

Notes to the Accounts

1 Statement of Compliance

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

The HKICPA has issued certain new and revised HKFRSs that are first effective for accounting periods beginning on or after 1 January 2015. Changes in accounting policies resulting from the initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these accounts are disclosed in note 2A(iii).

2 Principal Accounting Policies

A Basis of Preparation of the Accounts

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

- investment properties (note 2E(i));
- self-occupied land and buildings (note 2E(ii));
- financial instruments classified as investments in securities other than those intended to be held to maturity (note 2L); and
- derivative financial instruments (note 2S).

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

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

Judgements made by management in the application of HKFRSs that have significant effect on the accounts and estimates are discussed in note 54.

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

- Amendments to HKAS 19, *Defined Benefit Plans: Employee Contributions*
- Amendments to HKFRSs, *Annual Improvements to HKFRSs 2010 – 2012 Cycle*
- Amendments to HKFRSs, *Annual Improvements to HKFRSs 2011 – 2013 Cycle*

The application of these amendments to HKFRSs in the current accounting period does not have an impact on the Group's consolidated accounts.

The Group has not applied any new or revised standard or interpretation that is not yet effective for the current accounting period (note 55).

B Basis of Consolidation

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

C Subsidiaries and Non-controlling Interests

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

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

2 Principal Accounting Policies *(continued)*

C Subsidiaries and Non-controlling Interests *(continued)*

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

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

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

D Associates

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

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

When the Group's share of losses equals or exceeds its interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest in the investee is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate.

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

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

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

E Fixed Assets

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

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

(ii) Leasehold land registered and located in the Hong Kong Special Administrative Region is accounted for as being held under a finance lease and is stated at cost less accumulated depreciation and impairment losses (note 2G(ii)). Land held for own use under operating leases and buildings thereon, where the fair value of the leasehold interest in the land and buildings cannot be measured separately at inception of the lease, are accounted for as being held under a finance lease, unless the buildings are also clearly held under an operating lease. For these purposes, inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee, or at the date of construction of those buildings, if later. The self-occupied land and buildings are stated on the statement of financial position at their fair value at the date of revaluation less any subsequent accumulated depreciation. Revaluations are performed by independent qualified valuers semi-annually, with changes in the fair value arising on revaluations recorded as movements in the fixed assets revaluation reserve, except:

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

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

Notes to the Accounts

2 Principal Accounting Policies *(continued)*

E Fixed Assets *(continued)*

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

(iv) Assets under construction are stated at cost less impairment losses (note 2G(ii)). Cost comprises direct costs of construction, such as materials, staff costs and overheads, together with interest expense capitalised during the period of construction or installation and testing. Capitalisation of these costs ceases and the asset concerned is transferred to the appropriate fixed assets category when substantially all the activities necessary to prepare the asset for its intended use are completed.

(v) Leased Assets

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

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

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

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

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

(vii) Service Concession Assets

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

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

Expenditure for the replacement and/or upgrade of the assets subject to service concession is capitalised and amortised on a straight-line basis over the shorter of the assets' useful lives and the remaining period of the service concession.

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

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

F Property Management Rights

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

2 Principal Accounting Policies *(continued)*

G Impairment of Assets

(i) Impairment of Debtors and Other Receivables

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

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

(ii) Impairment of Other Assets

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

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

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

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

An impairment loss is recognised in the profit and loss account whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount.

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

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

H Depreciation and Amortisation

(i) Investment properties are not depreciated.

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

Land and Buildings

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

Civil Works

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

Notes to the Accounts

2 Principal Accounting Policies *(continued)*

H Depreciation and Amortisation *(continued)*

Plant and Equipment

Rolling stock and components	4 – 42 years
Platform screen doors	10 – 35 years
Rail track	7 – 50 years
Environmental control systems, lifts and escalators, fire protection and drainage system	7 – 30 years
Power supply systems	7 – 40 years
Aerial ropeway and cabin	5 – 27 years
Automatic fare collection systems, metal station kiosks, and other mechanical equipment	20 – 25 years
Train control and signalling equipment, station announcement systems, telecommunication systems and advertising panels	5 – 28 years
Station architectural finishes	8 – 30 years
Fixtures and fittings	4 – 25 years
Maintenance equipment	4 – 40 years
Office furniture and equipment	2 – 15 years
Computer software licences and applications	2 – 10 years
Computer equipment	3 – 5 years
Cleaning equipment and tools	5 years
Motor vehicles	4 – 8 years

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

- (iii) No depreciation or amortisation is provided on assets under construction until the construction is completed and the assets are ready for their intended use.
- (iv) Depreciation on assets held under finance leases is provided at rates designed to write off the cost of the asset in equal annual amounts over the shorter of the lease term or the anticipated useful life of the asset as set out above, except in cases where title to the asset will be acquired by the Group at the end of the lease where depreciation is provided at rates designed to write off the cost of the asset in equal amounts over the anticipated useful life of the asset.

I Construction Costs

- (i) Costs incurred by the Group in respect of feasibility studies on proposed railway related construction projects (including consultancy fees, in-house staff costs and overheads) are dealt with as follows:
- where the proposed projects are at a preliminary review stage with no certainty of materialising, the costs concerned are charged to the profit and loss account; and
 - where the proposed projects are at a detailed study stage, having been agreed in principle by the Members of the Board based on a feasible financial plan, the costs concerned are recorded as deferred expenditure until such time as a project agreement is reached, whereupon the costs are transferred to railway construction in progress.
- (ii) After entering into a project agreement, all costs incurred in the construction of the railway are dealt with as railway construction in progress until commissioning of the railway line, whereupon the relevant construction costs are transferred to fixed assets.

J Property Development

- (i) Costs incurred by the Group in respect of site preparation, land costs, acquisition of development rights, aggregate cost of development, borrowing costs capitalised, 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. Any surplus amounts of payments received from developers in excess of the balance in property development in progress are transferred to deferred income. In these cases, further costs subsequently incurred by the Group in respect of that development are charged against deferred income.

2 Principal Accounting Policies *(continued)*

J Property Development *(continued)*

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

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

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

(iv) Revenue arising from sales of properties in Mainland of China is recognised when the risks and rewards associated with ownership of the properties are transferred to the purchasers, which is when the construction of relevant properties has been completed and the properties have been delivered to the purchasers and collectability of related receivables is reasonably assured. 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 accrued charges.

(v) Where properties are received as a profit distribution upon completion of development and are held for sale, those properties are stated at fair value upon receipt as their cost and subsequently carried at the lower of cost and net realisable value. Net realisable value represents the estimated selling price less costs to be incurred in selling the properties. When properties are sold, the carrying amount of those properties is recognised as cost of properties sold in the period in which the related revenue is recognised. The amount of any write-down of properties to net realisable value is recognised as an expense in the period the write-down occurs. The amount of any reversal of any write-down of properties arising from an increase in net realisable value is recognised as a reduction in the cost of properties sold in the period in which the reversal occurs.

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

K Joint Operations

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. Such costs are deductible from the proceeds of sale before surplus proceeds are shared. In respect of its interests in such operations, the Group accounts for the purchase consideration of development rights, costs of enabling works (including any interest accrued) and land costs (including any land premiums) paid net of payments received as property development in progress. In cases where payments received from developers exceed the related expenditures incurred by the Group, such excess is recorded as deferred income. Expenses incurred by the Group on staff, overhead and consultancy fees in respect of these developments are also capitalised as property development in progress. The Group's share of income earned from such operations is recognised in the profit and loss account on the basis of note 2J(iii) after netting off any related balance in property development in progress at that time.

L Investments in Securities

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

- (i) Investments in securities held for trading purpose are initially stated at fair value. At the end of each reporting period, the fair value is remeasured with any resultant unrealised gain or loss being recognised in the profit and loss account.
- (ii) Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments.
- (iii) Interest income in relation to investment in securities is recognised as it accrues using the effective interest method.
- (iv) Profit or loss on disposal of investments in securities are determined as the difference between the estimated net disposal proceeds and the carrying amount of the investments and are accounted for in the profit and loss account as they arise.

Notes to the Accounts

2 Principal Accounting Policies *(continued)*

M Stores and Spares

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

N Long-term Contracts

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

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

O Cash and Cash Equivalents

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

P Debtors, Deposits and Payments in Advance

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

Q Interest-bearing Borrowings

Interest-bearing borrowings are recognised initially at fair value net of transaction costs incurred. The interest-bearing borrowings not subject to fair value hedges are subsequently stated at amortised costs. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the profit and loss account over the period of the borrowings using the effective interest method.

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

R Creditors and Accrued Charges

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

S Derivative Financial Instruments and Hedging Activities

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

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

Where hedge accounting applies, the Group designates derivatives employed as either: (1) a fair value hedge: to hedge the fair value of recognised liabilities; or (2) a cash flow hedge: to hedge the variability in cash flows of a recognised liability or the foreign currency risk of a firm commitment.

(i) Fair Value Hedge

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

2 Principal Accounting Policies *(continued)*

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

(ii) Cash Flow Hedge

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

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

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

(iii) Derivatives That Do Not Qualify for Hedge Accounting

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

T Employee Benefits

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

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

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

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

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

During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit and loss account in the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the employee share-based capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to the employee share-based capital reserve). The equity amount is recognised in the employee share-based capital reserve until either the option is exercised which is transferred to the share capital account or the option is lapsed (on expiry of the share options)/forfeited (when the vesting conditions are not fulfilled) which is released directly to retained profits.

Notes to the Accounts

2 Principal Accounting Policies *(continued)*

T Employee Benefits *(continued)*

- For award shares under the 2014 Share Incentive Scheme, the amounts to be expensed as staff costs are determined by reference to the fair value of the award shares granted, taking into account all non-vesting conditions associated with the grants. The total expense is recognised over the relevant vesting periods, with a corresponding credit to the employee share-based capital reserve under equity.

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

U Retirement Schemes

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

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

Employer's contributions paid and payable in respect of employees of defined benefit retirement schemes are calculated annually by independent actuaries in accordance with the Retirement Scheme Rules and provisions of the Occupational Retirement Schemes Ordinance. The pension expenses recognised in the accounts are dealt with in accordance with note 2T(ii).

V Income Tax

- (i) Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Income tax is recognised in the profit and loss account except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case it is recognised in other comprehensive income or directly in equity respectively.
- (ii) Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of reporting period, and any adjustment to tax payable in respect of previous years.
- (iii) Deferred tax assets and liabilities arise from deductible and taxable temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

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

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

Where investment properties are carried at their fair value in accordance with the accounting policy set out in note 2E(i), the amount of deferred tax recognised is measured using the tax rates that would apply on sale of those assets at their carrying value at the end of 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 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.

2 Principal Accounting Policies *(continued)*

V Income Tax *(continued)*

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

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

W Financial Guarantee Contracts

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

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

The amount of the guarantee initially recognised as deferred income is amortised in the profit and loss account over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 2X if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in creditors and accrued charges in respect of that guarantee, i.e. the amount initially recognised less accumulated amortisation.

X Provisions and Contingent Liabilities

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

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

Y Revenue Recognition

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

- (i) Fare revenue is recognised when the journey is provided.
- (ii) Rental income from investment properties, station kiosks and other railway premises under operating leases is accounted for in accordance with the terms of the leases. Lease incentives granted are recognised in the profit and loss account as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.
- (iii) Contract revenue is recognised when the outcome of a consultancy, construction or service contract can be estimated reliably. Contract revenue is recognised using the percentage of completion method, measured by reference to the percentage of contract costs incurred to date to the estimated total contract costs for the contract. When the outcome of a consultancy, construction or service contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that it is probable will be recovered.
- (iv) Incomes from other railway and station commercial businesses, property management, railway franchises and service concessions are recognised when the services are provided.

Z Operating Lease Charges

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

Notes to the Accounts

2 Principal Accounting Policies *(continued)*

AA Interest and Finance Charges

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

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

BB Foreign Currency Translation

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

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

CC Segment Reporting

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

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

DD Related Parties

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

An entity is related to the Group if (i) the entity and the Group are members of the same group; (ii) the entity is an associate of the Group; (iii) the entity is a post-employment benefit plans for the benefit of employee 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, joint control, significant influence over that entity or is a member of the key management personnel of that entity; or (v) 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.

EE Government Grants

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

3 Rail Merger with Kowloon-Canton Railway Corporation

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

- The expansion of the Company's existing franchise under the Mass Transit Railway Ordinance ("MTR Ordinance") to cover the construction, operation and regulation of railways in addition to the MTRC railway for an initial period of 50 years from the Appointed Day ("Franchise Period"), extendable pursuant to the provisions of the MTR Ordinance (note 51C);
- The Service Concession Agreement ("SCA") pursuant to which KCRC granted the Company the right to access, use and operate the KCRC system for an initial term of 50 years (the "Concession Period"), which will be extended if the Franchise Period (as it relates to the KCRC railway) is extended. The SCA also sets out the basis on which the KCRC system will be returned at the end of the Concession Period. In accordance with the terms of the SCA, the Company paid an upfront lump sum to KCRC on the Appointed Day and is obliged to pay an annual fixed payment to KCRC for the duration of the Concession Period. Additionally, commencing after three years from the Appointed Day, the Company is obliged to pay variable annual payments to KCRC, calculated on a tiered basis by reference to the revenue generated from the KCRC system above certain thresholds;
- Under the SCA, the Company is responsible for the expenditure incurred in relation to the maintenance, repair, replacement and upgrade of the KCRC system (with any new assets acquired being classified as "additional concession property"). To the extent that such expenditure exceeds an agreed threshold ("Capex Threshold"), the Company will be reimbursed for any above-threshold expenditure at the end of the Concession Period with such reimbursement to be on the basis of depreciated book value;

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

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

4 Revenue from Hong Kong Transport Operations

Revenue from Hong Kong transport operations comprises:

in HK\$ million	2015	2014
Fare Revenue:		
– Domestic Service	11,819	11,318
– Cross-boundary Service	3,172	3,049
– Airport Express	950	915
– Light Rail and Bus	671	639
– Intercity Service	142	145
	16,754	16,066
Other rail-related income	162	157
	16,916	16,223

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

The Island Line Extension opened on 28 December 2014 with Kennedy Town and HKU stations operating, followed by Sai Ying Pun Station on 29 March 2015.

5 Revenue from Hong Kong Station Commercial Businesses

Revenue from Hong Kong station commercial businesses comprises:

in HK\$ million	2015	2014
Duty free shops and kiosks rental	3,540	3,197
Advertising	1,109	1,118
Telecommunication income	548	479
Other station commercial income	183	169
	5,380	4,963

6 Revenue from Hong Kong Property Rental and Management Businesses

Revenue from Hong Kong property rental and management businesses comprises:

in HK\$ million	2015	2014
Property rental income from:		
– Elements	1,101	1,021
– Telford Plaza	863	811
– Maritime Square	528	504
– Luk Yeung Galleria	205	177
– Citylink Plaza	168	157
– PopCorn	172	160
– Paradise Mall	152	143
– International Finance Centre	633	547
– Other properties	445	425
	4,267	3,945
Property management income	266	245
	4,533	4,190

Notes to the Accounts

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	Railway-related subsidiaries outside of Hong Kong							Property rental and management businesses in Mainland of China	Property development in Mainland of China	Total Mainland of China and international subsidiaries
	Stockholm Metro	Melbourne Train	Shenzhen Metro Longhua Line	Sydney Metro Northwest*	London Crossrail	MTR Express	Total			
2015										
Revenue	2,714	7,755	665	493	713	78	12,418	154	-	12,572
Expenses	2,603	7,293	528	491	666	138	11,719	127	140	11,986
2014										
Revenue	3,347	8,476	601	48	-	-	12,472	155	-	12,627
Expenses	3,220	7,896	455	50	-	17	11,638	128	55	11,821

* Formerly Sydney North West Rail Link

MTR Express commenced operation on the route between Stockholm and Gothenburg on 21 March 2015.

London Crossrail commenced train services between Liverpool Street Station and Shenfield Station in London on 31 May 2015.

8 Revenue from Other Businesses

Revenue from other businesses comprises incomes from:

in HK\$ million	2015	2014
Ngong Ping 360	347	375
Consultancy business	189	180
Project management for HKSAR Government	1,736	1,561
Miscellaneous businesses	28	37
	2,300	2,153

9 Operating Expenses

A Total staff costs include:

in HK\$ million	2015	2014
Amounts charged to profit and loss account under:		
- staff costs and related expenses for Hong Kong transport operations	4,906	4,450
- maintenance and related works for Hong Kong transport operations	86	80
- other expense line items for Hong Kong transport operations	89	65
- expenses relating to Hong Kong station commercial businesses	80	74
- expenses relating to Hong Kong property rental and management businesses	110	94
- expenses relating to Mainland of China and international subsidiaries	5,224	5,468
- expenses relating to other businesses	1,901	1,694
- project study and business development expenses	225	244
- profit on Hong Kong property development	9	6
Amounts capitalised under:		
- railway construction in progress before offset by government grant	465	569
- property development in progress	135	136
- assets under construction and other projects	411	363
- service concession assets	346	294
Amounts recoverable	545	496
Total staff costs	14,532	14,033

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

9 Operating Expenses (continued)

A Total staff costs include: (continued)

The following expenditures are included in total staff costs:

in HK\$ million	2015	2014
Share-based payments	78	43
Contributions to defined contribution retirement plans and Mandatory Provident Fund	650	619
Amounts recognised in respect of defined benefit retirement plans	406	348
	1,134	1,010

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

C Project study and business development expenses comprise:

in HK\$ million	2015	2014
Business development expenses	272	427
Miscellaneous project study expenses	32	27
	304	454

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

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

in HK\$ million	2015	2014
Audit services	15	12
Tax services	1	1
Other audit related services	6	6
Non-audit services	13	16
	35	35

E The following charges are included in operating expenses:

in HK\$ million	2015	2014
Loss on disposal of fixed assets	44	36
Derivative financial instruments – transferred from hedging reserve (note 18B)	20	–
Unrealised loss on revaluation of investments in securities	1	1

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

in HK\$ million	2015	2014
Shopping centre, office building, staff quarters and bus depot	85	92
Rolling stock, stations, office buildings, depots, depot equipment and other minor assets for subsidiaries	913	1,004
Amount capitalised	–	(7)
	998	1,089

Notes to the Accounts

10 Remuneration of Members of the Board and the Executive Directorate

A Remuneration of Members of the Board and the Executive Directorate

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

in HK\$ million	Fees	Base pay, allowances and benefits in kind	Retirement scheme contribution	Variable remuneration related to performance	Total
2015					
Members of the Board					
– Raymond Ch'ien Kuo-fung (up to 31 December 2015)	1.2	–	–	–	1.2
– Pamela Chan Wong Shui	0.3	–	–	–	0.3
– Dorothy Chan Yuen Tak-fai	0.4	–	–	–	0.4
– Vincent Cheng Hoi-chuen	0.3	–	–	–	0.3
– Christine Fang Meng-sang (up to 10 August 2015)	0.2	–	–	–	0.2
– Eddy Fong Ching (appointed on 13 January 2015)	0.4	–	–	–	0.4
– Edward Ho Sing-tin	0.4	–	–	–	0.4
– James Kwan Yuk-choi	0.3	–	–	–	0.3
– Kaizer Lau Ping-cheung (appointed on 11 August 2015)	0.1	–	–	–	0.1
– Lucia Li Li Ka-lai	0.3	–	–	–	0.3
– Alasdair George Morrison	0.4	–	–	–	0.4
– Frederick Ma Si-hang	0.4	–	–	–	0.4
– Ng Leung-sing	0.3	–	–	–	0.3
– Abraham Shek Lai-him	0.3	–	–	–	0.3
– T. Brian Stevenson (up to 20 May 2015)	0.2	–	–	–	0.2
– Benjamin Tang Kwok-bun	0.3	–	–	–	0.3
– Allan Wong Chi-yun (appointed on 11 August 2015)	0.1	–	–	–	0.1
– Ceajer Chan Ka-keung	0.3	–	–	–	0.3
– Anthony Cheung Bing-leung	0.3	–	–	–	0.3
– Wai Chi-sing (up to 6 April 2015)	0.1	–	–	–	0.1
– Hon Chi-keung (appointed on 7 April 2015)	0.2	–	–	–	0.2
– Ingrid Yeung Ho Poi-yan	0.3	–	–	–	0.3
Members of the Executive Directorate					
– Lincoln Leong Kwok-kuen	–	8.4	1.2	4.5	14.1
– Morris Cheung Siu-wa	–	4.1	0.6	1.2	5.9
– Jacob Kam Chak-pui	–	5.5	0.8	2.0	8.3
– Stephen Law Cheuk-kin	–	5.0	0.7	1.3	7.0
– Gillian Elizabeth Meller	–	3.8	0.6	1.3	5.7
– Linda So Ka-pik (appointed on 16 September 2015)*	–	1.0	0.1	0.3	1.4
– David Tang Chi-fai	–	4.2	0.6	1.5	6.3
– Philco Wong Nai-keung	–	5.1	0.8	1.7	7.6
– Jeny Yeung Mei-chun	–	4.1	0.6	1.6	6.3
	7.1	41.2	6.0	15.4	69.7

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

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

in HK\$ million	Fees	Base pay, allowances and benefits in kind	Retirement scheme contribution	Variable remuneration related to performance	Total
2014					
Members of the Board					
– Raymond Ch'ien Kuo-fung	1.2	–	–	–	1.2
– Pamela Chan Wong Shui	0.3	–	–	–	0.3
– Dorothy Chan Yuen Tak-fai	0.3	–	–	–	0.3
– Vincent Cheng Hoi-chuen	0.3	–	–	–	0.3
– Christine Fang Meng-sang	0.3	–	–	–	0.3
– Edward Ho Sing-tin	0.4	–	–	–	0.4
– James Kwan Yuk-choi (appointed on 14 October 2014)	0.1	–	–	–	0.1
– Lucia Li Li Ka-lai (appointed on 14 October 2014)	0.1	–	–	–	0.1
– Alasdair George Morrison	0.3	–	–	–	0.3
– Frederick Ma Si-hang	0.3	–	–	–	0.3
– Ng Leung-sing	0.3	–	–	–	0.3
– Abraham Shek Lai-him	0.3	–	–	–	0.3
– T. Brian Stevenson	0.4	–	–	–	0.4
– Benjamin Tang Kwok-bun (appointed on 14 October 2014)	0.1	–	–	–	0.1
– Ceajer Chan Ka-keung	0.3	–	–	–	0.3
– Anthony Cheung Bing-leung	0.3	–	–	–	0.3
– Wai Chi-sing (appointed on 14 October 2014)	0.1	–	–	–	0.1
– Ingrid Yeung Ho Poi-yan	0.3	–	–	–	0.3
Members of the Executive Directorate					
– Jay H Walder (up to 15 August 2014)	–	5.8	–**	–	5.8
– Lincoln Leong Kwok-kuen	–	7.0	1.1	2.3	10.4
– Morris Cheung Siu-wa	–	4.0	0.2	0.7	4.9
– Chew Tai-chong (up to 27 October 2014)	–	4.9	0.6	0.4	5.9
– Jacob Kam Chak-pui	–	5.0	0.8	1.8	7.6
– Stephen Law Cheuk-kin	–	4.8	0.7	1.3	6.8
– Gillian Elizabeth Meller	–	3.7	0.5	1.3	5.5
– David Tang Chi-fai	–	4.0	0.6	1.4	6.0
– Philco Wong Nai-keung (appointed on 28 October 2014) ***	–	0.9	0.1	0.2	1.2
– Jeny Yeung Mei-chun	–	3.9	0.6	1.4	5.9
	5.7	44.0	5.2	10.8	65.7

* Linda K P So was appointed as a Member of the Executive Directorate on 16 September 2015. The amount of her emoluments shown in the above table covers the period from the date of her appointment to 31 December 2015.

** The total contributions paid by the Company attributable to the financial year ended 31 December 2014 for Jay H Walder, who participated in the MTR MPF Scheme, was HK\$10,750.

*** Philco N K Wong was appointed as a Member of the Executive Directorate on 28 October 2014. The amount of his emoluments shown in the above table covers the period from the date of his appointment to 31 December 2014.

Mr. Jay H Walder received a contractual settlement amount of HK\$15.7 million, of which HK\$725,428 was the equivalent value in cash of 24,378 shares as referred to in Note 47(B), from the Company upon his stepping down as Chief Executive Officer of the Company on 15 August 2014. Both amounts are not reflected in the above table.

The above emoluments do not include the fair value of share options granted under 2007 Share Option Scheme as well as Award Shares granted under 2014 Share Incentive Scheme.

