

NOTES TO THE CONSOLIDATED ACCOUNTS

1 Statement of Compliance

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

The HKICPA has issued certain new and revised HKFRSs that are first effective for accounting periods beginning on or after 1 January 2018. 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 2F(i));
- self-occupied land and buildings (note 2F(ii));
- investments in securities (note 2M); and
- derivative financial instruments (note 2T).

(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 51.

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

- HKFRS 9, *Financial Instruments*
- HKFRS 15, *Revenue from Contracts with Customers*

The adoption of these new HKFRSs and amendments to HKFRSs does not have a significant impact on the financial results and the financial position of the Group.

Details of any changes in accounting policies are set out in notes 2A(iii)(a) and 2A(iii)(b) below as a result of the adoption of HKFRS 9 and HKFRS 15 respectively.

(a) HKFRS 9, *Financial Instruments*

HKFRS 9 replaces HKAS 39, *Financial Instruments: Recognition and Measurement*. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

Changes in accounting policies resulting from the adoption of HKFRS 9 have been applied retrospectively, except information relating to comparative periods has not been restated. Accordingly, the information presented for 2017 continues to be reported under HKAS 39 and thus may not be comparable with the current period.

- Classification of financial assets and financial liabilities

HKFRS 9 categorises financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income ("FVOCI") and at fair value through profit or loss ("FVPL"). These supersede HKAS 39's four classification categories: held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVPL.

The classification of financial assets under HKFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics. The adoption of HKFRS 9 does not affect the measurement basis, and hence the carrying amounts, of the Group's financial assets as at 1 January 2018.

2 Principal Accounting Policies *(continued)*

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

HKFRS 9 largely retains the existing requirements in HKAS 39 for the classification and measurement of financial liabilities. Hence, the adoption of HKFRS 9 does not affect the carrying amounts of the Group's financial liabilities as at 1 January 2018.

The Group did not designate or de-designate any financial assets or financial liabilities at FVPL at 1 January 2018.

- Credit losses

HKFRS 9 replaces the "incurred loss" model in HKAS 39 with the "expected credit loss" ("ECL") model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than the "incurred loss" accounting model in HKAS 39. The ECL model applies to the Group's financial assets measured at amortised cost and contract assets as defined in HKFRS 15 (see note 2A(iii)(b)), but not to the Group's financial assets measured at fair value. For further details on the Group's accounting policy regarding the accounting for credit losses, see note 2H(i).

There is no significant change in the amount of provision for impairment losses recognised as at 1 January 2018 as a result of the adoption of the ECL model.

- Hedge accounting

The Group has adopted the new general hedge accounting requirements in HKFRS 9. Depending on the complexity of the hedge, the new accounting requirements allow a more qualitative approach to assessing hedge effectiveness as compared to HKAS 39, and the assessment is forward looking. The adoption of HKFRS 9 does not have a significant impact on the Group's accounts in this regard.

(b) HKFRS 15, *Revenue from Contracts with Customers*

HKFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. HKFRS 15 replaces HKAS 18, *Revenue*, which covered revenue arising from sale of goods and rendering of services, and HKAS 11, *Construction Contracts*, which specified the accounting for construction contracts.

- Timing of revenue recognition

Previously under HKAS 18 and HKAS 11, revenue arising from provision of services and construction contracts was recognised over time, whereas revenue from sale of goods was generally recognised at a point in time when the risks and rewards of ownership of the goods had passed to the customers.

Under HKFRS 15, revenue is recognised when a performance obligation is satisfied. This is when the customer obtains control of the promised goods or services in the contract, which may be at a single point in time or over time.

HKFRS 15 identifies certain situations in which control of the promised goods or services is regarded as being transferred over time. If the contract terms and the entity's activities do not fall into any of those situations, then the entity recognises revenue for the sale at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that is considered in determining when the transfer of control occurs.

The adoption of HKFRS 15 does not have a significant impact on when the Group recognises revenue.

- Presentation of contract assets and liabilities

Under HKFRS 15, a receivable is recognised only if the group has an unconditional right to consideration. If the Group recognises the related revenue (see note 2Z) before unconditionally entitled to the consideration for the promised goods and services in the contract, then the entitlement to consideration is classified as a contract asset. Similarly, a contract liability, rather than a payable, is recognised when a customer pays non-refundable consideration, or is contractually required to pay non-refundable consideration and the amount is already due, before the Group recognises the related revenue. For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

The Group has elected to use the cumulative effect transition method. Therefore, comparative information has not been restated and continues to be reported under HKAS 11, *Construction Contracts*, and HKAS 18, *Revenue*. If HKAS 11 and HKAS 18 had continued to apply to 2018 instead of HKFRS 15, there would have been no changes in the line items in the consolidated profit and loss account and consolidated statement of financial position.

(iv) The Group has not applied any new or revised standard or interpretation that is not yet effective for the current accounting period (note 52).

B Basis of Consolidation

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

2 Principal Accounting Policies *(continued)*

C Subsidiaries and Non-controlling Interests

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

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

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to 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 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 or a joint venture (note 2D).

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

D Associates and Joint Ventures

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

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

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

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

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

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

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

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

2 Principal Accounting Policies *(continued)*

E Goodwill

Goodwill represents the excess of:

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

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

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

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

F 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 2H(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.

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

- (iv) Assets under construction are stated at cost less impairment losses (note 2H(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 policies as set out in notes 2I(iv) and 2H(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 2F(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 policy on impairment of assets (note 2H(ii)). Revenue arising from operating leases is recognised in accordance with the Group's revenue recognition policies as set out in note 2Z(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.

2 Principal Accounting Policies *(continued)*

F Fixed Assets *(continued)*

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 at rates sufficient to write off their cost less their estimated residual value, if any, over the shorter of the assets' useful lives and the remaining period of the service concession.

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

G 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 2H(ii)). Property management rights are amortised to the profit and loss account on a straight-line basis over the terms of the management rights.

H Impairment of Assets

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

- Policy applicable from 1 January 2018

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

- Measurement of ECLs

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

- Significant increases in credit risk

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

2 Principal Accounting Policies *(continued)*

H Impairment of Assets *(continued)*

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

- Policy applicable prior to 1 January 2018

Prior to 1 January 2018, financial assets not classified as at FVPL were reviewed at the end of each reporting period to determine whether there was objective evidence of impairment. If any such evidence existed, the impairment loss was 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 was material.

(ii) Impairment of Other Assets

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

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

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

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

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

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

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

I 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 2F(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:

NOTES TO THE CONSOLIDATED ACCOUNTS

2 Principal Accounting Policies *(continued)*

I Depreciation and Amortisation *(continued)*

Land and Buildings

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

Civil Works

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

Plant and Equipment

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

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

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

(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.

J Construction Costs

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

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

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

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.

2 Principal Accounting Policies *(continued)*

K Joint Operations *(continued)*

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

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

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

- (iv) Revenue arising from sales of properties in Mainland of China is recognised when the legal assignment is completed, which is the point in time when the purchaser has the ability to direct the use of the properties and obtain substantially all of the remaining benefits of the properties. Deposits and instalments received on properties sold prior to the date of revenue recognition are included in the consolidated statement of financial position under "Creditors and other payables".
- (v) Where properties are held for sale, those properties are stated initially at their cost and subsequently carried at the lower of cost and net realisable value.

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

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

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

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

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

- (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.

NOTES TO THE CONSOLIDATED ACCOUNTS

2 Principal Accounting Policies *(continued)*

M Investments in Securities

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

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

N 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 2H(ii)). Depreciation is charged at the rates applicable to the relevant fixed assets against which the capital spares are held in reserve.

O Contract Assets and Contract Liabilities

A contract asset is recognised when the group recognises revenue (see note 2Z) before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed for expected credit losses ("ECL") in accordance with the policy set out in note 2H(i) and are reclassified to receivables when the right to the consideration has become unconditional (see note 2Q).

