

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

|                                                                                                                                 | 2020           |               | 2019         |        |
|---------------------------------------------------------------------------------------------------------------------------------|----------------|---------------|--------------|--------|
|                                                                                                                                 | HK\$ million   | %             | HK\$ million | %      |
| (Loss)/profit before taxation                                                                                                   | <b>(3,520)</b> |               | 14,014       |        |
| Notional tax on (loss)/profit before taxation, calculated at the rates applicable to profits in the tax jurisdictions concerned | <b>(728)</b>   | <b>(20.7)</b> | 2,330        | 16.6   |
| Tax effect of non-deductible expenses                                                                                           | <b>2,232</b>   | <b>63.4</b>   | 1,241        | 8.8    |
| Tax effect of non-taxable revenue                                                                                               | <b>(207)</b>   | <b>(5.9)</b>  | (1,562)      | (11.1) |
| Tax effect of unused tax losses not recognised                                                                                  | <b>32</b>      | <b>0.9</b>    | (16)         | (0.1)  |
| Utilisation of government subsidy for SZL4 operation                                                                            | <b>(28)</b>    | <b>(0.8)</b>  | (71)         | (0.5)  |
| Actual tax expenses                                                                                                             | <b>1,301</b>   | <b>36.9</b>   | 1,922        | 13.7   |

# NOTES TO THE CONSOLIDATED ACCOUNTS

## 16 Dividends

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

| in HK\$ million                                                                                                                                | 2020         | 2019         |
|------------------------------------------------------------------------------------------------------------------------------------------------|--------------|--------------|
| Ordinary dividends attributable to the year                                                                                                    |              |              |
| – Interim ordinary dividend declared of HK\$0.25 (2019: HK\$0.25) per share                                                                    | 1,545        | 1,539        |
| – Final ordinary dividend proposed after the end of the reporting period of HK\$0.98 (2019: HK\$0.98) per share                                | 6,057        | 6,035        |
|                                                                                                                                                | <b>7,602</b> | <b>7,574</b> |
| Ordinary dividends attributable to the previous year                                                                                           |              |              |
| – Final ordinary dividend of HK\$0.98 (2019: HK\$0.95 per share attributable to year 2018) per share approved and payable/paid during the year | 6,036        | 5,835        |

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

For 2020 final ordinary dividend, the Board proposed that a scrip dividend option will be offered to all shareholders of the Company whose names appeared on the register of members of the Company as at the close of business on 4 June 2021 (except for those with registered addresses in New Zealand or the United States of America or any of its territories or possessions).

Details of ordinary dividends paid to the Financial Secretary Incorporated are disclosed in note 44O.

## 17 (Loss)/Earnings Per Share

### A Basic (Loss)/Earnings Per Share

The calculation of basic (loss)/earnings per share is based on the loss for the year attributable to shareholders of HK\$4,809 million (2019: profit of HK\$11,932 million) and the weighted average number of ordinary shares in issue less shares held for Executive Share Incentive Scheme, which is calculated as follows:

|                                                                                                                 | 2020                 | 2019          |
|-----------------------------------------------------------------------------------------------------------------|----------------------|---------------|
| Issued ordinary shares at 1 January                                                                             | 6,157,948,911        | 6,139,485,589 |
| Effect of scrip dividend issued                                                                                 | 8,968,601            | 6,682,480     |
| Effect of share options exercised                                                                               | 1,399,931            | 2,130,711     |
| Less: Shares held for Executive Share Incentive Scheme                                                          | (5,787,780)          | (5,752,047)   |
| Weighted average number of ordinary shares less shares held for Executive Share Incentive Scheme at 31 December | <b>6,162,529,663</b> | 6,142,546,733 |

### B Diluted (Loss)/Earnings Per Share

The calculation of diluted (loss)/earnings per share is based on the loss for the year attributable to shareholders of HK\$4,809 million (2019: profit of HK\$11,932 million) and the weighted average number of ordinary shares in issue less shares held for Executive Share Incentive Scheme after adjusting for the dilutive effect of the Company's share option scheme and Executive Share Incentive Scheme, which is calculated as follows:

|                                                                                                                 | 2020                 | 2019          |
|-----------------------------------------------------------------------------------------------------------------|----------------------|---------------|
| Weighted average number of ordinary shares less shares held for Executive Share Incentive Scheme at 31 December | 6,162,529,663        | 6,142,546,733 |
| Effect of dilutive potential shares under the share option scheme                                               | –                    | 2,218,657     |
| Effect of shares awarded under Executive Share Incentive Scheme                                                 | –                    | 5,759,306     |
| Weighted average number of shares (diluted) at 31 December                                                      | <b>6,162,529,663</b> | 6,150,524,696 |

The effect of the Group's share option scheme (1,055,658 shares) and Executive Share Incentive Scheme (5,836,013 shares) are anti-dilutive for the year ended 31 December 2020 since they would result in a decrease in the loss per share.

C Both basic and diluted earnings per share would have been HK\$0.71 (2019: HK\$1.72), if the calculation is based on profit attributable to shareholders of the Company arising from underlying businesses of HK\$4,381 million (2019: HK\$10,560 million).

## 18 Other Comprehensive Income

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

| in HK\$ million                                                               | 2020              |                       |                   | 2019              |               |                   |
|-------------------------------------------------------------------------------|-------------------|-----------------------|-------------------|-------------------|---------------|-------------------|
|                                                                               | Before-tax amount | Tax benefit/(expense) | Net-of-tax amount | Before-tax amount | Tax (expense) | Net-of-tax amount |
| Exchange differences on translation of:                                       |                   |                       |                   |                   |               |                   |
| – Financial statements of overseas subsidiaries, associates and joint venture | 1,282             | –                     | 1,282             | (344)             | –             | (344)             |
| – Non-controlling interests                                                   | 13                | –                     | 13                | (15)              | –             | (15)              |
|                                                                               | 1,295             | –                     | 1,295             | (359)             | –             | (359)             |
| (Loss)/surplus on revaluation of self-occupied land and buildings             | (328)             | 54                    | (274)             | 145               | (24)          | 121               |
| Remeasurement of net asset/liability of defined benefit schemes               | 893               | (141)                 | 752               | 869               | (139)         | 730               |
| Cash flow hedges: net movement in hedging reserve (note 18B)                  | (87)              | 14                    | (73)              | 292               | (48)          | 244               |
| Other comprehensive income                                                    | 1,773             | (73)                  | 1,700             | 947               | (211)         | 736               |

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

| in HK\$ million                                                                                | 2020  | 2019 |
|------------------------------------------------------------------------------------------------|-------|------|
| Cash flow hedges:                                                                              |       |      |
| Effective portion of changes in fair value of hedging instruments recognised during the year   | 174   | 255  |
| Amounts (credited)/charged to profit or loss:                                                  |       |      |
| – Interest and finance charges (note 14)                                                       | (261) | 37   |
|                                                                                                | (87)  | 292  |
| Tax effect resulting from:                                                                     |       |      |
| – Effective portion of changes in fair value of hedging instruments recognised during the year | (29)  | (42) |
| – Amounts charged/(credited) to profit or loss                                                 | 43    | (6)  |
|                                                                                                | (73)  | 244  |

## 19 Investment Properties and Other Property, Plant and Equipment

### A Investment Properties

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

| in HK\$ million      | 2020    | 2019   |
|----------------------|---------|--------|
| At 1 January         | 91,712  | 83,037 |
| Additions            | 3,501   | 7,316  |
| Change in fair value | (9,190) | 1,372  |
| Exchange gain/(loss) | 35      | (13)   |
| At 31 December       | 86,058  | 91,712 |

All investment properties of the Group were revalued at 31 December 2020 and 2019. Details of the fair value measurement are disclosed in note 40. The net decrease in fair value of HK\$9,190 million (2019: net increase of HK\$1,372 million) arising from the revaluation has been debited (2019: credited) to the consolidated profit and loss account. Investment properties in Hong Kong and Mainland of China are revalued semi-annually by Colliers International (Hong Kong) Limited (2019: Jones Lang LaSalle Limited) and Cushman & Wakefield Limited respectively. Future market condition changes may result in further gains or losses to be recognised through consolidated profit and loss account in subsequent periods.

Included in the Group's investment properties as at 31 December 2020 was HK\$605 million (2019: HK\$670 million) relating to properties in Mainland of China.



# NOTES TO THE CONSOLIDATED ACCOUNTS

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

### B Other Property, Plant and Equipment

| in HK\$ million                                      | Leasehold land | Self-occupied buildings | Civil works | Plant and equipment | Assets under construction | Total   |
|------------------------------------------------------|----------------|-------------------------|-------------|---------------------|---------------------------|---------|
| <b>2020</b>                                          |                |                         |             |                     |                           |         |
| Cost or Valuation                                    |                |                         |             |                     |                           |         |
| At 1 January 2020                                    | 1,765          | 4,650                   | 62,378      | 88,175              | 6,835                     | 163,803 |
| Additions                                            | –              | 30                      | 3           | 348                 | 3,401                     | 3,782   |
| Disposals/write-offs                                 | –              | (1)                     | –           | (544)               | (3)                       | (548)   |
| Loss on revaluation                                  | –              | (480)                   | –           | –                   | –                         | (480)   |
| Transfer to additional concession property (note 20) | –              | –                       | (4)         | 1                   | (8)                       | (11)    |
| Other assets commissioned                            | –              | –                       | 76          | 1,798               | (1,874)                   | –       |
| Exchange differences                                 | –              | 23                      | –           | 195                 | 4                         | 222     |
| At 31 December 2020                                  | 1,765          | 4,222                   | 62,453      | 89,973              | 8,355                     | 166,768 |
| At Cost                                              | 1,765          | 475                     | 62,453      | 89,973              | 8,355                     | 163,021 |
| At 31 December 2020 Valuation                        | –              | 3,747                   | –           | –                   | –                         | 3,747   |
| Aggregate depreciation                               |                |                         |             |                     |                           |         |
| At 1 January 2020                                    | 374            | 74                      | 9,388       | 51,335              | –                         | 61,171  |
| Charge for the year                                  | 34             | 233                     | 521         | 3,357               | –                         | 4,145   |
| Written back on disposals                            | –              | (1)                     | –           | (491)               | –                         | (492)   |
| Written back on revaluation                          | –              | (152)                   | –           | –                   | –                         | (152)   |
| Exchange differences                                 | –              | 4                       | –           | 93                  | –                         | 97      |
| At 31 December 2020                                  | 408            | 158                     | 9,909       | 54,294              | –                         | 64,769  |
| Net book value at 31 December 2020                   | 1,357          | 4,064                   | 52,544      | 35,679              | 8,355                     | 101,999 |
| <b>2019</b>                                          |                |                         |             |                     |                           |         |
| Cost or Valuation                                    |                |                         |             |                     |                           |         |
| At 1 January 2019                                    | 1,757          | 4,597                   | 62,385      | 86,824              | 5,115                     | 160,678 |
| Additions                                            | –              | 60                      | –           | 292                 | 3,173                     | 3,525   |
| Disposals/write-offs                                 | –              | –                       | (2)         | (315)               | (6)                       | (323)   |
| Loss on revaluation                                  | –              | (7)                     | –           | –                   | –                         | (7)     |
| Transfer to stores and spares                        | –              | –                       | –           | (12)                | –                         | (12)    |
| Transfer to additional concession property (note 20) | –              | –                       | –           | (4)                 | (2)                       | (6)     |
| Other assets commissioned                            | 8              | –                       | (5)         | 1,441               | (1,444)                   | –       |
| Exchange differences                                 | –              | –                       | –           | (51)                | (1)                       | (52)    |
| At 31 December 2019                                  | 1,765          | 4,650                   | 62,378      | 88,175              | 6,835                     | 163,803 |
| At Cost                                              | 1,765          | 423                     | 62,378      | 88,175              | 6,835                     | 159,576 |
| At 31 December 2019 Valuation                        | –              | 4,227                   | –           | –                   | –                         | 4,227   |
| Aggregate depreciation                               |                |                         |             |                     |                           |         |
| At 1 January 2019                                    | 340            | –                       | 8,865       | 48,206              | –                         | 57,411  |
| Charge for the year                                  | 34             | 226                     | 523         | 3,414               | –                         | 4,197   |
| Written back on disposals                            | –              | –                       | –           | (270)               | –                         | (270)   |
| Written back on revaluation                          | –              | (152)                   | –           | –                   | –                         | (152)   |
| Exchange differences                                 | –              | –                       | –           | (15)                | –                         | (15)    |
| At 31 December 2019                                  | 374            | 74                      | 9,388       | 51,335              | –                         | 61,171  |
| Net book value at 31 December 2019                   | 1,391          | 4,576                   | 52,990      | 36,840              | 6,835                     | 102,632 |

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

### C Right-of-use Assets

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

| in HK\$ million                                                                                | Note  | 31 December 2020 | 31 December 2019 |
|------------------------------------------------------------------------------------------------|-------|------------------|------------------|
| Ownership interests in leasehold land held for own use, with remaining lease term of:          | (i)   |                  |                  |
| – less than 50 years                                                                           |       | <b>1,357</b>     | 1,391            |
| Ownership interests in self-occupied buildings held for own use, with remaining lease term of: | (i)   |                  |                  |
| – less than 50 years                                                                           |       | <b>3,747</b>     | 4,227            |
| Other self-occupied buildings leased for own use, with remaining lease term of:                | (ii)  |                  |                  |
| – less than 10 years                                                                           |       | <b>317</b>       | 349              |
| Plant and equipment, with remaining lease term of:                                             | (iii) |                  |                  |
| – less than 10 years                                                                           |       | <b>507</b>       | 503              |
|                                                                                                |       | <b>5,928</b>     | 6,470            |
| Ownership interests in leasehold investment property, with remaining lease term of:            |       |                  |                  |
| – 50 years or more                                                                             |       | <b>14</b>        | 15               |
| – less than 50 years                                                                           |       | <b>85,801</b>    | 91,412           |
|                                                                                                |       | <b>85,815</b>    | 91,427           |
| Other leasehold investment property, with remaining lease term of:                             |       |                  |                  |
| – less than 10 years                                                                           |       | <b>243</b>       | 285              |
|                                                                                                |       | <b>86,058</b>    | 91,712           |
|                                                                                                |       | <b>91,986</b>    | 98,182           |

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

| in HK\$ million                                                                                                  | 2020       | 2019 |
|------------------------------------------------------------------------------------------------------------------|------------|------|
| Depreciation charge of right-of-use assets by class of underlying asset:                                         |            |      |
| Ownership interests in leasehold land held for own use                                                           | <b>34</b>  | 34   |
| Ownership interests in self-occupied buildings held for own use                                                  | <b>152</b> | 152  |
| Other self-occupied buildings leased for own use                                                                 | <b>81</b>  | 74   |
| Plant and equipment                                                                                              | <b>90</b>  | 72   |
|                                                                                                                  | <b>357</b> | 332  |
| Interest on lease liabilities                                                                                    | <b>56</b>  | 58   |
| Expense relating to short-term leases and other leases with remaining lease term ending on or before 31 December | <b>14</b>  | 37   |
| Expense relating to leases of low-value assets, excluding short-term leases of low-value assets                  | <b>22</b>  | 22   |

During the year, additions to right-of-use assets were HK\$3,566 million (2019: HK\$7,438 million). This amount primarily related to additions of investment properties.

Details of total cash outflow for leases and the maturity analysis of lease liabilities are set out in notes 39C and 32D, respectively.

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

The lease of the land on which civil works as well as plant and equipment are situated for Hong Kong transport operations was granted to the Company under a running line lease which is coterminous with the Company's franchise to operate the mass transit railway under the Operating Agreement (notes 44A, 44B and 44C).

Under the terms of the lease, the Company undertakes to keep and maintain all the leased areas, including underground and overhead structures, at its own cost. With respect to parts of the railway situated in structures where access is shared with other users, such as the Lantau Fixed Crossing, the Company's obligation for maintenance is limited to the railway only. All maintenance costs incurred under the terms of the lease have been dealt with as expenses relating to Hong Kong transport operations in the consolidated profit and loss account.

All self-occupied buildings of the Group in Hong Kong are carried at fair value. The details of the fair value measurement are disclosed in note 40. The revaluation loss of HK\$328 million (2019: surplus of HK\$145 million) and the related deferred tax credit of HK\$54 million (2019: expenses of HK\$24 million) has been recognised in other comprehensive income and accumulated in the fixed assets revaluation reserve (note 38D). The carrying amount of the self-occupied buildings at 31 December 2020 would have been HK\$665 million (2019: HK\$692 million) had the buildings been stated at cost less accumulated depreciation.

# NOTES TO THE CONSOLIDATED ACCOUNTS

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

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

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

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

#### (iii) Other Leases

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

### D Properties Leased Out under Operating Leases

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

The gross carrying amount of investment properties of the Group held for use in operating leases were HK\$86,058 million (2019: HK\$84,624 million). The costs of station kiosks of the Group held for use in operating leases were HK\$818 million (2019: HK\$775 million) and the related accumulated depreciation charges were HK\$519 million (2019: HK\$493 million).