Notes to the Accounts

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

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

The director's fees in respect of the office of the Secretary for Transport and Housing (Professor Anthony Cheung Bing-leung), the office of the Permanent Secretary for Development (Works) (Hon Chi-keung) and the office of the Commissioner for Transport (Ingrid Yeung Ho Poi-yan), each of whom was appointed Director by the Chief Executive of the HKSAR pursuant to Section 8 of the Mass Transit Railway Ordinance (Chapter 556 of the Laws of Hong Kong), were received by the HKSAR Government rather than by the individuals concerned.

The director's fee in respect of Professor Chan Ka-keung, Ceajer, the Secretary for Financial Services and the Treasury of the HKSAR Government, was received by the HKSAR Government rather than by Professor Chan personally.

Alternate Directors were not entitled to director's fees.

Dr. Peter R Ewen was appointed as the Engineering Director and a member of the Executive Directorate with effect from 22 February 2016.

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

- Lincoln K K Leong was granted options in respect of 170,000 shares each on 12 December 2007, 9 December 2008, 10 December 2009 and 17 December 2010, 201,000 shares on 30 March 2012 and 256,000 shares on 6 May 2013, of which 152,500 options were vested in 2015 (2014:152,500), and the respective fair value of the share-based payments recognised for the year ended 31 December 2015 was HK\$0.1 million (2014: HK\$0.3 million);
- Morris S W Cheung was granted options in respect of 65,000 shares each on 12 December 2007, 10 December 2008 and 11 December 2009, 35,000 shares on 21 July 2010, 65,000 shares on 20 December 2010, 122,000 shares on 30 March 2012 and 180,500 shares on 6 May 2013, of which 100,500 options were vested in 2015 (2014: 101,500), and the respective fair value of the share-based payments recognised for the year ended 31 December 2015 was HK\$0.1 million (2014: HK\$0.2 million);
- Jacob C P Kam was granted options in respect of 75,000 shares on 13 December 2007, 65,000 shares each on 8 December 2008 and 14 December 2009, 50,000 shares on 21 July 2010, 170,000 shares on 17 December 2010, 172,000 shares on 30 March 2012 and 202,500 shares on 6 May 2013, of which 124,500 options were vested in 2015 (2014: 125,000), and the respective fair value of the share-based payments recognised for the year ended 31 December 2015 was HK\$0.1 million (2014: HK\$0.3 million);
- Stephen C K Law was granted options in respect of 196,000 shares on 1 November 2013, of which 65,500 options were vested in 2015 (2014: 65,500), and the fair value of the share-based payments recognised for the year ended 31 December 2015 was HK\$0.1 million (2014: HK\$0.3million);
- Gillian E Meller was granted options in respect of 55,000 shares on 12 December 2007, 70,000 shares on 11 December 2008, 65,000 shares on 10 December 2009, 90,000 shares on 17 December 2010, 158,500 shares on 30 March 2012 and 184,000 shares on 6 May 2013, of which 114,000 options were vested in 2015 (2014: 114,500), and the respective fair value of the share-based payments recognised for the year ended 31 December 2015 was HK\$0.1 million (2014: HK\$0.2 million);
- David C F Tang was granted options in respect of 65,000 shares each on 13 December 2007, 12 December 2008, 15 December 2009 and 17 December 2010, 163,500 shares on 30 March 2012 and 182,500 shares on 6 May 2013, of which 115,500 options were vested in 2015 (2014: 115,500), and the respective fair value of the share-based payments recognised for the year ended 31 December 2015 was HK\$0.1 million (2014: HK\$0.2 million);
- Philco N K Wong was granted options in respect of 70,500 shares on 30 March 2012, 81,000 shares on 6 May 2013 and 83,000 shares on 30 May 2014, of which 78,500 options were vested in 2015 (2014: 50,500), and the respective fair value of the share-based payments recognised for the year ended 31 December 2015 was HK\$0.1 million (2014: HK\$0.2 million);
- Jeny M C Yeung was granted options in respect of 75,000 shares on 12 December 2007 and 65,000 shares each on 10 December 2008, 10 December 2009 and 17 December 2010, 161,000 shares on 30 March 2012 and 187,000 shares on 6 May 2013, of which 115,500 options were vested in 2015 (2014: 116,500), and the respective fair value of the share-based payments recognised for the year ended 31 December 2015 was HK\$0.1 million (2014: HK\$0.2 million);
- Jay H Walder was granted options in respect of 391,500 shares on 30 March 2012 and 497,000 shares on 6 May 2013, of which 296,500 options were vested in 2014. The respective fair value of the share-based payments recognised for the year ended 31 December 2014 was HK\$0.6 million; and
- T C Chew was granted options in respect of 85,000 shares on 18 June 2009, 170,000 shares each on 10 December 2009 and 17 December 2010, 184,500 shares on 30 March 2012 and 225,500 shares on 6 May 2013, of which 137,000 options were vested in 2014. The respective fair value of the share-based payments recognised for the year ended 31 December 2014 was HK\$0.3 million.

Restricted Shares and Performance Shares were granted to Members of the Executive Directorate under the Company's 2014 Share Incentive Scheme on 27 April 2015. Performance Shares offered to Members of the Executive Directorate under such grants covered the period from 2015 to 2017. The entitlements of each of the Members are as follows:

- Lincoln K K Leong was granted 60,200 Restricted Shares and 255,000 Performance Shares on 27 April 2015 and the respective fair value of the share-based payments recognised for the year ended 31 December 2015 was HK\$3.3 million;
- Morris S W Cheung was granted 28,800 Performance Shares on 27 April 2015 and the respective fair value of the share-based payments recognised for the year ended 31 December 2015 was HK\$0.3 million;
- Jacob C P Kam was granted 22,050 Restricted Shares and 57,600 Performance Shares on 27 April 2015 and the respective fair value of the share-based payments recognised for the year ended 31 December 2015 was HK\$0.9 million;

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

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

- Stephen C K Law was granted 16,700 Restricted Shares and 57,600 Performance Shares on 27 April 2015 and the respective fair value of the share-based payments recognised for the year ended 31 December 2015 was HK\$0.8 million;
- Gillian E Meller was granted 16,950 Restricted Shares and 57,600 Performance Shares on 27 April 2015 and the respective fair value of the share-based payments recognised for the year ended 31 December 2015 was HK\$0.8 million;
- David C F Tang was granted 18,450 Restricted Shares and 57,600 Performance Shares on 27 April 2015 and the respective fair value of the share-based payments recognised for the year ended 31 December 2015 was HK\$0.8 million;
- Philco N K Wong was granted 21,700 Restricted Shares and 57,600 Performance Shares on 27 April 2015 and the respective fair value of the share-based payments recognised for the year ended 31 December 2015 was HK\$0.9 million; and
- Jeny M C Yeung was granted 19,350 Restricted Shares and 57,600 Performance Shares on 27 April 2015 and the respective fair value of the share-based payments recognised for the year ended 31 December 2015 was HK\$0.8 million.

None of the Restricted Shares or Performance Shares awarded to the Members of the Executive Directorate were vested in 2015.

The details of Board Members' and Executive Directorate's interest in the Company's shares are disclosed in the Report of the Members of the Board and note 47.

For the year ended 31 December 2015, three (2014: four) Members of the Executive Directorate of the Company, whose emoluments are shown above, were among the five individuals whose emoluments were the highest. The total remuneration of the five highest paid individuals for the year is shown below:

in HK\$ million	2015	2014
Base pay, allowances and benefits in kind	30.0	25.9
Variable remuneration related to performance	12.0	9.7
Retirement scheme contributions	3.5	3.3
	45.5	38.9

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

	2015	2014
HK\$5,500,001 – HK\$6,000,000	–	1
HK\$6,500,001 – HK\$7,000,000	–	1
HK\$7,000,001 – HK\$7,500,000	1	–
HK\$7,500,001 – HK\$8,000,000	1	1
HK\$8,000,001 – HK\$8,500,000	2	1
HK\$10,000,001 – HK\$10,500,000	–	1
HK\$13,500,001 – HK\$14,500,000	1	–
	5	5

(ii) Jay H Walder was granted a derivative interest in respect of 300,000 shares in the Company within the meaning of Part XV of the Securities and Futures Ordinance. On appointment as the Chief Executive Officer of the Company, the derivative interest represents his entitlement to be paid an equivalent value in cash of 300,000 shares in the Company following 30 June 2014, being the date on which his initial term of office expired. Accordingly, an amount of HK\$8,805,000 was paid to him on 2 July 2014 (at a price of HK\$29.35 per share by reference to the average closing price of the Company's shares on the 20 business days immediately preceding 30 June 2014).

On 30 August 2013, he was re-appointed as the Chief Executive Officer until 31 August 2015. He was granted a derivative interest in respect of 230,000 shares in the Company within the meaning of Part XV of the Securities and Futures Ordinance. The derivative interest represents his entitlement to be paid an equivalent value in cash of 230,000 shares in the Company upon completion of his extended term of office on 31 August 2015. Jay H Walder stepped down as the Chief Executive Officer of the Company from 15 August 2014. On 15 August 2014, an amount of HK\$725,428, forming part of the contractual settlement amount referred to in section (i) of this Note 10A, was paid to him, being the equivalent value in cash of 24,378 shares (at a price of HK\$29.7575 per share by reference to the average closing price of the Company's shares on the 20 business days immediately preceding 25 July 2014). His remaining derivative interest in 205,622 shares in the Company lapsed on 15 August 2014.

(iii) The aggregate emoluments of Members of the Board and the Executive Directorate for the year was HK\$79.1 million (2014: HK\$93.0 million).

Notes to the Accounts

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

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

(iv) The Company has a service contract with each of the independent non-executive Directors ("INED")/non-executive Directors ("NED") (including Dr. Raymond Ch'ien Kuo-fung, Professor Frederick Ma Si-hang (re-designated from INED to NED on 30 November 2015) and Professor Ceajer Chan Ka-keung but excluding three additional directors appointed pursuant to Section 8 of the Mass Transit Railway Ordinance (Chapter 556 of the Laws of Hong Kong) specifying the terms of his/her continuous appointments as 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 Articles 91 and 92(a) of the Company's Articles of Association. Dr. Raymond Ch'ien Kuo-fung, a Member of the Board and the non-executive Chairman of the Company since 1998 and 2003 respectively, was re-appointed by the HKSAR Government on 29 October 2012 as the non-executive Chairman of the Company until 31 December 2015. Professor Frederick Ma Si-hang was appointed by the HKSAR government as the new non-executive Chairman of the Company for a term of three years, effective 1 January 2016.

B Share Options

Options exercised and outstanding in respect of each Member of the Executive Directorate as at 31 December 2015 are set out in the Report of the Members of the Board. Details of the options granted to Members of the Executive Directorate are as follows:

2007 Share Option Scheme

Under the 2007 Share Option Scheme (the "2007 Option Scheme") as described in note 47A(i), all Members of the Executive Directorate were granted options to acquire shares in each year from 2007 to 2010 and from 2012 to 2013 (note 10A(i)).

Under the vesting terms of the options, options granted will be evenly vested in respect of their underlying shares over a period of three years from the date of offer to grant such options.

C Award Shares

Award Shares outstanding in respect of each Member of the Executive Directorate as at 31 December 2015 are set out in the Report of the Members of the Board. Details of the award shares granted to Members of the Executive Directorate are as follows:

Under the 2014 Share Incentive Scheme as described in note 47A(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, assessed by reference to such Board-approved performance metric and in respect of such performance period and any other performance conditions.

An award of Restricted Shares will vest rateably 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.

11 Profit on Hong Kong Property Development

Profit on Hong Kong property development comprises:

in HK\$ million	2015	2014
Share of surplus from property development	2,898	4,004
Agency fee and other income from West Rail property development (note 25D)	30	234
Other overhead costs net of miscellaneous income	(37)	(22)
	2,891	4,216

12 Depreciation and Amortisation

Depreciation and amortisation comprise:

in HK\$ million	2015	2014
Depreciation charge on assets relating to:		
– Hong Kong transport operations	2,891	2,616
– Hong Kong station commercial businesses	114	107
– Hong Kong property rental and management businesses	12	12
– Mainland of China and international subsidiaries	78	66
– Other businesses	66	64
	3,161	2,865
Amortisation charge on:		
– Service concession assets relating to:		
– Rail Merger with KCRC	671	607
– Mainland of China and international subsidiaries	384	349
– Property management rights	2	–
	1,057	956
– Utilisation of government subsidy for Shenzhen Metro Longhua Line operation	(369)	(336)
	688	620
	3,849	3,485

13 Interest and Finance Charges

in HK\$ million	2015	2014
Interest expenses in respect of:		
– Bank loans, overdrafts and capital market instruments wholly repayable within 5 years	357	275
– Bank loans and capital market instruments not wholly repayable within 5 years	315	434
– Obligations under service concession	714	717
– Other obligations (note 20F)	19	18
Finance charges	39	36
Exchange gain	(104)	(219)
	1,340	1,261
Utilisation of government subsidy for Shenzhen Metro Longhua Line operation	(217)	(221)
Derivative financial instruments:		
– Fair value hedges	(12)	(26)
– Cash flow hedges:		
– transferred from hedging reserve to offset interest expenses	22	26
– transferred from hedging reserve to offset exchange gain	123	234
– ineffective portion	–	(1)
– Derivatives not qualified for hedge accounting	4	(1)
	137	232
Interest expenses capitalised	(494)	(497)
	766	775
Interest income in respect of deposits with banks	(167)	(230)
	599	545

Notes to the Accounts

13 Interest and Finance Charges *(continued)*

During the year ended 31 December 2015, 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 2.7% to 6.3% per annum (2014: 1.3% to 6.5% per annum).

During the year ended 31 December 2015, interest and finance charges net of interest expenses capitalised in relation to the Shenzhen Metro Longhua Line were HK\$217 million (2014: HK\$221 million), which was fully offset by the subsidy received from the Shenzhen Municipal Government.

During the year ended 31 December 2015, the gain resulting from fair value changes of the underlying financial assets and liabilities being hedged was HK\$73 million (2014: HK\$30 million) while the loss resulting from fair value changes of hedging instruments comprising interest rate and cross currency swaps was HK\$61 million (2014: HK\$4 million), thus resulting in a net gain of HK\$12 million (2014: HK\$26 million).

14 Income Tax

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

in HK\$ million	2015	2014
Current tax		
– Hong Kong Profits Tax	1,791	1,583
– Mainland of China and overseas tax	190	205
	1,981	1,788
Less: Utilisation of government subsidy for Shenzhen Metro Longhua Line operation	(23)	–
	1,958	1,788
Deferred tax		
– Origination and reversal of temporary differences on:		
– tax losses	(36)	(15)
– depreciation allowances in excess of related depreciation	435	760
– provisions and others	(120)	(37)
	279	708
	2,237	2,496

The provision for Hong Kong Profits Tax for the year ended 31 December 2015 is calculated at 16.5% (2014: 16.5%) on the estimated assessable profits for the year after deducting accumulated tax losses brought forward, if any. Current taxes for the Mainland of China and overseas subsidiaries are charged at the appropriate current rates of taxation ruling in the relevant countries.

Provision for deferred tax on temporary differences arising in Hong Kong is calculated at the Hong Kong Profits Tax rate at 16.5% (2014: 16.5%) while that arising in the Mainland of China and overseas is calculated at the appropriate current rates of taxation ruling in the relevant countries.

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

	2015		2014	
	HK\$ million	%	HK\$ million	%
Profit before taxation	15,375		18,293	
Notional tax on profit before taxation, calculated at the rates applicable to profits in the tax jurisdictions concerned	2,555	16.6	3,055	16.7
Tax effect of non-deductible expenses	338	2.2	382	2.1
Tax effect of non-taxable revenue	(606)	(3.9)	(932)	(5.1)
Tax effect of unused tax losses not recognised	(27)	(0.2)	(9)	–
Utilisation of government subsidy for Shenzhen Metro Longhua Line operation	(23)	(0.1)	–	–
Actual tax expenses	2,237	14.6	2,496	13.7

15 Dividends

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

in HK\$ million	2015	2014
Dividends payable attributable to the year		
– Interim dividend declared of HK\$0.25 (2014: HK\$0.25) per share	1,462	1,455
– Final dividend proposed after the end of reporting period of HK\$0.81 (2014: HK\$0.80) per share	4,745	4,661
	6,207	6,116
Dividends paid attributable to the previous year		
– Final dividend of HK\$0.80 (2013: HK\$0.67) per share approved and payable/paid during the year	4,673	3,886

The final dividend proposed after the end of reporting period has not been recognised as a liability at the end of reporting period. Details of dividends paid to the Financial Secretary Incorporated are disclosed in note 51N.

For interim and final dividends, scrip dividend elections were offered to all shareholders except shareholders with registered addresses in the United States of America or any of its territories or possessions.

Pursuant to the agreement entered into between the HKSAR Government and the Company dated 30 November 2015 (the “XRL Agreement”), the Company will pay a special dividend of HK\$4.40 in aggregate per share in two equal tranches (HK\$2.20 per share in cash in each tranche) conditional on satisfaction of the following conditions specified in the XRL Agreement (the “Conditions”):

- (i) independent shareholder approval; and
- (ii) HKSAR Legislative Council approval in respect of the HKSAR Government’s additional funding obligations,

being granted prior to the Back Stop Date (being 30 September 2016 or earlier, if a termination of XRL Entrustment Agreement is commenced prior to that date).

Given the XRL Agreement was approved by the Company’s independent shareholders at the General Meeting held on 1 February 2016 and the approval from HKSAR Legislative Council in respect of the HKSAR Government’s additional funding obligations was obtained on 11 March 2016, the Conditions have been satisfied. It is expected that the first tranche will be paid in the second half of 2016 and the second tranche will be paid in the second half of 2017. There will be no scrip alternative for the special dividend. Details are set out in note 24A.

16 Earnings Per Share

A Basic Earnings Per Share

The calculation of basic earnings per share is based on the profit for the year attributable to equity shareholders of HK\$12,994 million (2014: HK\$15,606 million) and the weighted average number of ordinary shares in issue less shares held for Share Incentive Scheme, which is calculated as follows:

	2015	2014
Issued ordinary shares at 1 January	5,826,534,347	5,798,541,650
Effect of scrip dividend issued	3,861,439	6,084,149
Effect of share options exercised	12,801,362	4,855,401
Less: Shares held for Share Incentive Scheme	(2,355,135)	–
Weighted average number of ordinary shares less shares held for Share Incentive Scheme at 31 December	5,840,842,013	5,809,481,200

Notes to the Accounts

16 Earnings Per Share *(continued)*

B Diluted Earnings Per Share

The calculation of diluted earnings per share is based on the profit for the year attributable to equity shareholders of HK\$12,994 million (2014: HK\$15,606 million) and the weighted average number of ordinary shares in issue less shares held for Share Incentive Scheme after adjusting for the dilutive effect of the Company's share option schemes and Share Incentive Scheme, which is calculated as follows:

	2015	2014
Weighted average number of ordinary shares less shares held for Share Incentive Scheme at 31 December	5,840,842,013	5,809,481,200
Effect of dilutive potential shares under share option schemes	11,902,289	4,430,330
Effect of shares awarded under Share Incentive Scheme	2,460,621	–
Weighted average number of shares (diluted) at 31 December	5,855,204,923	5,813,911,530

C Basic and diluted earnings per share would have been HK\$1.87 (2014: HK\$1.99) and HK\$1.86 (2014: HK\$1.99) respectively, if the calculation is based on profit attributable to equity shareholders of the Company arising from underlying businesses of HK\$10,894 million (2014: HK\$11,571 million).

17 Segmental Information

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

- (i) Hong Kong transport operations: The provision of passenger operation and related services on the urban mass transit railway system in Hong Kong, the Airport Express serving both the Hong Kong International Airport and the AsiaWorld-Expo at Chek Lap Kok, cross-boundary railway connection with the border of Mainland of China at Lo Wu and Lok Ma Chau, light rail and bus feeder with railway system in the north-west New Territories and intercity railway transport with certain cities in the Mainland of China.
- (ii) Hong Kong station commercial businesses: Commercial activities including the letting of advertising, retail and car parking space at railway stations, the provision of telecommunication and bandwidth services in railway premises and other commercial activities within the Hong Kong transport operations network.
- (iii) Hong Kong property rental and management businesses: The letting of retail, office and car parking space and the provision of estate management services in Hong Kong.
- (iv) Hong Kong property development: Property development activities at locations near the railway systems in Hong Kong.
- (v) Railway, property rental and management businesses outside Hong Kong: 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.

17 Segmental Information (continued)

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

in HK\$ million	Hong Kong transport operations	Hong Kong station commercial businesses	Hong Kong property rental and management businesses	Hong Kong property development	Mainland of China and international affiliates			Un-allocated amount	Total
					Railway, property rental and management businesses outside Hong Kong	Mainland of China property development	Other businesses		
2015									
Revenue	16,916	5,380	4,533	-	12,572	-	2,300	-	41,701
Operating expenses	(9,702)	(550)	(865)	-	(11,846)	(140)	(2,174)	-	(25,277)
Project study and business development expenses	-	-	-	-	-	-	-	(304)	(304)
Operating profit before Hong Kong property development, depreciation, amortisation and variable annual payment	7,214	4,830	3,668	-	726	(140)	126	(304)	16,120
Profit on Hong Kong property development	-	-	-	2,891	-	-	-	-	2,891
Operating profit before depreciation, amortisation and variable annual payment	7,214	4,830	3,668	2,891	726	(140)	126	(304)	19,011
Depreciation and amortisation	(3,534)	(142)	(14)	-	(93)	-	(66)	-	(3,849)
Variable annual payment	(1,187)	(458)	(4)	-	-	-	-	-	(1,649)
Operating profit before interest and finance charges	2,493	4,230	3,650	2,891	633	(140)	60	(304)	13,513
Interest and finance charges	-	-	-	-	4	17	-	(620)	(599)
Investment property revaluation	-	-	2,100	-	-	-	-	-	2,100
Share of profit or loss of associates	-	-	-	-	126	-	235	-	361
Income tax	-	-	-	(475)	(135)	36	-	(1,663)	(2,237)
Profit for the year ended 31 December 2015	2,493	4,230	5,750	2,416	628	(87)	295	(2,587)	13,138
Assets									
Fixed assets	95,936	1,927	68,442	-	8,672	-	742	-	175,719
Other operational assets *	1,947	309	311	2,207	3,481	3,635	1,251	7,402	20,543
Property management rights	-	-	28	-	-	-	-	-	28
Railway construction in progress	19,064	-	-	-	-	-	-	-	19,064
Property development in progress	-	-	-	14,046	-	3,937	-	-	17,983
Deferred expenditure	5	-	14	-	-	-	269	-	288
Deferred tax assets	-	3	-	-	23	65	-	-	91
Investments in securities	-	-	-	-	-	-	336	-	336
Properties held for sale	-	-	-	1,139	-	-	-	-	1,139
Interests in associates	-	-	-	-	5,129	-	783	-	5,912
Total assets	116,952	2,239	68,795	17,392	17,305	7,637	3,381	7,402	241,103
Liabilities									
Segment liabilities	10,453	1,846	1,858	1,270	7,044	5,689	1,805	29,660	59,625
Obligations under service concession	10,392	-	-	-	172	-	-	-	10,564
Deferred income	-	150	-	19	574	-	-	-	743
Total liabilities	20,845	1,996	1,858	1,289	7,790	5,689	1,805	29,660	70,932
Other Information									
Capital expenditure on:									
Fixed assets	4,391	237	614	-	1,048	-	18	-	6,308
Railway construction in progress	3,859	-	-	-	-	-	-	-	3,859
Property development in progress	-	-	-	10,666	569	-	-	-	11,235
Non-cash expenses other than depreciation and amortisation	36	4	-	-	2	-	2	-	44

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

Notes to the Accounts

17 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
					Railway, property rental and management businesses outside Hong Kong	Mainland of China property development	Other businesses		
2014									
Revenue	16,223	4,963	4,190	–	12,627	–	2,153	–	40,156
Operating expenses	(9,236)	(515)	(747)	–	(11,766)	(55)	(1,960)	–	(24,279)
Project study and business development expenses	–	–	–	–	–	–	–	(454)	(454)
Operating profit before Hong Kong property development, depreciation, amortisation and variable annual payment	6,987	4,448	3,443	–	861	(55)	193	(454)	15,423
Profit on Hong Kong property development	–	–	–	4,216	–	–	–	–	4,216
Operating profit before depreciation, amortisation and variable annual payment	6,987	4,448	3,443	4,216	861	(55)	193	(454)	19,639
Depreciation and amortisation	(3,196)	(133)	(13)	–	(79)	–	(64)	–	(3,485)
Variable annual payment	(1,081)	(388)	(3)	–	–	–	–	–	(1,472)
Operating profit before interest and finance charges	2,710	3,927	3,427	4,216	782	(55)	129	(454)	14,682
Interest and finance charges	–	–	–	–	(27)	1	–	(519)	(545)
Investment property revaluation	–	–	4,035	–	–	–	–	–	4,035
Share of profit or loss of associates	–	–	–	–	(105)	–	226	–	121
Income tax	–	–	–	(632)	(197)	17	–	(1,684)	(2,496)
Profit for the year ended 31 December 2014	2,710	3,927	7,462	3,584	453	(37)	355	(2,657)	15,797
Assets									
Fixed assets	93,835	1,807	65,736	1	8,487	–	790	–	170,656
Other operational assets *	1,787	238	317	1,384	3,838	69	957	16,643	25,233
Property management rights	–	–	30	–	–	–	–	–	30
Railway construction in progress	16,229	–	–	–	–	–	–	–	16,229
Property development in progress	–	–	–	3,962	–	3,528	–	–	7,490
Deferred expenditure	39	–	3	–	–	–	22	–	64
Deferred tax assets	–	3	–	–	16	31	–	–	50
Investments in securities	–	–	–	–	–	–	527	–	527
Properties held for sale	–	–	–	1,076	–	–	–	–	1,076
Interests in associates	–	–	–	–	5,105	–	692	–	5,797
Total assets	111,890	2,048	66,086	6,423	17,446	3,628	2,988	16,643	227,152
Liabilities									
Segment liabilities	9,633	1,787	1,742	798	7,421	1,022	2,224	27,664	52,291
Obligations under service concession	10,438	–	–	–	176	–	–	–	10,614
Deferred income	–	174	–	26	565	–	–	–	765
Total liabilities	20,071	1,961	1,742	824	8,162	1,022	2,224	27,664	63,670
Other Information									
Capital expenditure on:									
Fixed assets	2,931	268	372	–	597	–	26	–	4,194
Railway construction in progress	7,947	–	–	–	–	–	–	–	7,947
Property development in progress	–	–	–	437	696	–	–	–	1,133
Non-cash expenses other than depreciation and amortisation	28	5	–	–	–	–	3	–	36

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

17 Segmental Information *(continued)*

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

For the year ended 31 December 2015, revenue from one customer of the Mainland of China and international affiliates segment has exceeded 10% of the Group's revenue (2014: one). Approximately 17.17% (2014: 15.65%) of the Group's total turnover was attributable to this customer.