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

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

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

- Policy prior to 1 January 2018

In the comparative period, contract balances were recorded for construction contracts at the net amount of costs incurred plus recognised profit less recognised losses and progress billings. These net balances were presented under "Debtors and other receivables" or "Creditors and other payables" respectively on a contract-by-contract basis. Progress billings not yet paid by the customer were included under "Debtors and other receivables". Amounts received before the related work was performed were presented under "Creditors and other payables".

P 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.

Q Debtors and Other Receivables

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

R Interest-bearing Borrowings

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

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.

S Creditors and Other Payables

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

2 Principal Accounting Policies *(continued)*

T Derivative Financial Instruments and Hedging Activities

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

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

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

(i) Fair Value Hedge

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

(ii) Cash Flow Hedge

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

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

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

(iii) Hedge of a Net Investment

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

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

(iv) Derivatives That Do Not Qualify for Hedge Accounting

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

U Employee Benefits

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

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

2 Principal Accounting Policies *(continued)*

U Employee Benefits *(continued)*

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

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

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

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

- For award shares under the Executive Share Incentive Scheme (formerly 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 and loss account in the year of the review, with a corresponding adjustment to the employee share-based capital reserve. Upon vesting of award shares, the related costs of the vested award shares purchased from the market (the "purchased shares") and shares received in relation to scrip dividend and shares purchased from the proceeds of cash ordinary dividends received (the "ordinary dividend shares") are credited to Shares held for Executive Share Incentive Scheme, with a corresponding decrease in employee share-based compensation reserve for the purchased shares, and decrease in retained earnings for the ordinary dividend shares.

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

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

V 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 2U(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 2U(ii).

W 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.

2 Principal Accounting Policies *(continued)*

W Income Tax *(continued)*

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 2F(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.

(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.

X Financial Guarantee Contracts

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

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

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

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

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

2 Principal Accounting Policies *(continued)*

Y Provisions, Contingent Liabilities and Onerous Contracts

(i) Provisions and Contingent Liabilities

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

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

(ii) Onerous Contracts

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

Z Revenue Recognition

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

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

(ii) Rental income from investment properties, station kiosks and other railway premises under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased assets. Lease incentives granted are recognised in the profit and loss account as an integral part of the aggregate net lease payments receivable. 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 progressively over-time using the cost-to-cost method, i.e. based on the proportion of the actual costs incurred relative to the estimated total costs. When the outcome of a consultancy, construction or service contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that are expected to be recovered.

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

AA 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.

BB 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.

CC 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.

2 Principal Accounting Policies *(continued)*

DD 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.

EE 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 schemes for the benefit of employees of the Group or of any entity that is a related party of the Group; (iv) an individual who is a related party of the Group has control, 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.

FF 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 and Operating Arrangements for High Speed Rail

Rail Merger

On 2 December 2007 (the "Appointed Day"), the Company's operations merged with those of Kowloon-Canton Railway Corporation ("KCRC") (the "Rail Merger"). The structure and key terms of the Rail Merger were set out in a series of transaction agreements entered into between, inter alia, the Government of the Hong Kong Special Administrative Region (the "HKSAR Government"), KCRC and the Company including the Service Concession Agreement, Property Package Agreements and Merger Framework Agreement. 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 MTR railway for an initial period of 50 years from the Appointed Day ("Franchise Period"), extendable pursuant to the provisions of the MTR Ordinance (note 48C);
- 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;
- 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;
- The SCA also contains clauses that for a grant of service concession by KCRC to the Company in respect of any new project, both parties shall enter into a supplemental service concession agreement for such new project; 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.

NOTES TO THE CONSOLIDATED ACCOUNTS

3 Rail Merger with Kowloon-Canton Railway Corporation and Operating Arrangements for High Speed Rail *(continued)*

Operating Arrangements for High Speed Rail

On 23 August 2018, the Company entered into a supplemental service concession agreement (“SSCA”) with KCRC, to supplement the existing SCA in order for KCRC to grant a concession to the Company in respect of the Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link (“High Speed Rail” or “HSR”). Key elements of the SSCA included the following:

- The operating period with respect to the High Speed Rail commenced on the Commercial Operation Date of the High Speed Rail (i.e., 23 September 2018) and is for an initial term of 10 years (“Concession Period (High Speed Rail)”). The operating period may be extended subject to further negotiation between the Company and KCRC in accordance with the mechanism set out in the SSCA;
- The SSCA provides for the fixed annual payments and variable annual payments structure for the additional concession payments. The additional concession payments for the High Speed Rail are in addition to, and do not replace, the payments made in respect of the existing KCRC system under the SCA;
- The variable annual payments (being payments by the Company to KCRC) will be calculated in the same manner prescribed under the SCA whereby the Company pays to KCRC. For the purposes of calculating the variable annual payments, the revenue generated from the KCRC system shall include the actual revenue from the High Speed Rail fares received or retained by the Company and revenue derived from businesses related to the High Speed Rail which may include, without limitation, advertising, telecommunications, duty free and kiosk rental;
- The fixed annual payments shall comprise payments from KCRC to the Company which, in aggregate, over the Concession Period (High Speed Rail), will be equal to HK\$7,965 million;
- In respect of actual deviations from the current patronage projections for the High Speed Rail, any excess or shortfall in actual patronage greater than 15% in relation to the projected patronage for the High Speed Rail (as at the date of signing the SSCA) will be borne between the Company and KCRC in the proportions of 30% by the Company and 70% by KCRC;
- In respect of actual deviations from the projected patronage (as at the date of signing the SSCA) for the Company’s existing cross-boundary services to and from Lo Wu and Lok Ma Chau, and the existing intercity service, the Company may receive two payments from KCRC (in respect of the period from and including the Commercial Operation Date up to and including 31 December 2023 and in respect of the period from and including 1 January 2024 up to and including the day falling immediately before the tenth anniversary of the Commercial Operation Date, respectively) and which will be capped at HK\$500 million and HK\$1,000 million, respectively;
- The Company will receive reimbursement payments from KCRC on an annual basis in respect of (i) revenue loss resulting from the Mainland Student Ticket Discount and the Mainland Disabled Military/Police Officer Discount programmes adopted by the Mainland operator; and (ii) the proportion of the service fee charged in respect of tickets sold at Hong Kong West Kowloon Station for journeys originating from and terminating at any railway station in the Mainland;
- In addition, KCRC shall reimburse the Company for the pre-operating costs that are agreed between the Company and KCRC, being costs and expenses reasonably incurred by the Company prior to the Commercial Operation Date;
- If the franchise is revoked by Government prior to 31 December 2023, KCRC is required to make a payment to the Company of an amount that is equivalent to the aggregate fixed annual payment payable by KCRC over the ten year life of the concession, reduced pro rata to take account of the time at which termination occurs, and less any amounts of the fixed annual payment already paid to the Company; and
- If the Concession Period (High Speed Rail) expires or is terminated, the Company shall, at no cost to KCRC, redeliver possession of the High Speed Rail concession property.

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

4 Revenue from Hong Kong Transport Operations

Revenue from Hong Kong transport operations comprises:

in HK\$ million	2018	2017
Domestic Service	13,232	12,840
Cross-boundary Service	3,472	3,277
High Speed Rail	600	–
Airport Express	1,156	1,076
Light Rail and Bus	723	707
Intercity Service	214	218
Others	93	83
	19,490	18,201

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

5 Revenue from Hong Kong Station Commercial Businesses

Revenue from Hong Kong station commercial businesses comprises:

in HK\$ million	2018	2017
Duty free shops and kiosks rental	4,424	4,143
Advertising	1,212	1,071
Telecommunication income	696	635
Other station commercial income	126	126
	6,458	5,975

6 Revenue from Hong Kong Property Rental and Management Businesses

Revenue from Hong Kong property rental and management businesses comprises:

in HK\$ million	2018	2017
Property rental income	4,748	4,608
Property management income	307	292
	5,055	4,900

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	2018		2017	
	Revenue	Expenses	Revenue	Expenses
Railway-related subsidiaries outside of Hong Kong				
– Melbourne Train	10,994	10,500	8,673	8,459
– MTR Nordic*	4,891	5,050	4,982	4,748
– London Crossrail	1,782	1,723	1,173	1,114
– Shenzhen Metro Longhua Line	776	600	673	549
– Sydney Metro Northwest	1,752	1,658	1,351	1,100
– Macau Light Rapid Transit Taipa Line	529	349	204	156
	20,724	19,880	17,056	16,126
Property rental and management businesses in Mainland of China	153	121	138	118
	20,877	20,001	17,194	16,244
Property development in Mainland of China	60	35	6,996	4,682
Total Mainland of China and international subsidiaries	20,937	20,036	24,190	20,926

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

Property development in Mainland of China for the year ended 31 December 2018 included a gain on property of HK\$60 million (2017: HK\$nil) arising at the point of transfer from properties held for sale to investment properties.