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

| in HK\$ million                  | 2020          | 2019          |
|----------------------------------|---------------|---------------|
| Within 1 year                    | 8,436         | 8,466         |
| After 1 year but within 2 years  | 6,038         | 6,629         |
| After 2 years but within 3 years | 2,666         | 4,234         |
| After 3 years but within 4 years | 1,440         | 985           |
| After 4 years but within 5 years | 1,077         | 305           |
| After 5 years                    | 1,903         | 341           |
|                                  | <b>21,560</b> | <b>20,960</b> |

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

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

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

## 20 Service Concession Assets

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

| in HK\$ million                                             | KCRC Rail Merger            |                                | Additional concession property (High Speed Rail) | Additional concession property (Tuen Ma Line) | Shenzhen Metro Line 4 | MTR Nordic | TfL Rail/ Elizabeth Line | Total  |
|-------------------------------------------------------------|-----------------------------|--------------------------------|--------------------------------------------------|-----------------------------------------------|-----------------------|------------|--------------------------|--------|
|                                                             | Initial concession property | Additional concession property |                                                  |                                               |                       |            |                          |        |
| <b>2020</b>                                                 |                             |                                |                                                  |                                               |                       |            |                          |        |
| Cost                                                        |                             |                                |                                                  |                                               |                       |            |                          |        |
| At 1 January 2020                                           | 15,226                      | 17,582                         | 51                                               | -                                             | 8,460                 | 76         | 58                       | 41,453 |
| Net additions during the year                               | -                           | 2,741                          | 129                                              | 10                                            | 57                    | -          | -                        | 2,937  |
| Disposals                                                   | -                           | (97)                           | -                                                | -                                             | (91)                  | -          | -                        | (188)  |
| Transfer from other property, plant and equipment (note 19) | -                           | 3                              | -                                                | 8                                             | -                     | -          | -                        | 11     |
| Reclassification within service concession assets           | -                           | (9)                            | -                                                | 9                                             | -                     | -          | -                        | -      |
| Exchange differences                                        | -                           | -                              | -                                                | -                                             | 511                   | 10         | 2                        | 523    |
| At 31 December 2020                                         | 15,226                      | 20,220                         | 180                                              | 27                                            | 8,937                 | 86         | 60                       | 44,736 |
| Accumulated amortisation                                    |                             |                                |                                                  |                                               |                       |            |                          |        |
| At 1 January 2020                                           | 3,680                       | 3,509                          | -                                                | -                                             | 2,903                 | 63         | 37                       | 10,192 |
| Charge for the year                                         | 305                         | 894                            | 4                                                | 1                                             | 384                   | 2          | 6                        | 1,596  |
| Written-off on disposals                                    | -                           | (82)                           | -                                                | -                                             | (53)                  | -          | -                        | (135)  |
| Exchange differences                                        | -                           | -                              | -                                                | -                                             | 198                   | 9          | 1                        | 208    |
| At 31 December 2020                                         | 3,985                       | 4,321                          | 4                                                | 1                                             | 3,432                 | 74         | 44                       | 11,861 |
| Net book value at 31 December 2020                          | 11,241                      | 15,899                         | 176                                              | 26                                            | 5,505                 | 12         | 16                       | 32,875 |
| <b>2019</b>                                                 |                             |                                |                                                  |                                               |                       |            |                          |        |
| Cost                                                        |                             |                                |                                                  |                                               |                       |            |                          |        |
| At 1 January 2019                                           | 15,226                      | 15,397                         | 1                                                | -                                             | 8,587                 | 84         | 56                       | 39,351 |
| Net additions during the year                               | -                           | 2,232                          | 50                                               | -                                             | 75                    | -          | -                        | 2,357  |
| Disposals                                                   | -                           | (53)                           | -                                                | -                                             | (45)                  | (4)        | -                        | (102)  |
| Transfer from other property, plant and equipment (note 19) | -                           | 6                              | -                                                | -                                             | -                     | -          | -                        | 6      |
| Exchange differences                                        | -                           | -                              | -                                                | -                                             | (157)                 | (4)        | 2                        | (159)  |
| At 31 December 2019                                         | 15,226                      | 17,582                         | 51                                               | -                                             | 8,460                 | 76         | 58                       | 41,453 |
| Accumulated amortisation                                    |                             |                                |                                                  |                                               |                       |            |                          |        |
| At 1 January 2019                                           | 3,375                       | 2,825                          | -                                                | -                                             | 2,584                 | 65         | 29                       | 8,878  |
| Charge for the year                                         | 305                         | 719                            | -                                                | -                                             | 401                   | 2          | 7                        | 1,434  |
| Written-off on disposals                                    | -                           | (35)                           | -                                                | -                                             | (27)                  | (1)        | -                        | (63)   |
| Exchange differences                                        | -                           | -                              | -                                                | -                                             | (55)                  | (3)        | 1                        | (57)   |
| At 31 December 2019                                         | 3,680                       | 3,509                          | -                                                | -                                             | 2,903                 | 63         | 37                       | 10,192 |
| Net book value at 31 December 2019                          | 11,546                      | 14,073                         | 51                                               | -                                             | 5,557                 | 13         | 21                       | 31,261 |

SZL4 forms part of the Shenzhen Metro, which is operated by a wholly-owned subsidiary, MTR Corporation (Shenzhen) Limited ("MTRSZ"). There has been no increase in fare since MTRSZ started operating the line in 2010. In July 2020, the Shenzhen Municipal Government has publicised a fare adjustment framework for Shenzhen Metro network which will take effect on 1 January 2021. The framework sets out the mechanism of fare setting and the procedures of fare adjustment. Based on progress of the fare adjustment made to date, no impairment loss is recognised at 31 December 2020. If a suitable fare adjustment mechanism is not put in place, the long-term financial viability of SZL4 is expected to be impacted.

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

# NOTES TO THE CONSOLIDATED ACCOUNTS

## 21 Railway Construction Projects under Entrustment by the HKSAR Government

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

#### (a) HSR Preliminary Entrustment Agreement

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

#### (b) HSR Entrustment Agreement

In 2009, the HKSAR Government decided that the Company should be asked to proceed with the construction, testing and commissioning of the HSR on the understanding that the Company would subsequently be invited to undertake the operation of the HSR under the service concession approach. On 26 January 2010, the HKSAR Government and the Company entered into another entrustment agreement for the construction, and commissioning of the HSR (the “**HSR Entrustment Agreement**”). Pursuant to the HSR Entrustment Agreement, the Company is responsible for carrying out or procuring the carrying out of the agreed activities for the planning, design, construction, testing and commissioning of the HSR and the HKSAR Government, as owner of HSR, is responsible for bearing and financing the full amount of the total cost of such activities (the “**Entrustment Cost**”) and for paying to the Company a fee in accordance with an agreed payment schedule (the “**HSR Project Management Fee**”) (subsequent amendments to these arrangements are described below). As of 31 December 2020, the Company had received full payment of the HSR Project Management Fee from the HKSAR Government.

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

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

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

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

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

#### (c) HSR Agreement

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

- (i) The HKSAR Government will bear and finance the project cost up to HK\$84.42 billion (which includes the original budgeted cost of HK\$65 billion plus the agreed increase in the estimated project cost of HK\$19.42 billion (the portion of the entrustment cost (up to HK\$84.42 billion) that exceeds HK\$65 billion being the “**Current Cost Overrun**”));
- (ii) The Company will, if the project exceeds HK\$84.42 billion, bear and finance the portion of the project cost which exceeds that sum (if any) (the “**Further Cost Overrun**”) except for certain agreed excluded costs (namely, additional costs arising from changes in law, force majeure events or any suspension of construction contracts specified in the HSR Agreement);
- (iii) The Company will pay a special dividend in cash of HK\$4.40 in aggregate per share in two equal tranches (of HK\$2.20 per share in cash in each tranche) (“**Special Dividend**”). The first tranche was paid on 13 July 2016 and the second tranche was paid on 12 July 2017;

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

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

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

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

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

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

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

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

(d) Operations of HSR

On 23 August 2018, the Company and KCRC entered into the supplemental service concession agreement for the HSR (“**SSCA-HSR**”) to supplement the Service Concession Agreement dated 9 August 2007 in order for KCRC to grant a concession to the Company in respect of the HSR and to prescribe the operational and financial requirements that will apply to the HSR. The commercial operation of HSR began on 23 September 2018.

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

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

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

- (i) any possible liability of the Company for any Further Cost Overrun (if any), given the Company does not currently believe based on information available to date there is any need to revise further the Revised Cost Estimate. However, the final project cost can only be ascertained upon finalisation of all contracts, some of which will involve the resolution of commercial issues and may take several years to reach settlement;
- (ii) any possible liability of the Company that may be determined in accordance with any arbitration that may take place (as more particularly described in note 21A(c)(iv) above), given that (a) the Company has not received any notification from the HKSAR Government of any claim by the HKSAR Government against the Company or of any referral by the HKSAR Government to arbitration (which, as a result of the HSR Agreement, cannot take place until after commencement of commercial operations on the HSR) as of 31 December 2020 and up to the date of this annual report; (b) the Company has the benefit of the Liability Cap; and (c) as a result of the HSR Agreement, the Company will not make any payment to the HKSAR Government in excess of the Liability Cap pursuant to a determination of the arbitrator without the approval of its independent shareholders; and
- (iii) where applicable, because the Company is not able to measure with sufficient reliability the amount of the Company’s obligation or liability (if any).



# NOTES TO THE CONSOLIDATED ACCOUNTS

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

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

(g) During the year ended 31 December 2020, HSR Project Management Fee of HK\$nil (2019: HK\$78 million) was recognised in the consolidated profit and loss account. As at 31 December 2020, the total HSR Project Management Fee and the additional fees referred to above recognised to date in the consolidated profit and loss account amounted to HK\$6,548 million (as at 31 December 2019: HK\$6,548 million).

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

### B Shatin to Central Link (“SCL”) Project

(a) SCL Agreements

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

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

Pursuant to the SCL EA2, the Company is responsible for carrying out or procuring the carrying out of the agreed works while the HKSAR Government is responsible for bearing and paying to the Company all the work costs (“**EA2 Advance Works Costs**”). The EA2 Advance Works Costs and the Interface Works Costs (as described below) are payable by the HKSAR Government to the Company. During the year ended 31 December 2020, HK\$122 million (2019: HK\$343 million) of costs were incurred by the Company, which are payable by the HKSAR Government. As at 31 December 2020, the amount of such costs which remained outstanding from the HKSAR Government was HK\$1,035 million (as at 31 December 2019: HK\$1,219 million).

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

The Company is responsible for carrying out or procuring the carrying out of the works specified in the SCL Agreements for a project management fee of HK\$7,893 million (the “**Original PMC**”). As at 31 December 2020 and up to the date of this annual report, the Company has received payments of the Original PMC from the HKSAR Government in accordance with the original agreed payment schedule. During the year ended 31 December 2020, Original PMC of HK\$565 million (2019: HK\$857 million) was recognised in the consolidated profit and loss account. As at 31 December 2020, the total Original PMC recognised to date in the consolidated profit and loss account amounted to HK\$7,893 million (as at 31 December 2019: HK\$7,328 million).

(b) SCL EA3 Cost Overrun

(i) *Cost to Complete*

The Company has previously announced that, due to the continuing challenges posed by external factors, the Original Entrusted Amount under SCL EA3 would not be sufficient to cover the total estimated cost to complete (“**CTC**”) and would need to be revised upwards significantly. The Company carried out a detailed review of the estimated CTC for the main construction works in 2017 and submitted a revised estimated total CTC of HK\$87,328 million, including an increase in the project management fee payable to the Company (“**2017 CTC Estimate**”) to the HKSAR Government on 5 December 2017, taking into account a number of factors, including issues such as archaeological relics, the HKSAR Government’s requests for additional scope and late or incomplete handover of construction sites.

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

In accordance with the terms of SCL EA3, the HKSAR Government issued its paper on 18 March 2020 to seek the approval of Legislative Council for additional funding required for the SCL Project amounting to HK\$10,801 million (“**Additional Funding**”) so that the SCL can be completed. On 12 June 2020, the Legislative Council approved the Additional Funding for the SCL Project. For the avoidance of doubt, the Additional Funding sought by the HKSAR Government and approved by the Legislative Council excluded the Hung Hom Incidents Related Costs (as detailed in note 21B(c)(iii) below) and any Additional PMC for the Company as further detailed in note 21B(b)(ii) below.



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

### B Shatin to Central Link (“SCL”) Project *(continued)*

#### (ii) Additional PMC

As detailed in note 21B(b)(i) above and as previously disclosed by the Company, the programme for the delivery of the SCL Project has been significantly impacted by certain key external events. Not only do these matters increase the cost of works, they also increase the cost to the Company of carrying out its project management responsibilities under the relevant SCL entrustment agreement, which is estimated to be around HK\$1,371 million.

By December 2020, the aggregate amount of project management fee paid by the HKSAR Government to the Company in accordance with the payment schedule contained in the SCL EA3 was substantially close to the Original PMC (excluding, for the avoidance of doubt, the Additional PMC of HK\$1,371 million previously sought by the Company) and has been expended in full by the Company. The Additional Funding approved by the Legislative Council did not include any Additional PMC for the Company which the Company had previously sought from the HKSAR Government. Therefore, the cost to the Company of continuing to comply with its project management obligations under the SCL EA3 is currently being met by the Company on an interim and without prejudice basis (to allow the SCL Project to progress in accordance with the latest programme) and the Company reserves its position as to the ultimate liability for such costs and as to its right to pursue the courses of action and remedies available under the SCL EA3.

However, given the Company's view that there has been a significant delay to the project programme and associated increase in project management costs to the Company, the Company has recently written to the HKSAR Government to restate the Company's belief that the Company is entitled (in accordance with the terms of the SCL EA3 and following the Company's receipt of independent expert advice) to an increase in the project management fee, to be agreed by way of good faith negotiations or otherwise determined in accordance with the provisions of the SCL EA3. However, the HKSAR Government has responded to the Company by reiterating that the HKSAR Government considers there have not been any material modifications to any of the scope of works, entrustment activities and/or entrustment programme contained in the SCL EA3 and, as such, the HKSAR Government maintains its position of disagreement to any increase in the project management fee.

Despite the fact that this matter needs to be resolved, the Company has continued, and intends to continue, to comply with its project management obligations under the SCL EA3 and has met, and intends to continue to meet, the costs thereof, on an interim and without prejudice basis, to allow the SCL Project to progress in accordance with the latest programme in order to achieve a full opening of the SCL as soon as reasonably practicable, whilst reserving its position as to the ultimate liability for such costs and as to its rights to pursue the courses of action and remedies available under the SCL EA3.

#### (iii) Provision for the SCL PMC

After taking into account the matters described in note 21B(b)(ii) above, and in particular, the Company meeting, on an interim and without prejudice basis (whilst reserving its position as to the ultimate liability for such costs and as to its rights to pursue the courses of action and remedies available under the SCL EA3), the cost to the Company of continuing to comply with its project management obligations, the Group has recognised a provision of HK\$1,371 million, for the estimated additional cost to the Company of continuing to comply with its project management responsibilities, in its consolidated profit and loss account for the year ended 31 December 2020. During the year ended 31 December 2020, the provision utilised amounted to HK\$45 million and no provision was written back. The provision (net of amount utilised) is included in “Creditors, other payables and provisions” in the consolidated statement of financial position.

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

#### (c) Hung Hom Incidents

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

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

#### (i) Commission of Inquiry (“COI”)

On 10 July 2018, the COI was set up by the HKSAR Chief Executive in Council pursuant to the Commissions of Inquiry Ordinance (Chapter 86 of the Laws of Hong Kong). The Company has cooperated fully with the COI. The COI process included hearing of evidence from factual witnesses and reviewing evidence from experts on project management and structural engineering issues. On 29 January 2019, the HKSAR Government made its closing submission to the first phase of the COI in which it stated its view that the Company ought to have provided the required skills and care reasonably expected of a professional and competent project manager but that the Company had failed to do so.

# NOTES TO THE CONSOLIDATED ACCOUNTS

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

### B Shatin to Central Link (“SCL”) Project *(continued)*

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

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

On 22 January 2020, the HKSAR Government reiterated, in its closing submissions on factual evidence for the extended inquiry submitted to the COI, that there was failure on the part of both the Company and the contractor Leighton Contractors Asia Limited to perform the obligations which the two parties undertook for the SCL project and that the Company, which was entrusted by the HKSAR Government as the project manager of the SCL project, ought to have provided the requisite degree of skill and care reasonably expected of a professional and competent project manager.

On 27 March 2020, the COI submitted its final report to the Chief Executive on its findings and recommendations on matters covered by the original and extended terms of reference. On 12 May 2020, the HKSAR Government published the final report in which the COI determined that it is fully satisfied that, with the suitable measures in place, the station box structure will be safe and also fit for purpose. The COI also stated that it is satisfied that, with suitable measures completed, the NAT, SAT and HHS structures will be safe and fit for purpose. The suitable measures for the station box structure were completed in June 2020 and the suitable measures for the NAT, SAT and HHS structures were completed in May 2020. The COI also made a number of comments on the construction process (including regarding failures in respect thereof such as unacceptable incidents of poor workmanship compounded by lax supervision and that in a number of respects also, management of the construction endeavour fell below the standards of reasonable competence) and made recommendations to the Company for the future.

#### (ii) Expert Adviser Team (“EAT”)

On 1 February 2021, the EAT on the SCL project, which was appointed by the HKSAR Government in August 2018 to conduct an overall review of the Company's project management system and recommend additional management and monitoring measures to be undertaken by the Company and the HKSAR Government in taking forward the SCL project, has submitted its final report to the HKSAR Government. The report noted that it is safe in practical terms to use the related built structures at Hung Hom Station for their intended purposes after the implementation of the suitable measures. The EAT has also put forward in the report recommendations to the Company and the HKSAR Government for the continuous improvement of railway project management.

#### (iii) Provision for the Hung Hom Incidents Related Costs

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

In order to progress the SCL Project and to facilitate the Phased Opening in the first quarter of 2020, the Company announced in July 2019 that it would fund, on an interim and without prejudice basis, certain costs arising from the Hung Hom Incidents and certain costs associated with Phased Opening (being costs for alteration works, trial operations and other costs associated with the preparation activities for the Phased Opening) (“**Hung Hom Incidents Related Costs**”), whilst reserving the Company's position as to the ultimate liability for such costs.

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

After taking into account the matters described in note 21B(c) above, and in particular, the Company's decision to fund, on an interim and without prejudice basis, the Hung Hom Incidents Related Costs, the Company recognised a provision of HK\$2,000 million in its consolidated profit and loss account for the year ended 31 December 2019. During the year ended 31 December 2020, the provision utilised amounted to HK\$566 million (2019: HK\$284 million) and no provision was written back (2019: HK\$nil). The provision (net of amount utilised) is included in “Creditors, other payables and provisions” in the consolidated statement of financial position.

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

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

### B Shatin to Central Link (“SCL”) Project *(continued)*

#### (d) Mixed Fleet Operation Incident

On 11 September 2020, the Company announced the delay in service commencement of the new East Rail Line (“EAL”) signalling system and introduction of new nine-car trains which was originally scheduled for 12 September 2020 (collectively “Mixed Fleet Operation Incident”), following a review on the new signalling system conducted by the Company prior to service commencement.

On 13 September 2020, the Company announced the setting up of the Investigation Panel to look into the Mixed Fleet Operation Incident and to submit an investigation report to the HKSAR Government. On 21 January 2021, the Company submitted to the HKSAR Government for its review the report from the Investigation Panel. The Company acknowledged and accepted the findings of the Investigation Panel which include a finding that the issue concerned in the Mixed Fleet Operation Incident is not an issue of safety but of service reliability. The Company also accepted and will implement the recommendations made in the report. Following the satisfactory completion of further additional testing and approval by relevant HKSAR Government departments, the new signalling system and the new nine-car trains on the EAL were commissioned on 6 February 2021 in preparation for extending the EAL across the harbour to Admiralty Station.