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

in HK\$ million	Revenue from external customers		Specified non-current assets	
	2015	2014	2015	2014
Hong Kong (place of domicile)	29,070	27,454	201,258	183,144
Australia	8,248	8,524	305	162
Mainland of China	850	792	16,590	16,818
Sweden	2,792	3,347	750	121
Other countries	741	39	91	21
	12,631	12,702	17,736	17,122
	41,701	40,156	218,994	200,266

18 Other Comprehensive Income

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

in HK\$ million	2015			2014		
	Before-tax amount	Tax (expense)/ benefit	Net-of-tax amount	Before-tax amount	Tax (expense)/ benefit	Net-of-tax amount
Exchange differences on translation of:						
– Financial statements of overseas subsidiaries and associates	(570)	–	(570)	(95)	–	(95)
– Non-controlling interests	(28)	–	(28)	(26)	–	(26)
	(598)	–	(598)	(121)	–	(121)
Surplus on revaluation of self-occupied land and buildings	325	(54)	271	138	(22)	116
Remeasurement of net liability of defined benefit plans	(694)	114	(580)	(443)	73	(370)
Cash flow hedges: net movement in hedging reserve (note 18B)	(162)	28	(134)	46	(9)	37
Other comprehensive income	(1,129)	88	(1,041)	(380)	42	(338)

Notes to the Accounts

18 Other Comprehensive Income *(continued)*

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

in HK\$ million	2015	2014
Cash flow hedges:		
Effective portion of changes in fair value of hedging instruments recognised during the year	(315)	(216)
Amounts transferred to initial carrying amount of hedged items	(12)	2
Amounts transferred to profit or loss:		
– Interest and finance charges (note 13)	145	260
– Other expenses (note 9E)	20	–
Tax effect resulting from:		
– Changes in fair value of hedging instruments recognised during the year	51	33
– Amounts transferred to initial carrying amount of hedged items	4	–
– Amounts transferred to profit or loss	(27)	(42)
	(134)	37

19 Investment Properties

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

in HK\$ million	The Group		The Company	
	2015	2014	2015	2014
Cost or valuation				
At 1 January	65,679	61,285	64,237	59,940
Additions	609	359	597	345
Change in fair value	2,100	4,035	2,066	3,952
At 31 December	68,388	65,679	66,900	64,237
Long leases	20	22	20	22
Medium-term leases	68,368	65,657	66,880	64,215
	68,388	65,679	66,900	64,237

All investment properties of the Group were revalued at 31 December 2015 and 2014. Details of the fair value measurement are disclosed in note 46. The net increase in fair value of HK\$2,100 million (2014: HK\$4,035 million) arising from the revaluation has been credited to the consolidated profit and loss account. Investment properties are revalued semi-annually by Jones Lang LaSalle Limited and future market condition changes may result in further gains or losses to be recognised through profit and loss account in subsequent periods. Cost or valuation as at 31 December 2015 include investment properties under development of HK\$1,949 million (2014: HK\$1,504 million).

The Group's future minimum lease receipts in respect of investment properties under non-cancellable operating leases are disclosed together with those in respect of other properties under note 20D.

20 Other Property, Plant and Equipment

The Group

in HK\$ million	Leasehold land	Self-occupied land and buildings	Civil works	Plant and equipment	Assets under construction	Total
2015						
Cost or Valuation						
At 1 January 2015	732	3,507	47,101	70,907	1,415	123,662
Additions	-	16	-	934	2,232	3,182
Disposals/write-offs	-	-	-	(533)	(6)	(539)
Surplus on revaluation	-	214	-	-	-	214
Transfer from additional concession property (note 21)	-	-	-	(1)	7	6
Transfer from railway construction in progress (note 23)	-	-	147	801	76	1,024
Other assets commissioned	-	-	160	1,597	(1,757)	-
Exchange differences	-	-	-	(51)	-	(51)
At 31 December 2015	732	3,737	47,408	73,654	1,967	127,498
At Cost	732	-	47,408	73,654	1,967	123,761
At 31 December 2015 Valuation	-	3,737	-	-	-	3,737
Aggregate depreciation						
At 1 January 2015	245	-	7,011	38,127	-	45,383
Charge for the year	13	112	403	2,633	-	3,161
Written back on disposals	-	-	-	(487)	-	(487)
Written back on revaluation	-	(111)	-	-	-	(111)
Exchange differences	-	-	-	(24)	-	(24)
At 31 December 2015	258	1	7,414	40,249	-	47,922
Net book value at 31 December 2015	474	3,736	39,994	33,405	1,967	79,576
2014						
Cost or Valuation						
At 1 January 2014	732	3,474	46,727	67,329	1,171	119,433
Additions	-	-	-	196	1,372	1,568
Capitalisation adjustments *	-	-	(10)	-	-	(10)
Disposals/write-offs	-	-	(1)	(547)	(9)	(557)
Surplus on revaluation	-	33	-	-	-	33
Reclassification within other property, plant and equipment	-	-	16	(16)	-	-
Transfer to additional concession property (note 21)	-	-	-	(5)	3	(2)
Transfer from railway construction in progress (note 23)	-	-	369	2,877	-	3,246
Other assets commissioned	-	-	-	1,122	(1,122)	-
Exchange differences	-	-	-	(49)	-	(49)
At 31 December 2014	732	3,507	47,101	70,907	1,415	123,662
At Cost	732	-	47,101	70,907	1,415	120,155
At 31 December 2014 Valuation	-	3,507	-	-	-	3,507
Aggregate depreciation						
At 1 January 2014	231	-	6,611	36,314	-	43,156
Charge for the year	14	105	401	2,345	-	2,865
Written back on disposals	-	-	(1)	(507)	-	(508)
Written back on revaluation	-	(105)	-	-	-	(105)
Exchange differences	-	-	-	(25)	-	(25)
At 31 December 2014	245	-	7,011	38,127	-	45,383
Net book value at 31 December 2014	487	3,507	40,090	32,780	1,415	78,279

Notes to the Accounts

20 Other Property, Plant and Equipment (continued)

The Company

in HK\$ million	Leasehold land	Self-occupied land and buildings	Civil works	Plant and equipment	Assets under construction	Total
2015						
Cost or Valuation						
At 1 January 2015	732	3,507	47,101	69,460	1,337	122,137
Additions	-	-	-	174	2,187	2,361
Disposals/write-offs	-	-	-	(518)	(6)	(524)
Surplus on revaluation	-	214	-	-	-	214
Transfer from additional concession property (note 21)	-	-	-	(1)	7	6
Transfer from railway construction in progress (note 23)	-	-	147	801	76	1,024
Other assets commissioned	-	-	160	1,508	(1,668)	-
At 31 December 2015	732	3,721	47,408	71,424	1,933	125,218
At Cost	732	-	47,408	71,424	1,933	121,497
At 31 December 2015 Valuation	-	3,721	-	-	-	3,721
Aggregate depreciation						
At 1 January 2015	245	-	7,011	37,246	-	44,502
Charge for the year	13	111	403	2,511	-	3,038
Written back on disposals	-	-	-	(475)	-	(475)
Written back on revaluation	-	(111)	-	-	-	(111)
At 31 December 2015	258	-	7,414	39,282	-	46,954
Net book value at 31 December 2015	474	3,721	39,994	32,142	1,933	78,264
2014						
Cost or Valuation						
At 1 January 2014	732	3,474	46,727	66,009	1,118	118,060
Additions	-	-	-	93	1,272	1,365
Capitalisation adjustments *	-	-	(10)	-	-	(10)
Disposals/write-offs	-	-	(1)	(545)	(9)	(555)
Surplus on revaluation	-	33	-	-	-	33
Reclassification within other property, plant and equipment	-	-	16	(16)	-	-
Transfer to additional concession property (note 21)	-	-	-	(5)	3	(2)
Transfer from railway construction in progress (note 23)	-	-	369	2,877	-	3,246
Other assets commissioned	-	-	-	1,047	(1,047)	-
At 31 December 2014	732	3,507	47,101	69,460	1,337	122,137
At Cost	732	-	47,101	69,460	1,337	118,630
At 31 December 2014 Valuation	-	3,507	-	-	-	3,507
Aggregate depreciation						
At 1 January 2014	231	-	6,611	35,513	-	42,355
Charge for the year	14	105	401	2,239	-	2,759
Written back on disposals	-	-	(1)	(506)	-	(507)
Written back on revaluation	-	(105)	-	-	-	(105)
At 31 December 2014	245	-	7,011	37,246	-	44,502
Net book value at 31 December 2014	487	3,507	40,090	32,214	1,337	77,635

* Capitalisation adjustments relate to adjustments on the cost of assets to their final contract values after finalisation of contract claims with contractors.

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

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

The Group and the Company

in HK\$ million	2015	2014
At net book value		
– long leases	131	134
– medium-term leases	343	353
	474	487

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 51A, 51B and 51C).

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

B All self-occupied land and buildings of the Group are held in Hong Kong under medium-term leases and carried at fair value. The details of the fair value measurement are disclosed in note 46. The revaluation surplus of HK\$325 million (2014: HK\$138 million) and the related deferred tax expenses of HK\$54 million (2014: HK\$22 million) has been recognised in other comprehensive income and accumulated in the fixed assets revaluation reserve (note 44F). The carrying amount of the self-occupied land and buildings at 31 December 2015 would have been HK\$774 million (2014: HK\$799 million) had the land and buildings been stated at cost less accumulated depreciation.

C Assets under construction include capital works on operating railway.

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

The gross carrying amounts of investment properties of the Group and the Company held for use in operating leases were HK\$66,439 million (2014: HK\$64,175 million) and HK\$64,951 million (2014: HK\$62,733 million) respectively. The costs of station kiosks of the Group and the Company held for use in operating leases were HK\$672 million (2014: HK\$655 million) and the related accumulated depreciation charges were HK\$348 million (2014: HK\$316 million).

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

in HK\$ million	The Group		The Company	
	2015	2014	2015	2014
Within 1 year	6,666	6,345	6,355	6,008
After 1 year but within 5 years	7,764	8,670	7,188	8,255
Later than 5 years	329	95	23	46
	14,759	15,110	13,566	14,309

E In addition to the leasehold land classified as being held under a finance lease in note 20A above, the Group leases plant and equipment under finance leases expiring in 2024. At the end of the lease term the Group has the option to purchase the leased equipment at a price deemed to be a bargain purchase option. The lease does not include contingent rental.

During the year ended 31 December 2015, additions to plant and equipment financed by a new finance lease of the Group was HK\$646 million (2014: nil). At the end of the reporting period, the net book value of plant and equipment under finance lease of the Group was HK\$628 million (2014: nil).

Notes to the Accounts

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

F 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.

21 Service Concession Assets

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

The Group

in HK\$ million	KCRC Rail Merger		Shenzhen Metro Longhua Line	Stockholm Metro	London Crossrail	Total
	Initial concession property	Additional concession property				
2015						
Cost						
At 1 January 2015	15,226	6,390	9,291	71	13	30,991
Net additions during the year	–	2,252	213	–	52	2,517
Disposals	–	(67)	(8)	–	–	(75)
Transfer to other property, plant and equipment (note 20)	–	(6)	–	–	–	(6)
Exchange differences	–	–	(426)	(6)	(1)	(433)
At 31 December 2015	15,226	8,569	9,070	65	64	32,994
Accumulated amortisation						
At 1 January 2015	2,157	967	1,121	48	–	4,293
Charge for the year	304	367	372	7	5	1,055
Written-off on disposals	–	(40)	(4)	–	–	(44)
Exchange differences	–	–	(61)	(4)	–	(65)
At 31 December 2015	2,461	1,294	1,428	51	5	5,239
Net book value at 31 December 2015	12,765	7,275	7,642	14	59	27,755
2014						
Cost						
At 1 January 2014	15,226	4,693	8,977	85	–	28,981
Net additions during the year	–	1,729	525	–	13	2,267
Disposals	–	(34)	(2)	–	–	(36)
Transfer from other property, plant and equipment (note 20)	–	2	–	–	–	2
Exchange differences	–	–	(209)	(14)	–	(223)
At 31 December 2014	15,226	6,390	9,291	71	13	30,991
Accumulated amortisation						
At 1 January 2014	1,852	683	806	46	–	3,387
Charge for the year	305	302	338	11	–	956
Written-off on disposals	–	(18)	(2)	–	–	(20)
Exchange differences	–	–	(21)	(9)	–	(30)
At 31 December 2014	2,157	967	1,121	48	–	4,293
Net book value at 31 December 2014	13,069	5,423	8,170	23	13	26,698

21 Service Concession Assets (continued)

The Company

in HK\$ million	Initial concession property	Additional concession property	Total
2015			
Cost			
At 1 January 2015	15,226	6,390	21,616
Net additions during the year	–	2,252	2,252
Disposals	–	(67)	(67)
Transfer to other property, plant and equipment (note 20)	–	(6)	(6)
At 31 December 2015	15,226	8,569	23,795
Accumulated amortisation			
At 1 January 2015	2,157	967	3,124
Charge for the year	304	367	671
Written-off on disposals	–	(40)	(40)
At 31 December 2015	2,461	1,294	3,755
Net book value at 31 December 2015	12,765	7,275	20,040
2014			
Cost			
At 1 January 2014	15,226	4,693	19,919
Net additions during the year	–	1,729	1,729
Disposals	–	(34)	(34)
Transfer from other property, plant and equipment (note 20)	–	2	2
At 31 December 2014	15,226	6,390	21,616
Accumulated amortisation			
At 1 January 2014	1,852	683	2,535
Charge for the year	305	302	607
Written-off on disposals	–	(18)	(18)
At 31 December 2014	2,157	967	3,124
Net book value at 31 December 2014	13,069	5,423	18,492

Initial concession property relates to the payments recognised at inception of the Rail Merger with KCRC while additional concession property relates to the expenditures for the replacement and/or upgrade of the initial concession property after inception of the Rail Merger.

On 30 July 2014, the Group entered into a concession agreement with Transport for London to operate the London Crossrail train service for an eight-year period with a two-year extension option, with passenger operation expected to commence in phases from 2015 to 2019. Service concession assets in respect of London Crossrail relate to the costs incurred between the signing of concession agreement on 30 July 2014 and prior to the commencement of the franchise period for preparing the Group to operate London Crossrail. The concession property is amortised and charged to the consolidated profit and loss account over the term of the franchise.

22 Property Management Rights

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

The Group and The Company

in HK\$ million	2015	2014
Cost at 1 January and 31 December	40	40
Accumulated amortisation		
At 1 January	10	9
Charge for the year	2	1
At 31 December	12	10
Net book value at 31 December	28	30

Notes to the Accounts

23 Railway Construction in Progress

The Group and The Company

in HK\$ million	Balance at 1 January	Expenditure	Capitalised on commissioning (note 20)	Balance at 31 December
2015				
Island Line Extension Project				
Construction costs	3,364	479	(3,843)	–
Consultancy fees	149	7	(156)	–
Staff costs and other expenses	230	68	(298)	–
(Interest income)/finance costs	(100)	6	94	–
Principal and interest repaid/repayable in respect of government grant	66	118	(184)	–
Utilisation of government grant	(3,363)	–	3,363	–
	346	678	(1,024)	–
South Island Line (East) Project				
Construction costs	9,740	1,215	–	10,955
Consultancy fees	593	41	–	634
Staff costs and other expenses	1,133	274	–	1,407
Finance costs	552	185	–	737
	12,018	1,715	–	13,733
Kwun Tong Line Extension Project				
Construction costs	2,932	1,256	–	4,188
Consultancy fees	229	25	–	254
Staff costs and other expenses	508	117	–	625
Finance costs	196	68	–	264
	3,865	1,466	–	5,331
Total	16,229	3,859	(1,024)	19,064
2014				
Island Line Extension Project				
Construction costs	10,727	2,927	(10,290)	3,364
Consultancy fees	543	97	(491)	149
Staff costs and other expenses	1,569	315	(1,654)	230
(Interest income)/finance costs	(207)	35	72	(100)
Principal and interest repaid/repayable in respect of government grant	–	238	(172)	66
Utilisation of government grant	(12,632)	(20)	9,289	(3,363)
	–	3,592	(3,246)	346
South Island Line (East) Project				
Construction costs	7,089	2,651	–	9,740
Consultancy fees	530	63	–	593
Staff costs and other expenses	895	238	–	1,133
Finance costs	307	245	–	552
	8,821	3,197	–	12,018
Kwun Tong Line Extension Project				
Construction costs	2,008	924	–	2,932
Consultancy fees	198	31	–	229
Staff costs and other expenses	410	98	–	508
Finance costs	111	85	–	196
	2,727	1,138	–	3,865
Total	11,548	7,927	(3,246)	16,229

23 Railway Construction in Progress *(continued)*

A Island Line Extension Project

On 13 July 2009, the Company entered into a Project Agreement with the HKSAR Government for the financing, design, construction and operation of the extension of Island Line to the Western District and related services and facilities.

Pursuant to the agreement, the HKSAR Government provided a grant of HK\$12.3 billion to the Company in March 2010 (having already made HK\$0.4 billion available in February 2008 under a preliminary project agreement). This grant is subject to a repayment mechanism whereby, within 24 months of commercial operations of the extension of Island Line to the Western District, the Company has to pay to the HKSAR Government amounts to reflect the excess of the original estimation over actual costs incurred on certain capital expenditure, price escalation costs, land costs and the amount of contingency in relation to the railway and related works (together with interest). During the year ended 31 December 2015, the Company has recognised and prepaid an amount with a principal of HK\$142 million and interest of HK\$44 million to the HKSAR Government under the repayment mechanism (2014: principal of HK\$187 million and interest of HK\$51 million).

During the year ended 31 December 2015, HK\$1,024 million had been transferred out from Railway Construction in Progress to Other Property, Plant and Equipment upon the opening of the Sai Ying Pun Station on 29 March 2015. As at 31 December 2015, the Company has authorised outstanding commitments on contracts of HK\$25 million (2014: HK\$0.5 billion) for this project (note 52).

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

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

During the year ended 31 December 2015, the project cost estimate was increased from the August 2014 estimate of HK\$15.2 billion (before capitalised interest expense estimate of HK\$1.5 billion) to approximately HK\$16.9 billion (before capitalised interest expense of HK\$0.9 billion) due to the complexity of works and continued labour shortages. The Company continues to monitor and review the project cost estimate. As at 31 December 2015, the Company has incurred cumulative expenditure of HK\$13.7 billion (2014: HK\$12.0 billion) and has authorised outstanding commitments on contracts totalling HK\$0.9 billion (2014: HK\$0.5 billion) for this project (note 52).

C Kwun Tong Line Extension ("KTE") Project

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

During the year ended 31 December 2015, the project cost estimate was increased from the original estimate of HK\$5.9 billion (before capitalised interest expense estimate of HK\$0.3 billion) to approximately HK\$7.2 billion (before capitalised interest expense of HK\$0.3 billion) due to the complexity of works and continued labour shortages. The Company continues to monitor and review the project cost estimate. As at 31 December 2015, the Company has incurred cumulative expenditure of HK\$5.3 billion (2014: HK\$3.9 billion) and has authorised outstanding commitments on contracts totalling HK\$0.2 billion (2014: HK\$0.5 billion) for this project (note 52).

24 Other Railway Construction in Progress under Entrustment by the HKSAR Government

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

On 24 November 2008, the HKSAR Government and the Company entered into an entrustment agreement for the design of and site investigation and procurement activities in relation to the XRL (the "XRL Preliminary Entrustment Agreement"). Pursuant to the XRL 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.

In 2009, the HKSAR Government decided that the Company should be asked to proceed with the construction, testing and commissioning of the XRL on the understanding that the Company would subsequently be invited to undertake the operation of the XRL 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 XRL (the "XRL Entrustment Agreement"). Pursuant to the XRL 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 XRL and the HKSAR Government, as owner of XRL, 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 "Project Management Fee"). As at 31 December 2015 and up to the date of this annual report, the Company has received payments from the HKSAR Government in accordance with the originally agreed payment schedule.

Under the XRL Entrustment Agreement, if a material modification to the programme for the execution of the entrustment activities is likely to result in a material increase or decrease in project management responsibilities or costs of the Company, the Company and the HKSAR Government are to negotiate in good faith to agree an increase or, as the case may be, decrease in the Project Management Fee. Further, under the XRL Entrustment Agreement, the maximum aggregated amount payable by the HKSAR Government (including the Project Management Fee) is subject to a maximum annual aggregate limit of HK\$2 billion and a total limit of HK\$10 billion.

The HKSAR Government has the right to claim against the Company if the Company breaches the XRL Entrustment Agreement and, under the XRL 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 XRL Entrustment Agreement or breach by the Company of the XRL Entrustment Agreement. Under the XRL Entrustment Agreement, the Company's total aggregate liability to the HKSAR Government arising out of or in connection with the XRL Preliminary Entrustment Agreement and the XRL Entrustment Agreement (other than for death or personal injury) is subject to a cap equal to the Project Management Fee and any other fees that the Company receives under the XRL Entrustment Agreement and certain fees received by the Company under the XRL Preliminary Entrustment Agreement (the "Liability Cap"). Up to the date of this annual report, no claim has been received from the HKSAR Government.

Notes to the Accounts

24 Other Railway Construction in Progress under Entrustment by the HKSAR Government

(continued)

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

In April 2014, the Company announced that the construction period for the XRL project needed to be extended, with the target opening of the line for passenger service revised to the end of 2017. In July 2014, the Company provided to the HKSAR Government a project cost estimate for the XRL project of HK\$71.52 billion, inclusive of future insurance and project management costs.

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

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

The Company advised the HKSAR Government that these revised estimates were based on a number of assumptions including timely funding arrangements and require the cooperation of various parties and certain approvals of the HKSAR Government.

On 30 June 2015, the Company announced that it had reported the above to the HKSAR Government and that the board of directors of the Company (the “Board”) had authorised the Chairman and Chief Executive Officer of the Company to engage with the HKSAR Government with a view to enabling the XRL to commence operations in accordance with the XRL Revised Programme and to report further to the Board in due course on the outcome thereof.