8 Revenue from Other Businesses

Revenue from other businesses comprises incomes from:

in HK\$ million	2018	2017
Ngong Ping 360	476	263
Consultancy business	188	152
Project management for HKSAR Government	1,293	1,725
Miscellaneous businesses	33	34
	1,990	2,174

NOTES TO THE CONSOLIDATED ACCOUNTS

9 Operating Expenses

A Total staff costs include:

in HK\$ million	2018	2017
Amounts charged to profit and loss account under:		
– staff costs and related expenses for Hong Kong transport operations	5,847	5,748
– maintenance and related works for Hong Kong transport operations	131	111
– other expense line items for Hong Kong transport operations	115	88
– expenses relating to Hong Kong station commercial businesses	97	94
– expenses relating to Hong Kong property rental and management businesses	137	136
– expenses relating to Mainland of China and international subsidiaries	8,219	7,180
– expenses relating to other businesses	1,797	2,021
– project study and business development expenses	358	363
– profit on Hong Kong property development	26	23
Amounts capitalised under:		
– property development in progress	157	123
– assets under construction and other projects	634	657
– service concession assets	387	411
Amounts recoverable	566	551
Total staff costs	18,471	17,506

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

The following expenditures are included in total staff costs:

in HK\$ million	2018	2017
Share-based payments	110	119
Contributions to defined contribution retirement schemes and Mandatory Provident Fund	849	770
Amounts recognised in respect of defined benefit retirement schemes	431	454
	1,390	1,343

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.

9 Operating Expenses (continued)

C Project study and business development expenses comprise:

in HK\$ million	2018	2017
Business development expenses	305	303
Miscellaneous project study expenses	18	29
	323	332

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	2018	2017
Audit services	18	18
Tax services	2	2
Other audit related services	6	6
	26	26

E The following charges are included in operating expenses:

in HK\$ million	2018	2017
Loss on disposal of fixed assets	45	44
Derivative financial instruments – transferred (to)/from hedging reserve (note 18B)	(1)	2
Unrealised loss on revaluation of investments in securities	2	2

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

in HK\$ million	2018	2017
Shopping centre, office building, staff quarters and bus depot	113	103
Rolling stock, stations, office buildings, depots, depot equipment and other minor assets for subsidiaries	1,647	1,556
	1,760	1,659

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

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

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

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

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

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
2017					
Members of the Board					
– Frederick Ma Si-hang	1.7	–	–	–	1.7
– Andrew Clifford Winawer Brandler (appointed on 17 May 2017) [#]	0.3	–	–	–	0.3
– Pamela Chan Wong Shui	0.4	–	–	–	0.4
– Dorothy Chan Yuen Tak-fai	0.5	–	–	–	0.5
– Vincent Cheng Hoi-chuen	0.4	–	–	–	0.4
– Anthony Chow Wing-kin	0.5	–	–	–	0.5
– Eddy Fong Ching	0.5	–	–	–	0.5
– James Kwan Yuk-choi	0.5	–	–	–	0.5
– Kaizer Lau Ping-cheung	0.5	–	–	–	0.5
– Lucia Li Li Ka-lai	0.5	–	–	–	0.5
– Alasdair George Morrison	0.5	–	–	–	0.5
– Ng Leung-sing (retired on 17 May 2017) ^{##}	0.2	–	–	–	0.2
– Abraham Shek Lai-him	0.5	–	–	–	0.5
– Benjamin Tang Kwok-bun	0.4	–	–	–	0.4
– Allan Wong Chi-yun	0.5	–	–	–	0.5
– Johannes Zhou Yuan (appointed on 17 May 2017) [#]	0.3	–	–	–	0.3
– Ceajer Chan Ka-keung (resigned on 4 July 2017)	0.2	–	–	–	0.2
– James Henry Lau Jr (appointed on 4 July 2017)	0.2	–	–	–	0.2
– Secretary for Transport and Housing	0.4	–	–	–	0.4
– Permanent Secretary for Development (Works)	0.4	–	–	–	0.4
– Commissioner for Transport	0.4	–	–	–	0.4
Members of the Executive Directorate					
– Lincoln Leong Kwok-kuen	–	9.3	1.4	4.5	15.2
– Jacob Kam Chak-pui	–	6.6	1.0	2.2	9.8
– Margaret Cheng Wai-ching	–	4.6	0.6	1.3	6.5
– Morris Cheung Siu-wa	–	4.6	1.5	1.2	7.3
– Peter Ronald Ewen	–	4.0	0.5	1.1	5.6
– Herbert Hui Leung-wah	–	4.7	0.6	1.1	6.4
– Adi Lau Tin-shing	–	4.7	2.8	1.3	8.8
– Gillian Elizabeth Meller	–	4.2	0.6	1.3	6.1
– Linda So Ka-pik	–	3.7	0.5	1.1	5.3
– David Tang Chi-fai	–	4.5	0.7	1.4	6.6
– Philco Wong Nai-keung	–	5.6	0.8	1.6	8.0
– Jeny Yeung Mei-chun	–	4.5	0.7	1.4	6.6
	9.8	61.0	11.7	19.5	102.0

[#] Andrew C W Brandler and Johannes Y Zhou were appointed as Members of the Board on the date shown in the above table. The amounts of their emoluments shown in the above table cover the period from the date of their appointment to 31 December 2017.

^{##} L S Ng retired as a Member of the Board on the date shown in the above table. The amount of his emolument shown in the above table covers the period from 1 January 2017 to his retirement date.

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

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

Alternate Directors were not entitled to director's fees.

(ii) 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 no options were vested in 2018 (2017: nil), and the respective fair value of the share-based payments recognised for the year ended 31 December 2018 was HK\$nil (2017: HK\$nil);
- 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 no options were vested in 2018 (2017: nil), and the respective fair value of the share-based payments recognised for the year ended 31 December 2018 was HK\$nil (2017: HK\$nil);
- 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 no options were vested in 2018 (2017: nil), and the respective fair value of the share-based payments recognised for the year ended 31 December 2018 was HK\$nil (2017: HK\$nil);
- Adi T S Lau was granted options in respect of 75,000 shares on 12 December 2007, 65,000 shares on 11 December 2008 and 75,000 shares each on 11 December 2009 and 21 December 2010, 69,000 shares on 30 March 2012, 78,000 shares on 6 May 2013 and 80,000 shares on 30 May 2014, of which no options were vested in 2018 (2017: 26,000), and the respective fair value of the share-based payments recognised for the year ended 31 December 2018 was HK\$nil (2017: HK\$7,108);
- 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 no options were vested in 2018 (2017: nil), and the respective fair value of the share-based payments recognised for the year ended 31 December 2018 was HK\$nil (2017: HK\$nil);
- 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 no options were vested in 2018 (2017: nil), and the respective fair value of the share-based payments recognised for the year ended 31 December 2018 was HK\$nil (2017: HK\$nil);
- 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 no options were vested in 2018 (2017: 27,000), and the respective fair value of the share-based payments recognised for the year ended 31 December 2018 was HK\$nil (2017: HK\$7,381), 55,000 options were lapsed/forfeited in 2018 (2017: nil); and
- 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 no options were vested in 2018 (2017: nil), and the respective fair value of the share-based payments recognised for the year ended 31 December 2018 was HK\$nil (2017: HK\$nil).