#### (e) Potential Claims from and Indemnification to the HKSAR Government

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

The eventual outcome of the discussions between the Company and the HKSAR Government on various matters including the timing of any overall settlement in relation to the Hung Hom Incidents and their respective funding obligations relating to the Hung Hom Incidents Related Costs and the level of recovery from relevant parties remain highly uncertain at the current stage. As a result, no additional provision other than as stated above has been made as the Company is currently not able to measure with sufficient reliability the ultimate amount of the Company’s obligation or liability arising from the SCL Project as a whole in light of the significant uncertainties involved. While no provision in respect of the SCL Project related matters was recognised at 31 December 2020 other than as stated above, the Company will reassess on an ongoing basis the need to recognise any further provision in the future in light of any further development.

#### (f) Phased Opening of SCL

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

# NOTES TO THE CONSOLIDATED ACCOUNTS

## 22 Property Development in Progress

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

As at 31 December 2020, the outstanding Hong Kong Property Development Projects of the Company include the Tseung Kwan O Extension Property Projects at the depot sites in Tseung Kwan O Area 86 (LOHAS Park) and at the ventilation building in Yau Tong, South Island Line Property Project at sites in Wong Chuk Hang, Kwun Tong Line Extension Property Project at sites in Ho Man Tin and the East Rail Line/Light Rail Property Projects at sites along the related railway lines.

### A Property Development in Progress

| in HK\$ million                         | Balance at<br>1 January | Expenditure | Offset against<br>payments<br>received from<br>developers | Transfer out to<br>profit or loss | Balance at<br>31 December |
|-----------------------------------------|-------------------------|-------------|-----------------------------------------------------------|-----------------------------------|---------------------------|
| <b>2020</b>                             |                         |             |                                                           |                                   |                           |
| Hong Kong Property Development Projects | <b>12,022</b>           | <b>687</b>  | <b>(276)</b>                                              | <b>(491)</b>                      | <b>11,942</b>             |
| <b>2019</b>                             |                         |             |                                                           |                                   |                           |
| Hong Kong Property Development Projects | 14,840                  | 3,819       | (662)                                                     | (5,975)                           | 12,022                    |

The lease terms of leasehold land in Hong Kong included under property development in progress are between 10 and 50 years.

### B Stakeholding Funds

Being the stakeholder under certain Airport Railway, Tseung Kwan O Extension and East Rail Line Property Projects, the Company receives and manages deposit monies and sales proceeds in respect of sales of properties under those developments. These monies are placed in separate designated bank accounts and, together with any interest earned, are to be released to the developers for the reimbursement of costs of the respective developments in accordance with the terms and conditions of the HKSAR Government Consent Schemes and development agreements. Any balance remaining is to be released for distribution only after all obligations relating to the developments have been met. Accordingly, the balances of the stakeholding funds and the corresponding bank balances have not been included in the consolidated statement of financial position. As at 31 December 2020, the balance of the stakeholding funds was HK\$16,034 million (2019: HK\$21,283 million).

### C West Rail Property Development

As part of the Rail Merger, the Company was appointed to act as the agent of KCRC and certain KCRC subsidiary companies ("West Rail Subsidiaries") in the development of specified development sites along the West Rail. The Company can receive an agency fee of 0.75% of the gross sale proceeds in respect of the developments except for the Tuen Mun development on which the Company can receive 10% of the net profits accrued under the development agreement. The Company can also recover from the West Rail Subsidiaries all the costs incurred in respect of the West Rail development sites plus 16.5% on-cost, together with interest accrued thereon. During the year ended 31 December 2020, HK\$42 million (2019: HK\$182 million) agency fee and other income in respect of West Rail property development was recognised (note 12). During the year ended 31 December 2020, the reimbursable costs incurred by the Company including on-cost and interest accrued were HK\$70 million (2019: HK\$81 million).

## 23 Investments in Subsidiaries

The following list contains the particulars of principal subsidiaries of the Company:

| Name of company                                                                                                             | Issued share capital/<br>contributed registered capital | Proportion of ownership interest |                     |                          | Place of incorporation/<br>establishment and operation | Principal activities                                                                    |
|-----------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------|----------------------------------|---------------------|--------------------------|--------------------------------------------------------|-----------------------------------------------------------------------------------------|
|                                                                                                                             |                                                         | Group's effective interest       | Held by the Company | Held by subsidiary(ies)  |                                                        |                                                                                         |
| MTR Academy (HK) Company Limited                                                                                            | HK\$10,000                                              | 100%                             | –                   | 100%                     | Hong Kong                                              | Administering the operation of MTR Academy                                              |
| MTR Telecommunication Company Limited                                                                                       | HK\$100,000,000                                         | 100%                             | 100%                | –                        | Hong Kong                                              | Mobile telecommunication services                                                       |
| Ngong Ping 360 Limited                                                                                                      | HK\$2                                                   | 100%                             | 100%                | –                        | Hong Kong                                              | Operating the Tung Chung to Ngong Ping cable car system and theme village in Ngong Ping |
| Pierhead Garden Management Company Limited                                                                                  | HK\$50,000                                              | 100%                             | 100%                | –                        | Hong Kong                                              | Property investment                                                                     |
| TraxComm Limited                                                                                                            | HK\$15,000,000                                          | 100%                             | 100%                | –                        | Hong Kong                                              | Fixed telecommunication network and related services                                    |
| Metro Trains Melbourne Pty. Ltd.*                                                                                           | AUD39,999,900                                           | 60% on ordinary shares;          | –                   | 100% on ordinary shares; | Australia                                              | Railway operations and maintenance                                                      |
|                                                                                                                             | AUD100                                                  | 30% on Class A shares            | –                   | 100% on Class A shares   |                                                        |                                                                                         |
| Metro Trains Sydney Pty Ltd*                                                                                                | AUD100                                                  | 60%                              | –                   | 60%                      | Australia                                              | Railway operations and maintenance                                                      |
| MTR Corporation (Sydney) NRT Pty Limited                                                                                    | AUD2                                                    | 100%                             | –                   | 100%                     | Australia                                              | Design and delivery of railway related systems                                          |
| MTR Corporation (Sydney) SMCSW Pty Limited                                                                                  | AUD1                                                    | 100%                             | –                   | 100%                     | Australia                                              | Design, delivery and integration of railway related systems                             |
| MTR Corporation (C.I.) Limited                                                                                              | US\$1,000                                               | 100%                             | 100%                | –                        | Cayman Islands/<br>Hong Kong                           | Financing                                                                               |
| MTR Consultadoria (Macau) Sociedade Unipessoal Lda.                                                                         | MOP25,000                                               | 100%                             | –                   | 100%                     | Macao                                                  | Railway consultancy services                                                            |
| MTR Operações Ferroviárias (Macau) Sociedade Unipessoal Lda. (also known as MTR Railway Operations (Macau) Company Limited) | MOP25,000                                               | 100%                             | –                   | 100%                     | Macao                                                  | Railway operations and management                                                       |
| MTR Express (Sweden) AB                                                                                                     | SEK10,050,000                                           | 100%                             | –                   | 100%                     | Sweden                                                 | Railway operations and maintenance, property investment and management                  |
| MTR Pendeltågen AB                                                                                                          | SEK10,050,000                                           | 100%                             | –                   | 100%                     | Sweden                                                 | Railway operations, maintenance and station management                                  |
| MTR Tech AB                                                                                                                 | SEK30,000,000                                           | 100%                             | –                   | 100%                     | Sweden                                                 | Railway maintenance                                                                     |
| MTR Tunnelbanan AB                                                                                                          | SEK40,000,000                                           | 100%                             | –                   | 100%                     | Sweden                                                 | Railway operations and maintenance                                                      |
| MTR (Beijing) Commercial Facilities Management Co., Ltd.^                                                                   | HK\$93,000,000                                          | 100%                             | –                   | 100%                     | The People's Republic of China                         | Property leasing and management                                                         |
| MTR Corporation (Shenzhen) Limited^                                                                                         | HK\$2,636,000,000                                       | 100%                             | –                   | 100%                     | The People's Republic of China                         | Railway construction, operations and management                                         |
| MTR Property Development (Shenzhen) Company Limited#                                                                        | HK\$2,180,000,000                                       | 100%                             | –                   | 100%                     | The People's Republic of China                         | Property development, operation, leasing, management and consultancy services           |
| MTR Corporation (Crossrail) Limited                                                                                         | GBP1,000,000                                            | 100%                             | –                   | 100%                     | United Kingdom                                         | Railway operations and maintenance                                                      |

\* Subsidiaries not audited by KPMG

^ Wholly foreign owned enterprise registered under PRC Law

# Sino-foreign equity joint venture registered under PRC Law

## NOTES TO THE CONSOLIDATED ACCOUNTS

### 23 Investments in Subsidiaries *(continued)*

The Directors of the Company are of the opinion that a complete list of all subsidiaries and their particulars will be of excessive length and therefore the above table contains only those subsidiaries which, in the opinion of the Directors, materially contribute to the Group's results, assets or liabilities.

### 24 Interests in Associates and Joint Venture

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

| Name of company                          | Proportion of ownership interest |                     |                    | Place of incorporation/ establishment and operation | Principal activities                                                                                                                                         |
|------------------------------------------|----------------------------------|---------------------|--------------------|-----------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                                          | Group's effective interest       | Held by the Company | Held by subsidiary |                                                     |                                                                                                                                                              |
| <b>Associates</b>                        |                                  |                     |                    |                                                     |                                                                                                                                                              |
| Octopus Holdings Limited                 | 57.4%                            | 57.4%               | –                  | Hong Kong                                           | Holding company of a group of companies which engage in the operation of a contactless smartcard common payment system in Hong Kong and consultancy services |
| Beijing MTR Corporation Limited~         | 49%                              | –                   | 49%                | The People's Republic of China                      | Metro investment, construction, operations and passenger services                                                                                            |
| Beijing MTR L16 Corporation Limited#     | 49%                              | –                   | 49%                | The People's Republic of China                      | Metro investment, construction and operations                                                                                                                |
| Hangzhou MTR Corporation Limited*~       | 49%                              | –                   | 49%                | The People's Republic of China                      | Railway operations and management                                                                                                                            |
| First MTR South Western Trains Limited*  | 30%                              | –                   | 30%                | United Kingdom                                      | Railway operations and management                                                                                                                            |
| NRT Pty Ltd*                             | 27.55%                           | –                   | 27.55%             | Australia                                           | Financing, railway operations and maintenance                                                                                                                |
| <b>Joint Venture</b>                     |                                  |                     |                    |                                                     |                                                                                                                                                              |
| Hangzhou MTR Line 5 Corporation Limited~ | 60%                              | –                   | 60%                | The People's Republic of China                      | Railway electrical and mechanical construction, operations and management                                                                                    |

\* Companies not audited by KPMG

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

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

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

## 24 Interests in Associates and Joint Venture *(continued)*

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

| in HK\$ million                                                     | 2020            | 2019     |
|---------------------------------------------------------------------|-----------------|----------|
| Assets                                                              | <b>30,576</b>   | 28,085   |
| Liabilities                                                         | <b>(19,036)</b> | (17,765) |
| Net assets                                                          | <b>11,540</b>   | 10,320   |
| Income                                                              | <b>6,228</b>    | 8,424    |
| Expenses and others                                                 | <b>(5,412)</b>  | (7,794)  |
| Profit before taxation                                              | <b>816</b>      | 630      |
| Income tax                                                          | <b>(211)</b>    | (342)    |
| Net profit                                                          | <b>605</b>      | 288      |
| Other comprehensive income                                          | <b>600</b>      | (185)    |
| Total comprehensive income                                          | <b>1,205</b>    | 103      |
| Group's share of net assets of the associates and joint venture     | <b>11,540</b>   | 10,320   |
| Goodwill                                                            | <b>52</b>       | 39       |
| Carrying amount in the consolidated statement of financial position | <b>11,592</b>   | 10,359   |

In March 2017, the Department for Transport of the United Kingdom ("DfT") awarded the South Western Railway franchise ("Franchise") to First MTR South Western Trains Limited ("SWR"), an associate of the Company which the Company holds a 30% shareholding and FirstGroup plc in the United Kingdom holds a 70% shareholding. Pursuant to a franchise agreement ("Franchise Agreement") with DfT, the period of the Franchise runs from 20 August 2017 for seven years, with an option for an eleven-month extension at the discretion of the DfT. As noted in the Company's 2019 annual accounts, a provision of GBP43 million (HK\$436 million) has been made under "share of profit or loss of associates and joint venture" in the consolidated profit and loss account for the year ended 31 December 2019 which represents the Company's 30% share of the maximum potential loss under the Franchise Agreement. Since March 2020, the franchise has been operating under the terms of the Emergency Measures Agreement and subsequently the Emergency Recovery Measures Agreement ("ERMA") put in place by the UK Government. As required under ERMA, SWR has agreed with DfT the termination sum required to terminate the pre-existing Franchise Agreement. Such termination sum will fall due at the end of the ERMA term, at which point the pre-existing franchise contract would also terminate by agreement. At the end of 2020, SWR is in the process of negotiating a new directly awarded management contract with the DfT, which will come into effect at the end of the ERMA. SWR's ERMA is in place up to 29 May 2021.

## 25 Investments in Securities

Investments in securities at 31 December 2020 represented investments in unlisted equity securities held by subsidiaries in the Mainland of China of HK\$254 million (2019: HK\$nil) and debt securities held by an overseas insurance underwriting subsidiary measured at FVPL of HK\$214 million (2019: HK\$386 million). As at 31 December 2020, all debt securities were expected to mature within one year except for HK\$154 million (2019: HK\$332 million) which were expected to mature after one year.

## 26 Properties Held for Sale

| in HK\$ million                        | 2020         | 2019  |
|----------------------------------------|--------------|-------|
| Properties held for sale               |              |       |
| – at cost                              | <b>1,159</b> | 1,125 |
| – at net realisable value              | <b>641</b>   | 120   |
|                                        | <b>1,800</b> | 1,245 |
| Representing:                          |              |       |
| Hong Kong property development         | <b>1,572</b> | 1,034 |
| Mainland of China property development | <b>228</b>   | 211   |
|                                        | <b>1,800</b> | 1,245 |

Properties held for sale of the Group at 31 December 2020 comprise interests in properties from property developments in Hong Kong and Mainland of China.

For Hong Kong property development, the net realisable values as at 31 December 2020 and 2019 were determined by reference to an open market valuation of the properties as at those dates, undertaken by an independent firm of surveyors, Colliers International (Hong Kong) Limited (2019: Jones Lang LaSalle Limited), who have among their staff Members of the Hong Kong Institute of Surveyors.

Properties held for sale at net realisable value of the Group are stated net of provision of HK\$8 million (2019: HK\$12 million) made in order to state these properties at the lower of their cost and estimated net realisable value. The remaining lease terms of leasehold land in Hong Kong included under properties held for sale are between 10 and 50 years.



# NOTES TO THE CONSOLIDATED ACCOUNTS

## 27 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:

| in HK\$ million                         | Notional amount | Fair value | Contractual undiscounted cash flows maturing in |              |              |                 | Total           |
|-----------------------------------------|-----------------|------------|-------------------------------------------------|--------------|--------------|-----------------|-----------------|
|                                         |                 |            | Less than 1 year                                | 1-2 years    | 2-5 years    | Over 5 years    |                 |
| <b>2020</b>                             |                 |            |                                                 |              |              |                 |                 |
| <b>Derivative Financial Assets</b>      |                 |            |                                                 |              |              |                 |                 |
| Gross settled:                          |                 |            |                                                 |              |              |                 |                 |
| Foreign exchange forwards               |                 |            |                                                 |              |              |                 |                 |
| – cash flow hedges:                     | <b>386</b>      | <b>11</b>  |                                                 |              |              |                 |                 |
| – inflow                                |                 |            | <b>269</b>                                      | <b>78</b>    | <b>40</b>    | <b>9</b>        | <b>396</b>      |
| – outflow                               |                 |            | <b>(263)</b>                                    | <b>(75)</b>  | <b>(39)</b>  | <b>(9)</b>      | <b>(386)</b>    |
| – not qualified for hedge accounting:   | <b>482</b>      | <b>19</b>  |                                                 |              |              |                 |                 |
| – inflow                                |                 |            | <b>471</b>                                      | <b>30</b>    | <b>1</b>     | <b>–</b>        | <b>502</b>      |
| – outflow                               |                 |            | <b>(453)</b>                                    | <b>(28)</b>  | <b>(1)</b>   | <b>–</b>        | <b>(482)</b>    |
| Cross currency swaps                    |                 |            |                                                 |              |              |                 |                 |
| – fair value hedges:                    | <b>2,333</b>    | <b>110</b> |                                                 |              |              |                 |                 |
| – inflow                                |                 |            | <b>1,274</b>                                    | <b>14</b>    | <b>478</b>   | <b>705</b>      | <b>2,471</b>    |
| – outflow                               |                 |            | <b>(1,176)</b>                                  | <b>(3)</b>   | <b>(466)</b> | <b>(698)</b>    | <b>(2,343)</b>  |
| – cash flow hedges:                     | <b>12,797</b>   | <b>277</b> |                                                 |              |              |                 |                 |
| – inflow                                |                 |            | <b>279</b>                                      | <b>280</b>   | <b>840</b>   | <b>16,629</b>   | <b>18,028</b>   |
| – outflow                               |                 |            | <b>(249)</b>                                    | <b>(248)</b> | <b>(746)</b> | <b>(16,432)</b> | <b>(17,675)</b> |
| Net settled:                            |                 |            |                                                 |              |              |                 |                 |
| Interest rate swaps                     |                 |            |                                                 |              |              |                 |                 |
| – fair value hedges                     | <b>4,390</b>    | <b>62</b>  | <b>55</b>                                       | <b>21</b>    | <b>15</b>    | <b>–</b>        | <b>91</b>       |
| – cash flow hedges                      | <b>250</b>      | <b>1</b>   | <b>(2)</b>                                      | <b>(2)</b>   | <b>(2)</b>   | <b>7</b>        | <b>1</b>        |
| – not qualified for hedge accounting    | <b>413</b>      | <b>–</b>   | <b>–</b>                                        | <b>–</b>     | <b>–</b>     | <b>–</b>        | <b>–</b>        |
|                                         | <b>21,051</b>   | <b>480</b> | <b>205</b>                                      | <b>67</b>    | <b>120</b>   | <b>211</b>      | <b>603</b>      |
| <b>Derivative Financial Liabilities</b> |                 |            |                                                 |              |              |                 |                 |
| Gross settled:                          |                 |            |                                                 |              |              |                 |                 |
| Foreign exchange forwards               |                 |            |                                                 |              |              |                 |                 |
| – fair value hedges:                    | <b>1,960</b>    | <b>25</b>  |                                                 |              |              |                 |                 |
| – inflow                                |                 |            | <b>1,960</b>                                    | <b>–</b>     | <b>–</b>     | <b>–</b>        | <b>1,960</b>    |
| – outflow                               |                 |            | <b>(1,985)</b>                                  | <b>–</b>     | <b>–</b>     | <b>–</b>        | <b>(1,985)</b>  |
| – cash flow hedges:                     | <b>7</b>        | <b>1</b>   |                                                 |              |              |                 |                 |
| – inflow                                |                 |            | <b>–</b>                                        | <b>1</b>     | <b>5</b>     | <b>–</b>        | <b>6</b>        |
| – outflow                               |                 |            | <b>–</b>                                        | <b>(2)</b>   | <b>(5)</b>   | <b>–</b>        | <b>(7)</b>      |
| – not qualified for hedge accounting:   | <b>1,390</b>    | <b>6</b>   |                                                 |              |              |                 |                 |
| – inflow                                |                 |            | <b>1,371</b>                                    | <b>19</b>    | <b>–</b>     | <b>–</b>        | <b>1,390</b>    |
| – outflow                               |                 |            | <b>(1,377)</b>                                  | <b>(19)</b>  | <b>–</b>     | <b>–</b>        | <b>(1,396)</b>  |
| Cross currency swaps                    |                 |            |                                                 |              |              |                 |                 |
| – cash flow hedges:                     | <b>5,730</b>    | <b>301</b> |                                                 |              |              |                 |                 |
| – inflow                                |                 |            | <b>126</b>                                      | <b>127</b>   | <b>649</b>   | <b>5,728</b>    | <b>6,630</b>    |
| – outflow                               |                 |            | <b>(146)</b>                                    | <b>(146)</b> | <b>(759)</b> | <b>(5,873)</b>  | <b>(6,924)</b>  |
| Net settled:                            |                 |            |                                                 |              |              |                 |                 |
| Interest rate swaps                     |                 |            |                                                 |              |              |                 |                 |
| – cash flow hedges                      | <b>3,250</b>    | <b>47</b>  | <b>(21)</b>                                     | <b>(16)</b>  | <b>(33)</b>  | <b>22</b>       | <b>(48)</b>     |
| – not qualified for hedge accounting    | <b>1,734</b>    | <b>1</b>   | <b>1</b>                                        | <b>–</b>     | <b>(1)</b>   | <b>–</b>        | <b>–</b>        |
|                                         | <b>14,071</b>   | <b>381</b> | <b>(71)</b>                                     | <b>(36)</b>  | <b>(144)</b> | <b>(123)</b>    | <b>(374)</b>    |
| <b>Total</b>                            | <b>35,122</b>   |            |                                                 |              |              |                 |                 |