Since 30 June 2015, the HKSAR Government and its consultants had reviewed and discussed with the Company these revised estimates. With adjustments being made to certain elements of the Company’s estimated project cost of 30 June 2015, the HKSAR Government and the Company are now in agreement that the estimated project cost be reduced to HK\$84.42 billion (the “Revised Cost Estimate”).

On 30 November 2015, the HKSAR Government and the Company entered into an agreement (the “XRL Agreement”) relating to the further funding and completion of the XRL. The XRL Agreement contains an integrated package of terms (subject to conditions as set out in note 24A(vi)) 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 XRL Agreement);
- (iii) The Company will pay a Special Dividend of HK\$4.40 in aggregate per share in two equal tranches (of HK\$2.20 per share in cash in each tranche). The first tranche will be paid in cash within a reasonable period after the XRL Agreement become fully unconditional and effective (payment is expected to be in the second half of 2016) and the second tranche will be paid in cash approximately 12 months thereafter (which is expected to be in the second half of 2017). There will be no scrip alternative;
- (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 XRL Preliminary Entrustment Agreement and XRL 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 XRL Entrustment Agreement, the Liability Cap is equal to the Project Management Cost and any other fees that the Company receives under XRL Entrustment Agreement and certain fees received by the Company under the Preliminary Entrustment Agreement. Accordingly, the Liability Cap is currently up to HK\$4.94 billion and will increase to up to HK\$6.69 billion when the Project Management Cost is increased in accordance with the XRL Agreement (as it will be equal to the increased Project Management Cost under the XRL 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 will be made to the XRL Entrustment Agreement to reflect the arrangements contained in the XRL Agreement, including an increase in Project Management Fee payable to the Company under XRL 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 XRL Entrustment Agreement in relation to XRL project) and to reflect the XRL Revised Programme;
- (vi) The arrangements under the XRL Agreement (including the payment of the proposed Special Dividend) are conditional on:
 - independent shareholder approval (which was sought at the General Meeting convened on 1 February 2016); and
 - HKSAR Legislative Council approval in respect of the HKSAR Government’s additional funding obligations,

being granted prior to the Back Stop Date (being 30 September 2016 or earlier, if a termination of XRL Entrustment Agreement is commenced prior to that date) and will become effective if such conditions are satisfied.

24 Other Railway Construction in Progress under Entrustment by the HKSAR Government

(continued)

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

The XRL 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 HKSAR Legislative Council on 11 March 2016 of the HKSAR Government's additional funding obligations.

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

- (i) any possible liability of the Company for any Further Cost Overrun (if any), given the Company does not currently believe there is any need to revise further the XRL Revised Programme or the Revised Cost Estimate of HK\$84.42 billion;
- (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 paragraph (iv) above), given that (a) the Company has not received any notification from 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 XRL Agreement, cannot take place until after commencement of commercial operations on the XRL); (b) the Company has the benefit of the Liability Cap; and (c) as a result of the XRL 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) any possible insufficiency of the Project Management Fee to enable the Company to recover fully its internal costs incurred in performing its obligations in relation to the XRL project, given that the Company estimates that the increased Project Management Fee under XRL Agreement should be sufficient to cover such costs (based on current known circumstances),

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

During the year ended 31 December 2015, Project Management Fee of HK\$823 million (2014: HK\$819 million) was recognised in the consolidated profit and loss account.

B Shatin to Central Link ("SCL") Project

On 24 November 2008, the HKSAR Government and the Company entered into an entrustment agreement for the design of and site investigation and procurement activities in relation to the SCL ("SCL Preliminary Entrustment Agreement"). Pursuant to the SCL Preliminary Entrustment Agreement, the Company is responsible to carry out or procure the carrying out of the design, site investigation and procurement activities while the HKSAR Government is responsible to fund directly the total cost of such activities.

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

In August 2015, the Company notified the HKSAR Government that the Company estimated that the cost for the works carried out under the SCL Advance Works Entrustment Agreement will exceed the original estimate of HK\$7,350 million in respect thereof by HK\$1,274 million (including contingency). In February 2016, the Company notified the HKSAR Government that the estimated exceedance will be adjusted to HK\$1,267 million (including contingency).

On 29 May 2012, the Company and the HKSAR Government entered into an entrustment agreement for the construction and commissioning of the SCL ("SCL Entrustment Agreement"). Pursuant to the SCL Entrustment Agreement, the HKSAR Government is responsible to bear all the work costs specified in the SCL Entrustment Agreement including costs to contractors and costs to the Company ("Interface Works Costs") except for certain costs of modification, upgrade or expansions of certain assets for which the Company is responsible under the existing service concession agreement with KCRC. The Company is responsible to carry out or procure to the carrying out of the works specified in the SCL Entrustment Agreement (and the SCL Preliminary Entrustment Agreement and SCL Advance Works Entrustment Agreement) for a project management fee of HK\$7,893 million. As at 31 December 2015 and up to the date of this annual report, the Company has received payments of the project management fee from the HKSAR Government in accordance with the original agreed payment schedule.

In May 2014, the Company notified the HKSAR Government of the delays to the completion of the East West Corridor and North South Corridor. In the case of the East West Corridor, this is due to the archaeological finds at a site in the To Kwa Wan area, while for the North South Corridor, it is the result of late site access at the Central-Wan Chai overpass of a construction site for the new Exhibition Station caused by third party infrastructure works.

Notes to the Accounts

24 Other Railway Construction in Progress under Entrustment by the HKSAR Government

(continued)

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

Given the above delays, the Company is reviewing again the project cost estimate and the target completion date. Taking into account the continued difficulties and challenges, including those described above, the Company expects that the cost estimate will be revised upwards and that the review in respect of the project as a whole is expected to be completed later in 2016, after which the Company will formally report the findings to the HKSAR Government. Thereafter, the Company will continue to monitor and review the project cost and completion date.

The HKSAR Government has the right to claim against the Company if the Company breaches the SCL Preliminary Entrustment Agreement, the SCL Advance Works Entrustment Agreement or the SCL Entrustment Agreement (together, the "SCL Agreements") and, under each SCL 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 relevant SCL Agreement. Under the SCL Entrustment Agreement, 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. Up to the date of this annual report, no claim has been received from the HKSAR Government.

Given (i) the SCL Agreements, provide that the HKSAR Government shall bear and finance the full amount of the relevant costs to the extent described above; and (ii) the Company has not received any notification from the HKSAR Government of any claim by the HKSAR Government against the Company in relation to any SCL Agreement (as of 31 December 2015 and up to the date of this annual report), the Company is not able to measure with sufficient reliability the amount of the Company's obligation or liability (if any) arising from the matters described above.

During the year ended 31 December 2015, project management fee of HK\$913 million (2014: HK\$742 million) was recognised in the consolidated profit and loss account. Additionally, during the year ended 31 December 2015, the SCL Advance Works Costs and the Interface Works Costs, both of which are payable by the HKSAR Government to the Company, were HK\$1,442 million (2014: HK\$1,828 million). As at 31 December 2015, the amount of the SCL Advance Works Costs and the Interface Works Costs which remained to be paid to the Company by the HKSAR Government was HK\$984 million (2014: HK\$685 million).

25 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 2015, the outstanding property developments of the Company include the Tseung Kwan O Extension Property Projects at the depot sites in Tseung Kwan O Area 86 (LOHAS Park), South Island Line (East) Property Project at a site in Wong Chuk Hang, Kwun Tong Line Extension Property Project at a site in Ho Man Tin and the East Rail Line/Light Rail Property Projects at along the related railway lines.

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

A Property Development in Progress

The Group

in HK\$ million	Balance at 1 January	Expenditure	Offset against payments received from developers	Transfer out to profit or loss	Exchange differences	Balance at 31 December
2015						
Airport Railway Property Projects	–	4	(4)	–	–	–
Tseung Kwan O Extension Property Projects	1,240	2,981	(3)	(575)	–	3,643
East Rail Line/Light Rail Property Projects	1,316	7,612	–	–	–	8,928
South Island Line (East) Property Project	1,045	16	–	–	–	1,061
Kwun Tong Line Extension Property Project	361	53	–	–	–	414
Shenzhen Property Project	3,528	569	–	–	(160)	3,937
	7,490	11,235	(7)	(575)	(160)	17,983
2014						
Airport Railway Property Projects	–	4	(4)	–	–	–
Tseung Kwan O Extension Property Projects	1,145	115	(20)	–	–	1,240
East Rail Line/Kowloon Southern Link/ Light Rail Property Projects	5,976	126	(4,104)	(682)	–	1,316
South Island Line (East) Property Project	939	106	–	–	–	1,045
Kwun Tong Line Extension Property Project	275	86	–	–	–	361
Shenzhen Property Project	2,898	696	–	–	(66)	3,528
	11,233	1,133	(4,128)	(682)	(66)	7,490

25 Property Development in Progress (continued)

A Property Development in Progress (continued)

The Company

in HK\$ million	Balance at 1 January	Expenditure	Offset against payments received from developers/ investments in subsidiaries	Transfer out to profit or loss	Balance at 31 December
2015					
Airport Railway Property Projects	–	4	(4)	–	–
Tseung Kwan O Extension Property Projects	1,240	2,981	(3)	(575)	3,643
East Rail Line/Light Rail Property Projects	1,316	7,612	–	–	8,928
South Island Line (East) Property Project	1,045	16	–	–	1,061
Kwun Tong Line Extension Property Project	361	53	–	–	414
	3,962	10,666	(7)	(575)	14,046
2014					
Airport Railway Property Projects	–	4	(4)	–	–
Tseung Kwan O Extension Property Projects	1,145	115	(20)	–	1,240
East Rail Line/Kowloon Southern Link/ Light Rail Property Projects	5,976	126	(4,104)	(682)	1,316
South Island Line (East) Property Project	939	106	–	–	1,045
Kwun Tong Line Extension Property Project	275	86	–	–	361
	8,335	437	(4,128)	(682)	3,962

The expenditure of Tseung Kwan O Extension Property Projects during the year included HK\$2,440 million in relation to the Company's contribution paid for the Tseung Kwan O Area 86 (LOHAS Park) Package 7 property development project.

The expenditure of East Rail Line/Light Rail Property Projects during the year included HK\$7,500 million in relation to the Company's contribution paid for the Tai Wai Station property development project. Leasehold land in Hong Kong included under property development in progress are held under medium-term leases.

B Deferred Income on Property Development

The Group and The Company

in HK\$ million	Balance at 1 January	Offset against development in progress (note 25A)	Balance at 31 December
2015			
Airport Railway Property Projects	23	(4)	19
Tseung Kwan O Extension Property Projects	3	(3)	–
Total (note 42)	26	(7)	19
2014			
Airport Railway Property Projects	27	(4)	23
Tseung Kwan O Extension Property Projects	23	(20)	3
Total (note 42)	50	(24)	26

Notes to the Accounts

25 Property Development in Progress *(continued)*

C Stakeholding Funds

Being the stakeholder under certain Airport Railway, Tseung Kwan O Extension and East Rail Line/Kowloon Southern Link Property Projects, the Company receives and manages deposit monies and sales proceeds in respect of sales of properties under those developments. These monies are placed in separate designated bank accounts and, together with any interest earned, are to be released to the developers for the reimbursement of costs of the respective developments in accordance with the terms and conditions of the HKSAR Government Consent Schemes and development agreements. Any balance remaining is to be released for distribution only after all obligations relating to the developments have been met. Accordingly, the balances of the stakeholding funds and the corresponding bank balances have not been included in the Group's and the Company's statements of financial position. Movements in the stakeholding funds during the year are as follows:

The Group and The Company

in HK\$ million	2015	2014
Balance as at 1 January	8,178	5,184
Stakeholding funds received	15,194	37,828
Add: Interest earned thereon	23	21
	23,395	43,033
Disbursements during the year	(16,620)	(34,855)
Balance as at 31 December	6,775	8,178
Represented by:		
Balances in designated bank accounts as at 31 December	6,773	8,176
Retention receivable	2	2
	6,775	8,178

D 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 2015, HK\$30 million (2014: HK\$234 million) agency fee and other income in respect of West Rail property development was recognised (note 11). During the year ended 31 December 2015, the reimbursable costs incurred by the Company including on-cost and interest accrued were HK\$88 million (2014: HK\$116 million).

26 Deferred Expenditure

The Group and The Company

in HK\$ million	2015	2014
Balance at 1 January	64	4
Expenditure during the year	224	60
Balance at 31 December	288	64

27 Investments in Subsidiaries

The Company

in HK\$ million	2015	2014
Unlisted shares, at cost	1,295	1,292

27 Investments in Subsidiaries (continued)

The following list contains details of subsidiaries as at 31 December 2015 which have been consolidated into the Group's accounts.

Name of company	Issued and paid up ordinary share capital/ registered capital	Proportion of ownership interest			Place of incorporation/ establishment and operation	Principal activities
		Group's effective interest	Held by the Company	Held by subsidiary		
Subsidiaries held throughout 2015						
Glory Goal Limited	HK\$10,000	100%	100%	–	Hong Kong	Investment holding
Hanford Garden Property Management Company Limited	HK\$10,000	100%	100%	–	Hong Kong	Property investment and management
MTR (Estates Management) Limited	HK\$1,000	100%	100%	–	Hong Kong	Investment holding and property management
MTR (Shanghai Project Management) Limited	HK\$1,000	100%	100%	–	Hong Kong	Investment holding
MTR Beijing Line 4 Investment Company Limited	HK\$1	100%	100%	–	Hong Kong	Investment holding
MTR Building Works Company Limited	HK\$2	100%	100%	–	Hong Kong	General building, maintenance and engineering works
MTR China Commercial Management No. 1 Holdings Limited	HK\$1,000	100%	100%	–	Hong Kong	Investment holding
MTR China Consultancy Company Limited	HK\$1,000	100%	100%	–	Hong Kong	Railway consultancy services
MTR China Property Holdings Limited	HK\$1	100%	100%	–	Hong Kong	Investment holding
MTR China Property Limited	HK\$1,000	100%	100%	–	Hong Kong	Property management and other consultancy services
MTR China Services Holding (Hong Kong) Limited	HK\$10,000	100%	100%	–	Hong Kong	Investment holding
MTR Engineering Services Limited	HK\$1,000	100%	100%	–	Hong Kong	Engineering and other consultancy services
MTR Hangzhou Line 1 Investment Company Limited	HK\$1,000	100%	100%	–	Hong Kong	Investment holding
MTR Information Solutions Company Limited	HK\$1,000	100%	100%	–	Hong Kong	License MTR software to MTR's subsidiaries and associates
MTR Northwest Rapid Transit (Sydney) Company Limited	HK\$1	100%	100%	–	Hong Kong	Investment holding
MTR Property Agency Co. Limited	HK\$2	100%	100%	–	Hong Kong	Property broking and administrative services
MTR Property (Beijing) No. 1 Company Limited	HK\$1	100%	–	100%	Hong Kong	Property development, investment and management
MTR Property (Shenzhen) Company Limited	HK\$1	100%	100%	–	Hong Kong	Investment holding
MTR Property (Tianjin) No. 1 Company Limited	HK\$1	100%	–	100%	Hong Kong	Investment holding
MTR Property (Tianjin) No. 2 Company Limited	HK\$1	100%	–	100%	Hong Kong	Property development, investment and management
MTR Rail Transport Training (International) Company Limited	HK\$2,800,000	100%	100%	–	Hong Kong	Provide rail transport training in Mainland of China
MTR Shenyang Holdings Limited	HK\$1,000	100%	100%	–	Hong Kong	Investment holding
MTR Shenyang Investment Holdings Limited*	HK\$1	100%	100%	–	Hong Kong	Investment holding
MTR Shenzhen Investment Holding Limited	HK\$400,000	100%	100%	–	Hong Kong	Investment holding
MTR Shenzhen Line 6 Investment Holding (Hong Kong) Limited	HK\$10,000	100%	100%	–	Hong Kong	Investment holding
MTR Telecommunication Company Limited	HK\$100,000,000	100%	100%	–	Hong Kong	Mobile telecommunication services

Notes to the Accounts

27 Investments in Subsidiaries (continued)

Name of company	Issued and paid up ordinary share capital/registered capital	Proportion of ownership interest			Place of incorporation/establishment and operation	Principal activities
		Group's effective interest	Held by the Company	Held by subsidiary		
MTR Travel Limited	HK\$2,500,000	100%	100%	–	Hong Kong	Tourist services
Ngong Ping 360 Limited	HK\$2	100%	100%	–	Hong Kong	Operate the Tung Chung to Ngong Ping cable car system and Theme Village in Ngong Ping
Pierhead Garden Management Company Limited	HK\$50,000	100%	100%	–	Hong Kong	Property investment
Royal Ascot Management Company Limited	HK\$50,000	100%	100%	–	Hong Kong	Property management
Sun Tuen Mun Centre Management Company Limited	HK\$50,000	100%	100%	–	Hong Kong	Property investment and management
TraxComm Limited	HK\$15,000,000	100%	100%	–	Hong Kong	Fixed telecommunication network and related services
V-Connect Limited	HK\$1,000	100%	100%	–	Hong Kong	Mobile telecommunication services
360 Holidays Limited	HK\$500,000	100%	–	100%	Hong Kong	Guided tour services
Metro Trains Melbourne Pty. Ltd.*	AUD16,250,000	60% on ordinary shares; 30% on Class A shares	60% on ordinary shares; 30% on Class A shares	–	Australia	Railway operations and maintenance
Metro Trains Sydney Pty. Limited*	AUD100	60%	–	60%	Australia	Pre-operation mobilisation activities, including design approvals and transition planning for the operation and maintenance of the Sydney Metro North West
MTR Corporation (Australia) Pty. Limited	AUD2	100%	100%	–	Australia	Railway related consultancies and businesses
MTR Corporation (Sydney) NRT Pty. Limited*	AUD2	100%	–	100%	Australia	Design and delivery of railway related systems
Sunstone Resources Pty. Ltd.*	AUD10	60%	–	100%	Australia	Labour support for railway operations and maintenance
Fasttrack Insurance Ltd.	HK\$77,500,000	100%	100%	–	Bermuda	Insurance underwriting
Candiman Limited*	US\$1	100%	100%	–	British Virgin Islands	Investment holding
MTR Corporation (C.I.) Limited	US\$1,000	100%	100%	–	Cayman Islands/Hong Kong	Financing
MTR Finance Lease (001) Limited	US\$1	100%	100%	–	Cayman Islands/Hong Kong	Financing
MTR Berlin GmbH	EUR25,000	100%	–	100%	Germany	Project bidding
MTR Beta AB	SEK50,000	100%	–	100%	Sweden	Project bidding
MTR Express (Sweden) AB	SEK10,050,000	100%	–	100%	Sweden	Railway operations and maintenance, property investment and management
MTR Gamma AB	SEK50,000	100%	–	100%	Sweden	Project bidding

27 Investments in Subsidiaries (continued)

Name of company	Issued and paid up ordinary share capital/registered capital	Proportion of ownership interest			Place of incorporation/establishment and operation	Principal activities
		Group's effective interest	Held by the Company	Held by subsidiary		
MTR Nordic AB	SEK40,050,000	100%	–	100%	Sweden	Railway operations and maintenance through one or more subsidiaries, property investment and management
MTR Stockholm 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 (Beijing) Property Services Company Limited*	RMB3,000,000	100%	100%	–	The People's Republic of China	Property management
MTR Commercial Management (Beijing) Company Limited	HK\$2,000,000	100%	–	100%	The People's Republic of China	Business management, business consultancy, commercial facilities strategy and consultancy services, and corporate training management
MTR Consultancy (Beijing) Co. Limited	HK\$18,200,000	100%	100%	–	The People's Republic of China	Railway consultancy services, marketing and promotion
MTR Consulting (Shenzhen) Co. Ltd.	HK\$1,000,000	100%	100%	–	The People's Republic of China	Railway consultancy services
MTR Corporation (Shenzhen) Limited	HK\$2,636,000,000	100%	–	100%	The People's Republic of China	Railway construction, operations and management
MTR Corporation (Shenzhen) Training Centre*	RMB2,000,000	100%	–	100%	The People's Republic of China	Provision of rail transport training
MTR Enterprise Management (Shenzhen) Corporation Limited	RMB6,000,000	100%	–	100%	The People's Republic of China	Provision of operation support services
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
MTR Corporation (London Overground) Limited (Formerly MTR Corporation (Essex Thameside) Limited)*	GBP1	100%	–	100%	United Kingdom	Project bidding
MTR Corporation (Scotrail) Limited*	GBP1	100%	–	100%	United Kingdom	Project bidding
MTR Corporation (Silverlink) Limited	GBP1	100%	–	100%	United Kingdom	Investment holding
MTR Corporation (TSGN) Limited*	GBP1	100%	–	100%	United Kingdom	Project bidding
MTR Corporation (UK) Limited	GBP29	100%	100%	–	United Kingdom	Provision of railway support services
MTR Corporation (UK) NRT Limited*	GBP1	100%	–	100%	United Kingdom	Investment holding
<u>Subsidiaries established during 2015</u>						
MTR Australia Investment Holdings (Hong Kong) Limited	HK\$1	100%	100%	–	Hong Kong	Investment holding
MTR Consultadoria (Macau) Sociedade Unipessoal Lda.*	MOP25,000	100%	–	100%	Macau	Railway consultancy services

On 4 February 2016, MTR Shenyang Investment Holdings Limited changed its name to MTR Macau Investment Holdings (Hong Kong) Limited.

* Subsidiaries not audited by KPMG

MTR Shenyang Property No.1 Limited, MTR Corporation (UK) DRC Limited, MTR Corporation (Melbourne) DRC Pty. Limited and RTC Finance Company Pty. Limited were deregistered during the year ended 31 December 2015. MTR Berlin GmbH started its liquidation process in October 2015. MTR Shenyang Holdings Limited was deregistered in February 2016.

Notes to the Accounts

28 Interests in Associates

The Group

in HK\$ million	2015	2014
Share of net assets	5,912	5,797

The Group and the Company had interests in the following major associates as at 31 December 2015:

Name of company	Issued and paid up ordinary share capital/ registered capital	Proportion of ownership interest			Place of incorporation/ establishment and operation	Principal activities
		Group's effective interest	Held by the Company	Held by subsidiary		
<u>Associates held throughout 2015</u>						
Octopus Holdings Limited (note 54B(ii))	HK\$42,000,000	57.4%	57.4%	–	Hong Kong	Investment holding
NRT Holdings 2 Pty. Limited*	–**	20%	–	20%	Australia	Financing, construction, railway operations and maintenance
NRT Holdings Pty. Limited*	AUD100	20%	–	20%	Australia	Financing, construction, railway operations and maintenance
NRT Pty. Limited*	AUD100	20%	–	20%	Australia	Financing, construction, railway operations and maintenance
Tunnelbanan Teknik Stockholm AB	SEK30,000,000	50%	–	50%	Sweden	Railway maintenance
Beijing MTR Corporation Limited	RMB1,480,000,000	49%	–	49%	The People's Republic of China	Metro investment, construction, operations and passenger services
Hangzhou MTR Corporation Limited*	RMB4,540,000,000	49%	–	49%	The People's Republic of China	Railway operations and management
Tianjin TJ – Metro MTR Construction Company Limited*	RMB2,273,000,000	49%	–	49%	The People's Republic of China	Property development
London Overground Rail Operations Ltd*	GBP2	50%	–	50%	United Kingdom	Railway operations and management
<u>Associate established during 2015</u>						
Beijing MTR L16 Corporation Limited	RMB500,000,000	49%	–	49%	The People's Republic of China	Metro investment, construction and operations

* Companies not audited by KPMG

** The Group's share of investment in NRT Holdings 2 Pty. Limited is expected to represent additional equity contribution of approximately AUD27.8 million and loans to NRT Holdings 2 Pty. Limited of approximately AUD34.8 million.