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

- Lincoln K K Leong was granted 60,200 Restricted Shares and 255,000 Performance Shares on 27 April 2015, 64,850 Restricted Shares on 8 April 2016, 63,900 Restricted Shares on 10 April 2017 and 73,300 Restricted Shares and 239,950 Performance Shares on 10 April 2018, of which a total of 62,984 Restricted Shares and 232,735 Performance Shares were vested in 2018 (2017: 41,682 Restricted Shares), and the respective fair value of the share-based payments recognised for the year ended 31 December 2018 was HK\$5.6 million (2017: HK\$5.8 million), 22,265 Performance Shares were lapsed/forfeited in 2018 (2017: nil);
- Jacob C P Kam was granted 22,050 Restricted Shares and 57,600 Performance Shares on 27 April 2015, 21,550 Restricted Shares on 8 April 2016, 22,050 Restricted Shares on 10 April 2017 and 25,550 Restricted Shares and 50,450 Performance Shares on 10 April 2018, of which a total of 21,883 Restricted Shares and 52,570 Performance Shares were vested in 2018 (2017: 14,533 Restricted Shares), and the respective fair value of the share-based payments recognised for the year ended 31 December 2018 was HK\$1.6 million (2017: HK\$1.6 million), 5,030 Performance Shares were lapsed/forfeited in 2018 (2017: nil);

10 Remuneration of Members of the Board and the Executive Directorate

(continued)

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

- Margaret W C Cheng was granted 71,428 Restricted Shares on 19 August 2016 and 16,950 Restricted Shares, 30,400 Performance Shares on 10 April 2017 and 17,600 Restricted Shares and 50,450 Performance Shares on 10 April 2018, of which a total of 29,459 Restricted Shares and 27,745 Performance Shares were vested in 2018 (2017: 23,809 Restricted Shares), and the respective fair value of the share-based payments recognised for the year ended 31 December 2018 was HK\$2.1 million (2017: HK\$2.8 million), 2,655 Performance Shares were lapsed/forfeited in 2018 (2017: nil);
- Morris S W Cheung was granted 28,800 Performance Shares on 27 April 2015, 14,950 Restricted Shares on 8 April 2016, 13,950 Restricted Shares on 10 April 2017 and 8,850 Restricted Shares on 10 April 2018, of which a total of 32,767 Restricted Shares and 26,285 Performance Shares were vested in 2018 (2017: 4,983 Restricted Shares), and the respective fair value of the share-based payments (together with the cash dividend relating to the vested award shares) recognised for the year ended 31 December 2018 was HK\$0.8 million (2017: HK\$0.9 million), 2,515 Performance Shares were lapsed/forfeited in 2018 (2017: nil);
- Peter Ronald Ewen was granted 35,700 Performance Shares on 8 April 2016, 15,050 Restricted Shares on 10 April 2017 and 12,250 Restricted Shares and 50,450 Performance Shares on 10 April 2018, of which 5,016 Restricted Shares and 32,583 Performance Shares were vested in 2018 (2017: nil), and the respective fair value of the share-based payments recognised for the year ended 31 December 2018 was HK\$1.1 million (2017: HK\$1.0 million), 3,117 Performance Shares were lapsed/forfeited in 2018 (2017: nil);
- Herbert L W Hui was granted 15,200 Restricted Shares and 30,400 Performance Shares on 10 April 2017 and 14,200 Restricted Shares and 50,450 Performance Shares on 10 April 2018, of which 5,066 Restricted Shares and 27,745 Performance Shares were vested in 2018 (2017: nil), and the respective fair value of the share-based payments recognised for the year ended 31 December 2018 was HK\$1.3 million (2017: HK\$1.3 million), 2,655 Performance Shares were lapsed/forfeited in 2018 (2017: nil);
- Adi T S Lau was granted 8,600 Restricted Shares and 12,550 Performance Shares on 27 April 2015, 8,400 Restricted Shares on 8 April 2016, 17,700 Restricted Shares and 25,050 Performance Shares on 10 April 2017 and 16,450 Restricted Shares and 50,450 Performance Shares on 10 April 2018, of which a total of 11,568 Restricted Shares and 34,316 Performance Shares were vested in 2018 (2017: 5,666 Restricted Shares), and the respective fair value of the share-based payments recognised for the year ended 31 December 2018 was HK\$1.4 million (2017: HK\$1.5 million), 3,284 Performance Shares were lapsed/forfeited in 2018 (2017: nil);
- Gillian E Meller was granted 16,950 Restricted Shares and 57,600 Performance Shares on 27 April 2015, 17,300 Restricted Shares on 8 April 2016, 16,200 Restricted Shares on 10 April 2017 and 16,050 Restricted Shares and 50,450 Performance Shares on 10 April 2018, of which a total of 16,816 Restricted Shares and 52,570 Performance Shares were vested in 2018 (2017: 11,416 Restricted Shares), and the respective fair value of the share-based payments recognised for the year ended 31 December 2018 was HK\$1.3 million (2017: HK\$1.4 million), 5,030 Performance Shares were lapsed/forfeited in 2018 (2017: nil);
- Linda K P So was granted 16,400 Restricted Shares and 44,050 Performance Shares on 8 April 2016, 15,300 Restricted Shares on 10 April 2017 and 14,200 Restricted Shares and 50,450 Performance Shares on 10 April 2018, of which a total of 10,566 Restricted Shares and 40,203 Performance Shares were vested in 2018 (2017: 5,466 Restricted Shares), and the respective fair value of the share-based payments recognised for the year ended 31 December 2018 was HK\$1.3 million (2017: HK\$1.4 million), 3,847 Performance Shares were lapsed/forfeited in 2018 (2017: nil);
- David C F Tang was granted 18,450 Restricted Shares and 57,600 Performance Shares on 27 April 2015, 17,950 Restricted Shares on 8 April 2016, 17,250 Restricted Shares on 10 April 2017 and 16,850 Restricted Shares and 50,450 Performance Shares on 10 April 2018, of which a total of 17,883 Restricted Shares and 52,570 Performance Shares were vested in 2018 (2017: 12,133 Restricted Shares), and the respective fair value of the share-based payments recognised for the year ended 31 December 2018 was HK\$1.3 million (2017: HK\$1.4 million), 5,030 Performance Shares were lapsed/forfeited in 2018 (2017: nil);
- Philco N K Wong was granted 21,700 Restricted Shares and 57,600 Performance Shares on 27 April 2015, 21,200 Restricted Shares on 8 April 2016, 19,900 Restricted Shares on 10 April 2017 and 21,500 Restricted Shares and 50,450 Performance Shares on 10 April 2018, of which a total of 20,933 Restricted Shares and 52,570 Performance Shares were vested in 2018 (2017: 14,299 Restricted Shares), and the respective fair value of the share-based payments recognised for the year ended 31 December 2018 was HK\$0.2 million (2017: HK\$1.6 million), 41,835 Restricted Shares and 55,480 Performance Shares were lapsed/forfeited in 2018 (2017: nil); and
- Jeny M C Yeung was granted 19,350 Restricted Shares and 57,600 Performance Shares on 27 April 2015, 18,850 Restricted Shares on 8 April 2016, 17,700 Restricted Shares on 10 April 2017 and 17,350 Restricted Shares and 50,450 Performance Shares on 10 April 2018, of which a total of 18,633 Restricted Shares and 52,570 Performance Shares were vested in 2018 (2017: 12,733 Restricted Shares), and the respective fair value of the share-based payments recognised for the year ended 31 December 2018 was HK\$1.3 million (2017: HK\$1.5 million), 5,030 Performance Shares were lapsed/forfeited in 2018 (2017: nil).

None of the Performance Shares awarded to the Members of the Executive Directorate were vested in 2017.

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 44.