## 27 Derivative Financial Assets and Liabilities (continued)

### A Fair Value (continued)

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

The Group's derivative financial instruments consist predominantly of interest rate and cross currency swaps entered into exclusively by the Company, and the relevant interest rate swap curves as of 31 December 2020 and 2019 were used to discount the cash flows of financial instruments. Interest rates used ranged from 0.163% to 1.105% (2019: 1.760% to 2.666%) for Hong Kong dollars, 0.164% to 1.189% (2019: 1.630% to 2.010%) for US dollars, 0.020% to 1.325% (2019: 0.809% to 1.768%) for Australian dollars and -0.058% to 0.183% (2019: 0.012% to 0.124%) for Japanese yen.

The table above details the remaining contractual maturities at the end of the reporting period of the Group's derivative financial assets and liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group can be required to pay. The details of the fair value measurement are disclosed in note 40.

# NOTES TO THE CONSOLIDATED ACCOUNTS

## 27 Derivative Financial Assets and Liabilities *(continued)*

### B Financial Risks

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

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

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

#### (i) Liquidity Risk

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

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

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

| in HK\$ million                                            | 2020                       |               |            |               | 2019                       |            |        |        |
|------------------------------------------------------------|----------------------------|---------------|------------|---------------|----------------------------|------------|--------|--------|
|                                                            | Capital market instruments | Bank loans    | Others     | Total         | Capital market instruments | Bank loans | Others | Total  |
| <b>Loans and other obligations</b>                         |                            |               |            |               |                            |            |        |        |
| Amounts repayable beyond 5 years                           | <b>35,782</b>              | <b>731</b>    | –          | <b>36,513</b> | 25,138                     | 887        | –      | 26,025 |
| Amounts repayable within a period of between 2 and 5 years | <b>3,881</b>               | <b>1,979</b>  | <b>618</b> | <b>6,478</b>  | 4,517                      | 3,001      | 624    | 8,142  |
| Amounts repayable within a period of between 1 and 2 years | <b>3,220</b>               | <b>234</b>    | –          | <b>3,454</b>  | 1,029                      | 254        | –      | 1,283  |
| Amounts repayable within 1 year                            | <b>4,985</b>               | <b>9,608</b>  | –          | <b>14,593</b> | 3,513                      | 9,489      | –      | 13,002 |
|                                                            | <b>47,868</b>              | <b>12,552</b> | <b>618</b> | <b>61,038</b> | 34,197                     | 13,631     | 624    | 48,452 |

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

## 27 Derivative Financial Assets and Liabilities *(continued)*

### B Financial Risks *(continued)*

#### (ii) Interest Rate Risk

The Group's interest rate risk arises principally from its borrowing activities at the parent company level (including its financing vehicles). Borrowings based on fixed and floating rates expose the Group to fair value and cash flow interest rate risk respectively due to fluctuations in market interest rates. The Group manages and controls its interest rate risk exposure at the parent company level by maintaining a level of fixed rate debt between 45% and 75% (2019: 45% and 75%) of total debt outstanding as specified by the Model. Should the actual fixed rate debt level deviate substantially from the Model, derivative financial instruments such as interest rate swaps would be procured to align the fixed and floating mix with the Model. As at 31 December 2020, 70% (2019: 63%) of the Company's (including financing vehicles) total debt outstanding was denominated either in or converted to fixed interest rate after taking into account outstanding cross currency and interest rate swaps. Interest rate risk at subsidiary, associate and joint venture companies are managed separately based on their own borrowing requirement, circumstances and market practice.

As at 31 December 2020, it is estimated that a 100 basis points increase/25 basis points decrease in interest rates, with all other variables held constant, would decrease/increase the Group's loss after tax and increase/decrease the Group's retained profits by approximately HK\$73 million/HK\$18 million. Other components of consolidated equity would increase/decrease by approximately HK\$195 million/HK\$52 million.

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

In 2019, a similar analysis was performed based on the assumption of a 100 basis points increase/100 basis points decrease in interest rates, which would decrease/increase the Group's profit after tax and the Group's retained profits by approximately HK\$46 million/HK\$51 million. Other components of consolidated equity would increase/decrease by approximately HK\$30 million/HK\$30 million.

#### (iii) Foreign Exchange Risk

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

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

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

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

#### (iv) Credit Risk

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

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

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

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

In addition, the Company also manages and controls its exposure to credit risks in respect of receivables as stated in note 29.

# NOTES TO THE CONSOLIDATED ACCOUNTS

## 28 Stores and Spares

As at 31 December 2020, stores and spares net of provision for obsolete stock of HK\$19 million (2019: HK\$21 million) amounted to HK\$2,014 million (2019: HK\$1,844 million), of which HK\$1,434 million (2019: HK\$1,310 million) is expected to be consumed within 1 year and HK\$580 million (2019: HK\$534 million) is expected to be consumed after 1 year. Stores and spares expected to be consumed after 1 year comprise mainly contingency spares and stocks kept to meet cyclical maintenance requirements.

## 29 Debtors and Other Receivables

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

- (i) The majority of fare revenue from Hong Kong transport operation (except for that from the High Speed Rail as described in note 29 (ii) below) is collected either through Octopus Cards with daily settlement on the next working day or in cash for other ticket types. A small portion of it is collected through pre-sale agents which settle the amounts due within 21 days.
- (ii) In respect of the High Speed Rail, tickets are sold by the Company and other mainland train operators. The clearance centre of China Railway Corporation administers the revenue allocation and settlement system of the Guangzhou-Shenzhen-Hong Kong Express Rail Link and allocates the revenue of the High Speed Rail to the Company under a "section-based" approach with settlement in the following month.
- (iii) Fare revenue from SZL4 is collected either through Shenzhen Tong Cards or QR code payment with daily settlement on the next working day or in cash for other ticket types. Fare revenue from MTRX is collected through a third party financial institution with settlement within 14 days and sales through pre-sale agents are settled in the following month.
- (iv) Franchise revenue in Australia is collected either daily or monthly depending on the revenue nature. The majority of the franchise revenue from operations in Stockholm is collected in the transaction month with the remainder being collected in the following month. Concession revenue for TfL Rail/Elizabeth Line is collected once every 4 weeks. Service fees from Macao Light Rapid Transit Taipa Line are billed monthly with due dates in accordance with the terms of the service agreement.
- (v) Rentals, advertising and telecommunication service fees are billed monthly with due dates ranging from immediately due to 50 days. Tenants of the Group's investment properties and station kiosks are required to pay three months' rental deposit upon the signing of lease agreements.
- (vi) Amounts receivable under interest rate and currency swap agreements with financial institutions are due in accordance with the terms of the respective agreements.
- (vii) Consultancy service incomes are billed monthly for settlement within 30 days upon work completion or on other basis stipulated in the consultancy contracts.
- (viii) Debtors in relation to contracts and capital works entrusted to the Group, subject to any agreed retentions, are due within 30 days upon the certification of work in progress.
- (ix) Amounts receivable in respect of property development are due in accordance with the terms of relevant development agreements or sale and purchase agreements.

The ageing of debtors is analysed as follows:

| in HK\$ million                       | 2020          | 2019   |
|---------------------------------------|---------------|--------|
| Amounts not yet due                   | <b>3,343</b>  | 2,775  |
| Overdue by 30 days                    | <b>209</b>    | 153    |
| Overdue by 60 days                    | <b>80</b>     | 59     |
| Overdue by 90 days                    | <b>24</b>     | 41     |
| Overdue by more than 90 days          | <b>126</b>    | 192    |
| Total debtors                         | <b>3,782</b>  | 3,220  |
| Other receivables and contract assets | <b>9,531</b>  | 7,949  |
|                                       | <b>13,313</b> | 11,169 |

Included in other receivables as at 31 December 2020 was HK\$3,387 million (2019: HK\$2,813 million) in respect of property development profit in Hong Kong distributable from stakeholding funds and receivables from property purchasers based on the terms of the development agreements and sales and purchase agreements.

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

## 29 Debtors and Other Receivables (continued)

Based on the strength of advice from external senior counsels and tax advisor, the directors of the Company have determined to strongly contest the assessments raised by the IRD. The Company has lodged objections against these tax assessments and has applied to hold over the additional tax demanded. The IRD has agreed to the holdover of the additional tax demanded subject to the purchases of tax reserve certificates ("TRCs") amounting to HK\$1,816 million and HK\$462 million in 2017 and 2018 respectively. The purchases of TRCs do not prejudice the Company's tax position and the purchased TRCs were included in debtors and other receivables in the Group's consolidated statement of financial position. No additional tax provision has been made during the years ended 31 December 2019 and 2020 in respect of the above notices of assessment/ additional assessment.

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

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

As at 31 December 2020, all debtors and other receivables were expected to be recovered within one year except for amounts relating to deposits and other receivables of HK\$4,844 million (2019: HK\$2,548 million) in the Group which were expected to be recovered after more than one year. The nominal values less credit losses are not discounted as it is considered that the effect of discounting would not be significant.

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

| in million            | 2020 | 2019 |
|-----------------------|------|------|
| Australian dollars    | 8    | 8    |
| Renminbi              | 12   | 66   |
| United States dollars | 12   | 8    |

## 30 Amounts Due from Related Parties

| in HK\$ million    | 2020         | 2019  |
|--------------------|--------------|-------|
| Amounts due from:  |              |       |
| – HKSAR Government | 2,504        | 1,783 |
| – KCRC             | 2,859        | 1,159 |
| – associates       | 99           | 99    |
|                    | <b>5,462</b> | 3,041 |

As at 31 December 2020, the amount due from the HKSAR Government mainly related to the recoverable cost for the advanced works in relation to the Shatin to Central Link, reimbursable costs for the essential public infrastructure works in respect of the South Island Line and Kwun Tong Line Extension projects, reimbursement of the fare revenue difference shared by the HKSAR Government in relation to the "20% Rebate for Every Octopus Trip" scheme, reimbursement of the fare revenue difference in relation to the "Public Transport Fare Concession Scheme for the Elderly and Eligible Persons with Disabilities", agency fee receivables and reimbursable costs in respect of West Rail property development (note 22C), as well as receivables and retention for other entrustment and maintenance works.

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

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

As at 31 December 2020, all amounts due from related parties were expected to be recovered within one year except for HK\$2,077 million (2019: HK\$1,156 million) which were expected to be recovered after more than one year. The carrying amounts of amounts due from the HKSAR Government and other related parties are considered not significantly different from their fair values.

## NOTES TO THE CONSOLIDATED ACCOUNTS

### 31 Cash, Bank Balances and Deposits

| in HK\$ million                                                                                        | 2020    | 2019     |
|--------------------------------------------------------------------------------------------------------|---------|----------|
| Deposits with banks and other financial institutions                                                   | 10,869  | 13,892   |
| Cash at banks and on hand                                                                              | 10,037  | 7,294    |
| Cash, bank balances and deposits                                                                       | 20,906  | 21,186   |
| Less: Bank deposits with more than three months to maturity when placed or pledged deposits (note 32E) | (9,027) | (12,840) |
| Cash and cash equivalents in the cash flow statement                                                   | 11,879  | 8,346    |

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

| in million            | 2020 | 2019 |
|-----------------------|------|------|
| Australian dollars    | 33   | 16   |
| Euros                 | 13   | 8    |
| Japanese yen          | 957  | 893  |
| Pound sterling        | 210  | 8    |
| United States dollars | 442  | 2    |

### 32 Loans and Other Obligations

#### A By Type

| in HK\$ million                                                                       | 2020            |               |                  | 2019            |            |                  |
|---------------------------------------------------------------------------------------|-----------------|---------------|------------------|-----------------|------------|------------------|
|                                                                                       | Carrying amount | Fair value    | Repayable amount | Carrying amount | Fair value | Repayable amount |
| <b>Capital market instruments</b>                                                     |                 |               |                  |                 |            |                  |
| Listed or publicly traded:                                                            |                 |               |                  |                 |            |                  |
| Debt issuance programme notes due during 2023 to 2047 (2019: due during 2026 to 2047) | 18,382          | 21,555        | 18,575           | 8,712           | 10,110     | 8,852            |
| Unlisted:                                                                             |                 |               |                  |                 |            |                  |
| Debt issuance programme notes due during 2021 to 2055 (2019: due during 2020 to 2055) | 17,614          | 21,143        | 17,767           | 15,492          | 17,418     | 15,973           |
| <b>Total capital market instruments</b>                                               | <b>35,996</b>   | <b>42,698</b> | <b>36,342</b>    | 24,204          | 27,528     | 24,825           |
| <b>Bank loans</b>                                                                     | <b>9,287</b>    | <b>9,287</b>  | <b>9,293</b>     | 10,141          | 10,142     | 10,147           |
| <b>Lease liabilities</b>                                                              | <b>1,180</b>    | <b>1,240</b>  | <b>1,180</b>     | 1,241           | 1,311      | 1,241            |
| <b>Others</b>                                                                         | <b>520</b>      | <b>611</b>    | <b>520</b>       | 499             | 573        | 499              |
| <b>Loans and other obligations</b>                                                    | <b>46,983</b>   | <b>53,836</b> | <b>47,335</b>    | 36,085          | 39,554     | 36,712           |
| <b>Short-term loans</b>                                                               | <b>3,357</b>    | <b>3,357</b>  | <b>3,357</b>     | 3,371           | 3,371      | 3,371            |
| <b>Total</b>                                                                          | <b>50,340</b>   | <b>57,193</b> | <b>50,692</b>    | 39,456          | 42,925     | 40,083           |

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

The fair values are based on the discounted cash flows method which discounts the future contractual cash flows at the current market interest and foreign exchange rates that is available to the Group for similar financial instruments. The carrying amounts of short-term loans approximated their fair values. Details of the fair value measurement are disclosed in note 40.