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

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

in HK\$ million	2015	2014
Assets	13,257	12,307
Liabilities	(7,345)	(6,510)
Net assets	5,912	5,797
Income	4,426	3,671
Expenses and others	(3,944)	(3,478)
Profit before taxation	482	193
Income tax	(121)	(72)
Net profit	361	121
Other comprehensive income	(240)	(139)
Total comprehensive income	121	(18)

28 Interests in Associates *(continued)*

In November 2014, Beijing MTR Corporation Limited ("Beijing MTR") signed a concession agreement with the Beijing Municipal Government for the public-private-partnership ("PPP") project for the investment, construction and operations of Beijing Metro Line 14. Total capital cost of Beijing Metro Line 14 is approximately RMB50 billion. Beijing Infrastructure Investment Corporation Limited, the other investor of Beijing MTR, undertakes the project's civil construction, which represents about 70% of the total capital cost. Beijing MTR is responsible for the electrical and mechanical systems as well as rolling stock with an investment of approximately RMB15 billion or 30% of the total capital cost. The Group's equity contribution to Beijing MTR in respect of Beijing Metro Line 14 is RMB2.45 billion. The Group contributed equity of RMB49 million, RMB 740 million and RMB 240 million to Beijing MTR in respect of Beijing Metro Line 14 in June 2015, January 2016 and February 2016 respectively. The first three phases of Beijing Metro Line 14 opened in May 2013, December 2014 and December 2015 respectively. The full line will be opened after 2017. In accordance with the Operation & Maintenance Service Agreement, Beijing MTR is assigned the rights to operate Beijing Metro Line 14 from May 2013 to 30 December 2015. As part of the concession agreement, Beijing MTR would also undertake the operations and maintenance of Beijing Metro Line 14 for a term of 30 years effective 31 December 2015.

In July 2015, Beijing MTR has established a wholly owned subsidiary, Beijing MTR L16 Corporation Limited for the investment of Beijing Metro Line 16 with the registered capital of RMB5 billion. In November 2015, Beijing MTR L16 Corporation Limited signed the Concession Agreement for the Beijing L16 PPP project with the Beijing Municipal Government. The Line 16 project has a total capital cost of about RMB47.4 billion. The project is divided into Parts A and B. Part A is for the line's civil construction and the work is being undertaken by Beijing Infrastructure Investment Corporation Limited. Under the PPP arrangement, Beijing MTR L16 Corporation Limited would be responsible for Part B which covers electrical and mechanical systems as well as rolling stock. Part B takes up about 30% or approximately RMB15 billion of the project's capital cost. Under the Concession Agreement, Beijing MTR L16 Corporation Limited would undertake the operations and maintenance of Line 16 for a term of 30 years. The Line 16 will open in two phases. Phase 1 is targeted to open by the end of 2016 while full line operations are expected to commence after 2017.

In February 2013, London Overground Rail Operations ("LOROL") was awarded by Transport for London a two-year extension of the franchise to operate and maintain the London Overground in Greater London until November 2016 after completion of the original seven-year franchise period ended in November 2014.

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

In September 2014, NRT Pty. Limited entered into a contract with New South Wales Government in Australia for the Operations, Trains and Systems ("OTS") contract of the Sydney Metro Northwest. The OTS contract is a PPP project covering major parts of the design, construction and financing of the Sydney Metro Northwest as well as the operations and maintenance of the new line for a period of 15 years. NRT Pty. Limited sub-contracted the design and delivery of electrical and mechanical systems and rolling stock to a joint operation in which MTR Corporation (Sydney) NRT Pty. Limited, a wholly owned subsidiary of the Group, has 60% interest. In addition, NRT Pty. Limited sub-contracted the operations and maintenance of the Sydney Metro Northwest to Metro Trains Sydney Pty. Limited, a 60%-owned subsidiary of the Group.

In November 2015, a 5.7-kilometre 3-station extension of Hangzhou Metro Line 1 ("HZL1") commenced passenger service. After the opening of HZL1 extension, HZL1 now has 34 stations covering 54 km. Hangzhou MTR Corporation Limited ("Hangzhou MTR") was granted the operation and maintenance concession of HZL1 extension.

In January 2016, the Group entered into an agreement to acquire the remaining 50% interests in Tunnelbanan Teknik Stockholm AB ("TBT") from Mantena AS, being the shareholder of the 50% interest in TBT, at a consideration of SEK195 million (approximately HK\$180 million). The consideration will be paid in annual instalments from 2016 to 2024, of which SEK33 million (approximately HK\$30 million) is expected to be paid in 2016. TBT became a wholly owned subsidiary of the Group subsequent to the completion of the acquisition.

During the year ended 31 December 2015, the Group provided staff secondment and other support services to Beijing MTR at a total amount of HK\$48 million (2014: HK\$32 million). The Group provided services in respect of software maintenance to Hangzhou MTR Corporation Limited at a total amount of HK\$1 million (2014: in respect of software licence and maintenance of HK\$11 million). Tunnelbanan Teknik Stockholm AB provided rolling stock maintenance and other supporting services to MTR Stockholm AB at an amount of SEK659 million (HK\$609 million) (2014: SEK587 million or HK\$670 million). MTR Stockholm AB leased depots, depot equipment and provided other supporting services to Tunnelbanan Teknik Stockholm AB at a total amount of SEK125 million (HK\$116 million) (2014: SEK120 million or HK\$137 million). MTR Corporation (Sydney) NRT Pty. Limited, through its joint operation, provided services in respect of the design and delivery of electrical and mechanical systems and rolling stock to NRT Pty. Limited at a total amount of AUD81 million (HK\$468 million) (2014: AUD7 million or HK\$45 million). Metro Trains Sydney Pty. Limited also provided mobilisation services in respect of Sydney Metro Northwest to NRT Pty. Limited at a total amount of AUD4 million (HK\$21 million) (2014: AUD0.4 million or HK\$3 million). LOROL distributed GBP3 million (HK\$35 million) (2014: GBP2 million or HK\$23 million) of dividends to the Group and the Group provided management services to LOROL at a total amount of HK\$17 million (2014: HK\$18 million).

During the year ended 31 December 2015, the Group incurred HK\$141 million (2014: HK\$136 million) of expenses for the central clearing services provided by Octopus Cards Limited ("OCL"), a wholly-owned subsidiary of Octopus Holdings Limited. OCL incurred HK\$40 million (2014: HK\$36 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\$143 million (2014: HK\$20 million) of dividends to the Group.

Notes to the Accounts

29 Investments in Securities

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

The Group

in HK\$ million	2015	2014
Trading securities listed overseas, at fair value		
– maturing within 1 year	86	187
– maturing after 1 year	250	340
	336	527

30 Properties Held for Sale

The Group and The Company

in HK\$ million	2015	2014
Properties held for sale		
– at cost	625	555
– at net realisable value	514	521
	1,139	1,076

Properties held for sale at 31 December 2015 comprise mainly residential units and car parking spaces at The Riverpark at Che Kung Temple Station, Lake Silver at Wu Kai Sha Station and Hemera at LOHAS Park Station. They represent either properties received by the Company as sharing in kind or as part of the profit distribution upon completion of the development. The properties are stated on the statement of financial position at the lower of cost, which is deemed to be their fair value upon initial recognition as determined by reference to an independent open market valuation at the date of receipt (notes 2J(iii) and (v)), and their net realisable value at the end of reporting period. Net realisable value represents the estimated selling price less costs to be incurred in selling the properties. The net realisable values as at 31 December 2015 and 2014 were determined by reference to an open market valuation of the properties as at those dates, undertaken by an independent firm of surveyors, Jones Lang LaSalle Limited, who have among their staff Members of the Hong Kong Institute of Surveyors.

Properties held for sale at net realisable value are stated net of provision of HK\$44 million (2014: HK\$30 million) made in order to state these properties at the lower of their cost and estimated net realisable value. Leasehold land in Hong Kong included under properties held for sale are held under medium-term leases.

31 Derivative Financial Assets and Liabilities

A Fair Value

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

The Group

in HK\$ million	Notional amount	Fair value	Contractual undiscounted cash flows maturing in				Total
			Less than 1 year	1-2 years	2-5 years	Over 5 years	
2015							
Derivative Financial Assets							
Gross settled:							
Foreign exchange forwards							
– not qualified for hedge accounting:	60	–					
– inflow			60	–	–	–	60
– outflow			(60)	–	–	–	(60)
Cross currency swaps							
– fair value hedges:	2,326	10					
– inflow			34	405	466	306	1,211
– outflow			(23)	(399)	(465)	(310)	(1,197)
– cash flow hedges:	277	16					
– inflow			11	12	35	343	401
– outflow			(7)	(8)	(22)	(352)	(389)
Net settled:							
Interest rate swaps							
– fair value hedges	1,400	55	27	20	24	–	71
	4,063	81	42	30	38	(13)	97
Derivative Financial Liabilities							
Gross settled:							
Foreign exchange forwards							
– fair value hedges:	3,491	11					
– inflow			–	3,480	–	–	3,480
– outflow			–	(3,491)	–	–	(3,491)
– cash flow hedges:	313	21					
– inflow			132	49	74	35	290
– outflow			(147)	(51)	(76)	(37)	(311)
– not qualified for hedge accounting:	180	5					
– inflow			173	2	–	–	175
– outflow			(178)	(2)	–	–	(180)
Cross currency swaps							
– fair value hedges:	1,193	133					
– inflow			18	598	2	379	997
– outflow			(12)	(810)	–	(388)	(1,210)
– cash flow hedges:	2,437	623					
– inflow			67	67	199	2,490	2,823
– outflow			(92)	(92)	(277)	(3,091)	(3,552)
Net settled:							
Interest rate swaps							
– fair value hedges	2,200	17	1	3	(10)	(9)	(15)
– cash flow hedges	600	17	(9)	(6)	(7)	–	(22)
– not qualified for hedge accounting	100	3	(2)	(1)	(1)	1	(3)
	10,514	830	(49)	(254)	(96)	(620)	(1,019)
Total	14,577						

Notes to the Accounts

31 Derivative Financial Assets and Liabilities (continued)

A Fair Value (continued)

The Group

in HK\$ million	Notional amount	Fair value	Contractual undiscounted cash flows maturing in				Total
			Less than 1 year	1-2 years	2-5 years	Over 5 years	
2014							
Derivative Financial Assets							
Gross settled:							
Foreign exchange forwards							
– fair value hedges:	2,093	2					
– inflow			–	–	2,095	–	2,095
– outflow			–	–	(2,093)	–	(2,093)
– cash flow hedges:	347	15					
– inflow			335	–	–	–	335
– outflow			(320)	–	–	–	(320)
Cross currency swaps							
– fair value hedges:	2,404	20					
– inflow			34	34	876	392	1,336
– outflow			(21)	(33)	(868)	(388)	(1,310)
Net settled:							
Interest rate swaps							
– fair value hedges	900	67	27	20	37	–	84
– not qualified for hedge accounting	100	1	(2)	(1)	–	5	2
	5,844	105	53	20	47	9	129
Derivative Financial Liabilities							
Gross settled:							
Foreign exchange forwards							
– fair value hedges:	1,398	1					
– inflow			–	–	1,397	–	1,397
– outflow			–	–	(1,398)	–	(1,398)
– cash flow hedges:	195	19					
– inflow			105	56	15	–	176
– outflow			(116)	(64)	(15)	–	(195)
– not qualified for hedge accounting:	146	8					
– inflow			141	–	–	–	141
– outflow			(150)	–	–	–	(150)
Cross currency swaps							
– fair value hedges:	805	92					
– inflow			23	23	707	–	753
– outflow			(11)	(17)	(812)	–	(840)
– cash flow hedges:	2,437	397					
– inflow			74	73	219	2,805	3,171
– outflow			(92)	(92)	(277)	(3,183)	(3,644)
Net settled:							
Interest rate swaps							
– fair value hedges	1,150	32	8	(1)	(20)	(22)	(35)
– cash flow hedges	900	16	(11)	(5)	(6)	–	(22)
	7,031	565	(29)	(27)	(190)	(400)	(646)
Total	12,875						

31 Derivative Financial Assets and Liabilities (continued)

A Fair Value (continued)

The Company

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	
2015							
Derivative Financial Assets							
Gross settled:							
Foreign exchange forwards							
– not qualified for hedge accounting:	60	–					
– inflow			60	–	–	–	60
– outflow			(60)	–	–	–	(60)
Cross currency swaps							
– fair value hedges:	2,326	10					
– inflow			34	405	466	306	1,211
– outflow			(23)	(399)	(465)	(310)	(1,197)
– cash flow hedges:	277	16					
– inflow			11	12	35	343	401
– outflow			(7)	(8)	(22)	(352)	(389)
Net settled:							
Interest rate swaps							
– fair value hedges	1,400	55	27	20	24	–	71
	4,063	81	42	30	38	(13)	97
Derivative Financial Liabilities							
Gross settled:							
Foreign exchange forwards							
– fair value hedges:	3,491	11					
– inflow			–	3,480	–	–	3,480
– outflow			–	(3,491)	–	–	(3,491)
– cash flow hedges:	313	21					
– inflow			132	49	74	35	290
– outflow			(147)	(51)	(76)	(37)	(311)
– not qualified for hedge accounting:	180	5					
– inflow			173	2	–	–	175
– outflow			(178)	(2)	–	–	(180)
Cross currency swaps							
– fair value hedges:	1,193	133					
– inflow			18	598	2	379	997
– outflow			(12)	(810)	–	(388)	(1,210)
– cash flow hedges:	2,437	623					
– inflow			67	67	199	2,490	2,823
– outflow			(92)	(92)	(277)	(3,091)	(3,552)
Net settled:							
Interest rate swaps							
– fair value hedges	2,200	17	1	3	(10)	(9)	(15)
– cash flow hedges	600	17	(9)	(6)	(7)	–	(22)
– not qualified for hedge accounting	100	3	(2)	(1)	(1)	1	(3)
	10,514	830	(49)	(254)	(96)	(620)	(1,019)
Total	14,577						

Notes to the Accounts

31 Derivative Financial Assets and Liabilities *(continued)*

A Fair Value *(continued)*

The Company

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	
2014							
Derivative Financial Assets							
Gross settled:							
Foreign exchange forwards							
– fair value hedges:	2,093	2					
– inflow			–	–	2,095	–	2,095
– outflow			–	–	(2,093)	–	(2,093)
Cross currency swaps							
– fair value hedges:	2,404	20					
– inflow			34	34	876	392	1,336
– outflow			(21)	(33)	(868)	(388)	(1,310)
Net settled:							
Interest rate swaps							
– fair value hedges	900	67	27	20	37	–	84
– not qualified for hedge accounting	100	1	(2)	(1)	–	5	2
	5,497	90	38	20	47	9	114
Derivative Financial Liabilities							
Gross settled:							
Foreign exchange forwards							
– fair value hedges:	1,398	1					
– inflow			–	–	1,397	–	1,397
– outflow			–	–	(1,398)	–	(1,398)
– cash flow hedges:	195	19					
– inflow			105	56	15	–	176
– outflow			(116)	(64)	(15)	–	(195)
– not qualified for hedge accounting:	146	8					
– inflow			141	–	–	–	141
– outflow			(150)	–	–	–	(150)
Cross currency swaps							
– fair value hedges:	805	92					
– inflow			23	23	707	–	753
– outflow			(11)	(17)	(812)	–	(840)
– cash flow hedges:	2,437	397					
– inflow			74	73	219	2,805	3,171
– outflow			(92)	(92)	(277)	(3,183)	(3,644)
Net settled:							
Interest rate swaps							
– fair value hedges	1,150	32	8	(1)	(20)	(22)	(35)
– cash flow hedges	900	16	(11)	(5)	(6)	–	(22)
	7,031	565	(29)	(27)	(190)	(400)	(646)
Total	12,528						

31 Derivative Financial Assets and Liabilities *(continued)*

A Fair Value *(continued)*

The Group's derivative financial instruments consist predominantly of interest rate and cross currency swaps, and the relevant interest rate swap curves as of 31 December 2015 and 2014 were used to discount the cash flows of financial instruments. Interest rates used ranged from 0.093% to 2.218% (2014: 0.130% to 2.525%) for Hong Kong dollars, 0.619% to 2.477% (2014: 0.175% to 2.576%) for US dollars, 2.246% to 3.436% (2014: 2.861% to 3.531%) for Australian dollars and 0.039% to 0.760% (2014: 0.110% to 0.885%) for Japanese yen.

The table above details the remaining contractual maturities at the end of reporting period of the Group's and the Company's derivative financial assets and liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of reporting period) and the earliest date the Group and the Company can be required to pay. The details of the fair value measurement are disclosed in note 46.

B Financial Risks

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

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

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

(i) Liquidity Risk

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

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

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

The Group

in HK\$ million	2015				2014			
	Capital market instruments	Bank loans and overdrafts	Others	Total	Capital market instruments	Bank loans and overdrafts	Others	Total
Loans and other obligations								
Amounts repayable beyond 5 years	7,415	2,687	1,114	11,216	7,137	3,118	615	10,870
Amounts repayable within a period of between 2 and 5 years	3,546	1,775	145	5,466	7,391	2,280	3	9,674
Amounts repayable within a period of between 1 and 2 years	5,390	469	44	5,903	1,615	1,338	–	2,953
Amounts repayable within 1 year	1,646	2,138	32	3,816	928	1,270	–	2,198
	17,997	7,069	1,335	26,401	17,071	8,006	618	25,695

Notes to the Accounts

31 Derivative Financial Assets and Liabilities *(continued)*

B Financial Risks *(continued)*

The Company

in HK\$ million	2015				2014			
	Capital market instruments	Bank loans and overdrafts	Others	Total	Capital market instruments	Bank loans and overdrafts	Others	Total
Loans and other obligations								
Amounts repayable beyond 5 years	1,583	–	605	2,188	1,689	–	615	2,304
Amounts repayable within a period of between 2 and 5 years	590	507	3	1,100	634	629	3	1,266
Amounts repayable within a period of between 1 and 2 years	69	9	–	78	69	11	–	80
Amounts repayable within 1 year	69	1,655	–	1,724	69	685	–	754
	2,311	2,171	608	5,090	2,461	1,325	618	4,404

Others represent obligations under lease out/lease back transaction (note 20F).

(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 55% and 75% (2014: 40% and 65%) 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 2015, 56% (2014: 52%) 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 and associate companies are managed separately based on their own borrowing requirement, circumstances and market practice.

The Group's exposure due to its floating rate borrowings is offset by the floating rate interest income it earns from its cash balances, bank deposits and other investment instruments. As at 31 December 2015, the Group had total cash, bank balances and deposits of HK\$10,961 million (2014: HK\$18,358 million) from which it derived floating rate interest income, compared with total floating rate borrowings of HK\$11,002 million (2014: HK\$9,908 million).

As at 31 December 2015, it is estimated that a 100 basis points increase / 100 basis points decrease in interest rates, with all other variables held constant, would increase/decrease the Group's profit after tax and retained profits by approximately HK\$82 million/HK\$78 million. Other components of consolidated equity would increase/decrease by approximately HK\$84 million/HK\$93 million.

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

In 2014, a similar analysis was performed based on the assumption of a 100 basis points increase / 100 basis points decrease in interest rates, which would increase/decrease the Group's profit after tax and retained profits by approximately HK\$112 million/HK\$98 million. Other components of consolidated equity would increase/decrease by approximately HK\$81 million/HK\$86 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 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 Group 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 Group's exposure to US dollars due to its foreign currency borrowings is also offset by the amount of US dollar cash balances, bank deposits and investments that it maintains.

As most of the Group's receivables and payables are denominated in the respective Group companies' functional currencies (Hong Kong dollars, Renminbi, Australian dollars, 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.

31 Derivative Financial Assets and Liabilities *(continued)*

B Financial Risks *(continued)*

(iv) Credit Risk

Credit risk refers to the risk that a counterparty will be unable to pay amounts in full when due. For the Group, this arises mainly from the deposits it maintains and the derivative financial instruments that it has entered into with various banks and counterparties as well as from the Defeasance Securities it procured under the lease out/lease back transaction (note 20F). 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 reporting period, the maximum exposure to credit risk of the Group with respect to derivative financial assets and bank deposits is represented respectively by the carrying amount of the derivative financial assets and the aggregate amount of deposits on its statement of financial position. As at the end of 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 33.

32 Stores and Spares

in HK\$ million	The Group		The Company	
	2015	2014	2015	2014
Stores and spares expected to be consumed:				
– within 1 year	967	944	760	701
– after 1 year	413	427	348	364
	1,380	1,371	1,108	1,065
Less: Provision for obsolete stock	(7)	(6)	(7)	(6)
	1,373	1,365	1,101	1,059

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

33 Debtors, Deposits and Payments in Advance

in HK\$ million	The Group		The Company	
	2015	2014	2015	2014
Debtors, deposits and payments in advance relate to:				
– Property development projects	2,197	1,363	2,197	1,363
– Railway-related subsidiaries outside of Hong Kong	1,313	1,308	–	–
– Hong Kong operations and others	1,625	1,126	1,013	964
	5,135	3,797	3,210	2,327

Notes to the Accounts

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

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 is collected either through Octopus Cards with daily settlement on the next working day or in cash for other ticket types. A small portion of it is collected through pre-sale agents which settle the amounts due within 21 days.
- (ii) Fare revenue from Shenzhen Metro Longhua Line is collected either through Shenzhen Tong Cards with daily settlement on the next working day or in cash for other ticket types. Fare revenue from MTR Express is collected through a third party financial institution with settlement within 14 days and sales through pre-sale agents are settled in the following month.
- (iii) Franchise revenue in Melbourne is collected either daily or monthly depending on the revenue nature. The majority of the franchise revenue in Stockholm is collected in the transaction month with the remainder being collected in the following month. Franchise revenue for MTR Crossrail is collected once every 4 weeks.
- (iv) Rentals, advertising and telecommunications service fees are billed monthly with due dates ranging from immediately due to 50 days. Tenants of the Group's investment properties and station kiosks are required to pay three months' rental deposit upon the signing of lease agreements.
- (v) Amounts receivable under interest rate and currency swap agreements with financial institutions are due in accordance with the terms of the respective agreements.
- (vi) Consultancy service incomes are billed monthly for settlement within 30 days upon work completion or on other basis stipulated in the consultancy contracts.
- (vii) Debtors in relation to contracts and capital works entrusted to the Group, subject to any agreed retentions, are due within 30 days upon the certification of work in progress.
- (viii) Amounts receivable in respect of property development are due in accordance with the terms of relevant development agreements or sale and purchase agreements.

The ageing of debtors is analysed as follows:

in HK\$ million	The Group		The Company	
	2015	2014	2015	2014
Amounts not yet due	3,816	2,913	2,982	2,099
Overdue by 30 days	388	149	65	65
Overdue by 60 days	53	24	16	16
Overdue by 90 days	8	26	24	24
Overdue by more than 90 days	18	17	13	13
Total debtors	4,283	3,129	3,100	2,217
Deposits and payments in advance	852	668	110	110
	5,135	3,797	3,210	2,327

Included in amounts not yet due as at 31 December 2015 was HK\$2,197 million (2014: HK\$1,363 million) in respect of property development, comprising receivable on profits distributable based on the terms of the development agreements and sales and purchase agreements, receivable from certain stakeholding funds (note 25C) awaiting finalisation of the respective development accounts as well as other receivables on miscellaneous recoverable expenses.

As at 31 December 2015, all debtors, deposits and payments in advance were expected to be recovered within one year except for amounts relating to deposits and receivables of HK\$543 million (2014: HK\$102 million) and of HK\$25 million (2014: HK\$18 million) respectively in the Group and the Company which were expected to be recovered after more than one year. The nominal values less impairment losses for bad and doubtful debts are not discounted as it is considered that the effect of discounting would not be significant.

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

in million	The Group		The Company	
	2015	2014	2015	2014
United States dollars	2	3	2	3

34 Amounts Due from Related Parties

in HK\$ million	The Group		The Company	
	2015	2014	2015	2014
Amounts due from:				
– HKSAR Government	1,462	1,028	1,462	1,028
– KCRC	10	5	10	5
– associates	164	40	38	40
– subsidiaries (net of impairment losses)	–	–	10,769	10,722
	1,636	1,073	12,279	11,795

As at 31 December 2015, the amount due from 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 (East) and Kwun Tong Line Extension projects, reimbursement of the fare revenue difference in relation to the Public Transport Fare Concession Scheme for the Elderly and Eligible Persons with Disabilities, agency fee receivables and reimbursable costs in respect of West Rail property development (note 25D), as well as receivables and retention for other entrustment and maintenance works.

The amount due from KCRC related to the recoverable cost for certain capital works and property enabling works in accordance with the agreements in relation to the Rail Merger.

The amounts due from associates as at 31 December 2015 included the outstanding balance of loan to Tianjin TJ – Metro MTR amounting to RMB80 million (HK\$100 million) (2014: nil) which bears an interest rate of 5.885% per annum with repayment due by 19 March 2016.

All contract retentions on the entrusted works mentioned above were due for release within one year. All amounts due from the HKSAR Government and other related parties were expected to be received within 24 months. The nominal values of amounts due from the HKSAR Government and other related parties are considered not significantly different from their fair values.