(iii) For the year ended 31 December 2018, four (2017: three) Members of the Executive Directorate of the Company, whose emoluments are shown above, were among the five individuals whose emoluments were the highest. The total remuneration of the five highest paid individuals for the year is shown below:

in HK\$ million	2018	2017
Base pay, allowances and benefits in kind	31.1	29.7
Variable remuneration related to performance	11.6	16.6
Retirement scheme contributions	4.0	5.4
	46.7	51.7

NOTES TO THE CONSOLIDATED 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 emoluments of the top 5 highest paid individuals for the year are within the following bands:

	2018	2017
HK\$7,500,001 – HK\$8,000,000	3	–
HK\$8,000,001 – HK\$8,500,000	–	1
HK\$8,500,001 – HK\$9,000,000	–	1
HK\$9,500,001 – HK\$10,000,000	–	2
HK\$11,000,001 – HK\$11,500,000	1	–
HK\$11,500,001 – HK\$12,000,000	1	–
HK\$14,500,001 – HK\$15,500,000	–	1
	5	5

(iv) The aggregate emoluments and share-based payments of Members of the Board and the Executive Directorate for the year was HK\$121.5 million (2017: HK\$124.2 million).

(v) The Company has a service contract with each of the independent non-executive Directors (“INED”)/non-executive Directors (“NED”) (including Professor Frederick Ma Si-hang (appointed as non-executive Chairman for 3 years commencing on 1 January 2016) and Mr James Henry Lau Jr. 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 the Company’s Articles of Association when applicable. On 19 November 2018, the HKSAR government re-appointed Professor Frederick Ma Si-hang as the non-executive Chairman of the Board of Directors of the Company for six months, with effect from 1 January 2019 to 30 June 2019.

B Share Options

Options exercised and outstanding in respect of each Member of the Executive Directorate as at 31 December 2018 are set out in the Report of the Members of the Board.

Under the 2007 Share Option Scheme (the “2007 Option Scheme”) as described in note 44(i), all Members of the Executive Directorate were granted options to acquire shares between 2007 and 2014 (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 2018 are set out in the Report of the Members of the Board.

Under the Executive Share Incentive Scheme as described in note 44(ii), all Members of the Executive Directorate may be granted an award of Restricted Shares and/or Performance Shares (collectively known as “Award Shares”). Restricted Shares are awarded on the basis of individual performance. Performance Shares are awarded which vest subject to the performance of the Company over a pre-determined performance period, assessed by reference to such Board-approved performance metric and in respect of such performance period and any other performance conditions, as determined by the Remuneration Committee from time to time.

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

11 Profit on Hong Kong Property Development

Profit on Hong Kong property development comprises:

in HK\$ million	2018	2017
Share of surplus from property development	2,480	609
Agency fee and other income from West Rail property development (note 24C)	139	535
Overheads and miscellaneous studies	(45)	(47)
	2,574	1,097

12 Depreciation and Amortisation

Depreciation and amortisation comprise:

in HK\$ million	2018	2017
Depreciation charge on assets relating to:		
– Hong Kong transport operations	3,673	3,617
– Hong Kong station commercial businesses	132	125
– Hong Kong property rental and management businesses	12	11
– Mainland of China and international subsidiaries	142	117
– Other businesses	67	65
	4,026	3,935
Amortisation charge on:		
– Service concession assets relating to:		
– Rail Merger with KCRC and High Speed Rail	947	900
– Mainland of China and international subsidiaries	445	447
– Property management rights	–	1
	1,392	1,348
– Utilisation of government subsidy for Shenzhen Metro Longhua Line operation	(433)	(428)
	959	920
	4,985	4,855

13 Interest and Finance Charges

in HK\$ million	2018	2017
Interest expenses in respect of:		
– Bank loans, overdrafts and capital market instruments	1,067	986
– Obligations under service concession	704	707
– Other obligations (note 20F)	22	21
Finance charges	71	61
Exchange (gain)/loss	(159)	191
	1,705	1,966
Utilisation of government subsidy for Shenzhen Metro Longhua Line operation	(96)	(126)
Derivative financial instruments:		
– Fair value hedges	27	(6)
– Cash flow hedges:		
– transferred from hedging reserve to interest expenses	18	4
– transferred from hedging reserve to offset exchange gain/(loss)	211	(235)
– Hedge of net investments:		
– ineffective portion	(1)	1
	255	(236)
Interest expenses capitalised	(407)	(373)
	1,457	1,231
Interest income in respect of:		
– Deposits with banks	(381)	(326)
– Others	(2)	–
	(383)	(326)
	1,074	905

During the year ended 31 December 2018, 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 2.4% to 3.2% per annum (2017: 2.2% to 2.5% per annum).

During the year ended 31 December 2018, interest and finance charges net of interest expenses capitalised in relation to the Shenzhen Metro Longhua Line were HK\$96 million (2017: HK\$126 million), which was fully offset by the subsidy received from the Shenzhen Municipal Government.

During the year ended 31 December 2018, the loss resulting from fair value changes of the underlying financial assets and liabilities being hedged was HK\$11 million (2017: HK\$103 million) while the loss resulting from fair value changes of hedging instruments comprising interest rate and cross currency swaps was HK\$16 million (2017: HK\$109 million of gain), thus resulting in a net loss of HK\$27 million (2017: HK\$6 million of net gain).

NOTES TO THE CONSOLIDATED ACCOUNTS

14 Income Tax

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

in HK\$ million	2018	2017
Current tax		
– Hong Kong	1,933	1,305
– Outside Hong Kong	325	1,650
	2,258	2,955
Less: Utilisation of government subsidy for Shenzhen Metro Longhua Line operation	(69)	(47)
	2,189	2,908
Deferred tax		
– Origination and reversal of temporary differences on:		
– tax losses	(102)	4
– depreciation allowances in excess of related depreciation	228	361
– provisions and others	10	45
	136	410
	2,325	3,318

The provision for Hong Kong Profits Tax for the year ended 31 December 2018 is calculated at 16.5% (2017: 16.5%) on the estimated assessable profits for the year after deducting accumulated tax losses brought forward, if any. Current taxes for subsidiaries outside Hong Kong are charged at the appropriate current rates of taxation ruling in the relevant tax jurisdictions.

The provision of Land Appreciation Tax is estimated according to the requirements set forth in the relevant Mainland of China tax laws and regulations. Land Appreciation Tax has been provided at ranges of progressive rates of the appreciation value, with certain allowable deductions. During the year ended 31 December 2018, Land Appreciation Tax of HK\$30 million (2017: HK\$735 million) was charged to profit or loss.

Provision for deferred tax on temporary differences arising in Hong Kong is calculated at the Hong Kong Profits Tax rate at 16.5% (2017: 16.5%), while that arising outside Hong Kong is calculated at the appropriate current rates of taxation ruling in the relevant tax jurisdictions.

The Company purchased tax reserve certificates during the year. Please refer to note 32 to the consolidated accounts for details.

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

	2018		2017	
	HK\$ million	%	HK\$ million	%
Profit before taxation	18,481		20,203	
Notional tax on profit before taxation, calculated at the rates applicable to profits in the tax jurisdictions concerned	3,153	17.1	3,615	17.9
Land Appreciation Tax (net of tax effect on deduction of Enterprise Income Tax)	30	0.2	551	2.7
Tax effect of non-deductible expenses	464	2.5	685	3.4
Tax effect of non-taxable revenue	(1,253)	(6.8)	(1,441)	(7.1)
Tax effect of unused tax losses not recognised	–	–	(45)	(0.2)
Utilisation of government subsidy for Shenzhen Metro Longhua Line operation	(69)	(0.4)	(47)	(0.2)
Actual tax expenses	2,325	12.6	3,318	16.5

15 Dividends

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

in HK\$ million	2018	2017
Ordinary dividends payable attributable to the year		
– Interim ordinary dividend declared HK\$0.25 (2017: HK\$0.25) per share	1,526	1,501
– Final ordinary dividend proposed after the end of reporting period of HK\$0.95 (2017: HK\$0.87) per share	5,833	5,227
	7,359	6,728
Ordinary dividends paid attributable to the previous year		
– Final ordinary dividend of HK\$0.87 (2017: HK\$0.82 per share attributable to year 2016) per share approved and payable/paid during the year	5,228	4,848

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

For 2018 final ordinary dividend, a scrip dividend option will be offered to all shareholders except for those with registered addresses in New Zealand or 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 “HSR 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 HSR 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 HSR Entrustment Agreement is commenced prior to that date).