## 32 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:

| in million            | Before hedging activities |        | After hedging activities |      |
|-----------------------|---------------------------|--------|--------------------------|------|
|                       | 2020                      | 2019   | 2020                     | 2019 |
| Australian dollars    | 431                       | 431    | -                        | -    |
| Japanese yen          | 15,000                    | 15,000 | -                        | -    |
| Renminbi              | 1,130                     | -      | -                        | -    |
| United States dollars | 2,290                     | 1,130  | -                        | -    |

### B By Repayment Terms

| in HK\$ million                                                | 2020                       |               |                   |            |               | 2019                       |               |                   |            |               |
|----------------------------------------------------------------|----------------------------|---------------|-------------------|------------|---------------|----------------------------|---------------|-------------------|------------|---------------|
|                                                                | Capital market instruments | Bank loans    | Lease liabilities | Others     | Total         | Capital market instruments | Bank loans    | Lease liabilities | Others     | Total         |
| <b>Loans and other obligations</b>                             |                            |               |                   |            |               |                            |               |                   |            |               |
| Amounts repayable beyond 5 years                               | 28,119                     | 807           | 15                | -          | 28,941        | 18,738                     | 978           | 27                | -          | 19,743        |
| Amounts repayable within a period of between 2 and 5 years     | 1,732                      | 2,024         | 192               | 520        | 4,468         | 2,847                      | 2,952         | 788               | 499        | 7,086         |
| Amounts repayable within a period of between 1 and 2 years     | 2,430                      | 231           | 322               | -          | 2,983         | 413                        | 217           | 194               | -          | 824           |
| Amounts repayable within 1 year                                | 4,061                      | 6,231         | 651               | -          | 10,943        | 2,827                      | 6,000         | 232               | -          | 9,059         |
|                                                                | 36,342                     | 9,293         | 1,180             | 520        | 47,335        | 24,825                     | 10,147        | 1,241             | 499        | 36,712        |
| <b>Short-term loans</b>                                        | -                          | 3,357         | -                 | -          | 3,357         | -                          | 3,371         | -                 | -          | 3,371         |
|                                                                | 36,342                     | 12,650        | 1,180             | 520        | 50,692        | 24,825                     | 13,518        | 1,241             | 499        | 40,083        |
| Less: Unamortised discount/premium/finance charges outstanding | (286)                      | (6)           | -                 | -          | (292)         | (148)                      | (6)           | -                 | -          | (154)         |
| Adjustment due to fair value change of financial instruments   | (60)                       | -             | -                 | -          | (60)          | (473)                      | -             | -                 | -          | (473)         |
| <b>Total carrying amount of debt</b>                           | <b>35,996</b>              | <b>12,644</b> | <b>1,180</b>      | <b>520</b> | <b>50,340</b> | <b>24,204</b>              | <b>13,512</b> | <b>1,241</b>      | <b>499</b> | <b>39,456</b> |

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 2020 and 2019 comprise:

| in HK\$ million               | 2020             |                            | 2019             |                            |
|-------------------------------|------------------|----------------------------|------------------|----------------------------|
|                               | Principal amount | Net consideration received | Principal amount | Net consideration received |
| Debt issuance programme notes | 14,642           | 14,511                     | 1,183            | 1,183                      |

During the year ended 31 December 2020, the Company issued HK\$3,630 million, RMB720 million (or HK\$782 million), and USD60 million (or HK\$465 million) of its unlisted debt securities in the respective currency (2019: HK\$400 million and USD100 million (or HK\$783 million) of its unlisted debt securities) and RMB410 million (or HK\$465 million) and USD1,200 million (or HK\$9,300 million) of its listed debt securities in the respective currency (2019: HK\$nil).

As at 31 December 2020, there were outstanding debt securities issued by a wholly-owned subsidiary, MTR Corporation (C.I.) Limited ("MTRCI"). The obligations of the debt securities issued by MTRCI are direct, unsecured and unsubordinated to the other unsecured obligations of MTRCI which are unconditionally and irrevocably guaranteed by the Company. The obligations of the Company under the guarantee are direct, unsecured, unconditional, and unsubordinated to other unsecured and unsubordinated obligations of the Company.

During the year ended 31 December 2020, the Group redeemed HK\$2,348 million and USD100 million (or HK\$783 million) of its unlisted debt securities (2019: HK\$500 million) and did not redeem any of its listed debt securities (2019: HK\$nil).

# NOTES TO THE CONSOLIDATED ACCOUNTS

## 32 Loans and Other Obligations (continued)

### D Lease Liabilities

At 31 December 2020 and 2019, the Group had lease liabilities as follows:

| in HK\$ million                      | 2020                                        |                              | 2019                                        |                              |
|--------------------------------------|---------------------------------------------|------------------------------|---------------------------------------------|------------------------------|
|                                      | Present value of the minimum lease payments | Total minimum lease payments | Present value of the minimum lease payments | Total minimum lease payments |
| Within 1 year                        | 651                                         | 704                          | 232                                         | 276                          |
| After 1 year but within 2 years      | 322                                         | 343                          | 194                                         | 235                          |
| After 2 years but within 5 years     | 192                                         | 206                          | 788                                         | 876                          |
| After 5 years                        | 15                                          | 16                           | 27                                          | 28                           |
|                                      | 529                                         | 565                          | 1,009                                       | 1,139                        |
|                                      | 1,180                                       | 1,269                        | 1,241                                       | 1,415                        |
| Less: Total future interest expenses |                                             | (89)                         |                                             | (174)                        |
| Present value of lease obligations   |                                             | 1,180                        |                                             | 1,241                        |

### E Guarantees and Pledges

(i) There were no guarantees given by the HKSAR Government in respect of the loan facilities of the Group as at 31 December 2020 and 2019.

(ii) As at 31 December 2020, MTR Corporation (Shenzhen) Limited has pledged the fare and non-fare revenue and the benefits of insurance contracts in relation to Phase 2 of Shenzhen Metro Line 4 as security for the RMB1,653 million (2019: RMB1,847 million) bank loan facility granted to it.

Save as disclosed above and those disclosed elsewhere in the consolidated accounts, none of the other assets of the Group was charged or subject to any encumbrance as at 31 December 2020.

## 33 Creditors, Other Payables and Provisions

| in HK\$ million                                            | 2020   | 2019   |
|------------------------------------------------------------|--------|--------|
| Creditors and accrued charges                              | 19,419 | 19,315 |
| Other payables and provisions (notes 21B(b)(iii)&(c)(iii)) | 14,974 | 11,787 |
| Contract liabilities                                       | 2,444  | 2,213  |
|                                                            | 36,837 | 33,315 |

### A Creditors and Accrued Charges

The analysis of creditors by due dates is as follows:

| in HK\$ million                      | 2020   | 2019   |
|--------------------------------------|--------|--------|
| Due within 30 days or on demand      | 8,024  | 7,157  |
| Due after 30 days but within 60 days | 1,450  | 1,559  |
| Due after 60 days but within 90 days | 638    | 774    |
| Due after 90 days                    | 4,844  | 4,978  |
|                                      | 14,956 | 14,468 |
| Rental and other refundable deposits | 2,989  | 2,857  |
| Accrued employee benefits            | 1,474  | 1,990  |
|                                      | 19,419 | 19,315 |

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

### 33 Creditors, Other Payables and Provisions (continued)

#### A Creditors and Accrued Charges (continued)

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

| in HK\$ million                                                                                                                                               | 2020  | 2019    |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------|-------|---------|
| Balance as at 1 January                                                                                                                                       | 2,213 | 2,116   |
| Increase in contract liabilities as a result of billing in advance                                                                                            | 981   | 1,520   |
| Decrease in contract liabilities as a result of revenue recognised during the year that was included in the contract liabilities at the beginning of the year | (836) | (1,410) |
| Exchange differences                                                                                                                                          | 86    | (13)    |
| Balance as at 31 December                                                                                                                                     | 2,444 | 2,213   |

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

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

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

| in million            | 2020 | 2019 |
|-----------------------|------|------|
| Australian dollars    | 9    | 9    |
| Euros                 | 18   | 9    |
| Pound sterling        | 4    | 3    |
| Renminbi              | 113  | 8    |
| United States dollars | 28   | 12   |

#### B Other Payables

Other payables comprised contract retentions and deferred income. Deferred income related to the surplus amounts of payments received from property developers in excess of the balance in property development in progress, as well as the unutilised government subsidy for SZL4 operation.

As at 31 December 2020, all of the creditors and other payables were expected to be settled or recognised as income within one year except for HK\$16,043 million (2019: HK\$16,204 million), including contract liabilities of HK\$963 million (2019: HK\$801 million), of the Group which were expected to be settled or recognised as income after one year. The amounts due after one year for the Group as at 31 December 2020 mainly relate to rental deposits received from investment property and station kiosk tenants and advance income received, majority of which are due to be repaid within three years. The Group considers the effect of discounting would be immaterial.

## NOTES TO THE CONSOLIDATED ACCOUNTS

### 34 Amounts Due to Related Parties

| in HK\$ million    | 2020       | 2019  |
|--------------------|------------|-------|
| Amounts due to:    |            |       |
| – HKSAR Government | 94         | 117   |
| – KCRC             | 301        | 2,873 |
| – associates       | 58         | –     |
|                    | <b>453</b> | 2,990 |

The amount due to the HKSAR Government as at 31 December 2020 relates to land administrative fees in relation to railway extensions.

The amount due to KCRC as at 31 December 2020 mainly relates to the accrued portion of the fixed annual payment and variable annual payment that is expected to be settled within 12 months.

### 35 Obligations under Service Concession

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

| in HK\$ million                         | 2020          | 2019   |
|-----------------------------------------|---------------|--------|
| Balance as at 1 January                 | 10,350        | 10,409 |
| Less: Net amount repaid during the year | (65)          | (56)   |
| Exchange differences                    | 10            | (3)    |
| Balance as at 31 December               | <b>10,295</b> | 10,350 |

The outstanding balances as at 31 December 2020 and 2019 are repayable as follows:

| in HK\$ million                                            | 2020                                 |                                             |                           | 2019                                 |                                             |                           |
|------------------------------------------------------------|--------------------------------------|---------------------------------------------|---------------------------|--------------------------------------|---------------------------------------------|---------------------------|
|                                                            | Present value of payment obligations | Interest expense relating to future periods | Total payment obligations | Present value of payment obligations | Interest expense relating to future periods | Total payment obligations |
| Amounts repayable beyond 5 years                           | 9,904                                | 14,346                                      | 24,250                    | 9,978                                | 15,013                                      | 24,991                    |
| Amounts repayable within a period of between 2 and 5 years | 247                                  | 1,976                                       | 2,223                     | 238                                  | 1,990                                       | 2,228                     |
| Amounts repayable within a period of between 1 and 2 years | 74                                   | 688                                         | 762                       | 69                                   | 692                                         | 761                       |
| Amounts repayable within 1 year                            | 70                                   | 692                                         | 762                       | 65                                   | 696                                         | 761                       |
|                                                            | <b>10,295</b>                        | <b>17,702</b>                               | <b>27,997</b>             | 10,350                               | 18,391                                      | 28,741                    |

### 36 Loans from Holders of Non-controlling Interests

Loans from holders of non-controlling interests as at 31 December 2020 mainly represents the portion of total shareholder loan of AUD60 million (HK\$359 million) (2019: AUD60 million (HK\$328 million)) granted to Metro Trains Australia Pty. Ltd. ("MTA") by the holders of its non-controlling interests. The loan carries an interest rate of 6.2% per annum and is repayable at the discretion of MTA or on 1 December 2024, whichever is earlier.

## 37 Income Tax in the Consolidated Statement of Financial Position

**A** Current taxation in the consolidated statement of financial position includes:

| in HK\$ million                           | 2020         | 2019  |
|-------------------------------------------|--------------|-------|
| Balance relating to Hong Kong Profits Tax | <b>898</b>   | 1,904 |
| Balance relating to tax outside Hong Kong | <b>106</b>   | 120   |
|                                           | <b>1,004</b> | 2,024 |

### B Deferred Tax Assets and Liabilities Recognised

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

| in HK\$ million                                            | Deferred tax arising from                                 |                           |                                           |                  |               | Total         |
|------------------------------------------------------------|-----------------------------------------------------------|---------------------------|-------------------------------------------|------------------|---------------|---------------|
|                                                            | Depreciation allowances in excess of related depreciation | Revaluation of properties | Provision and other temporary differences | Cash flow hedges | Tax losses    |               |
| <b>2020</b>                                                |                                                           |                           |                                           |                  |               |               |
| Balance as at 1 January 2020                               | <b>13,007</b>                                             | <b>778</b>                | <b>(123)</b>                              | <b>43</b>        | <b>(110)</b>  | <b>13,595</b> |
| Charged/(credited) to consolidated profit and loss account | <b>356</b>                                                | <b>(1)</b>                | <b>(292)</b>                              | <b>–</b>         | <b>(20)</b>   | <b>43</b>     |
| (Credited)/charged to reserves                             | <b>–</b>                                                  | <b>(54)</b>               | <b>141</b>                                | <b>(14)</b>      | <b>–</b>      | <b>73</b>     |
| Exchange differences                                       | <b>2</b>                                                  | <b>–</b>                  | <b>(40)</b>                               | <b>–</b>         | <b>(18)</b>   | <b>(56)</b>   |
| Balance as at 31 December 2020                             | <b>13,365</b>                                             | <b>723</b>                | <b>(314)</b>                              | <b>29</b>        | <b>(148)</b>  | <b>13,655</b> |
| <b>2019</b>                                                |                                                           |                           |                                           |                  |               |               |
| Balance as at 1 January 2019                               | 12,385                                                    | 759                       | (183)                                     | (5)              | (103)         | 12,853        |
| Charged/(credited) to consolidated profit and loss account | 620                                                       | (5)                       | (76)                                      | –                | (1)           | 538           |
| Charged to reserves                                        | –                                                         | 24                        | 139                                       | 48               | –             | 211           |
| Acquisition of subsidiary                                  | –                                                         | –                         | –                                         | –                | (12)          | (12)          |
| Exchange differences                                       | 2                                                         | –                         | (3)                                       | –                | 6             | 5             |
| Balance as at 31 December 2019                             | 13,007                                                    | 778                       | (123)                                     | 43               | (110)         | 13,595        |
| in HK\$ million                                            |                                                           |                           |                                           |                  |               |               |
|                                                            |                                                           |                           |                                           |                  | <b>2020</b>   | 2019          |
| Net deferred tax assets                                    |                                                           |                           |                                           |                  | <b>(470)</b>  | (134)         |
| Net deferred tax liabilities                               |                                                           |                           |                                           |                  | <b>14,125</b> | 13,729        |
|                                                            |                                                           |                           |                                           |                  | <b>13,655</b> | 13,595        |

**C** The Group has not recognised deferred tax assets in respect of some of its subsidiaries' cumulative tax losses of HK\$410 million (2019: HK\$326 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.

## NOTES TO THE CONSOLIDATED ACCOUNTS

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

#### A Share Capital

|                                                                                   | 2020                 |               | 2019             |              |
|-----------------------------------------------------------------------------------|----------------------|---------------|------------------|--------------|
|                                                                                   | Number of shares     | HK\$ million  | Number of shares | HK\$ million |
| Ordinary shares, issued and fully paid:                                           |                      |               |                  |              |
| At 1 January                                                                      | <b>6,157,948,911</b> | <b>58,804</b> | 6,139,485,589    | 57,970       |
| Shares issued in respect of scrip dividend of 2019/2018 final ordinary dividend   | <b>18,426,649</b>    | <b>692</b>    | 13,707,539       | 654          |
| Shares issued in respect of scrip dividend of 2020/2019 interim ordinary dividend | <b>2,004,813</b>     | <b>81</b>     | 1,494,283        | 71           |
| Vesting of shares of Executive Share Incentive Scheme                             | –                    | <b>6</b>      | –                | 5            |
| Shares issued under the share option scheme                                       | <b>2,547,500</b>     | <b>83</b>     | 3,261,500        | 104          |
| At 31 December                                                                    | <b>6,180,927,873</b> | <b>59,666</b> | 6,157,948,911    | 58,804       |

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

#### B Shares Held for Executive Share Incentive Scheme

During the year ended 31 December 2020, the Company awarded Performance Shares and Restricted Shares under the Company's Executive Share Incentive Scheme to certain eligible employees of the Company (note 41 (ii)). In this regard, a total of 6,950 Performance Shares (2019: 244,650) and 2,334,750 Restricted Shares (2019: 2,062,150) were awarded and accepted by the grantees on 8 April 2020 (2019: 1 April 2019 and 8 April 2019). The fair values of these Award Shares were HK\$41.90 per share (2019: HK\$48.90 per share on 1 April 2019 and HK\$48.40 per share on 8 April 2019).

During the year ended 31 December 2020, the Trustee of the Executive Share Incentive Scheme, pursuant to the terms of the rules and the trust deed of the Executive Share Incentive Scheme, purchased on the Hong Kong Stock Exchange a total of 2,020,000 Ordinary Shares (2019: 1,870,000 Ordinary Shares) of the Company for a total consideration of approximately HK\$86 million (2019: HK\$88 million). During the year ended 31 December 2020, 58,339 Ordinary Shares of the Company (2019: 64,088 Ordinary Shares) were issued to the Executive Share Incentive Scheme in relation to scrip dividend issued amounting to HK\$3 million (2019: HK\$3 million).

During the year ended 31 December 2020, 1,984,400 shares (2019: 2,230,420 shares) were transferred to the awardees under the Executive Share Incentive Scheme upon vesting. The total cost of the vested shares was HK\$90 million (2019: HK\$93 million). During the year ended 31 December 2020, HK\$6 million (2019: HK\$5 million) was credited to share capital in respect of vesting of shares whose fair values at the grant date were higher than the costs of the vested shares. During the year ended 31 December 2020, 283,673 award shares (2019: 174,697 award shares) were lapsed/forfeited.

As at 31 December 2020, taking into account the shares acquired out of the dividends from the shares held under the trust, there were 5,947,665 shares (2019: 5,853,726) held in trust under the Executive Share Incentive Scheme (excluding shares vested but not yet transferred to awardees).

#### C New Shares Issued and Fully Paid Up during the Year

|                                   | Number of shares | Weighted average exercise price<br>HK\$ |
|-----------------------------------|------------------|-----------------------------------------|
| Employee share options exercised: |                  |                                         |
| – 2007 Share Option Scheme        | <b>2,547,500</b> | <b>30.146</b>                           |

An analysis of the Company's outstanding share options as at 31 December 2020 is disclosed in note 41.

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

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

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

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

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

Apart from retained profits, the other reserves are not available for distribution to shareholders because they do not constitute realised profits. In addition, the Company considers the cumulative surpluses on revaluation of investment properties of HK\$51,935 million (2019: HK\$60,964 million) included in retained profits of the Company are non-distributable as they do not constitute realised profits. As at 31 December 2020, the Company considers that the total amount of reserves of the Company available for distribution to shareholders amounted to HK\$54,347 million (2019: HK\$56,546 million).

Included in the Group's retained profits as at 31 December 2020 is an amount of HK\$2,656 million (2019: HK\$2,431 million), being the retained profits attributable to the associates and joint venture.

### E Capital Management

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

The Group manages the amount of capital in proportion to risk, and makes adjustments to its capital structure through the amount of dividend payment to shareholders, issuance of scrip and new shares, and managing its debt portfolio in conjunction with projected financing requirement. The Financial Secretary Incorporated of the HKSAR Government is the majority shareholder of the Company holding 4,634,173,932 shares as at 31 December 2020, representing 74.98% of total equity interest in the Company.

The Group monitors capital on the basis of the net debt-to-equity ratio, which is calculated based on net borrowings as a percentage of the total equity, where net borrowings are represented by the aggregate of loans and other obligations, obligations under service concession and loans from holders of non-controlling interests net of cash and cash equivalents and bank medium term notes. As at 31 December 2020, the Group's net debt-to-equity ratio is 22.5% (2019: 15.4%).