35 Cash, Bank Balances and Deposits

in HK\$ million	The Group		The Company	
	2015	2014	2015	2014
Deposits with banks and other financial institutions	7,558	16,765	7,036	16,244
Cash at banks and on hand	4,760	2,128	268	288
Cash, bank balances and deposits	12,318	18,893	7,304	16,532
Less: Bank deposits with more than three months to maturity when placed or pledged (note 36E)	(6,041)	(3,434)	(5,829)	(3,110)
Less: Bank overdrafts (note 36A)	(50)	(46)	(50)	(46)
Cash and cash equivalents in the cash flow statement	6,227	15,413	1,425	13,376

Included in cash, bank balance and deposits in the 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	The Group		The Company	
	2015	2014	2015	2014
Australian dollars	59	22	57	22
Euros	7	19	7	19
Japanese yen	242	25	242	25
New Taiwan dollars	16	16	16	16
Pound sterling	10	2	10	2
Renminbi	2,460	2,451	2,460	2,451
United States dollars	286	532	284	530

Notes to the Accounts

36 Loans and Other Obligations

A By Type

The Group

in HK\$ million	2015			2014		
	Carrying amount	Fair value	Repayable amount	Carrying amount	Fair value	Repayable amount
Capital market instruments						
Listed or publicly traded:						
Debt issuance programme notes due during 2017 to 2043 (2014: due during 2017 to 2043)	5,198	5,518	5,307	5,271	5,592	5,307
Unlisted:						
Debt issuance programme notes due during 2016 to 2055 (2014: due during 2015 to 2043)	8,898	9,892	9,424	8,346	9,139	8,727
Total capital market instruments	14,096	15,410	14,731	13,617	14,731	14,034
Bank loans	4,145	4,145	4,147	5,949	5,949	5,954
Finance leases	508	655	508	–	–	–
Others	413	517	413	395	497	395
Loans and others	19,162	20,727	19,799	19,961	21,177	20,383
Bank overdrafts	50	50	50	46	46	46
Short-term loans	1,599	1,599	1,599	500	500	500
Total	20,811	22,376	21,448	20,507	21,723	20,929

The Company

in HK\$ million	2015			2014		
	Carrying amount	Fair value	Repayable amount	Carrying amount	Fair value	Repayable amount
Capital market instruments						
Listed or publicly traded:						
Debt issuance programme notes due in 2043 (2014: due in 2043)	647	843	698	665	833	698
Unlisted:						
Debt issuance programme notes due during 2018 to 2028 (2014: due during 2018 to 2028)	782	909	857	787	934	857
Total capital market instruments	1,429	1,752	1,555	1,452	1,767	1,555
Bank loans	498	498	500	727	727	732
Others	413	517	413	395	497	395
Loans and others	2,340	2,767	2,468	2,574	2,991	2,682
Bank overdrafts	50	50	50	46	46	46
Short-term loans	1,599	1,599	1,599	500	500	500
Total	3,989	4,416	4,117	3,120	3,537	3,228

Others include non-defeased obligations under lease out/lease back transaction (note 20F).

As at 31 December 2015, the Group had a number of uncommitted facilities with undrawn amounts totalling HK\$19,370 million (2014: HK\$20,780 million), comprising a debt issuance programme and short-term bank loan facilities.

The fair values are based on the discounted cash flows method which discounts the future contractual cash flows at the current market interest and foreign exchange rates that is available to the Group for similar financial instruments. The carrying amounts of short-term loans and bank overdrafts approximated their fair values. Details of the fair value measurement are disclosed in note 46.

36 Loans and Other Obligations (continued)

A By Type (continued)

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

The Group

in million	Before hedging activities		After hedging activities	
	2015	2014	2015	2014
Australian dollars	280	230	–	–
Japanese yen	15,000	15,000	–	–
United States dollars	700	700	–	40

The Company

in million	Before hedging activities		After hedging activities	
	2015	2014	2015	2014
Japanese yen	5,000	5,000	–	–
United States dollars	150	150	–	40

B By Repayment Terms

The Group

in HK\$ million	2015					2014				
	Capital market instruments	Bank loans and overdrafts	Finance leases	Others	Total	Capital market instruments	Bank loans and overdrafts	Finance leases	Others	Total
Long-term loans and others										
Amounts repayable beyond 5 years	5,532	2,296	413	411	8,652	5,635	2,688	–	395	8,718
Amounts repayable within a period of between 2 and 5 years	2,815	1,311	66	2	4,194	6,699	1,762	–	–	8,461
Amounts repayable within a period of between 1 and 2 years	5,184	270	20	–	5,474	1,200	1,089	–	–	2,289
Amounts repayable within 1 year	1,200	270	9	–	1,479	500	415	–	–	915
	14,731	4,147	508	413	19,799	14,034	5,954	–	395	20,383
Bank overdrafts	–	50	–	–	50	–	46	–	–	46
Short-term loans	–	1,599	–	–	1,599	–	500	–	–	500
	14,731	5,796	508	413	21,448	14,034	6,500	–	395	20,929
Less: Unamortised discount/premium/finance charges outstanding	(61)	(2)	–	–	(63)	(39)	(5)	–	–	(44)
Adjustment due to fair value change of financial instruments	(574)	–	–	–	(574)	(378)	–	–	–	(378)
Total carrying amount of debt	14,096	5,794	508	413	20,811	13,617	6,495	–	395	20,507

Notes to the Accounts

36 Loans and Other Obligations (continued)

B By Repayment Terms (continued)

The Company

in HK\$ million	2015				2014			
	Capital market instruments	Bank loans and overdrafts	Others	Total	Capital market instruments	Bank loans and overdrafts	Others	Total
Long-term loans and others								
Amounts repayable beyond 5 years	1,090	–	411	1,501	1,090	–	395	1,485
Amounts repayable within a period of between 2 and 5 years	465	500	2	967	465	600	–	1,065
Amounts repayable within a period of between 1 and 2 years	–	–	–	–	–	–	–	–
Amounts repayable within 1 year	–	–	–	–	–	132	–	132
	1,555	500	413	2,468	1,555	732	395	2,682
Bank overdrafts	–	50	–	50	–	46	–	46
Short-term loans	–	1,599	–	1,599	–	500	–	500
	1,555	2,149	413	4,117	1,555	1,278	395	3,228
Less: Unamortised discount/premium/finance charges outstanding	(34)	(2)	–	(36)	(36)	(5)	–	(41)
Adjustment due to fair value change of financial instruments	(92)	–	–	(92)	(67)	–	–	(67)
Total carrying amount of debt	1,429	2,147	413	3,989	1,452	1,273	395	3,120

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 2015 and 2014 comprise:

The Group

in HK\$ million	2015		2014	
	Principal amount	Net consideration received	Principal amount	Net consideration received
Debt issuance programme notes	1,197	1,176	550	544

During the year ended 31 December 2015, notes of HK\$920 million and AUD50 million (or HK\$277 million) (2014: AUD80 million (or HK\$550 million)) were issued in Hong Kong by a subsidiary, MTR Corporation (C.I.) Limited while the Company did not issue any debt securities (2014: nil). The notes issued by the subsidiary are unconditionally and irrevocably guaranteed by the Company, and are direct, unsecured, unconditional and unsubordinated to other unsecured and unsubordinated obligations of MTR Corporation (C.I.) Limited. The obligations of the Company under the guarantee are direct, unsecured, unconditional, and unsubordinated to other unsecured and unsubordinated obligations of the Company.

During the year ended 31 December 2015, the Group redeemed HK\$500 million of its unlisted debt securities (2014: HK\$500 million) and did not redeem any of its listed debt securities (2014: US\$600 million (or HK\$4,658 million)).

36 Loans and Other Obligations (continued)

D Obligations Under Finance Leases

At 31 December 2015, the Group had obligations under finance leases repayable as follows:

in HK\$ million	2015		2014	
	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	9	33	–	–
After 1 year but within 2 years	20	43	–	–
After 2 years but within 5 years	66	138	–	–
After 5 years	413	492	–	–
	499	673	–	–
	508	706	–	–
Less: total future interest expenses		(198)		–
Present value of lease obligations		508		–

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 2015 and 2014.

(ii) As at 31 December 2015, MTR Corporation (Shenzhen) Limited, an indirect wholly owned subsidiary of the Company in the Mainland of China, has pledged the fare and non-fare revenue and the benefits of insurance contracts in relation to Phase 2 of Shenzhen Metro Longhua Line as security for a RMB3,053 million (2014: RMB3,280 million) bank loan facility granted to it.

(iii) As at 31 December 2015, MTR Property Development (Shenzhen) Company Limited, an indirect wholly owned subsidiary of the Company in the Mainland of China, has pledged its accounts receivable in relation to the property development project at Shenzhen Metro Longhua Line Depot Site Lot 1 as security for the outstanding amount on a RMB1,950 million (2014: RMB1,950 million) bank loan facility, with RMB1,216 million available and nil outstanding (2014: RMB1,356 million available and RMB594 million outstanding), granted to it.

Save as disclosed above and those disclosed elsewhere in the accounts, none of the other assets of the Group was charged or subject to any encumbrance as at 31 December 2015.

37 Creditors and Accrued Charges

in HK\$ million	The Group		The Company	
	2015	2014	2015	2014
Creditors and accrued charges				
– Island Line Extension Project	989	1,350	989	1,350
– South Island Line (East) Project	443	1,057	443	1,057
– Kwun Tong Line Extension Project	600	314	600	314
– Shenzhen Metro Longhua Line Project	305	676	–	–
– Hong Kong property development projects	1,261	704	1,261	704
– Mainland of China property development project	5,527	165	–	–
– Railway subsidiaries outside of Hong Kong	2,120	1,949	–	–
– Hong Kong operations and others	11,615	10,206	11,113	9,678
	22,860	16,421	14,406	13,103

Notes to the Accounts

37 Creditors and Accrued Charges *(continued)*

The analysis of creditors by due dates is as follows:

in HK\$ million	The Group		The Company	
	2015	2014	2015	2014
Due within 30 days or on demand	4,098	3,998	2,185	1,875
Due after 30 days but within 60 days	3,493	3,783	3,204	3,590
Due after 60 days but within 90 days	1,035	613	586	561
Due after 90 days	8,279	3,019	2,697	2,323
	16,905	11,413	8,672	8,349
Rental and other refundable deposits	2,818	2,739	2,745	2,665
Accrued employee benefits	3,137	2,269	2,989	2,089
	22,860	16,421	14,406	13,103

Creditors and accrued charges were expected to be settled within one year except for HK\$10,718 million (2014: HK\$4,861 million) in the Group and HK\$5,774 million (2014: HK\$4,619 million) in the Company which were expected to be settled after one year. The amounts due after one year for the Group are mainly advance receipt for sales proceeds of property development in Shenzhen, which would be transferred as income in 2017, others relate to rental deposits received from investment property and station kiosk tenants and advance income received from telecommunication service operators, majority of which are due to be repaid within three years. The Group considers the effect of discounting these deposits would be immaterial.

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	The Group		The Company	
	2015	2014	2015	2014
Australian dollars	7	5	2	–
Euros	18	17	18	17
Japanese yen	169	303	146	280
Pound sterling	3	–	3	–
Swiss franc	1	–	1	–
United States dollars	8	5	3	2

38 Contract Retentions

The Group

in HK\$ million	Due for release within 12 months	Due for release after 12 months	Total
2015			
Hong Kong railway extension projects	120	181	301
Hong Kong businesses	139	289	428
Mainland of China and international subsidiaries	172	93	265
	431	563	994
2014			
Hong Kong railway extension projects	92	474	566
Hong Kong businesses	111	176	287
Mainland of China and international subsidiaries	159	82	241
	362	732	1,094

38 Contract Retentions *(continued)*

The Company

in HK\$ million	Due for release within 12 months	Due for release after 12 months	Total
2015			
Hong Kong railway extension projects	120	181	301
Hong Kong businesses	139	289	428
	259	470	729
2014			
Hong Kong railway extension projects	92	474	566
Hong Kong businesses	111	176	287
	203	650	853

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

39 Amounts Due to Related Parties

in HK\$ million	The Group		The Company	
	2015	2014	2015	2014
Amounts due to:				
– HKSAR Government	25	3	25	3
– KCRC	1,714	1,597	1,714	1,597
– associates	119	7	–	–
– subsidiaries	–	–	13,100	12,596
	1,858	1,607	14,839	14,196

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

The amount due to KCRC as at 31 December 2015 relates to the accrued portion of the fixed annual payment and variable annual payment that is expected to be settled within 12 months.

The amount due to associates mainly related to the amount payable for the equity contribution to NRT Holding 2 Pty. Limited.

The amount due to the Company's subsidiaries included HK\$12,746 million (2014: HK\$12,242 million) due to MTR Corporation (C.I.) Limited in respect of the proceeds from and accrued interest on bonds and notes issued by the subsidiary and on-lent to the Company for its general corporate purposes with specified repayment dates and interest rates (note 36C). The remaining balance of the amount due to subsidiaries is non-interest bearing and has not been discounted as it does not have any fixed repayment terms and is not material. Out of the total amount due to subsidiaries as at 31 December 2015, HK\$11,463 million (2014: HK\$11,371 million) is expected to be settled after one year.

40 Obligations under Service Concession

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

in HK\$ million	The Group		The Company	
	2015	2014	2015	2014
Balance as at 1 January	10,614	10,658	10,438	10,480
Add: Net increase in interest payable	3	3	–	–
Less: Amount repaid/payable during the year	(45)	(42)	(46)	(42)
Exchange difference	(8)	(5)	–	–
Balance as at 31 December	10,564	10,614	10,392	10,438

Notes to the Accounts

40 Obligations under Service Concession (continued)

The outstanding balances as at 31 December 2015 and 2014 are repayable as follows:

The Group

in HK\$ million	2015			2014		
	Present value of payment obligations	Interest expense relating to future periods	Total payment obligations	Present value of payment obligations	Interest expense relating to future periods	Total payment obligations
Amounts repayable beyond 5 years	10,286	17,720	28,006	10,354	18,423	28,777
Amounts repayable within a period of between 2 and 5 years	177	2,091	2,268	166	2,103	2,269
Amounts repayable within a period of between 1 and 2 years	52	704	756	49	707	756
Amounts repayable within 1 year	49	707	756	45	711	756
	10,564	21,222	31,786	10,614	21,944	32,558

The Company

in HK\$ million	2015			2014		
	Present value of payment obligations	Interest expense relating to future periods	Total payment obligations	Present value of payment obligations	Interest expense relating to future periods	Total payment obligations
Amounts repayable beyond 5 years	10,114	17,573	27,687	10,177	18,260	28,437
Amounts repayable within a period of between 2 and 5 years	177	2,073	2,250	166	2,084	2,250
Amounts repayable within a period of between 1 and 2 years	52	698	750	49	701	750
Amounts repayable within 1 year	49	701	750	46	705	751
	10,392	21,045	31,437	10,438	21,750	32,188

41 Loan from Holders of Non-controlling Interests

Loan from holders of non-controlling interests represents that portion of total shareholder loan of AUD48.75 million (HK\$276 million) granted to Metro Trains Melbourne Pty. Ltd. ("MTM") by the holders of its non-controlling interests. The loan carries an interest rate of 7.5% (2014: 7.5%) per annum and is repayable at the discretion of MTM or on the expiry of the operation and maintenance franchise on 29 November 2017, whichever is earlier.

42 Deferred Income

Movements of deferred income are as follows:

The Group

in HK\$ million	Balance at 1 January	Amount received during the year	Offset against development in progress	Amount recognised in profit and loss account	Exchange difference	Balance at 31 December
2015						
Deferred income on property development (note 25B)	26	-	(7)	-	-	19
Deferred income on transfer of assets from customers	174	3	-	(27)	-	150
Deferred income on government subsidy for Shenzhen Metro Longhua Line operation	565	653	-	(609)	(35)	574
	765	656	(7)	(636)	(35)	743
2014						
Deferred income on property development (note 25B)	50	-	(24)	-	-	26
Deferred income on transfer of assets from customers	96	102	-	(24)	-	174
Deferred income on government subsidy for Shenzhen Metro Longhua Line operation	477	652	-	(557)	(7)	565
	623	754	(24)	(581)	(7)	765

42 Deferred Income (continued)

The Company

in HK\$ million	Balance at 1 January	Amount received during the year	Offset against development in progress	Amount recognised in profit and loss account	Exchange difference	Balance at 31 December
2015						
Deferred income on property development (note 25B)	26	–	(7)	–	–	19
2014						
Deferred income on property development (note 25B)	50	–	(24)	–	–	26

43 Income Tax in the Statements of Financial Position

A Current taxation in the consolidated statement of financial position comprises provision for Hong Kong Profits Tax for the Company and certain subsidiaries for the year ended 31 December 2015, chargeable at Hong Kong Profits Tax Rate at 16.5% (2014: 16.5%) and after netting off provisional tax paid, and Mainland of China and overseas tax chargeable at the appropriate current rates of taxation ruling in the relevant countries.

in HK\$ million	The Group		The Company	
	2015	2014	2015	2014
Provision for Hong Kong Profits Tax for the year (note 14)	1,791	1,583	1,745	1,541
Hong Kong Provisional Profits Tax paid	(877)	(665)	(844)	(633)
	914	918	901	908
Balance relating to Mainland of China and overseas tax	39	78	1	8
	953	996	902	916

B Deferred Tax Assets and Liabilities Recognised

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

The Group

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		
2015							
Balance as at 1 January 2015	10,592	520	(139)	(15)	(31)	10,927	
Charged/(credited) to consolidated profit and loss account	435	–	(120)	–	(36)	279	
Charged/(credited) to reserves	–	54	(114)	(28)	–	(88)	
Exchange difference	(3)	–	1	–	2	–	
Balance as at 31 December 2015	11,024	574	(372)	(43)	(65)	11,118	
2014							
Balance as at 1 January 2014	9,833	498	(30)	(24)	(17)	10,260	
Charged/(credited) to consolidated profit and loss account	760	–	(37)	–	(15)	708	
Charged/(credited) to reserves	–	22	(73)	9	–	(42)	
Exchange difference	(1)	–	1	–	1	1	
Balance as at 31 December 2014	10,592	520	(139)	(15)	(31)	10,927	

Notes to the Accounts

43 Income Tax in the Statements of Financial Position *(continued)*

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

The Company

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	
2015					
Balance as at 1 January 2015	10,535	520	(147)	(19)	10,889
Charged/(credited) to profit and loss account	425	–	(86)	–	339
Charged/(credited) to reserves	–	54	(114)	(24)	(84)
Balance as at 31 December 2015	10,960	574	(347)	(43)	11,144
2014					
Balance as at 1 January 2014	9,778	498	(34)	(24)	10,218
Charged/(credited) to profit and loss account	757	–	(40)	–	717
Charged/(credited) to reserves	–	22	(73)	5	(46)
Balance as at 31 December 2014	10,535	520	(147)	(19)	10,889

in HK\$ million	The Group		The Company	
	2015	2014	2015	2014
Net deferred tax assets	(91)	(50)	–	–
Net deferred tax liabilities	11,209	10,977	11,144	10,889
	11,118	10,927	11,144	10,889

C The Group has not recognised deferred tax assets in respect of some of its subsidiaries' cumulative tax losses of HK\$70 million (2014: HK\$237 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.

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

A Share Capital

	2015		2014	
	Number of shares	HK\$ million	Number of shares	HK\$ million
Ordinary shares, issued and fully paid:				
At 1 January	5,826,534,347	45,280	5,798,541,650	5,798
Shares issued under share option schemes before 3 March 2014	–	–	143,500	1
Transition to no-par value regime on 3 March 2014 (note)	–	–	–	38,647
Shares issued in respect of scrip dividend of 2014/2013 final dividend	6,468,200	242	11,595,971	335
Shares issued in respect of scrip dividend of 2015/2014 interim dividend	4,191,789	145	1,934,026	61
Shares issued under share option schemes on or after 3 March 2014	21,033,900	650	14,319,200	438
At 31 December	5,858,228,236	46,317	5,826,534,347	45,280

Note: The transition to the no-par value regime under the new Hong Kong Companies Ordinance (Cap. 622) ("Ordinance") occurred automatically on 3 March 2014. On that date, the share premium account and the capital reserve were subsumed into share capital in accordance with section 37 of Schedule 11 to the Ordinance. These changes did not impact on the number of shares in issue or the relative entitlement of any of the members. Since that date, all changes in share capital have been made in accordance with the requirements of Parts 4 and 5 of the Ordinance.

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

B Shares Held for Share Incentive Scheme

On 20 April 2015, the Company offered to award Performance Shares and Restricted Shares under the Company's 2014 Share Incentive Scheme to certain eligible employees of the Company (note 47A(ii)). In this regard, a total of 1,681,050 Performance Shares and 2,348,150 Restricted Shares were accepted by the grantees on 27 April 2015. The fair value of these Award Shares was HK\$38.60 per share.

During the year ended 31 December 2015, the Trustee of the 2014 Share Incentive Scheme, pursuant to the terms of the rules and the trust deed of the 2014 Share Incentive Scheme, purchased on Hong Kong Stock Exchange a total of 4,029,200 shares of the Company for a total consideration of approximately HK\$150 million.

During the year ended 31 December 2015, 40,903 shares were issued to 2014 Share Incentive Scheme in relation to scrip dividend issued amounting to HK\$1 million.

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

	Number of shares	Weighted average exercise price HK\$
Employee share options exercised:		
– 2007 Share Option Scheme	21,033,900	27.07

An analysis of the Company's outstanding share options as at 31 December 2015 is disclosed in note 47.

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

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

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

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

Apart from retained profits, the other reserves are not available for distribution to shareholders because they do not constitute realised profits. In addition, the Company considers the cumulative surpluses on revaluation of investment properties of HK\$48,023 million (2014: HK\$45,957 million) included in retained profits are non-distributable as they do not constitute realised profits. As at 31 December 2015, the Company considers that the total amount of reserves available for distribution to equity shareholders amounted to HK\$70,478 million (2014: HK\$66,622 million).

Included in the Group's retained profits as at 31 December 2015 is an amount of HK\$877 million (2014: HK\$695 million), being the retained profits attributable to the associates.

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 4,434,552,207 shares as at 31 December 2015, representing 75.7% of total equity interest in the Company.

The Group monitors capital on the basis of the net debt-to-equity ratio, which is calculated on net borrowings as a percentage of the total equity, where net borrowings are represented by the aggregate of loans and other obligations, bank overdrafts, obligations under service concession and loan from holders of non-controlling interests net of cash and cash equivalents and bank medium term notes. The Group's net debt-to-equity ratios over the past years had been trending downward since the Rail Merger from 46.5% at 31 December 2007 to 11.3% at 31 December 2015.