Given the Company’s independent shareholders gave their approval 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. The first tranche of special dividend was paid on 13 July 2016 and the second tranche was paid on 12 July 2017. There was no scrip alternative for the special dividend. Details are set out in note 23A.

Details of ordinary dividends and special dividend paid to the Financial Secretary Incorporated are disclosed in note 48O.

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 shareholders of HK\$16,008 million (2017: HK\$16,829 million) and the weighted average number of ordinary shares in issue less shares held for Executive Share Incentive Scheme, which is calculated as follows:

	2018	2017
Issued ordinary shares at 1 January	6,007,777,302	5,905,290,065
Effect of scrip dividend issued	51,890,075	42,276,913
Effect of share options exercised	2,253,653	6,517,718
Less: Shares held for Executive Share Incentive Scheme	(5,330,351)	(4,968,141)
Weighted average number of ordinary shares less shares held for Executive Share Incentive Scheme at 31 December	6,056,590,679	5,949,116,555

NOTES TO THE CONSOLIDATED 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 shareholders of HK\$16,008 million (2017: HK\$16,829 million) and the weighted average number of ordinary shares in issue less shares held for Executive Share Incentive Scheme after adjusting for the dilutive effect of the Company's share option scheme and Executive Share Incentive Scheme, which is calculated as follows:

	2018	2017
Weighted average number of ordinary shares less shares held for Executive Share Incentive Scheme at 31 December	6,056,590,679	5,949,116,555
Effect of dilutive potential shares under the share option scheme	3,490,644	6,358,526
Effect of shares awarded under Executive Share Incentive Scheme	5,820,496	5,836,521
Weighted average number of shares (diluted) at 31 December	6,065,901,819	5,961,311,602

C Basic and diluted earnings per share would have been HK\$1.86 (2017: HK\$1.77) and HK\$1.86 (2017: HK\$1.76) respectively, if the calculation is based on profit attributable to shareholders of the Company arising from underlying businesses of HK\$11,263 million (2017: HK\$10,515 million).

17 Segmental Information

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

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

- (i) Hong Kong transport operations: The provision of passenger operation and related services on the urban mass transit railway system in Hong Kong, the Airport Express serving both the Hong Kong International Airport and the AsiaWorld-Expo at Chek Lap Kok, cross-boundary railway connection with the border of Mainland of China at Lo Wu and Lok Ma Chau, the Guangzhou-Shenzhen-Hong Kong Express Rail Link (Hong Kong Section) ("High Speed Rail"), light rail and bus feeder with railway system in the north-west New Territories and intercity railway transport with certain cities in the Mainland of China.
- (ii) Hong Kong station commercial businesses: Commercial activities including the letting of advertising, retail and car parking space at railway stations, the provision of telecommunication and bandwidth services in railway premises and other commercial activities within the Hong Kong transport operations network.
- (iii) Hong Kong property rental and management businesses: The letting of retail, office and car parking space and the provision of estate management services in Hong Kong.
- (iv) Hong Kong property development: Property development activities at locations near the railway systems in Hong Kong.
- (v) Mainland of China and international railway, property rental and management businesses: The construction, operation and maintenance of mass transit railway systems including station commercial activities outside of Hong Kong and the letting of retail spaces and provision of estate management services in the Mainland of China.
- (vi) Mainland of China property development: Property development activities in the Mainland of China.
- (vii) Other businesses: Businesses not directly relating to transport operations or properties such as Ngong Ping 360, which comprises cable car operation in Tung Chung and related businesses at the Ngong Ping Theme Village, railway consultancy business and the provision of project management services to the HKSAR Government.

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
					Mainland of China and international railway, property rental and management businesses	Mainland of China property development	Other businesses		
2018									
Revenue from contracts with customers within the scope of HKFRS 15	19,490	1,909	307	-	20,652	-	1,974	-	44,332
Revenue from other sources	-	4,549	4,748	-	225	60	16	-	9,598
Total revenue	19,490	6,458	5,055	-	20,877	60	1,990	-	53,930
Operating expenses	(11,319)	(567)	(813)	-	(20,001)	(35)	(2,004)	-	(34,739)
Project study and business development expenses	-	-	-	-	-	-	-	(323)	(323)
Operating profit/(loss) before Hong Kong property development, depreciation, amortisation and variable annual payment	8,171	5,891	4,242	-	876	25	(14)	(323)	18,868
Profit on Hong Kong property development	-	-	-	2,574	-	-	-	-	2,574
Operating profit/(loss) before depreciation, amortisation and variable annual payment	8,171	5,891	4,242	2,574	876	25	(14)	(323)	21,442
Depreciation and amortisation	(4,578)	(174)	(12)	-	(154)	-	(67)	-	(4,985)
Variable annual payment	(1,608)	(692)	(5)	-	-	-	-	-	(2,305)
Operating profit/(loss) before interest and finance charges	1,985	5,025	4,225	2,574	722	25	(81)	(323)	14,152
Interest and finance charges	-	-	-	-	2	134	-	(1,210)	(1,074)
Investment property revaluation	-	-	4,745	-	-	-	-	-	4,745
Share of profit or loss of associates and joint venture	-	-	-	-	437	-	221	-	658
Income tax	-	-	-	(421)	(190)	(69)	-	(1,645)	(2,325)
Profit/(loss) for the year ended 31 December 2018	1,985	5,025	8,970	2,153	971	90	140	(3,178)	16,156
Assets									
Fixed assets	123,185	2,361	82,349	1	7,300	63	666	-	215,925
Other segment assets*	2,572	271	428	1,985	6,810	4,543	1,617	13,194	31,420
Property management rights	-	-	26	-	-	-	-	-	26
Goodwill	-	-	-	-	58	-	-	-	58
Property development in progress	-	-	-	14,840	-	-	-	-	14,840
Deferred expenditure	77	-	41	-	-	-	1,760	-	1,878
Deferred tax assets	-	2	-	-	117	2	-	-	121
Investments in securities	-	-	-	-	-	-	294	-	294
Properties held for sale	-	-	-	1,156	-	213	-	-	1,369
Interests in associates and joint venture	-	-	-	-	7,779	-	977	-	8,756
Total assets	125,834	2,634	82,844	17,982	22,064	4,821	5,314	13,194	274,687
Liabilities									
Segment liabilities	11,132	2,270	2,278	5,498	7,645	920	2,117	51,799	83,659
Obligations under service concession	10,236	-	-	-	173	-	-	-	10,409
Total liabilities	21,368	2,270	2,278	5,498	7,818	920	2,117	51,799	94,068
Other Information									
Capital expenditure on:									
Fixed assets	5,302	379	462	-	139	-	15	-	6,297
Property development in progress	-	-	-	1,121	-	-	-	-	1,121
Non-cash expenses other than depreciation and amortisation	40	2	-	-	1	-	1	-	44