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 SZL4 project in accordance with the concession agreement. MTR Property Development (Shenzhen) Company Limited is required to maintain a registered capital at or above 33% of the total investment based on Jianfang [2015] No. 122. Metro Trains Melbourne Pty. Ltd. is required to maintain total shareholders' funds at a specified amount in accordance with the franchise agreement. All the Group's subsidiaries in Sweden are required to maintain total shareholders' fund at or above 50% of their respective registered share capital based on the Swedish Companies Act. MTR Travel Limited is required to maintain a certain level of paid-up capital in order to maintain membership of the Travel Industry Council of Hong Kong. As at 31 December 2020, 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.



## NOTES TO THE CONSOLIDATED ACCOUNTS

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

#### F Company-level Movements in Components of Equity

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

| in HK\$ million                                                                     | Note | Share capital | Shares held for Executive Share Incentive Scheme | Other reserves                   |                 |                                      | Retained profits | Total equity   |
|-------------------------------------------------------------------------------------|------|---------------|--------------------------------------------------|----------------------------------|-----------------|--------------------------------------|------------------|----------------|
|                                                                                     |      |               |                                                  | Fixed assets revaluation reserve | Hedging reserve | Employee share-based capital reserve |                  |                |
| <b>2020</b>                                                                         |      |               |                                                  |                                  |                 |                                      |                  |                |
| Balance as at 1 January 2020                                                        | 46   | <b>58,804</b> | <b>(263)</b>                                     | <b>3,936</b>                     | <b>175</b>      | <b>160</b>                           | <b>117,510</b>   | <b>180,322</b> |
| Loss for the year                                                                   |      | -             | -                                                | -                                | -               | -                                    | <b>(4,311)</b>   | <b>(4,311)</b> |
| Other comprehensive income for the year                                             |      | -             | -                                                | <b>(274)</b>                     | <b>(227)</b>    | -                                    | <b>715</b>       | <b>214</b>     |
| Total comprehensive loss for the year                                               |      | -             | -                                                | <b>(274)</b>                     | <b>(227)</b>    | -                                    | <b>(3,596)</b>   | <b>(4,097)</b> |
| 2019 final ordinary dividend                                                        |      | -             | -                                                | -                                | -               | -                                    | <b>(6,036)</b>   | <b>(6,036)</b> |
| Shares issued in respect of scrip dividend of 2019 final ordinary dividend          |      | <b>692</b>    | <b>(2)</b>                                       | -                                | -               | -                                    | <b>2</b>         | <b>692</b>     |
| 2020 interim ordinary dividend                                                      |      | -             | -                                                | -                                | -               | -                                    | <b>(1,545)</b>   | <b>(1,545)</b> |
| Shares issued in respect of scrip dividend of 2020 interim ordinary dividend        |      | <b>81</b>     | <b>(1)</b>                                       | -                                | -               | -                                    | <b>1</b>         | <b>81</b>      |
| Shares purchased for Executive Share Incentive Scheme                               |      | -             | <b>(86)</b>                                      | -                                | -               | -                                    | -                | <b>(86)</b>    |
| Vesting and forfeiture of award shares of Executive Share Incentive Scheme          |      | <b>6</b>      | <b>90</b>                                        | -                                | -               | <b>(94)</b>                          | <b>(2)</b>       | -              |
| Employee share-based payments                                                       |      | -             | -                                                | -                                | -               | <b>121</b>                           | -                | <b>121</b>     |
| Employee share options exercised                                                    |      | <b>83</b>     | -                                                | -                                | -               | <b>(6)</b>                           | -                | <b>77</b>      |
| Balance as at 31 December 2020                                                      | 46   | <b>59,666</b> | <b>(262)</b>                                     | <b>3,662</b>                     | <b>(52)</b>     | <b>181</b>                           | <b>106,334</b>   | <b>169,529</b> |
| <b>2019</b>                                                                         |      |               |                                                  |                                  |                 |                                      |                  |                |
| Balance as at 1 January 2019                                                        |      | 57,970        | (265)                                            | 3,815                            | (99)            | 142                                  | 113,376          | 174,939        |
| Profit for the year                                                                 |      | -             | -                                                | -                                | -               | -                                    | 10,805           | 10,805         |
| Other comprehensive income for the year                                             |      | -             | -                                                | 121                              | 271             | -                                    | 702              | 1,094          |
| Total comprehensive income for the year                                             |      | -             | -                                                | 121                              | 271             | -                                    | 11,507           | 11,899         |
| Amounts transferred from hedging reserve to initial carrying amount of hedged items |      | -             | -                                                | -                                | 3               | -                                    | -                | 3              |
| 2018 final ordinary dividend                                                        |      | -             | -                                                | -                                | -               | -                                    | (5,835)          | (5,835)        |
| Shares issued in respect of scrip dividend of 2018 final ordinary dividend          |      | 654           | (2)                                              | -                                | -               | -                                    | 2                | 654            |
| 2019 interim ordinary dividend                                                      |      | -             | -                                                | -                                | -               | -                                    | (1,539)          | (1,539)        |
| Shares issued in respect of scrip dividend of 2019 interim ordinary dividend        |      | 71            | (1)                                              | -                                | -               | -                                    | 1                | 71             |
| Shares purchased for Executive Share Incentive Scheme                               |      | -             | (88)                                             | -                                | -               | -                                    | -                | (88)           |
| Vesting and forfeiture of award shares of Executive Share Incentive Scheme          |      | 5             | 93                                               | -                                | -               | (96)                                 | (2)              | -              |
| Employee share-based payments                                                       |      | -             | -                                                | -                                | -               | 122                                  | -                | 122            |
| Employee share options exercised                                                    |      | 104           | -                                                | -                                | -               | (8)                                  | -                | 96             |
| Balance as at 31 December 2019                                                      | 46   | 58,804        | (263)                                            | 3,936                            | 175             | 160                                  | 117,510          | 180,322        |

### 39 Other Cash Flow Information

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

| in HK\$ million                                                                                                                          | 2020           | 2019    |
|------------------------------------------------------------------------------------------------------------------------------------------|----------------|---------|
| Operating profit before Hong Kong property development, depreciation, amortisation and variable annual payment from recurrent businesses | <b>5,194</b>   | 15,351  |
| Adjustments for non-cash items                                                                                                           | <b>1,519</b>   | 1,836   |
| Operating profit before working capital changes                                                                                          | <b>6,713</b>   | 17,187  |
| Increase in debtors and other receivables                                                                                                | <b>(3,583)</b> | (1,372) |
| Increase in stores and spares                                                                                                            | <b>(119)</b>   | (188)   |
| (Decrease)/increase in creditors and other payables                                                                                      | <b>(463)</b>   | 1,493   |
| Cash generated from operations                                                                                                           | <b>2,548</b>   | 17,120  |

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

| in HK\$ million                                                | Loans and other obligations |                 |                   |            | Short-term loans | Interest and finance charges payables | Total           |
|----------------------------------------------------------------|-----------------------------|-----------------|-------------------|------------|------------------|---------------------------------------|-----------------|
|                                                                | Capital market instruments  | Bank loans      | Lease liabilities | Others     |                  |                                       |                 |
| <b>2020</b>                                                    |                             |                 |                   |            |                  |                                       |                 |
| At 1 January 2020                                              | <b>24,204</b>               | <b>10,141</b>   | <b>1,241</b>      | <b>499</b> | <b>3,371</b>     | <b>145</b>                            | <b>39,601</b>   |
| Changes from financing cash flows:                             |                             |                 |                   |            |                  |                                       |                 |
| – Proceeds from loans and capital market instruments           | <b>14,511</b>               | <b>12,287</b>   | –                 | –          | <b>74</b>        | –                                     | <b>26,872</b>   |
| – Repayment of loans and capital market instruments            | <b>(3,130)</b>              | <b>(13,274)</b> | –                 | –          | <b>(91)</b>      | –                                     | <b>(16,495)</b> |
| – Capital element of lease rentals paid                        | –                           | –               | <b>(232)</b>      | –          | –                | –                                     | <b>(232)</b>    |
| – Interest and finance charges                                 | –                           | –               | –                 | –          | –                | <b>(1,039)</b>                        | <b>(1,039)</b>  |
|                                                                | <b>11,381</b>               | <b>(987)</b>    | <b>(232)</b>      | –          | <b>(17)</b>      | <b>(1,039)</b>                        | <b>9,106</b>    |
| Exchange differences                                           | <b>4</b>                    | <b>133</b>      | <b>107</b>        | <b>(4)</b> | <b>3</b>         | <b>(7)</b>                            | <b>236</b>      |
| Other changes:                                                 |                             |                 |                   |            |                  |                                       |                 |
| – Adjustment due to fair value change of financial instruments | <b>407</b>                  | –               | –                 | –          | –                | –                                     | <b>407</b>      |
| – Recognition of lease liabilities                             | –                           | –               | <b>64</b>         | –          | –                | –                                     | <b>64</b>       |
| – Interest and finance charges                                 | –                           | –               | –                 | <b>25</b>  | –                | <b>1,051</b>                          | <b>1,076</b>    |
|                                                                | <b>407</b>                  | –               | <b>64</b>         | <b>25</b>  | –                | <b>1,051</b>                          | <b>1,547</b>    |
| At 31 December 2020                                            | <b>35,996</b>               | <b>9,287</b>    | <b>1,180</b>      | <b>520</b> | <b>3,357</b>     | <b>150</b>                            | <b>50,490</b>   |

## NOTES TO THE CONSOLIDATED ACCOUNTS

### 39 Other Cash Flow Information *(continued)*

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

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

### C Total Cash Outflow for Leases

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

| in HK\$ million             | 2020       | 2019 |
|-----------------------------|------------|------|
| Within operating cash flows | 36         | 50   |
| Within financing cash flows | 288        | 213  |
|                             | <b>324</b> | 263  |

These amounts relate to the leases of the following:

| in HK\$ million     | 2020       | 2019 |
|---------------------|------------|------|
| Buildings           | 197        | 189  |
| Plant and equipment | 127        | 74   |
|                     | <b>324</b> | 263  |

## 40 Fair Value Measurement

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

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

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

Level 3: Fair value measured using significant unobservable inputs

### A Fair Value Measurements of Fixed Assets

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

During the year ended 31 December 2020, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 in respect of the Group's investment properties and self-occupied buildings. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

All the Group's investment properties and self-occupied buildings were revalued as at 31 December 2020 and 2019 by independent qualified surveyors. The Group's senior management have discussion with the surveyors on the valuation assumptions and valuation results when the valuation is performed at each interim and annual reporting date.

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

The property interests of all the shopping malls and office accommodation held by the Group as investment properties have been valued using the income capitalisation approach. Under this approach, the market value is derived from the capitalisation of the rental revenue to be received under existing tenancies and the estimated full market rental value to be received upon expiry of the existing tenancies with reference to the market rental levels prevailing as at the date of valuation by an appropriate single market yield rate. The range of market yield rate adopted for the valuation of major investment properties as at 31 December 2020 was 3.5% - 5.75% (2019: 3.5% - 5.75%) with a weighted average of 4.8% (2019: 4.8%). The fair value measurement is negatively correlated to the market yield rate.

The movements of investment properties during the year ended 31 December 2020 are shown in note 19A. All the fair value adjustment related to investment properties held as at 31 December 2020 was recognised under "Investment property revaluation (loss)/gain" in the consolidated profit and loss account.

### B Fair Value Measurements of Financial Instruments

#### (i) Financial Assets and Liabilities Carried at Fair Value

All of the Group's investments in debt securities were carried at fair value using Level 1 measurements, and the fair value of these financial assets as at 31 December 2020 was HK\$214 million (2019: HK\$386 million). The derivative financial instruments were carried at fair value using Level 2 measurements. As at 31 December 2020, the fair values of derivative financial assets and derivative financial liabilities were HK\$480 million (2019: HK\$198 million) and HK\$381 million (2019: HK\$408 million) respectively. The investments in unlisted equity securities were carried at fair value using Level 3 measurements.

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

During the year, the additions to the investments in unlisted equity securities amounted to HK\$254 million (2019: HK\$nil). As at 31 December 2020, the fair value of investments in equity securities was HK\$254 million (2019: HK\$nil). The fair value of the Group's investments in unlisted equity securities is determined based on the adjusted net asset method. The significant unobservable input includes the fair value of the individual assets and liabilities (recognised and unrecognised). The fair value measurement is positively correlated to the fair value of the individual assets and liabilities (recognised and unrecognised). As at 31 December 2020, it is estimated that a 5-percent increase/decrease in fair value of the total individual assets and liabilities (recognised and unrecognised), with all other variables held constant, would decrease/increase the Group's loss after tax by approximately HK\$13 million/HK\$13 million.

At the end of each interim and annual reporting period, valuations are performed for the financial instruments which are categorised into Level 3 of the fair value hierarchy, and the valuation assumptions and results are reviewed by the Group's management accordingly.

During the years ended 31 December 2020 and 2019, 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.

# NOTES TO THE CONSOLIDATED ACCOUNTS

## 40 Fair Value Measurement *(continued)*

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

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

The carrying amounts of the Group's financial assets and liabilities not carried at fair value are not materially different from their fair values as at 31 December 2020 and 2019 except for capital market instruments and other obligations, for which their carrying amounts and fair values are disclosed below:

| in HK\$ million            | At 31 December 2020 |               | At 31 December 2019 |            |
|----------------------------|---------------------|---------------|---------------------|------------|
|                            | Carrying amount     | Fair value    | Carrying amount     | Fair value |
| Capital market instruments | <b>35,996</b>       | <b>42,698</b> | 24,204              | 27,528     |
| Other obligations          | <b>1,700</b>        | <b>1,851</b>  | 1,740               | 1,884      |

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

## 41 Share-based Payments

### Equity-settled Share-based Payments

The Group granted share options under share option scheme and share awards under Executive Share Incentive Scheme to its Members of the Executive Directorate and certain employees. As at 31 December 2020, the Company maintained the 2007 Share Option Scheme and the Executive Share Incentive Scheme. Details of the schemes are as follows:

#### (i) 2007 Share Option Scheme

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

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

The following table summarises the outstanding share options as at 31 December 2020 granted under the 2007 Option Scheme since inception:

| Date of grant                    | Number of share options | Exercise price<br>HK\$ | Exercisable period                |
|----------------------------------|-------------------------|------------------------|-----------------------------------|
| <u>2014 Award</u><br>30 May 2014 | <b>2,347,500</b>        | <b>28.65</b>           | <b>on or prior to 23 May 2021</b> |

## 41 Share-based Payments *(continued)*

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

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

|                               | 2020                    |                                      | 2019                    |                                      |
|-------------------------------|-------------------------|--------------------------------------|-------------------------|--------------------------------------|
|                               | Number of share options | Weighted average exercise price HK\$ | Number of share options | Weighted average exercise price HK\$ |
| Outstanding as at 1 January   | <b>4,909,000</b>        | <b>29.426</b>                        | 8,170,500               | 29.441                               |
| Exercised during the year     | <b>(2,547,500)</b>      | <b>30.146</b>                        | (3,261,500)             | 29.465                               |
| Forfeited during the year     | <b>(14,000)</b>         | <b>28.650</b>                        | –                       | –                                    |
| Outstanding as at 31 December | <b>2,347,500</b>        | <b>28.650</b>                        | 4,909,000               | 29.426                               |
| Exercisable as at 31 December | <b>2,347,500</b>        | <b>28.650</b>                        | 4,909,000               | 29.426                               |

The weighted average closing price in respect of the share options exercised during the year was HK\$42.138 (2019: HK\$47.750).

Share options outstanding at the end of the reporting period had the following exercise prices and remaining contractual lives:

| Exercise price | 2020                    |                                  | 2019                    |                                  |
|----------------|-------------------------|----------------------------------|-------------------------|----------------------------------|
|                | Number of share options | Remaining contractual life years | Number of share options | Remaining contractual life years |
| HK\$31.40      | –                       | –                                | 1,385,500               | 0.3                              |
| HK\$28.65      | <b>2,347,500</b>        | <b>0.4</b>                       | 3,523,500               | 1.4                              |
|                | <b>2,347,500</b>        |                                  | 4,909,000               |                                  |

During the year ended 31 December 2020, no expense was recognised for the equity-settled share-based payments relating to the 2007 Share Option Scheme (2019: HK\$nil).

#### (ii) Executive Share Incentive Scheme

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

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

# NOTES TO THE CONSOLIDATED ACCOUNTS

## 41 Share-based Payments *(continued)*

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

As at 31 December 2020, the following awards of shares with vesting period falling in the years ended 31 December 2019 and 2020 were offered to Members of the Executive Directorate and selected employees of the Company under the Executive Share Incentive Scheme:

| Date of award  | Number of Award Shares granted |                    | Average fair value per share<br>HK\$ | Vesting period      |                                                                               |
|----------------|--------------------------------|--------------------|--------------------------------------|---------------------|-------------------------------------------------------------------------------|
|                | Restricted Shares              | Performance Shares |                                      | From                | To                                                                            |
| 8 April 2016   | 2,401,150                      | –                  | 38.65                                | 1 April 2016        | 1 April 2019                                                                  |
| 19 August 2016 | 71,428                         | –                  | 42.50                                | 15 August 2016      | 15 August 2019                                                                |
| 10 April 2017  | 2,245,200                      | –                  | 44.45                                | 3 April 2017        | 3 April 2020                                                                  |
| 16 March 2018  | 80,000                         | –                  | 43.70                                | 16 March 2018       | 31 March 2019                                                                 |
| 10 April 2018  | 2,208,950                      | 1,772,900          | 42.80                                | 3 April 2018        | 3 April 2021 (Restricted Shares)<br>3 April 2021 (Performance Shares)         |
| 1 April 2019   | 120,000                        | –                  | 48.90                                | 1 April 2019        | 31 March 2022                                                                 |
| 8 April 2019   | 1,942,150                      | 244,650            | 48.40                                | 1 April 2019        | 1 April 2022 (Restricted Shares)<br>3 April 2021 (Performance Shares)         |
| 8 April 2020   | <b>2,334,750</b>               | <b>6,950</b>       | <b>41.90</b>                         | <b>1 April 2020</b> | <b>1 April 2023 (Restricted Shares)<br/>3 April 2021 (Performance Shares)</b> |

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

|                               | 2020                   | 2019                   |
|-------------------------------|------------------------|------------------------|
|                               | Number of Award Shares | Number of Award Shares |
| Outstanding as at 1 January   | <b>5,659,978</b>       | 5,758,295              |
| Awarded during the year       | <b>2,341,700</b>       | 2,306,800              |
| Vested during the year        | <b>(1,984,400)</b>     | (2,230,420)            |
| Forfeited during the year     | <b>(283,673)</b>       | (174,697)              |
| Outstanding as at 31 December | <b>5,733,605</b>       | 5,659,978              |

Award Shares outstanding at 31 December 2020 had the following remaining vesting periods:

| Award Shares              | Remaining vesting period<br>years | Number of Award Shares |
|---------------------------|-----------------------------------|------------------------|
| <b>Restricted Shares</b>  |                                   |                        |
| 10 April 2018             | <b>0.26</b>                       | <b>543,990</b>         |
| 1 April 2019              | <b>1.25</b>                       | <b>120,000</b>         |
| 8 April 2019              | <b>1.25</b>                       | <b>1,122,465</b>       |
| 8 April 2020              | <b>2.25</b>                       | <b>2,212,550</b>       |
| <b>Performance Shares</b> |                                   |                        |
| 10 April 2018             | <b>0.26</b>                       | <b>1,493,500</b>       |
| 8 April 2019              | <b>0.25</b>                       | <b>234,150</b>         |
| 8 April 2020              | <b>0.25</b>                       | <b>6,950</b>           |

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

During the year ended 31 December 2020, the equity-settled share-based payments relating to the Executive Share Incentive Scheme recognised as an expense amounted to HK\$121 million (2019: HK\$122 million).