Fasttrack Insurance Ltd. is required to maintain a minimum level of shareholders' fund based on the Bermuda Insurance Act. MTR Corporation (Shenzhen) Limited is required to maintain a registered capital at or above 40% of the total investment for the Shenzhen Metro Longhua Line project in accordance with the concession agreement. MTR Property Development (Shenzhen) Company Limited is required to maintain a registered capital at or above 50% of the total investment based on Jianzhufang [2006] No. 171. Metro Trains Melbourne Pty. Ltd. is required to maintain total shareholders' funds at a specified amount in accordance with the franchise agreement. MTR Stockholm AB, MTR Beta AB, MTR Express (Sweden) AB and MTR Nordic AB are required to maintain total shareholders' fund at or above 50% of their respective registered share capital based on the Swedish Companies Act. MTR Travel Limited is required to maintain a certain level of paid-up capital in order to maintain membership of the Travel Industry Council of Hong Kong. As at 31 December 2015, 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 Accounts

44 Share Capital, Shares Held for 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	Share Premium	Capital Reserve	Shares held for Share Incentive Scheme	Other reserves			Retained profits	Total equity
						Fixed assets revaluation reserve	Hedging reserve	Employee share-based capital reserve		
2015										
Balance as at 1 January 2015	53	45,280	–	–	–	2,641	(102)	214	112,681	160,714
Profit for the year		–	–	–	–	–	–	–	12,758	12,758
Other comprehensive income for the year		–	–	–	–	271	(123)	–	(580)	(432)
Total comprehensive income for the year		–	–	–	–	271	(123)	–	12,178	12,326
2014 final dividend		–	–	–	–	–	–	–	(4,673)	(4,673)
Shares issued in respect of scrip dividend of 2014 final dividend		242	–	–	–	–	–	–	–	242
Shares purchased for Share Incentive Scheme		–	–	–	(150)	–	–	–	–	(150)
2015 interim dividend		–	–	–	–	–	–	–	(1,461)	(1,461)
Shares issued in respect of scrip dividend of 2015 interim dividend		145	–	–	(1)	–	–	–	–	144
Employee share-based payments		–	–	–	–	–	–	78	–	78
Employee share options exercised		650	–	–	–	–	–	(81)	–	569
Employee share options forfeited		–	–	–	–	–	–	(1)	1	–
Balance as at 31 December 2015	53	46,317	–	–	(151)	2,912	(225)	210	118,726	167,789
2014										
Balance as at 1 January 2014		5,798	11,456	27,188	–	2,525	(128)	240	103,057	150,136
Profit for the year		–	–	–	–	–	–	–	15,332	15,332
Other comprehensive income for the year		–	–	–	–	116	26	–	(370)	(228)
Total comprehensive income for the year		–	–	–	–	116	26	–	14,962	15,104
Employee share options exercised before 3 March 2014		1	3	–	–	–	–	–	–	4
Transition to no-par value regime on 3 March 2014		38,647	(11,459)	(27,188)	–	–	–	–	–	–
2013 final dividend		–	–	–	–	–	–	–	(3,886)	(3,886)
Shares issued in respect of scrip dividend of 2013 final dividend		335	–	–	–	–	–	–	–	335
2014 interim dividend		–	–	–	–	–	–	–	(1,455)	(1,455)
Shares issued in respect of scrip dividend of 2014 interim dividend		61	–	–	–	–	–	–	–	61
Employee share-based payments		–	–	–	–	–	–	42	–	42
Employee share options exercised on or after 3 March 2014		438	–	–	–	–	–	(65)	–	373
Employee share options forfeited		–	–	–	–	–	–	(3)	3	–
Balance as at 31 December 2014	53	45,280	–	–	–	2,641	(102)	214	112,681	160,714

45 Cash Generated from Operations

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

in HK\$ million	2015	2014
Operating profit before Hong Kong property development, depreciation, amortisation and variable annual payment	16,120	15,423
Adjustments for:		
– Loss on disposal of fixed assets	44	36
– Amortisation of deferred income from transfers of assets from customers	(27)	(24)
– Increase in fair value of derivative instruments	(30)	(1)
– Unrealised loss on revaluation of investment in securities	1	1
– Employee share-based payment expenses	78	43
– Exchange loss	–	35
Operating profit before working capital changes	16,186	15,513
Increase in debtors, deposits and payments in advance	(513)	(538)
Increase in stores and spares	(35)	(102)
Increase in creditors and accrued charges	651	1,646
Cash generated from operations	16,289	16,519

46 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 measured at fair value on a recurring basis are categorised as Level 3 of the fair value hierarchy.

During the year ended 31 December 2015, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 in respect of the Group's investment properties and self-occupied land and buildings. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

All the Group's investment properties and self-occupied land and buildings were revalued as at 31 December 2015 and 2014 by an independent firm of surveyors, Jones Lang LaSalle Limited, who have among their staff Members of the Hong Kong Institute of Surveyors. The Group's senior management have discussion with the surveyors on the valuation assumptions and valuation results when the valuation is performed at each interim and annual reporting date.

The fair value of all the Group's self-occupied land and buildings is determined 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 2015 was 4.25% – 7.50% (2014: 4.25% – 7.50%) with a weighted average of 5.4% (2014: 5.4%). The fair value measurement is negatively correlated to the market yield rate.

The movements of investment properties during the year ended 31 December 2015 are shown in note 19. All the fair value adjustment related to investment properties held as at 31 December 2015 and was recognised under investment property revaluation in the consolidated profit and loss account.

Notes to the Accounts

46 Fair Value Measurement *(continued)*

B Fair Value Measurements of Financial Instruments

(i) Financial Assets and Liabilities Carried at Fair Value

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

The Group

in HK\$ million	Fair value at 31 December 2015	Fair value measurements as at 31 December 2015	
		Level 1	Level 2
Financial Assets			
Derivative financial assets			
– Cross currency swaps	26	–	26
– Interest rate swaps	55	–	55
	81	–	81
Investments in securities	336	336	–
	417	336	81
Financial Liabilities			
Derivative financial liabilities			
– Foreign exchange forwards	37	–	37
– Cross currency swaps	756	–	756
– Interest rate swaps	37	–	37
	830	–	830

in HK\$ million	Fair value at 31 December 2014	Fair value measurements as at 31 December 2014	
		Level 1	Level 2
Financial Assets			
Derivative financial assets			
– Foreign exchange forwards	17	–	17
– Cross currency swaps	20	–	20
– Interest rate swaps	68	–	68
	105	–	105
Investments in securities	527	527	–
	632	527	105
Financial Liabilities			
Derivative financial liabilities			
– Foreign exchange forwards	28	–	28
– Cross currency swaps	489	–	489
– Interest rate swaps	48	–	48
	565	–	565

46 Fair Value Measurement *(continued)*

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

The Company

in HK\$ million	Fair value at 31 December 2015	Fair value measurements as at 31 December 2015	
		Level 1	Level 2
Financial Assets			
Derivative financial assets			
– Cross currency swaps	26	–	26
– Interest rate swaps	55	–	55
	81	–	81
Financial Liabilities			
Derivative financial liabilities			
– Foreign exchange forwards	37	–	37
– Cross currency swaps	756	–	756
– Interest rate swaps	37	–	37
	830	–	830

in HK\$ million	Fair value at 31 December 2014	Fair value measurements as at 31 December 2014	
		Level 1	Level 2
Financial Assets			
Derivative financial assets			
– Foreign exchange forwards	2	–	2
– Cross currency swaps	20	–	20
– Interest rate swaps	68	–	68
	90	–	90
Financial Liabilities			
Derivative financial liabilities			
– Foreign exchange forwards	28	–	28
– Cross currency swaps	489	–	489
– Interest rate swaps	48	–	48
	565	–	565

There are no Level 3 measurements of financial instruments. During the years ended 31 December 2015 and 2014, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

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

Notes to the Accounts

46 Fair Value Measurement *(continued)*

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

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

The carrying amounts of the Group's and the Company's financial assets and liabilities not carried at fair value are not materially different from their fair values as at 31 December 2015 and 2014 except for capital market instruments and other obligations, for which their carrying amounts and fair values are disclosed below:

The Group

in HK\$ million	At 31 December 2015		At 31 December 2014	
	Carrying amount	Fair value	Carrying amount	Fair value
Capital market instruments	14,096	15,410	13,617	14,731
Other obligations	921	1,172	395	497

The Company

in HK\$ million	At 31 December 2015		At 31 December 2014	
	Carrying amount	Fair value	Carrying amount	Fair value
Capital market instruments	1,429	1,752	1,452	1,767
Other obligations	413	517	395	497

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

47 Share-based Payments

A Equity-settled Share-based Payments

The Group granted share options under share option scheme and share awards under share incentive scheme to its Members of the Executive Directorate and certain employees. As at 31 December 2015, the Company maintained the 2007 Share Option Scheme and 2014 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.

47 Share-based Payments *(continued)*

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

As at 31 December 2015, the following awards of share options were offered to Members of the Executive Directorate and selected employees of the Company under the 2007 Option Scheme:

Awards of share options	Date of offer	Number of share options offered and accepted	Date of acceptance
2008 Award	10 December 2007 26 March 2008	8,273,000 2,749,000	11 December 2007 to 7 January 2008 28 March 2008 to 23 April 2008
2009 Award	8 December 2008 12 June 2009	12,712,000 345,000	8 December 2008 to 30 December 2008 18 June 2009 to 9 July 2009
2010 Award	8 December 2009 28 June 2010	15,718,000 355,000	9 December 2009 to 22 December 2009 21 July 2010
2011 Award	16 December 2010 27 June 2011	15,546,500 215,000	16 December 2010 to 23 December 2010 7 July 2011
2012 Award	23 March 2012	16,917,000	30 March 2012
2013 Award	26 April 2013 25 October 2013	21,605,000 384,500	6 May 2013 1 November 2013
2014 Award	23 May 2014	19,895,500	30 May 2014

The following table summarises the outstanding share options as at 31 December 2015 granted under the 2007 Option Scheme since inception:

Date of grant	Number of share options	Exercise price HK\$	Exercisable period
<u>2010 Award</u>			
9 December 2009	470,000	26.85	on or prior to 8 December 2016
10 December 2009	1,026,000	26.85	on or prior to 8 December 2016
11 December 2009	645,500	26.85	on or prior to 8 December 2016
12 December 2009	135,000	26.85	on or prior to 8 December 2016
14 December 2009	579,000	26.85	on or prior to 8 December 2016
15 December 2009	575,000	26.85	on or prior to 8 December 2016
16 December 2009	373,500	26.85	on or prior to 8 December 2016
17 December 2009	167,000	26.85	on or prior to 8 December 2016
18 December 2009	108,000	26.85	on or prior to 8 December 2016
19 December 2009	70,000	26.85	on or prior to 8 December 2016
20 December 2009	75,000	26.85	on or prior to 8 December 2016
21 December 2009	158,000	26.85	on or prior to 8 December 2016
22 December 2009	122,000	26.85	on or prior to 8 December 2016
21 July 2010	106,000	27.73	on or prior to 28 June 2017
<u>2011 Award</u>			
16 December 2010	55,000	28.84	on or prior to 16 December 2017
17 December 2010	2,909,000	28.84	on or prior to 16 December 2017
18 December 2010	389,500	28.84	on or prior to 16 December 2017
19 December 2010	25,000	28.84	on or prior to 16 December 2017
20 December 2010	1,696,000	28.84	on or prior to 16 December 2017
21 December 2010	1,171,500	28.84	on or prior to 16 December 2017
22 December 2010	486,000	28.84	on or prior to 16 December 2017
23 December 2010	75,000	28.84	on or prior to 16 December 2017
7 July 2011	35,000	26.96	on or prior to 27 June 2018
<u>2012 Award</u>			
30 March 2012	8,328,500	27.48	on or prior to 23 March 2019
<u>2013 Award</u>			
6 May 2013	16,910,500	31.40	on or prior to 26 April 2020
1 November 2013	384,500	29.87	on or prior to 25 October 2020
<u>2014 Award</u>			
30 May 2014	17,959,000	28.65	on or prior to 23 May 2021

Notes to the Accounts

47 Share-based Payments (continued)

A Equity-settled Share-based Payments (continued)

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

	2015		2014	
	Number of share options	Weighted average exercise price HK\$	Number of share options	Weighted average exercise price HK\$
Outstanding at 1 January	76,785,400	28.624	73,001,100	28.151
Granted during the year	–	–	19,895,500	28.650
Exercised during the year	(21,033,900)	27.074	(14,378,200)	26.114
Forfeited during the year	(717,000)	29.860	(1,648,000)	29.939
Lapsed during the year	–	–	(85,000)	27.600
Outstanding at 31 December	55,034,500	29.200	76,785,400	28.624
Exercisable at 31 December	35,900,500	28.997	38,331,400	27.782

The weighted average closing price in respect of the share options exercised during the year was HK\$36.244 (2014: HK\$30.622).

Share options outstanding at 31 December 2015 had the following exercise prices and remaining contractual lives:

Exercise price	2015		2014	
	Number of share options	Remaining contractual life years	Number of share options	Remaining contractual life years
HK\$26.52	–	–	1,067,000	–
HK\$18.30	–	–	2,567,400	1
HK\$24.50	–	–	175,000	1
HK\$26.85	4,504,000	1	8,115,500	2
HK\$27.73	106,000	1	130,000	2
HK\$28.84	6,807,000	2	10,714,000	3
HK\$26.96	35,000	2	123,000	3
HK\$27.48	8,328,500	3	13,564,000	4
HK\$31.40	16,910,500	4	20,311,000	5
HK\$29.87	384,500	5	384,500	6
HK\$28.65	17,959,000	5	19,634,000	6
	55,034,500		76,785,400	

During the year ended 31 December 2015, the equity-settled share-based payments relating to the 2007 Share Option Scheme recognised as an expense amounted to HK\$25 million (2014: HK\$42 million).

(ii) 2014 Share Incentive Scheme

On 15 August 2014, the Board of the Company approved the adoption of the 2014 Share Incentive Scheme ("2014 Scheme"), following the expiry of the 2007 Option Scheme on 6 June 2014. The purposes of the 2014 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 2014 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 on the basis of individual performance. Performance Shares are awarded which vest subject to the performance of the Company, assessed by reference to such Board-approved performance metric and in respect of such performance period and any other performance conditions.

Subject to the Scheme Rules, the Remuneration Committee shall determine from time to time the vesting criteria and conditions or periods for the Award Shares to be vested. An award of Restricted Shares will vest rateably 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 2014 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.

47 Share-based Payments *(continued)*

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

As at 31 December 2015, the following awards of shares were offered to Members of the Executive Directorate and selected employees of the Company under the 2014 Share Incentive Scheme:

Date of award	Number of Award Shares granted		Average fair value per share HK\$	Vesting period
	Restricted Shares	Performance Shares		
27 April 2015	2,348,150	1,681,050	38.60	20 April 2015 to 20 April 2018

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

	2015
	Number of Award Shares
Outstanding at 1 January	–
Awarded during the year	4,029,200
Vested during the year	(8,533)
Forfeited during the year	(89,067)
Outstanding at 31 December	3,931,600

Award Shares outstanding at 31 December 2015 had the following remaining vesting periods:

Award Shares	2015	
	Remaining vesting period years	Number of Award Shares
Restricted Shares		
27 April 2015	2.30	2,287,500
Performance Shares		
27 April 2015	2.30	1,644,100

The details of the 2014 Scheme are also disclosed in the Remuneration Report.

During the year ended 31 December 2015, the equity-settled share-based payments relating to the 2014 Share Incentive Scheme recognised as an expense amounted to HK\$53 million (2014: nil).

B Cash-settled Share-based Payments

Jay H Walder is entitled to an equivalent value in cash of 300,000 shares in the Company following 30 June 2014, being the date on which his initial term of office expired. An amount of HK\$8,805,000 was paid to him on 2 July 2014 (at a price of HK\$29.35 per share by reference to the average closing price of the Company's shares on the 20 business days immediately preceding 30 June 2014). On 30 August 2013, Jay H Walder was re-appointed as the Chief Executive Officer until 31 August 2015. He is entitled to an equivalent value in cash of 230,000 shares in the Company upon completion of his extended term of office on 31 August 2015. Jay H Walder stepped down as the Chief Executive Officer of the Company from 15 August 2014. On 15 August 2014, an amount of HK\$725,428, forming part of the contractual settlement amount referred to in section (i) of Note 10A, was paid to him, being the equivalent value in cash of 24,378 shares (at a price of HK\$29.7575 per share by reference to the average closing price of the Company's shares on the 20 business days immediately preceding 25 July 2014). His remaining derivative interest in 205,622 shares in the Company lapsed on 15 August 2014. For the year ended 31 December 2014, HK\$1.3 million was recorded as share-based payment expense.

Notes to the Accounts

48 Retirement Schemes

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

A Retirement Schemes Operated by the Company in Hong Kong

The Company operated four retirement schemes under trust in Hong Kong during the year ended 31 December 2015, 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 (Chapter 426 of the Laws of Hong Kong) ("ORSO") and has been granted with an MPF Exemption by the Mandatory Provident Fund Schemes Authority ("MPFA").

The MTR Retirement Scheme has been closed to new employees from 1 April 1999 onwards. It is administered in accordance with the Trust Deed and Rules by the Board of Trustees, comprising management, employee representatives and independent non-employer trustees. It provides benefits based on the greater of a multiple of final salary times service and a factor times the accumulated member contributions with investment returns. Members' contributions are based on fixed percentages of base salary. The Company's contributions are determined with reference to an actuarial valuation carried out by an independent actuarial consulting firm. As at 31 December 2015, the total membership was 4,276 (2014: 4,460). In 2015, members contributed HK\$75 million (2014: HK\$75 million) and the Company contributed HK\$208 million (2014: HK\$127 million) to the MTR Retirement Scheme. The net asset value of the MTR Retirement Scheme excluding the portion attributable to members' voluntary contribution as at 31 December 2015 was HK\$8,131 million (2014: HK\$8,866 million).

The actuarial valuations as at 31 December 2014 and 2015 to determine the accounting obligations in accordance with Revised HKAS 19, *Employee benefits*, were carried out by an independent actuarial consulting firm, Willis Towers Watson, using the Projected Unit Credit Method. The results of the valuation are shown in note 49.

The actuarial valuations as at 31 December 2014 and 2015 to determine the cash funding requirements were also carried out by Willis Towers Watson using the Attained Age Method. The principal actuarial assumptions used for the valuation as at 31 December 2015 included a long-term rate of investment return net of salary increases of 1.0% (2014: 1.4%) per annum, together with appropriate allowances for expected rates of mortality, turnover and retirement. Willis Towers Watson confirmed that, as at the valuation date of 31 December 2015:

- (a) the MTR Retirement Scheme was insolvent, covering 95.3% of the aggregate vested liability had all members left service with their leaving service benefits secured, resulting in a solvency deficit of HK\$410 million; and
- (b) in the normal course of events, and provided that the MTR Retirement Scheme is funded in accordance with the minimum required composite Company contribution rate determined by the actuarial review as at 31 December 2015, together with the members' contributions, it is expected that the Scheme's assets would be sufficient to meet the aggregate vested liability within a period of 3 years from date of valuation.

(ii) MTR Provident Fund Scheme

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

As at 31 December 2015, the total number of employees participating in the MTR Provident Fund Scheme was 8,688 (2014: 8,133). In 2015, total members' contributions were HK\$100 million (2014: HK\$87 million) and total contribution from the Company was HK\$262 million (2014: HK\$236 million). The net asset value as at 31 December 2015 was HK\$4,798 million (2014: HK\$4,805 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 MPF Ordinance. The Company makes additional contributions above the mandatory level for eligible members who joined the MTR MPF Scheme before 1 April 2008, subject to individual terms of employment.

As at 31 December 2015, the total number of employees of the Company participating in the MTR MPF Scheme was 5,951 (2014: 5,556). In 2015, total members' contributions were HK\$50 million (2014: HK\$45 million) and total contribution from the Company was HK\$55 million (2014: HK\$49 million).

48 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 MPF Ordinance.

As at 31 December 2015, the total number of employees of the Company participating in the KCRC MPF Scheme was 642 (2014: 695). In 2015, total members' contributions were HK\$6 million (2014: HK\$6 million) and total contribution from the Company was HK\$7 million (2014: HK\$7 million).

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

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

(i) Defined Benefit Plan

Certain employees of the Group's Australian subsidiary are entitled to receive retirement benefits from the Emergency Services Superannuation Scheme operated in Australia. The benefit amounts are calculated based on the member's years of service and final average salary. The Group does not recognise any defined benefit liability in respect of this scheme because the Group has no legal or constructive obligation to pay future benefits relating to its employees; its only obligation is to pay contributions as they fall due. As at 31 December 2015, total number of the Group's employees participating in this scheme was 922 (2014: 734). In 2015, total members' contributions were HK\$33 million (2014: HK\$31 million) and total contribution from the Group was HK\$44 million (2014: HK\$43 million).

(ii) Defined Contribution Plans

Except for the defined benefit plan stated in note 48B(i), all other retirement schemes to cover employees in overseas offices or in subsidiaries in Hong Kong, the Mainland of China or overseas are defined contribution schemes. For Hong Kong employees, these schemes are registered under the MPF Ordinance in Hong Kong. For the Mainland of China or overseas employees, these schemes are operated in accordance with the respective local laws and regulations. As at 31 December 2015, the total number of employees of the Group participating in these schemes was 9,297 (2014: 8,516). In 2015, total members' contributions were HK\$90 million (2014: HK\$106 million) and total contribution from the Group was HK\$326 million (2014: HK\$340 million).

49 Defined Benefit Retirement Plan

During the year ended 31 December 2015, 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 48). This defined benefit scheme expose 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 The amounts recognised in the consolidated statement of financial position are as follows:

The Group and The Company

in HK\$ million	2015	2014
Present value of defined benefit obligations	(10,408)	(10,295)
Fair value of plan assets	8,131	8,866
Net liabilities	(2,277)	(1,429)

A portion of the above liabilities is expected to be paid after more than one year. However, it is not practicable to segregate this amount from the amounts to be paid in the next twelve months, as future contributions will also relate to future services rendered and future changes in actuarial assumptions and market conditions. The Company expects to pay HK\$478 million (2014: HK\$207 million) in contribution to the MTR Retirement Scheme in 2016.

Notes to the Accounts

49 Defined Benefit Retirement Plan *(continued)*

B Plan assets consist of the following:

The Group and The Company

in HK\$ million	2015	2014
Equity securities		
– Financial institutions	742	713
– Non-financial institutions	3,598	3,967
	4,340	4,680
Bonds		
– Government	1,513	1,471
– Non-government	2,097	2,515
	3,610	3,986
Cash	309	321
	8,259	8,987
Voluntary units	(128)	(121)
	8,131	8,866

The plan assets include an amount of HK\$3 million invested in the ordinary shares of the Company as at 31 December 2015 (2014: nil). Other than this, there were no investment in other shares and debt securities of the Company as at 31 December 2015 and 2014. All of the equity securities and bonds have quoted prices in active markets.

An asset-liability modelling review is performed periodically to analyse the strategic investment policies of the MTR Retirement Scheme. Based on the latest study, the strategic asset allocation of the MTR Retirement Scheme is 52.5% in equities and 47.5% in bonds and cash as at 31 December 2015 (2014: 52.5% in equities and 47.5% in bonds and cash).

C Movements in the Present Value of the Defined Benefit Obligations

The Group and The Company

in HK\$ million	2015	2014
At 1 January	10,295	9,839
Remeasurements:		
– Actuarial (gains)/losses arising from changes in liability experience	(267)	(97)
– Actuarial losses/(gains) arising from changes in demographic assumptions	–	20
– Actuarial losses/(gains) arising from changes in financial assumptions	353	455
	86	378
Members' contributions paid to the scheme	75	75
Benefits paid by the scheme	(683)	(607)
Current service cost	315	275
Interest cost	320	335
At 31 December	10,408	10,295

The weighted average duration of the present value of the defined benefit obligations is 7.5 years (2014: 7.9 years).

49 Defined Benefit Retirement Plan (continued)

D Movements in Plan Assets

The Group and The Company

in HK\$ million	2015	2014
At 1 January	8,866	9,031
Company's contributions paid to the scheme	208	127
Members' contributions paid to the scheme	75	75
Benefits paid by the scheme	(683)	(607)
Administrative expenses paid from plan assets	(5)	(5)
Interest income	278	310
Return on plan assets, excluding interest income	(608)	(65)
At 31 December	8,131	8,866

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

in HK\$ million	2015	2014
Current service cost	315	275
Net interest on net defined benefit liability	42	25
Administrative expenses paid from plan assets	5	5
	362	305
Less: Amount capitalised	(55)	(51)
Net amount recognised in profit or loss	307	254
Actuarial losses	86	378
Return on plan assets, excluding interest income	608	65
Amount recognised in other comprehensive income	694	443

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

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

	2015	2014
Discount rate	2.6%	3.2%
Future salary increases	4.5%	4.6%
Unit value increase	5.5%	6.0%

The below analysis shows how the present value of the defined benefit obligations as at 31 December 2015 would have increased/(decreased) as a result of 0.25% change in the significant actuarial assumptions:

	2015		2014	
	Increase in 0.25% HK\$ million	Decrease in 0.25% HK\$ million	Increase in 0.25% HK\$ million	Decrease in 0.25% HK\$ million
Discount rate	(187)	193	(192)	199
Future salary increases	157	(147)	114	(100)
Unit value increase	37	(31)	91	(78)

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.