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

NOTES TO THE CONSOLIDATED ACCOUNTS

17 Segmental Information (continued)

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

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

in HK\$ million	Hong Kong transport operations	Hong Kong station commercial businesses	Hong Kong property rental and management businesses	Hong Kong property development	Mainland of China and international affiliates			Un-allocated amount	Total
					Mainland of China and international railway, property rental and management businesses	Mainland of China property development	Other businesses		
2017									
Total Revenue	18,201	5,975	4,900	–	17,194	6,996	2,174	–	55,440
Operating expenses	(10,726)	(501)	(802)	–	(16,244)	(4,682)	(2,162)	–	(35,117)
Project study and business development expenses	–	–	–	–	–	–	–	(332)	(332)
Operating profit/(loss) before Hong Kong property development, depreciation, amortisation and variable annual payment	7,475	5,474	4,098	–	950	2,314	12	(332)	19,991
Profit on Hong Kong property development	–	–	–	1,097	–	–	–	–	1,097
Operating profit/(loss) before depreciation, amortisation and variable annual payment	7,475	5,474	4,098	1,097	950	2,314	12	(332)	21,088
Depreciation and amortisation	(4,479)	(163)	(12)	–	(136)	–	(65)	–	(4,855)
Variable annual payment	(1,340)	(589)	(4)	–	–	–	–	–	(1,933)
Operating profit/(loss) before interest and finance charges	1,656	4,722	4,082	1,097	814	2,314	(53)	(332)	14,300
Interest and finance charges	–	–	–	–	(13)	146	–	(1,038)	(905)
Investment property revaluation	–	–	6,314	–	–	–	–	–	6,314
Share of profit or loss of associates and joint venture	–	–	–	–	321	–	173	–	494
Income tax	–	–	–	(181)	(149)	(1,441)	–	(1,547)	(3,318)
Profit/(loss) for the year ended 31 December 2017	1,656	4,722	10,396	916	973	1,019	120	(2,917)	16,885
Assets									
Fixed assets	121,904	2,171	77,148	1	7,760	70	718	–	209,772
Other segment assets*	2,256	239	343	716	5,517	5,380	1,898	13,341	29,690
Property management rights	–	–	26	–	–	–	–	–	26
Goodwill	–	–	–	–	63	–	–	–	63
Property development in progress	–	–	–	14,810	–	–	–	–	14,810
Deferred expenditure	58	–	19	–	–	–	633	–	710
Deferred tax assets	–	2	–	–	64	–	3	–	69
Investments in securities	–	–	–	–	–	–	443	–	443
Properties held for sale	–	–	–	876	–	471	–	–	1,347
Interests in associates and joint venture	–	–	–	–	5,926	–	912	–	6,838
Total assets	124,218	2,412	77,536	16,403	19,330	5,921	4,607	13,341	263,768
Liabilities									
Segment liabilities	9,419	3,242	2,091	8,433	7,675	1,217	2,201	52,594	86,872
Obligations under service concession	10,292	–	–	–	178	–	–	–	10,470
Total liabilities	19,711	3,242	2,091	8,433	7,853	1,217	2,201	52,594	97,342
Other Information									
Capital expenditure on:									
Fixed assets	4,708	315	726	1	190	70	98	–	6,108
Property development in progress	–	–	–	483	–	272	–	–	755
Non-cash expenses other than depreciation and amortisation	38	3	–	–	1	–	2	–	44

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

17 Segmental Information (continued)

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

For the year ended 31 December 2018, revenue from one (2017: one) customer of the Mainland of China and international affiliates segment has exceeded 10% of the Group's revenue. Approximately 13.76% (2017: 12.22%) of the Group's total revenue was attributable to this customer.

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

in HK\$ million	Revenue from external customers		Specified non-current assets	
	2018	2017	2018	2017
Hong Kong (place of domicile)	32,935	31,194	226,282	218,401
Australia	12,746	10,024	446	376
Mainland of China	1,033	7,846	13,965	12,525
Sweden	4,891	4,982	699	807
United Kingdom	1,790	1,184	91	110
Other jurisdictions	535	210	–	–
	20,995	24,246	15,201	13,818
	53,930	55,440	241,483	232,219

18 Other Comprehensive Income

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

in HK\$ million	2018			2017		
	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, associates and joint venture	(761)	–	(761)	981	–	981
– Non-controlling interests	(22)	–	(22)	16	–	16
	(783)	–	(783)	997	–	997
Surplus on revaluation of self-occupied land and buildings	622	(103)	519	302	(49)	253
Remeasurement of net liability of defined benefit schemes	(422)	74	(348)	1,004	(166)	838
Cash flow hedges: net movement in hedging reserve (note 18B)	(32)	5	(27)	(181)	32	(149)
Other comprehensive income	(615)	(24)	(639)	2,122	(183)	1,939

NOTES TO THE CONSOLIDATED 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	2018	2017
Cash flow hedges:		
Effective portion of changes in fair value of hedging instruments recognised during the year	(260)	50
Amounts transferred to initial carrying amount of hedged items	–	(2)
Amounts transferred (from)/to profit or loss:		
– Interest and finance charges (note 13)	229	(231)
– Other expenses (note 9E)	(1)	2
	(32)	(181)
Tax effect resulting from:		
– Changes in fair value of hedging instruments recognised during the year	43	(7)
– Amounts transferred to profit or loss	(38)	39
	(27)	(149)

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 Mainland of China and carried at fair value, are as follows:

in HK\$ million	The Group		The Company	
	2018	2017	2018	2017
At 1 January	77,086	70,060	75,352	68,517
Additions	450	712	431	699
Transfer from property held for sale	395	–	–	–
Change in fair value	4,745	6,314	4,613	6,136
At 31 December	82,676	77,086	80,396	75,352
Long leases	16	17	16	17
Medium-term leases	82,660	77,069	80,380	75,335
	82,676	77,086	80,396	75,352

All investment properties of the Group were revalued at 31 December 2018 and 2017. Details of the fair value measurement are disclosed in note 43. The net increase in fair value of HK\$4,745 million (2017: HK\$6,314 million) arising from the revaluation has been credited to the consolidated profit and loss account. Investment properties in Hong Kong and Mainland of China are revalued semi-annually by Jones Lang LaSalle Limited and Cushman & Wakefield Limited respectively. Future market condition changes may result in further gains or losses to be recognised through profit and loss account in subsequent periods.

Included in the Group's investment properties as at 31 December 2018, there was HK\$395 million (2017: HK\$nil) relating to a property in Mainland of China.

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
2018						
Cost or Valuation						
At 1 January 2018	1,757	3,748	61,981	85,717	3,786	156,989
Additions	-	-	-	229	3,201	3,430
Disposals/write-offs	-	-	(5)	(572)	(3)	(580)
Surplus on revaluation	-	486	-	-	-	486
Reclassification within other property, plant and equipment	-	-	2	(2)	-	-
Transfer to additional concession property (note 21)	-	-	-	(2)	(12)	(14)
Other assets commissioned	-	-	407	1,449	(1,856)	-
Exchange differences	-	-	-	(123)	(1)	(124)
At 31 December 2018	1,757	4,234	62,385	86,696	5,115	160,187
At Cost	1,757	-	62,385	86,696	5,115	155,953
At 31 December 2018 Valuation	-	4,234	-	-	-	4,234
Aggregate depreciation						
At 1 January 2018	306	-	8,346	45,448	-	54,100
Charge for the year	34	136	520	3,336	-	4,026
Written back on disposals	-	-	(1)	(529)	-	(530)
Written back on revaluation	-	(136)	-	-	-	(136)
Exchange differences	-	-	-	(49)	-	(49)
At 31 December 2018	340	-	8,865	48,206	-	57,411
Net book value at 31 December 2018	1,417	4,234	53,520	38,490	5,115	102,776
2017						
Cost or Valuation						
At 1 January 2017	1,757	3,566	61,508	84,146	3,297	154,274
Additions	-	-	-	244	2,630	2,874
Disposals/write-offs	-	-	(4)	(461)	(11)	(476)
Surplus on revaluation	-	182	-	-	-	182
Reclassification within other property, plant and equipment	-	-	350	(348)	(2)	-
Transfer to additional concession property (note 21)	-	-	-	(6)	5	(1)
Other assets commissioned	-	-	127	2,010	(2,137)	-
Exchange differences	-	-	-	132	4	136
At 31 December 2017	1,757	3,748	61,981	85,717	3,786	156,989
At Cost	1,757	-	61,981	85,717	3,786	153,241
At 31 December 2017 Valuation	-	3,748	-	-	-	3,748
Aggregate depreciation						
At 1 January 2017	272	-	7,824	42,565	-	50,661
Charge for the year	34	120	526	3,255	-	3,935
Written back on disposals	-	-	(4)	(418)	-	(422)
Written back on revaluation	-	(120)	-	-	-	(120)
Exchange differences	-	-	-	46	-	46
At 31 December 2017	306	-	8,346	45,448	-	54,100
Net book value at 31 December 2017	1,451	3,748	53,635	40,269	3,786	102,889