## 42 Retirement Schemes

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

### A Retirement Schemes Operated by the Company in Hong Kong

The Company operated four retirement schemes under trust in Hong Kong during the year ended 31 December 2020, including the MTR Corporation Limited Retirement Scheme (the "MTR Retirement Scheme"), the MTR Corporation Limited Provident Fund Scheme (the "MTR Provident Fund Scheme") and two Mandatory Provident Fund ("MPF") Schemes, the "MTR MPF Scheme" and the "KCRC MPF Scheme".

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

#### (i) MTR Retirement Scheme

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

The MTR Retirement Scheme has been closed to new employees from 1 April 1999 onwards. It is administered in accordance with the Trust Deed and Rules by the Board of Trustees, comprising management and employee representatives, and independent non-employer trustees. It provides benefits based on the greater of a multiple of final salary times service and a factor times the accumulated member contributions with investment returns. Members' contributions are based on fixed percentages of base salary. The Company's contributions are determined by reference to an annual actuarial valuation carried out by an independent actuarial consulting firm. As at 31 December 2020, the total number of member was 3,100 (2019: 3,356). In 2020, members contributed HK\$65 million (2019: HK\$69 million) and the Company contributed HK\$253 million (2019: HK\$351 million) to the MTR Retirement Scheme. The net asset value of the MTR Retirement Scheme excluding the portion attributable to members' voluntary contributions as at 31 December 2020 was HK\$9,855 million (2019: HK\$9,417 million).

The actuarial valuations as at 31 December 2019 and 2020 to determine the accounting obligations in accordance with HKAS 19, *Employee benefits*, were carried out by an independent actuarial consulting firm, Willis Towers Watson, which is represented by Ms Wing Lui, a Fellow of the Society of Actuaries of the United States of America, using the Projected Unit Credit Method. The results of the valuation are shown in note 43.

The actuarial valuations as at 31 December 2019 and 2020 to determine the cash funding requirements were also carried out by Ms Wing Lui of Willis Towers Watson using the Attained Age Method. The principal actuarial assumptions used for the valuation as at 31 December 2020 included a long-term rate of investment return net of salary increases of 0.25% (2019: -0.25%) per annum, together with appropriate allowances for expected rates of mortality, turnover and retirement. As at the valuation date of 31 December 2020:

(a) the MTR Retirement Scheme was solvent, covering 113.8% (2019: 105.8%) of the aggregate vested liability had all members left service with their leaving service benefits secured, resulting in a solvency surplus of HK\$1,218 million; and

(b) on the assumption that the MTR Retirement Scheme would continue in force, its value of assets was more than sufficient to cover the aggregate past service liability, with a funding level of 113.2% (2019: 101.3%), representing a past service surplus of HK\$1,173 million.

#### (ii) MTR Provident Fund Scheme

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

As at 31 December 2020, the total number of employees participating in the MTR Provident Fund Scheme was 10,614 (2019: 10,571). In 2020, total members' contributions were HK\$159 million (2019: HK\$153 million) and total contributions from the Company were HK\$372 million (2019: HK\$362 million). No contributions forfeited by employees leaving the scheme were utilised to offset contributions during the year (2019: HK\$nil). As at the end of the reporting period, forfeited contributions of HK\$75 million (2019: HK\$54 million) were available to reduce the contributions payable in future years. The net asset value as at 31 December 2020 was HK\$7,523 million (2019: HK\$6,843 million).

#### (iii) MTR MPF Scheme

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

As at 31 December 2020, the total number of employees participating in the MTR MPF Scheme was 5,068 (2019: 5,747). In 2020, total members' contributions were HK\$49 million (2019: HK\$50 million) and total contribution from the Company were HK\$52 million (2019: HK\$56 million). No contributions forfeited by employees leaving the scheme were utilised to offset contributions during the year (2019: HK\$nil). As at the end of the reporting period, there were no forfeited contributions (2019: HK\$nil) available to reduce the contributions payable in future years.

# NOTES TO THE CONSOLIDATED ACCOUNTS

## 42 Retirement Schemes *(continued)*

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

#### (iv) KCRC MPF Scheme

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

As at 31 December 2020, the total number of employees participating in the KCRC MPF Scheme was 329 (2019: 372). In 2020, total members' contributions were HK\$4 million (2019: HK\$5 million) and total contribution from the Company were HK\$4 million (2019: HK\$5 million). No contributions forfeited by employees leaving the scheme were utilised to offset contributions during the year (2019: HK\$nil). As at the end of the reporting period, there were no forfeited contributions (2019: HK\$nil) available to reduce the contributions payable in future years.

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

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

Certain employees of the Group's Australian subsidiary are entitled to receive retirement benefits from the Emergency Services Superannuation Scheme operated in Australia. The benefit amounts are calculated based on the member's years of service and final average salary. The Group does not recognise any defined benefit liability in respect of this scheme because the Group has no legal or constructive obligation to pay future benefits relating to its employees; its only obligation is to pay contributions as they fall due. As at 31 December 2020, total number of the Group's employees participating in this scheme was 533 (2019: 546). In 2020, total members' contributions were HK\$11 million (2019: HK\$23 million) and total contribution from the Group was HK\$62 million (2019: HK\$59 million).

Certain employees of the Group's Swedish subsidiaries are entitled to receive retirement benefits from the ITP 2 Retirement Scheme operated in Sweden. The benefit amounts are calculated based on the member's years of service and annual salary. The Group does not recognise any defined benefit liability in respect of this scheme because the Group has no legal or constructive obligation to pay future benefits relating to its employees; its only obligation is to pay contributions as they fall due. As at 31 December 2020, total number of the Group's employees participating in this scheme was 786 (2019: 741). In 2020, total contribution from the Group was HK\$20 million (2019: HK\$23 million).

Certain employees of the Group's MTR Crossrail subsidiary are entitled to join the MTR Corporation (Crossrail) section of the Railway Pension Scheme in the United Kingdom. The scheme is a shared cost arrangement whereby the Group is only responsible for a share of the cost. The benefit amounts are calculated based on the member's years of service and final average salary. The Group does not recognise any net defined benefit liability in respect of this scheme because the Group has no legal or constructive obligation for any deficit in the value of the scheme. Its only obligation is to pay contributions as they fall due. As at 31 December 2020, total number of the Group's employees participating in this scheme was 736 (2019: 621). In 2020, total members' contributions were HK\$26 million (2019: HK\$22 million) and total contribution from the Group was HK\$39 million (2019: HK\$32 million). Pension expense of HK\$86 million (2019: HK\$67 million) was recognised in profit and loss and actuarial gain of HK\$37 million (2019: HK\$28 million) was recognised in the statement of other comprehensive income.

Except for the retirement schemes described above, all other retirement schemes to cover employees in overseas offices or in subsidiaries in Hong Kong, the Mainland of China, Macao or overseas are defined contribution schemes. For Hong Kong employees, these schemes are registered under the MPFSO in Hong Kong. For the Mainland of China, Macao or overseas employees, these schemes are operated in accordance with the respective local laws and regulations. As at 31 December 2020, the total number of employees of the Group participating in these schemes was 16,161 (2019: 14,015). In 2020, total members' contributions were HK\$110 million (2019: HK\$95 million) and total contribution from the Group was HK\$493 million (2019: HK\$484 million). During the years ended 31 December 2019 and 2020, the amount of contributions forfeited in accordance to the schemes' rules, if applicable, is not significant.

## 43 Defined Benefit Retirement Scheme

The Company makes contributions to and recognises defined benefit liabilities in respect of MTR Retirement Scheme which provides employees with benefits upon retirement or termination of services for other reasons (note 42). This defined benefit scheme exposes the Group to actuarial risks, such as interest rate, salary increase and investment risks. The information about the MTR Retirement Scheme is summarised as below:

### A Amounts Recognised in the Consolidated Statement of Financial Position

| in HK\$ million                              | 2020           | 2019    |
|----------------------------------------------|----------------|---------|
| Present value of defined benefit obligations | <b>(9,517)</b> | (9,905) |
| Fair value of scheme assets                  | <b>9,855</b>   | 9,417   |
| Net assets/(liabilities)                     | <b>338</b>     | (488)   |

The net assets (2019: net liabilities) are recognised under "Debtors and other receivables" (2019: "Creditors, other payables and provisions") in the consolidated statement of financial position. A portion of the above obligations is expected to be paid after more than one year. However, it is not practicable to segregate this amount from the amounts to be paid in the next twelve months, as future contributions will also relate to future services rendered and future changes in actuarial assumptions and market conditions. The Company expects to pay HK\$29 million in contribution to the MTR Retirement Scheme in 2021.

## 43 Defined Benefit Retirement Scheme *(continued)*

### B Scheme Assets

| in HK\$ million              | 2020   | 2019  |
|------------------------------|--------|-------|
| Equity securities            |        |       |
| – Financial institutions     | 396    | 482   |
| – Non-financial institutions | 4,091  | 4,046 |
|                              | 4,487  | 4,528 |
| Bonds                        |        |       |
| – Government                 | 1,831  | 2,173 |
| – Non-government             | 3,384  | 2,614 |
|                              | 5,215  | 4,787 |
| Cash                         | 367    | 297   |
|                              | 10,069 | 9,612 |
| Voluntary units              | (214)  | (195) |
|                              | 9,855  | 9,417 |

The scheme assets did not include any ordinary shares of the Company as at 31 December 2020 (2019: HK\$nil). Also, there were no investment in other shares and debt securities of the Company as at 31 December 2020 and 2019. All of the equity securities and bonds have quoted prices in active markets.

An asset-liability modelling review is performed periodically to analyse the strategic investment policies of the MTR Retirement Scheme. Based on the latest study, the long-term strategic asset allocation of the MTR Retirement Scheme as at 31 December 2020 is set at 42.5% in equities and 57.5% in bonds and cash (2019: 42.5% in equities and 57.5% in bonds and cash).

### C Movements in the Present Value of the Defined Benefit Obligations

| in HK\$ million                                                            | 2020    | 2019   |
|----------------------------------------------------------------------------|---------|--------|
| At 1 January                                                               | 9,905   | 10,022 |
| Remeasurements:                                                            |         |        |
| – Actuarial (gains)/losses arising from changes in liability experience    | (127)   | 252    |
| – Actuarial (gains)/losses arising from changes in demographic assumptions | –       | –      |
| – Actuarial losses/(gains) arising from changes in financial assumptions   | 163     | (96)   |
|                                                                            | 36      | 156    |
| Members' contributions paid to the scheme                                  | 65      | 69     |
| Benefits paid by the scheme                                                | (1,000) | (876)  |
| Current service cost                                                       | 269     | 285    |
| Interest cost                                                              | 242     | 249    |
| At 31 December                                                             | 9,517   | 9,905  |

The weighted average duration of the present value of the defined benefit obligations was 5.6 years as at 31 December 2020 (2019: 6.0 years).

## NOTES TO THE CONSOLIDATED ACCOUNTS

### 43 Defined Benefit Retirement Scheme *(continued)*

#### D Movements in Scheme Assets

| in HK\$ million                                    | 2020    | 2019  |
|----------------------------------------------------|---------|-------|
| At 1 January                                       | 9,417   | 8,662 |
| Company's contributions paid to the scheme         | 253     | 351   |
| Members' contributions paid to the scheme          | 65      | 69    |
| Benefits paid by the scheme                        | (1,000) | (876) |
| Administrative expenses paid from scheme assets    | (5)     | (5)   |
| Interest income                                    | 233     | 219   |
| Return on scheme assets, excluding interest income | 892     | 997   |
| At 31 December                                     | 9,855   | 9,417 |

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

| in HK\$ million                                    | 2020  | 2019  |
|----------------------------------------------------|-------|-------|
| Current service cost                               | 269   | 285   |
| Net interest on net defined benefit liability      | 9     | 30    |
| Administrative expenses paid from scheme assets    | 5     | 5     |
|                                                    | 283   | 320   |
| Less: Amount capitalised                           | (49)  | (41)  |
| Net amount recognised in profit or loss            | 234   | 279   |
| Actuarial losses                                   | 36    | 156   |
| Return on scheme assets, excluding interest income | (892) | (997) |
| Amount recognised in other comprehensive income    | (856) | (841) |

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

#### F Significant Actuarial Assumptions and Sensitivity Analysis

|                        | 2020  | 2019  |
|------------------------|-------|-------|
| Discount rate          | 1.17% | 2.61% |
| Future salary increase | 2.75% | 4.00% |
| Unit value increase    | 3.00% | 3.75% |

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

|                         | 2020                              |                                   | 2019                              |                                   |
|-------------------------|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|
|                         | Increase in 0.25%<br>HK\$ million | Decrease in 0.25%<br>HK\$ million | Increase in 0.25%<br>HK\$ million | Decrease in 0.25%<br>HK\$ million |
| Discount rate           | (131)                             | 135                               | (142)                             | 146                               |
| Future salary increases | 103                               | (98)                              | 127                               | (122)                             |
| Unit value increase     | 32                                | (29)                              | 13                                | (11)                              |

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

## 44 Material Related Party Transactions

The Financial Secretary Incorporated, which holds approximately 74.98% of the Company's issued share capital on trust for the HKSAR Government as at 31 December 2020, is the majority shareholder of the Company. Transactions between the Group and the HKSAR Government departments or agencies, or entities controlled by the HKSAR Government, other than those transactions such as the payment of fees, taxes, leases and rates, etc. that arise in the normal dealings between the HKSAR Government and the Group, are considered to be related party transactions pursuant to HKAS 24 (revised), *Related party disclosures*, and are identified separately in these accounts.

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

**A** On 30 June 2000, the Company was granted by the HKSAR Government a franchise, for an initial period of 50 years, to operate the then existing mass transit railway, and to operate and construct any extension to the railway. On the same day, the Company and the HKSAR Government entered into an operating agreement which laid down the detailed provisions for the design, construction, maintenance and operation of the railway under the franchise. With the Rail Merger, the operating agreement was replaced with effect from 2 December 2007 by a new operating agreement, details of which are set out in note 44C below.

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

**C** In connection with the Rail Merger (note 3), on 9 August 2007, the Company and the HKSAR Government entered into a new operating agreement ("OA"), which is based on the then existing operating agreement referred to in note 44A above. On the Appointed Day, the Company's then existing franchise under the Mass Transit Railway Ordinance was expanded to cover railways other than the then existing MTR railway for an initial period of 50 years from the Appointed Day ("expanded franchise"). A detailed description of the OA is contained in the circular to shareholders in respect of the Extraordinary General Meeting convened to approve the Rail Merger. Such transaction is considered to be a related party transaction and also constitute continuing connected transaction as defined under the Listing Rules.

**D** Other than the OA described in note 44C above, the Company also entered into principal agreements with KCRC and the HKSAR Government in connection with the Rail Merger. These principal agreements are: (i) Merger Framework Agreement, (ii) Service Concession Agreement, (iii) Sale and Purchase Agreement, (iv) West Rail Agency Agreement, and (v) Property Package Agreements. For the year ended 31 December 2020, amounts recoverable or invoiced by the Company under West Rail Agency Agreement and Property Package Agreements are HK\$57 million (2019: HK\$84 million) and HK\$nil (2019: HK\$3 million) respectively and the net amounts payable or paid by the Company in relation to the Service Concession is HK\$830 million (2019: HK\$3,333 million).

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

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

- (i) An amendment operating agreement, which was entered into with the HKSAR Government on 23 August 2018, to amend and supplement the OA, in order to prescribe the operational requirements that will apply to the High Speed Rail.
- (ii) A supplemental service concession agreement, which was entered into with KCRC on 23 August 2018, to supplement the SCA, in order for KCRC to grant a concession to the Company in respect of the High Speed Rail and to prescribe the operational and financial requirements that will apply to the High Speed Rail. During the year ended 31 December 2020, net revenue received or receivable from KCRC in respect of the High Speed Rail amounted to HK\$1,536 million (2019: HK\$717 million).

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

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

- (i) An amendment operating agreement and a supplemental operating agreement, which were entered into with the HKSAR Government on 11 February 2020, to amend and supplement, respectively, the OA, in order to prescribe the operational requirements that will apply to the Tuen Ma Line Phase 1.
- (ii) A supplemental service concession agreement, which was entered into with KCRC on 11 February 2020, to supplement the SCA, in order for KCRC to grant a concession to the Company in respect of the Tuen Ma Line Phase 1 and to prescribe the operational and financial requirements that will apply to the Tuen Ma Line Phase 1. During the year ended 31 December 2020, net revenue received or receivable from KCRC in respect of the Tuen Ma Line Phase 1 amounted to HK\$276 million (2019: HK\$nil).

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

# NOTES TO THE CONSOLIDATED ACCOUNTS

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

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

**H** The Company entered into entrustment agreements with the HKSAR Government for the design, site investigation, procurement activities, construction, testing and commissioning of HSR and SCL. Detailed description of the agreements and the amount of project management fees recognised for the year ended 31 December 2020 are provided in notes 21A and 21B. In addition, an amount of HK\$580 million was paid/payable to the HKSAR Government in 2020 (2019: HK\$891 million) under SCL EA3’s payment arrangement with the HKSAR Government and relevant contractors.