Notes to the Accounts

50 Interests in Joint Operations in Respect of Hong Kong Property Development

The Group has the following joint operations in respect of its awarded property development projects in Hong Kong as at 31 December 2015:

Location/Development Package	Land Use	Total Gross Floor Area (sq.m.)	Actual or Expected Date of Completion of Construction Works *
Hong Kong Station	Office/Retail/Hotel	415,894	Completed by phases from 1998–2005
Kowloon Station			
Package One	Residential	147,547	Completed in 2000
Package Two	Residential	210,319	Completed by phases from 2002–2003
Package Three	Residential/Cross Border Bus Terminus	105,113	Completed in 2005
Package Four	Residential	128,845	Completed in 2003
Package Five, Six and Seven	Residential/Office/Retail/Hotel/ Service Apartment/Kindergarten	504,345	Completed by phases from 2006–2010
Olympic Station			
Package One	Residential/Office/Retail/ Indoor Sports Hall	309,069	Completed in 2000
Package Two	Residential/Retail/Market	268,650	Completed in 2001
Package Three	Residential/Kindergarten	104,452	Completed in 2006
Tsing Yi Station	Residential/Retail/Kindergarten	292,795	Completed in 1999
Tung Chung Station			
Package One	Residential/Office/Retail/Hotel/ Kindergarten	361,531	Completed by phases from 1999–2005
Package Two	Residential/Retail/Kindergarten	255,949	Completed by phases from 2002–2008
Package Three	Residential/Retail/Wet Market/ Kindergarten	413,154	Completed by phases from 2002–2008
Hang Hau Station	Residential/Retail	142,152	Completed in 2004
Tiu Keng Leng Station	Residential/Retail	253,765	Completed by phases from 2006–2007
Tseung Kwan O Station			
Area 55b	Residential/Retail	96,797	Completed in 2006
Area 57a	Residential/Retail	29,642	Completed in 2005
Area 56	Residential/Hotel/Retail/Office	163,130	Completed by phases from 2011–2012
Tseung Kwan O Area 86 (LOHAS Park)			
Package One	Residential/Retail/ Residential Care Home for the Elderly	139,840	Completed in 2008
Package Two	Residential/Kindergarten	310,496	Completed by phases from 2010–2012
Package Three	Residential/Kindergarten	129,544	Completed in 2014
Package Four	Residential	122,302	2020
Package Five	Residential	102,336	2020
Package Six	Residential	136,970	2021
Package Seven	Residential/Retail/Kindergarten	115,920	2022
Package Eight	Residential	97,000	2021
Package Nine	Residential/Kindergarten	104,920	2022
Choi Hung Park-and-Ride	Residential/Retail	21,574	Completed in 2005
Che Kung Temple Station	Residential/Retail/Kindergarten	90,655	Completed in 2012
Austin Station			
Sites C & D	Residential	119,116	Completed in 2014
Tai Wai Station	Residential/Retail/Bicycle Park	252,480	2022
Tin Wing Stop	Residential/Retail	91,256	2021

* Completion based on issuance of occupation permit

50 Interests in Joint Operations in Respect of Hong Kong Property Development *(continued)*

The Group's assets held in relation to these joint operations include various site foundation works and related staff and overhead costs, land costs, acquisition cost of development rights and interest expense. These are set off against any payments received from developers in relation to that development package, and the balance is shown on the statement of financial position either as property development in progress (note 25) or deferred income (note 42) as the case may be. As at 31 December 2015, total property development in progress in respect of these joint operations was HK\$11,990 million (2014: HK\$1,336 million) and total deferred income was HK\$19 million (2014: HK\$26 million).

During the year ended 31 December 2015, profits attributable to joint operations of HK\$2,898 million (2014: HK\$4,004 million) were recognised (note 11).

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

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

* Completion based on issuance of occupation permit

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

51 Material Related Party Transactions

The Financial Secretary Incorporated, which holds approximately 75.7% of the Company's issued share capital on trust for the HKSAR Government, is the majority shareholder of the Company. Transactions between the Group and the HKSAR Government departments or agencies, or entities controlled by the HKSAR Government, other than those transactions such as the payment of fees, taxes, leases and rates, etc. that arise in the normal dealings between the HKSAR Government and the Group, are considered to be related party transactions pursuant to HKAS 24 (revised), *Related party disclosures*, and are identified separately in these accounts.

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

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

A On 30 June 2000, the Company was granted by the HKSAR Government a franchise, for an initial period of 50 years, to operate the then existing mass transit railway, and to operate and construct any extension to the railway. On the same day, the Company and the HKSAR Government entered into an Operating Agreement ("OA") which laid down the detailed provisions for the design, construction, maintenance and operation of the railway under the franchise. Pursuant to the terms of the OA, the Company's franchise will be extended for further periods of 50 years upon satisfying certain capital expenditure requirements at no payment and without any change in the terms of the franchise. The OA also provides that upon extension of the franchise and subject to the HKSAR Government's prevailing land policy on the date on which the franchise is extended, certain consequential amendments will be made to agreements between the HKSAR Government and the Company in relation to the mass transit railway, including the renewal of various railway running line leases and land leases at nominal cost. With the Rail Merger, the OA was replaced with effect from 2 December 2007 by a new operating agreement, details of which are set out in note 51C 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 ("new OA"), which is based on the then existing OA referred to in note 51A above. On the Appointed Day, the Company's then existing franchise under the Mass Transit Railway Ordinance was expanded to cover railways other than the then existing MTR railway for an initial period of 50 years from the Appointed Day ("expanded franchise"). The new OA detailed the design, construction, maintenance and operation of the railways under the expanded franchise. Pursuant to the terms of the new OA and the MTR Ordinance, the Company's franchise may be extended for further periods of 50 years (from the date of the extension) upon satisfying certain capital expenditure requirements at no payment and without any change in the terms of the franchise. The new OA also sets out a framework for the award of new railway projects in Hong Kong and introduces a fare adjustment mechanism which is subject to review periodically. A detailed description of the new OA is contained in the circular to shareholders in respect of the Extraordinary General Meeting convened to approve the Rail Merger. Such transaction is considered to be a related party transaction and also constitute continuing connected transaction as defined under the Listing Rules.

Notes to the Accounts

51 Material Related Party Transactions *(continued)*

D Other than the new OA described in note 51C above, the Company also entered into the following principal agreements with KCRC and the HKSAR Government in connection with the Rail Merger:

- (i) Merger Framework Agreement, which was entered into on 9 August 2007, contains provisions for the overall structure and certain specific aspects of the Rail Merger;
- (ii) Service Concession Agreement, which was entered into on 9 August 2007, contains provisions in relation to the grant and operation of a service concession and licence granted by KCRC to the Company;
- (iii) Sale and Purchase Agreement, which was entered into on 9 August 2007, sets out the terms pursuant to which the Company acquired certain assets and contracts from KCRC;
- (iv) West Rail Agency Agreement, which was entered into on 9 August 2007, sets out the terms on which the Company was appointed to act as KCRC's agent to exercise certain rights and perform certain obligations relating to specified development sites along the West Rail;
- (v) Property Package Agreements, which were entered into on 9 August 2007, set out the arrangements in respect of the acquisition of the property package; and
- (vi) US Cross Border Lease ("CBL") Assumption Agreements, which were entered into with KCRC on 30 November 2007, and US CBL Allocation Agreement, which was entered into with KCRC and KCRC's subsidiaries on 2 December 2007, set out the terms on which the Company has undertaken to perform, on a joint and several basis with KCRC, the obligations of KCRC under the respective CBLs, and delineate and allocate the obligations and responsibility for risks relating to the CBLs. Details of the commitment of the Company in connection with these agreements are specified in note 52E.

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" of the Report of the Members of the Board.

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

- (i) TKE Project Agreement in respect of the Tseung Kwan O Extension, which was signed on 4 November 1998 and includes the granting of property development rights at four sites along the extension;
- (ii) Preliminary Project Agreement, which was signed on 6 February 2008, and Project Agreement, which was signed on 13 July 2009 in respect of the 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 (note 23A). 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 above agreement is contained under the paragraph "Continuing Connected Transactions" of the Report of the Members of the Board;
- (iii) Project Agreement in respect of the SIL(E), which was signed on 17 May 2011 and includes the granting of property development rights at a site in Wong Chuk Hang (note 23B). The transaction constitutes a continuing connected transaction as defined under the Listing Rules. However it is exempt from the disclosure requirements under Chapter 14A of the Listing Rules pursuant to the waiver granted by The Stock Exchange of Hong Kong Limited on 21 December 2004 (as amended from time to time); and
- (iv) Project Agreement in respect of the KTE, which was signed on 17 May 2011 and includes the granting of property development rights at a site in Ho Man Tin (note 23C). The transaction constitutes a continuing connected transaction as defined under the Listing Rules. However it is exempt from the disclosure requirements under Chapter 14A of the Listing Rules pursuant to the waiver granted by The Stock Exchange of Hong Kong Limited on 21 December 2004 (as amended from time to time).

51 Material Related Party Transactions *(continued)*

F The Company entered into entrustment agreements with the HKSAR Government for the design, site investigation, procurement activities, construction, testing and commissioning of new railway extensions, pursuant to which the HKSAR Government funds the costs of such activities while the Company is paid a fee for its project management service. Entrustment agreements on railway extensions that are still under construction in the year ended 31 December 2015 include:

(i) The XRL Preliminary Entrustment Agreement, which was signed on 24 November 2008, and the XRL Entrustment Agreement, which was signed on 26 January 2010, in respect of the Guangzhou-Shenzhen-Hong Kong Express Rail Link ("XRL"). The two agreements together entrust the Company with the project management of activities leading to the completion of XRL. Detailed description of the agreements and the amount of project management fees recognised for the year ended 31 December 2015 are provided in note 24A; and

(ii) The SCL Preliminary Entrustment Agreement, which was signed on 24 November 2008, the SCL Advance Works Entrustment Agreement, which was signed on 17 May 2011, and the SCL Entrustment Agreement, which was signed on 29 May 2012, in respect of the Shatin to Central Link ("SCL"). The three agreements together entrust the Company with the project management of activities leading to the completion of SCL. Detailed description of the agreements and the amount of project management fees recognised for the year ended 31 December 2015 are provided in note 24B.

On 30 November 2015, the HKSAR Government and the Company entered into the deed of agreement relating to the further funding and completion of XRL project. Detailed description of the agreement is provided in note 24A.

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" of the Report of the Members of the Board.

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

H In connection with the construction of various railway projects, certain essential project works are embedded within the infrastructure works to be undertaken by the HKSAR Government or certain of its related parties. These works have been entrusted to the HKSAR Government and its related parties and are payable on an actual cost basis according to architectural certifications. The HKSAR Government and certain of its related parties, on the other hand, have entered into entrustment agreements with the Company for the construction of various other infrastructure works that are also reimbursable according to actual costs certified. Details of the amounts receivable and the amounts paid and payable as at 31 December 2015 are provided in notes 34 and 39 respectively.

I In connection with certain property developments along the railway system, the Company has been granted land lots by the HKSAR Government in respect of the following sites during the year:

Property development site	Land grant acceptance date	Total land premium in HK\$ million	Land premium settlement date
Sha Tin Town Lot No. 520	27 October 2014	1,036 9,320	27 October 2014 19 January 2015
		10,356	
Site N of The Remaining Portion of Tseung Kwan O Town Lot No. 70	23 January 2015	3,345	26 March 2015
Tin Shui Wai Town Lot No. 23	3 March 2015	152 1,367	3 March 2015 2 June 2015
		1,519	
Site C1 of The Remaining Portion of Tseung Kwan O Town Lot No. 70	11 June 2015	3,888	15 July 2015
Site H of The Remaining Portion of Tseung Kwan O Town Lot No. 70	8 October 2015	2,955	6 November 2015

In January 2016, the Company accepted a modification of land grant from the HKSAR Government in respect of Site J of The Remaining Portion of Tseung Kwan O Town Lot No. 70 subject to the Company's acceptance of the HKSAR Government's assessment of the land premium amounting to HK\$2,852 million.

During the year, the Company paid premium and administrative fee to the HKSAR Government amounting to HK\$299 million in respect of Telford Plaza II.

Notes to the Accounts

51 Material Related Party Transactions *(continued)*

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

K On 5 July 2013, the Company renewed the maintenance agreement with the Hong Kong Airport Authority ("HKAA") in respect of the automatic people mover system serving the Hong Kong International Airport upon the expiry of the previous five-year agreement. The renewed agreement covers a period of seven years effective from 6 July 2013 ("New Maintenance Contract"). On 5 March 2015, the Company entered into a supplemental agreement to the New Maintenance Contract with the HKAA for carrying out the automated people mover service for the testing and commissioning works for track possession. In respect of the services provided, HK\$59 million was recognised as consultancy income during the year ended 31 December 2015 (2014: HK\$64 million). Such transactions are considered to be related party transactions and also constitute continuing connected transactions as defined under the Listing Rules.

L Other than those stated in notes 51A to 51K, 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 28, 34 and 39.

M The Group has paid remuneration to Members of the Board and the Executive Directorate. Details of these transactions are described in note 10A. In addition, Members of the Executive Directorate were granted share options under the Company's 2007 Share Option Scheme and award shares under the Company's 2014 Share Incentive Scheme. Details of the terms are disclosed in notes 10B and 10C and the Report of the Members of the Board. Their gross remuneration charged to the profit and loss account is summarised as follows:

in HK\$ million	2015	2014
Short-term employee benefits	63.7	75.5
Post-employment benefits	6.0	5.2
Equity compensation benefits	9.4	4.1
	79.1	84.8

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

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

in HK\$ million	2015	2014
Cash dividends paid	4,656	4,080

52 Commitments

A Capital Commitments

(i) Outstanding capital commitments as at 31 December 2015 not provided for in the accounts were as follows:

The Group

in HK\$ million	Hong Kong transport, station commercial and other businesses	Hong Kong railway extension projects	Hong Kong property rental and development	Mainland of China and overseas operations	Total
2015					
Authorised but not yet contracted for	7,051	–	2,455	2	9,508
Authorised and contracted for	14,270	1,080	5,462	253	21,065
	21,321	1,080	7,917	255	30,573
2014					
Authorised but not yet contracted for	5,114	–	2,550	37	7,701
Authorised and contracted for	5,284	1,505	7,995	1,326	16,110
	10,398	1,505	10,545	1,363	23,811

52 Commitments (continued)

A Capital Commitments (continued)

The Company

in HK\$ million	Hong Kong transport, station commercial and other businesses	Hong Kong railway extension projects	Hong Kong property rental and development	Total
2015				
Authorised but not yet contracted for	7,033	–	2,435	9,468
Authorised and contracted for	14,269	1,080	5,459	20,808
	21,302	1,080	7,894	30,276
2014				
Authorised but not yet contracted for	5,091	–	2,539	7,630
Authorised and contracted for	5,282	1,505	7,987	14,774
	10,373	1,505	10,526	22,404

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

The Group

in HK\$ million	Improvement, enhancement and replacement works	Acquisition of property, plant and equipment	Additional concession property	Total
2015				
Authorised but not yet contracted for	3,728	499	2,824	7,051
Authorised and contracted for	10,179	156	3,935	14,270
	13,907	655	6,759	21,321
2014				
Authorised but not yet contracted for	2,398	352	2,364	5,114
Authorised and contracted for	532	191	4,561	5,284
	2,930	543	6,925	10,398

The Company

in HK\$ million	Improvement, enhancement and replacement works	Acquisition of property, plant and equipment	Additional concession property	Total
2015				
Authorised but not yet contracted for	3,710	499	2,824	7,033
Authorised and contracted for	10,178	156	3,935	14,269
	13,888	655	6,759	21,302
2014				
Authorised but not yet contracted for	2,375	352	2,364	5,091
Authorised and contracted for	530	191	4,561	5,282
	2,905	543	6,925	10,373

Notes to the Accounts

52 Commitments (continued)

B Operating Lease Commitments

The Group had operating leases on office buildings, staff quarters, bus depot as well as a shopping centre in Beijing as at 31 December 2015. The total future minimum lease payments under non-cancellable operating leases are payable as follows:

in HK\$ million	The Group		The Company	
	2015	2014	2015	2014
Payable within one year	140	136	18	9
Payable after one but within five years	43	4	40	4
	183	140	58	13

In addition to the above, the Group has future operating lease commitments of HK\$6,986 million (2014: HK\$3,485 million) in respect of railway-related subsidiaries outside of Hong Kong over the respective franchise periods, of which HK\$970 million (2014: HK\$988 million) is payable within one year, HK\$3,434 million (2014: HK\$1,923 million) is payable after one but within five years and HK\$2,582 million (2014: HK\$574 million) is payable over five years. These railway-related subsidiaries generate franchise revenue to the Group.

C Liabilities and Commitments in respect of Property Management Contracts

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

As at 31 December 2015, the Group had total outstanding liabilities and contractual commitments of HK\$2,026 million (2014: HK\$1,841 million) in respect of these works and services. Cash funds totalling HK\$1,928 million (2014: HK\$1,821 million) obtained through monthly payments of management service charges from the managed properties are held by the Group on behalf of those properties for settlement of works and services provided.

D Material Financial and Performance Guarantees

In respect of the debt securities issued by MTR Corporation (C.I.) Limited (note 36C), the Company has provided guarantees to the investors of approximately HK\$12,663 million (in notional amount) as at 31 December 2015. 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 20F), 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\$104 million (HK\$808 million) as at 31 December 2015. 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\$48 million (HK\$371 million) as at 31 December 2015.

In respect of the operating 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\$63 million) in respect of the quarterly rental payments to the landlord.

In respect of the Melbourne Metropolitan Train Franchise, the Group and the other shareholders of the Group's 60% owned subsidiary, Metro Trains Melbourne Pty. Ltd. ("MTM"), have provided to the Public Transport Victoria a joint and several parent company guarantee of AUD86.46 million (HK\$490 million) and a performance bond of AUD51.9 million (HK\$294 million) for MTM's performance and other obligations under the franchise agreement, with each shareholder bearing its share of liability based on its shareholdings in MTM. In respect of the operating lease on the office premises, MTM has provided bank guarantees of AUD2.6 million (HK\$15 million) for the monthly rental payments to the landlords. In respect of the project activities, MTM has provided a bank guarantee of AUD0.1 million (HK\$0.4 million) to the contractor for contract payments.

52 Commitments *(continued)*

D Material Financial and Performance Guarantees *(continued)*

In respect of the Stockholm Metro Franchise, the Group has provided to the Stockholm transport authority a guarantee of SEK1,000 million (HK\$922 million), which can be called if the franchise is terminated early as a result of default by MTR Stockholm AB, the wholly owned subsidiary of the Group to undertake the franchise.

In respect of the London Overground Franchise, the Group has provided a performance bond of GBP6.2 million (HK\$71 million) to Transport for London (TfL) which may be called by TfL if the franchise is terminated early as a result of default.

In respect of the Shenzhen property development, the Group has provided a bank guarantee of RMB822.6 million (HK\$982 million) in respect of facilities granted by certain banks relating to the mortgage loans for certain purchasers of properties and a payment guarantees of RMB94.8 million (HK\$113 million) to the counterparties of the construction contracts.

In respect of the London Crossrail Franchise, the Group has provided to the Rail for London Limited a parent company guarantee of GBP80 million (HK\$920 million) and a performance bond of GBP15 million (HK\$172 million) for MTR Corporation (Crossrail) Limited's performance and other obligations under the franchise agreement.

In respect of the Sydney Metro Northwest Franchise, the Group has provided to NRT Pty. Limited, an associate of the Group, several parent company guarantees of AUD109.2 million (HK\$619 million) for the design and construction contract as well as the operations and maintenance contract and a performance bond of AUD53.5 million (HK\$303 million) for the performance and other obligations under the design and construction sub-contract. The Group has also provided standby letters of credit ("standby LC's") amounting to AUD62.6 million (HK\$355 million) as at 31 December 2015 to cover the equity and preferred equity to be invested in the Sydney Metro Northwest project.

E US Cross Border Lease ("CBL") Agreements

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

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

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

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

F Service Concession in respect of the Rail Merger

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

Notes to the Accounts

53 Company-level Statement of Financial Position

in HK\$ million	Note	At 31 December 2015	At 31 December 2014
Assets			
Fixed assets			
– Investment properties	19	66,900	64,237
– Other property, plant and equipment	20	78,264	77,635
– Service concession assets	21	20,040	18,492
		165,204	160,364
Property management rights	22	28	30
Railway construction in progress	23	19,064	16,229
Property development in progress	25A	14,046	3,962
Deferred expenditure	26	288	64
Investments in subsidiaries	27	1,295	1,292
Properties held for sale	30	1,139	1,076
Derivative financial assets	31	81	90
Stores and spares	32	1,101	1,059
Debtors, deposits and payments in advance	33	3,210	2,327
Amounts due from related parties	34	12,279	11,795
Cash, bank balances and deposits	35	7,304	16,532
		225,039	214,820
Liabilities			
Bank overdrafts	36A	50	46
Short-term loans	36A	1,599	500
Creditors and accrued charges	37	14,406	13,103
Current taxation	43A	902	916
Contract retentions	38	729	853
Amounts due to related parties	39	14,839	14,196
Loans and other obligations	36A	2,340	2,574
Obligations under service concession	40	10,392	10,438
Derivative financial liabilities	31	830	565
Deferred income	42	19	26
Deferred tax liabilities	43B	11,144	10,889
		57,250	54,106
Net assets			
		167,789	160,714
Capital and reserves			
Share capital	44	46,317	45,280
Shares held for Share Incentive Scheme	44	(151)	–
Other reserves	44	121,623	115,434
Total equity			
		167,789	160,714

Approved and authorised for issue by the Members of the Board on 11 March 2016

Frederick S H Ma
Chairman

Lincoln K K Leong
Chief Executive Officer

Stephen C K Law
Finance Director

54 Accounting Estimates and Judgements

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

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

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

(ii) Impairment of Long-lived Assets

The Group reviews its long-lived assets for indications of impairment at the end of each reporting period according to accounting policies set out in note 2G(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 to sell 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 plan is dependent on certain assumptions and factors provided by the Company, which are disclosed in notes 48A(i) and 49F.

(iv) Revenue Recognition on Hong Kong Property Development

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

(v) Properties Held for Sale

The Group values unsold properties at the lower of their costs and net realisable values (note 30) 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 stipulated in the new Operating Agreement with the HKSAR Government, the Company considers that it has the legal right to extend the franchise for further periods of 50 years upon expiry of each franchise term (note 51C). The Group's depreciation policies (note 2H) in respect of certain assets' lives which extend beyond 2057 are set on this basis.

(viii) Income Tax

Certain treatments adopted by the Group in its Hong Kong Profits Tax returns in the past years are yet to be finalised with the Hong Kong Inland Revenue Department. In assessing the Group's income tax and deferred taxation in the 2015 accounts, the Company has predominantly followed the tax treatments it has adopted in these tax returns, which may be different from the final outcome in due course.

(ix) Project Provisions

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

(x) Deferred Expenditure

As disclosed in note 2I(i), the Group capitalises proposed railway and property development project costs in deferred expenditure when the projects are at a detailed study stage and having been approved in principle by the Members of the Board. Such decision involves the Board's judgement on the outcome of the proposed project.

Notes to the Accounts

54 Accounting Estimates and Judgements *(continued)*

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

(xi) Fair Value of Derivatives and Other Financial Instruments

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

(xii) Obligations under Service Concession

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

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. As at 31 December 2015, the Group considered that it had no disclosable contingent liabilities as there were neither pending litigations nor events with potential obligation which were probable to result in material outflow of economic benefits from the Group.

(ii) Associates

The Group regards Octopus Holdings Limited and its subsidiaries (the "OHL Group") as associates. In determining whether the Group has control over these associates, the Group has taken into account its voting right conferred to it under the Shareholder's Agreement of OHL and the effective influence it may exercise over the decision of OHL's Board. Throughout the year ended 31 December 2015, the Group's appointees to OHL's board of directors have less than 50% of the voting rights at board meetings of OHL, despite an equity interest of 57.4%. As such, the OHL Group was accounted for as associates in the Group's accounts.

55 Possible Impact of Amendments, New Standards and Interpretations Issued but Not Yet Effective for the Annual Accounting Year Ended 31 December 2015

Up to the date of issue of these accounts, the HKICPA has issued a few amendments and new standards which are not yet effective for the year ended 31 December 2015 and have not been adopted in these accounts. These include the following which may be relevant to the Group:

	Effective for accounting periods beginning on or after
Annual Improvements to HKFRSs 2012-2014 Cycle	1 January 2016
Amendments to HKFRS 10 and HKAS 28, <i>Sale or Contribution of Assets between an Investor and Its Associate or Joint Venture</i>	1 January 2016
Amendments to HKFRS 11, <i>Accounting for Acquisitions of Interests in Joint Operations</i>	1 January 2016
Amendments to HKAS 1, <i>Disclosure Initiative</i>	1 January 2016
Amendments to HKAS 16 and 38, <i>Clarification of Acceptance Methods of Depreciation and Amortisation</i>	1 January 2016
HKFRS 15, <i>Revenue from Contracts with Customers</i>	1 January 2018
HKFRS 9, <i>Financial Instruments</i>	1 January 2018

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.

56 Approval of Accounts

The accounts were approved by the Board on 11 March 2016.