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

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

| Property development site                                         | Land grant/land premium offer acceptance date | Total land premium in HK\$ million | Land premium settlement date |
|-------------------------------------------------------------------|-----------------------------------------------|------------------------------------|------------------------------|
| Site D of the Remaining Portion of Tseung Kwan O Town Lot No. 70  | <b>14 February 2020</b>                       | <b>2,725</b>                       | <b>19 March 2020</b>         |
| Site KL of the Remaining Portion of Tseung Kwan O Town Lot No. 70 | <b>6 November 2020</b>                        | <b>5,568</b>                       | <b>4 December 2020</b>       |

**J** On 8 February 2021, the Company accepted an offer from the HKSAR Government to proceed with THE SOUTHSIDE (or Wong Chuk Hang Station) Package Five Property Development at Site E of Aberdeen Inland Lot No. 467 at a land premium of HK\$6,437.31 million and on the terms and conditions of the relevant Conditions of Exchange No. 20304. The land premium is expected to be paid on or before mid March 2021.

**K** On 5 July 2013, the Company entered into a contract with the Hong Kong Airport Authority (“HKAA”) for the maintenance of the Automated People Mover system at the Hong Kong International Airport (“System”) for a seven-year period (“Existing Contract”), effective from 6 July 2013. During the year, the Existing Contract was extended for 6 months to 5 January 2021 and, on 2 July 2020, the Company entered into a new contract with the HKAA for the maintenance of the System for a seven-year period effective from 6 January 2021. In respect of the services provided, HK\$122 million was recognised as consultancy income during the year ended 31 December 2020 (2019: HK\$82 million).

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

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

**L** During the year ended 31 December 2020, the Group incurred HK\$82 million (2019: HK\$148 million) of expenses for the central clearing services provided by Octopus Cards Limited (“OCL”), a wholly owned subsidiary of Octopus Holdings Limited (“OHL”). OCL incurred HK\$25 million (2019: HK\$42 million) of expenses for the load agent and Octopus card issuance and refund services, computer equipment and relating services as well as warehouse storage space provided by the Group. During the year, OHL distributed HK\$144 million (2019: HK\$187 million) of dividends to the Group.

During the year ended 31 December 2020, MTR Corporation (Sydney) NRT Pty Ltd, through its joint operation, provided services in respect of the design and delivery of electrical and mechanical systems and rolling stock to NRT Pty Ltd at a total amount of AUD13 million (HK\$68 million) (2019: AUD106 million or HK\$587 million). Metro Trains Sydney Pty Ltd also provided operations and maintenance services in respect of Sydney Metro North West to NRT Pty Ltd at a total amount of AUD99 million (HK\$526 million) (2019: AUD96 million or HK\$523 million) and mobilisation services in respect of Sydney Metro City & Southwest to NRT CSW Pty Ltd at a total amount of AUD6 million (HK\$30 million). MTR Corporation (Sydney) SMCSW Pty Limited also provided delivery of electrical and mechanical systems and rolling stock as well as integration of railway system services to NRT CSW Pty Ltd at a total amount of AUD286 million (HK\$1,540 million) (2019: HK\$nil).



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

**M** Other than those stated in notes 44A to 44L, 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 30 and 34.

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

| in HK\$ million              | 2020        | 2019         |
|------------------------------|-------------|--------------|
| Short-term employee benefits | 67.0        | 73.2         |
| Post-employment benefits     | 6.6         | 6.2          |
| Equity compensation benefits | 21.6        | 24.1         |
|                              | <b>95.2</b> | <b>103.5</b> |

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

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

| in HK\$ million       | 2020  | 2019  |
|-----------------------|-------|-------|
| Ordinary dividends    |       |       |
| – Cash dividends paid | 5,700 | 5,561 |

## 45 Commitments

### A Capital Commitments

(i) Outstanding capital commitments as at 31 December 2020 not provided for in the consolidated accounts were as follows:

| in HK\$ million                       | Hong Kong transport operations, station commercial and other businesses | Hong Kong railway extension projects | Hong Kong property rental and development | Mainland of China and overseas operations | Total         |
|---------------------------------------|-------------------------------------------------------------------------|--------------------------------------|-------------------------------------------|-------------------------------------------|---------------|
| <b>At 31 December 2020</b>            |                                                                         |                                      |                                           |                                           |               |
| Authorised but not yet contracted for | 10,799                                                                  | –                                    | 2,127                                     | 67                                        | 12,993        |
| Authorised and contracted for         | 19,473                                                                  | 115                                  | 991                                       | 9                                         | 20,588        |
|                                       | <b>30,272</b>                                                           | <b>115</b>                           | <b>3,118</b>                              | <b>76</b>                                 | <b>33,581</b> |
| <b>At 31 December 2019</b>            |                                                                         |                                      |                                           |                                           |               |
| Authorised but not yet contracted for | 8,476                                                                   | –                                    | 2,442                                     | 9                                         | 10,927        |
| Authorised and contracted for         | 13,558                                                                  | 170                                  | 1,183                                     | 20                                        | 14,931        |
|                                       | 22,034                                                                  | 170                                  | 3,625                                     | 29                                        | 25,858        |

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

In respect of Shenzhen Metro Line 13, the Group is responsible to contribute equity injection of up to RMB1,428 million. Up to the end of December 2020, the Group has not contributed equity to the project.

In respect of Sydney Metro City & Southwest, the Group is expected to further contribute equity of approximately AUD12.7 million and loans of approximately AUD13.3 million to the project for the share of investment.



# NOTES TO THE CONSOLIDATED ACCOUNTS

## 45 Commitments (continued)

### A Capital Commitments (continued)

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

| in HK\$ million                       | Improvement, enhancement and replacement works | Acquisition of property, plant and equipment | Additional concession property | Total         |
|---------------------------------------|------------------------------------------------|----------------------------------------------|--------------------------------|---------------|
| <b>At 31 December 2020</b>            |                                                |                                              |                                |               |
| Authorised but not yet contracted for | <b>5,395</b>                                   | <b>1,533</b>                                 | <b>3,871</b>                   | <b>10,799</b> |
| Authorised and contracted for         | <b>16,121</b>                                  | <b>491</b>                                   | <b>2,861</b>                   | <b>19,473</b> |
|                                       | <b>21,516</b>                                  | <b>2,024</b>                                 | <b>6,732</b>                   | <b>30,272</b> |
| <b>At 31 December 2019</b>            |                                                |                                              |                                |               |
| Authorised but not yet contracted for | 4,090                                          | 746                                          | 3,640                          | 8,476         |
| Authorised and contracted for         | 10,267                                         | 246                                          | 3,045                          | 13,558        |
|                                       | 14,357                                         | 992                                          | 6,685                          | 22,034        |

### B 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 2020, the Group had total outstanding liabilities and contractual commitments of HK\$2,718 million (2019: HK\$3,101 million) in respect of these works and services. Cash funds totalling HK\$3,010 million (2019: HK\$2,820 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.

### C Material Financial and Performance Guarantees

In respect of the debt securities issued by MTR Corporation (C.I.) Limited (note 32C), the Company has provided guarantees to the investors of approximately HK\$18,544 million (in notional amount) as at 31 December 2020. The proceeds from the debts issued are on lent to the Company. As such, the primary liabilities have been recorded in the Company's statement of financial position.

In respect of the lease out/lease back transaction ("Lease Transaction") (note 19E), the Group has provided standby letters of credit ("standby LC's") to the Investors to cover additional amounts payable by the Group in the event the transactions are terminated prior to the expiry of the lease terms, and such standby LC's amounted to US\$76.5 million (HK\$593 million) as at 31 December 2020. 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\$62.5 million (HK\$485 million) as at 31 December 2020.

In respect of the lease on the shopping centre in Beijing, the Group provided a bank guarantee of RMB12.5 million (HK\$15 million) and a parent company guarantee of RMB52.5 million (HK\$62 million) in respect of the quarterly rental payments to the landlord.

In respect of the SZL4 concession, the Group has provided to the Shenzhen Municipal Government a parent company guarantee in respect of MTR Corporation (Shenzhen) Limited's performance and other obligations under the concession agreement, which can be called if the performance and other obligations are not met.

In respect of the Melbourne train system franchise, the Group and the other shareholders of the Group's 60% owned subsidiary, Metro Trains Melbourne Pty. Ltd. ("MTM"), have provided to the Public Transport Victoria a joint and several parent company guarantee of AUD147.3 million (HK\$880 million) and a performance bond of AUD57.0 million (HK\$341 million) for MTM's performance and other obligations under the franchise agreement, with each shareholder bearing its share of liability based on its shareholdings in MTM. In respect of the lease of the office premises, MTM has provided bank guarantees of AUD2.6 million (HK\$16 million) for the monthly rental payments to the landlords.

In respect of the Stockholm metro franchise, the Group has provided to the Stockholm transport authority a guarantee of SEK1,000 million (HK\$945 million), which can be called if the franchise is terminated early as a result of default by MTR Tunnelbanan AB, the wholly owned subsidiary of the Group to undertake the franchise.

In respect of the Stockholms pendeltåg franchise, the Group has provided to the Stockholm transport authorities a guarantee of SEK1,000 million (HK\$945 million), which can be called if the franchise is terminated early as a result of default by MTR Pendeltågen AB, the wholly owned subsidiary of the Group to undertake the franchise.

In December 2020, the Group was awarded the Mälartåg franchise in Stockholm, Sweden. The Group commits to provide to the Stockholm transport authorities a bank guarantee of SEK300 million (HK\$284 million) upon signing the franchise agreement. The bank guarantee can be called if the franchise is terminated early as a result of default by MTR Jota AB (to be renamed MTR Mälartåg AB), the wholly owned subsidiary of the Group to undertake the franchise.

## 45 Commitments *(continued)*

### C Material Financial and Performance Guarantees *(continued)*

In respect of the TfL Rail/Elizabeth Line Franchise in London, the Group has provided to the Rail for London Limited a parent company guarantee of GBP80 million (HK\$847 million) and a performance bond of GBP25 million (HK\$265 million) for MTR Corporation (Crossrail) Limited's performance and other obligations under the franchise agreement.

In respect of the Sydney Metro North West Franchise, the Group has provided to NRT Pty Ltd, an associate of the Group, a parent company guarantee with a liability cap of AUD1,526 million (HK\$9,118 million) for the design and construction contract as well as the mobilisation phase of the operations and maintenance contract (the cap being subject to the usual exclusions of losses arising from wilful misconduct, fraudulent and criminal actions and, in addition, losses arising from abandonment of the contracts). The Group has also provided a performance bond of AUD17.8 million (HK\$106 million) for the performance and other obligations under the design and construction sub-contract. The Group has also provided a parent company guarantee with a liability cap of AUD147.6 million (HK\$882 million) for the operation and maintenance of Sydney Metro North West, which can be called if the franchise is terminated early as a result of default by Metro Trains Sydney Pty Limited. The Group has also provided bank guarantee amounting to AUD25.3 million (HK\$151 million) as at 31 December 2020 for the operation and maintenance of Sydney Metro North West.

In respect of the Sydney Metro City & Southwest Franchise, the Group has provided to NRT CSW Pty Ltd, an associate of the Group, a parent company guarantee with a liability cap of approximately AUD602 million (HK\$3,597 million) for the integrator works under the integrator contract (the cap being subject to the usual exclusions of losses arising from wilful misconduct, fraudulent and criminal actions and, in addition, losses arising from abandonment of the contracts). The Group has also provided a parent company guarantee with a liability cap of approximately AUD27.5 million (HK\$164 million) for the mobilisation phase of the operation and maintenance of Sydney Metro City & Southwest. The Group has also provided a parent company guarantee to Metro Trains Sydney Pty Ltd with a liability cap of approximately AUD221 million (HK\$1,321 million) and a parent company guarantee to MTR Corporation (Sydney) SMCSW Pty Limited with a liability cap of approximately AUD221 million (HK\$1,321 million) for the interface works under Sydney Metro North West and Sydney Metro City & Southwest.

In respect of the South Western Trains Franchise, the Group has provided to the Secretary of State for Transport a parent company guarantee of GBP13.1 million (HK\$139 million), a parent company support facility of GBP1.1 million (HK\$12 million), a performance bond of GBP4.8 million (HK\$51 million) and a season ticket bond amounting to GBP20.8 million (HK\$221 million) as at 31 December 2020 for the performance and other obligations under the franchise agreement.

In respect of the various lines of the Macao Light Rapid Transit, the Group has provided to Macao Light Rapid Transit Corporation, Limited and the Infrastructures Development Bureau of the Macao SAR Government (Gabinete para o Desenvolvimento de Infra-estruturas) a number of bank guarantees amounting to MOP277.3 million (HK\$269 million) as at 31 December 2020 for the performance and other obligations under the project.

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

Except for the provision of SWR as discussed in note 24, no other provision was recognised in respect of the above financial and performance guarantees as at 31 December 2020.

### D Service Concession in respect of the Rail Merger

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

# NOTES TO THE CONSOLIDATED ACCOUNTS

## 46 Company-level Statement of Financial Position

| in HK\$ million                                  | At 31 December<br>2020 | At 31 December<br>2019 |
|--------------------------------------------------|------------------------|------------------------|
| <b>Assets</b>                                    |                        |                        |
| Fixed assets                                     |                        |                        |
| – Investment properties                          | <b>83,560</b>          | 89,105                 |
| – Other property, plant and equipment            | <b>99,865</b>          | 100,681                |
| – Service concession assets                      | <b>27,311</b>          | 25,638                 |
|                                                  | <b>210,736</b>         | 215,424                |
| Property management rights                       | <b>16</b>              | 21                     |
| Property development in progress                 | <b>11,942</b>          | 12,022                 |
| Deferred expenditure                             | <b>1,116</b>           | 1,948                  |
| Investments in subsidiaries                      | <b>2,175</b>           | 1,955                  |
| Interests in associates                          | <b>24</b>              | 24                     |
| Properties held for sale                         | <b>1,572</b>           | 1,034                  |
| Derivative financial assets                      | <b>480</b>             | 198                    |
| Stores and spares                                | <b>1,378</b>           | 1,200                  |
| Debtors and other receivables                    | <b>8,381</b>           | 6,727                  |
| Amounts due from related parties                 | <b>21,524</b>          | 18,413                 |
| Cash, bank balances and deposits                 | <b>11,769</b>          | 12,934                 |
|                                                  | <b>271,113</b>         | 271,900                |
| <b>Liabilities</b>                               |                        |                        |
| Short-term loans                                 | <b>3,259</b>           | 3,342                  |
| Creditors, other payables and provisions         | <b>27,781</b>          | 25,829                 |
| Current taxation                                 | <b>898</b>             | 1,842                  |
| Amounts due to related parties                   | <b>19,800</b>          | 23,322                 |
| Loans and other obligations                      | <b>25,422</b>          | 13,117                 |
| Obligations under service concession             | <b>10,114</b>          | 10,177                 |
| Derivative financial liabilities                 | <b>381</b>             | 408                    |
| Deferred tax liabilities                         | <b>13,929</b>          | 13,541                 |
|                                                  | <b>101,584</b>         | 91,578                 |
| <b>Net assets</b>                                | <b>169,529</b>         | 180,322                |
| <b>Capital and reserves</b>                      |                        |                        |
| Share capital                                    | <b>59,666</b>          | 58,804                 |
| Shares held for Executive Share Incentive Scheme | <b>(262)</b>           | (263)                  |
| Other reserves                                   | <b>110,125</b>         | 121,781                |
| <b>Total equity</b>                              | <b>169,529</b>         | 180,322                |

Approved and authorised for issue by the Members of the Board on 11 March 2021

Rex P K Auyeung  
Chairman

Jacob C P Kam  
Chief Executive Officer

Herbert L W Hui  
Finance Director

## 47 Accounting Estimates and Judgements

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

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

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

(ii) Impairment of Long-lived Assets

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

(iii) Pension Costs

The Group employs independent valuation professionals to conduct annual assessment of the actuarial position of the MTR Retirement Scheme. The determination of the Group's obligation and expense for the defined benefit element of the scheme is dependent on certain assumptions and factors provided by the Company, which are disclosed in notes 42A(i) and 43F.

(iv) Profit Recognition on Hong Kong Property Development

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

(v) Properties Held for Sale

The Group values unsold interests in properties at the lower of their costs and net realisable values (note 26) at the end of each reporting period. In ascertaining the properties' net realisable values, which are represented by the estimated selling prices less costs to be incurred in relation to the sales, the Group employs independent valuation professionals to assess the properties' estimated selling prices and makes estimations on further selling and property holding costs to be incurred based on past experience and with reference to general market practice.

(vi) Valuation of Investment Properties

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

(vii) Franchise in Hong Kong

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

(viii) Income Tax

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

As detailed in note 29, there are tax queries from the IRD with the Company on tax deductibility of certain expenses and payments for which the ultimate tax determination is uncertain up to the date of this annual report. The Group recognises tax provision for these tax matters based on estimates of whether additional taxes will eventually be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such difference will impact the income tax expenses in the period when such determination is made.

(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.

# NOTES TO THE CONSOLIDATED ACCOUNTS

## 47 Accounting Estimates and Judgements *(continued)*

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

(x) Fair Value of Derivatives and Other Financial Instruments

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

(xi) 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.

**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 (including in relation to those under entrustment arrangements), and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as contingent liability. Other than set out in note 21, as at 31 December 2020, 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.

## 48 Possible Impact of Amendments, New Standards and Interpretations Issued but Not Yet Effective for the Annual Accounting Year Ended 31 December 2020

Up to the date of issue of these accounts, the HKICPA has issued a number of amendments and a new standard, HKFRS 17, *Insurance contracts*, which are not yet effective for the year ended 31 December 2020 and which have not been adopted in these accounts. These developments include the following which may be relevant to the Group:

|                                                                                      | Effective for accounting periods<br>beginning on or after |
|--------------------------------------------------------------------------------------|-----------------------------------------------------------|
| Amendments to HKFRS 16, <i>Covid-19-Related Rent Concessions</i>                     | 1 June 2020                                               |
| Amendments to HKFRS 3, HKAS 16 and HKAS 37, <i>Narrow-scope amendments</i>           | 1 January 2022                                            |
| Annual Improvements to HKFRSs 2018-2020 Cycle                                        | 1 January 2022                                            |
| Amendments to HKAS 1, <i>Classification of Liabilities as Current or Non-current</i> | 1 January 2023                                            |
| HKFRS 17, <i>Insurance contracts</i>                                                 | 1 January 2023                                            |

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.

## 49 Approval of the Consolidated Accounts

The consolidated accounts were approved by the Board on 11 March 2021.