NOTES TO THE CONSOLIDATED 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
2018						
Cost or Valuation						
At 1 January 2018	1,757	3,748	61,981	83,029	3,698	154,213
Additions	-	-	-	175	3,016	3,191
Disposals/write-offs	-	-	(5)	(563)	(3)	(571)
Surplus on revaluation	-	486	-	-	-	486
Reclassification within other property, plant and equipment	-	-	2	(2)	-	-
Transfer to additional concession property (note 21)	-	-	-	(2)	(12)	(14)
Other assets commissioned	-	-	407	1,291	(1,698)	-
At 31 December 2018	1,757	4,234	62,385	83,928	5,001	157,305
At Cost	1,757	-	62,385	83,928	5,001	153,071
At 31 December 2018 Valuation	-	4,234	-	-	-	4,234
Aggregate depreciation						
At 1 January 2018	306	-	8,346	44,156	-	52,808
Charge for the year	34	136	520	3,149	-	3,839
Written back on disposals	-	-	(1)	(524)	-	(525)
Written back on revaluation	-	(136)	-	-	-	(136)
At 31 December 2018	340	-	8,865	46,781	-	55,986
Net book value at 31 December 2018	1,417	4,234	53,520	37,147	5,001	101,319
2017						
Cost or Valuation						
At 1 January 2017	1,757	3,566	61,508	81,848	3,218	151,897
Additions	-	-	-	64	2,543	2,607
Disposals/write-offs	-	-	(4)	(457)	(11)	(472)
Surplus on revaluation	-	182	-	-	-	182
Reclassification within other property, plant and equipment	-	-	350	(350)	-	-
Transfer to additional concession property (note 21)	-	-	-	(6)	5	(1)
Other assets commissioned	-	-	127	1,930	(2,057)	-
At 31 December 2017	1,757	3,748	61,981	83,029	3,698	154,213
At Cost	1,757	-	61,981	83,029	3,698	150,465
At 31 December 2017 Valuation	-	3,748	-	-	-	3,748
Aggregate depreciation						
At 1 January 2017	272	-	7,824	41,473	-	49,569
Charge for the year	34	120	526	3,098	-	3,778
Written back on disposals	-	-	(4)	(415)	-	(419)
Written back on revaluation	-	(120)	-	-	-	(120)
At 31 December 2017	306	-	8,346	44,156	-	52,808
Net book value at 31 December 2017	1,451	3,748	53,635	38,873	3,698	101,405

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	2018	2017
At net book value		
– long leases	122	125
– medium-term leases	1,295	1,326
	1,417	1,451

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 48A, 48B and 48C).

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 43. The revaluation surplus of HK\$622 million (2017: HK\$302 million) and the related deferred tax expenses of HK\$103 million (2017: HK\$49 million) has been recognised in other comprehensive income and accumulated in the fixed assets revaluation reserve (note 41F). The carrying amount of the self-occupied land and buildings at 31 December 2018 would have been HK\$718 million (2017: HK\$744 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\$82,676 million (2017: HK\$77,086 million) and HK\$80,396 million (2017: HK\$75,352 million) respectively. The costs of station kiosks of the Group and the Company held for use in operating leases were HK\$751 million (2017: HK\$733 million) and the related accumulated depreciation charges were HK\$452 million (2017: HK\$415 million).

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

in HK\$ million	The Group		The Company	
	2018	2017	2018	2017
Within 1 year	8,388	7,852	7,937	7,393
After 1 year but within 5 years	14,627	15,663	13,611	14,566
Later than 5 years	477	648	40	124
	23,492	24,163	21,588	22,083

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

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.

At the end of the reporting period, the net book value of plant and equipment under finance lease of the Group was HK\$410 million (2017: HK\$484 million).

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	MTR Nordic	London Crossrail	Total
	Initial concession property	Additional concession property	Additional concession property (High Speed Rail)				
2018							
Cost							
At 1 January 2018	15,226	13,114	–	9,000	84	59	37,483
Net additions during the year	–	2,353	1	63	–	–	2,417
Disposals	–	(84)	–	(19)	–	–	(103)
Transfer from other property, plant and equipment (note 20)	–	14	–	–	–	–	14
Exchange differences	–	–	–	(457)	–	(3)	(460)
At 31 December 2018	15,226	15,397	1	8,587	84	56	39,351
Accumulated amortisation							
At 1 January 2018	3,070	2,242	–	2,290	62	22	7,686
Charge for the year	305	641	–	435	3	8	1,392
Written-off on disposals	–	(58)	–	(6)	–	–	(64)
Exchange differences	–	–	–	(135)	–	(1)	(136)
At 31 December 2018	3,375	2,825	–	2,584	65	29	8,878
Net book value at 31 December 2018	11,851	12,572	1	6,003	19	27	30,473
2017							
Cost							
At 1 January 2017	15,226	10,747	–	8,430	65	53	34,521
Net additions during the year	–	2,440	–	52	18	–	2,510
Disposals	–	(74)	–	(34)	–	–	(108)
Transfer from other property, plant and equipment (note 20)	–	1	–	–	–	–	1
Capitalisation adjustments	–	–	–	(90)	–	–	(90)
Exchange differences	–	–	–	642	1	6	649
At 31 December 2017	15,226	13,114	–	9,000	84	59	37,483
Accumulated amortisation							
At 1 January 2017	2,766	1,697	–	1,723	54	12	6,252
Charge for the year	304	596	–	431	8	8	1,347
Written-off on disposals	–	(51)	–	(12)	–	–	(63)
Exchange differences	–	–	–	148	–	2	150
At 31 December 2017	3,070	2,242	–	2,290	62	22	7,686
Net book value at 31 December 2017	12,156	10,872	–	6,710	22	37	29,797

Shenzhen Metro Longhua Line ("SZL4") forms part of the Shenzhen Metro, which is operated by a wholly-owned subsidiary, MTR Corporation (Shenzhen) Limited ("MTRSZ"). There has been no increase in fare since MTRSZ started operating the line in 2010. However, the Company understands that the Shenzhen Municipal Government is planning for a fare adjustment in the Shenzhen Metro Network and is undergoing the statutory approval process. Based on progress of the fare adjustment made to date, no impairment loss is recognised at 31 December 2018. If appropriate fare adjustments are not implemented, the long-term financial viability of SZL4 is expected to be impacted.

NOTES TO THE CONSOLIDATED ACCOUNTS

21 Service Concession Assets (continued)

The Company

in HK\$ million	KCRC Rail Merger			Total
	Initial concession property	Additional concession property	Additional concession property (High Speed Rail)	
2018				
Cost				
At 1 January 2018	15,226	13,082	–	28,308
Net additions during the year	–	2,353	1	2,354
Disposals	–	(84)	–	(84)
Transfer from other property, plant and equipment (note 20)	–	14	–	14
At 31 December 2018	15,226	15,365	1	30,592
Accumulated amortisation				
At 1 January 2018	3,070	2,242	–	5,312
Charge for the year	305	641	–	946
Written-off on disposals	–	(58)	–	(58)
At 31 December 2018	3,375	2,825	–	6,200
Net book value at 31 December 2018	11,851	12,540	1	24,392
2017				
Cost				
At 1 January 2017	15,226	10,715	–	25,941
Net additions during the year	–	2,440	–	2,440
Disposals	–	(74)	–	(74)
Transfer from other property, plant and equipment (note 20)	–	1	–	1
At 31 December 2017	15,226	13,082	–	28,308
Accumulated amortisation				
At 1 January 2017	2,766	1,697	–	4,463
Charge for the year	304	596	–	900
Written-off on disposals	–	(51)	–	(51)
At 31 December 2017	3,070	2,242	–	5,312
Net book value at 31 December 2017	12,156	10,840	–	22,996

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. Additional concession property (High Speed Rail) relates to the expenditures for the replacement and/or upgrade of the concession property of High Speed Rail.

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	2018	2017
Cost at 1 January and 31 December	40	40
Accumulated amortisation		
At 1 January	14	13
Charge for the year	–	1
At 31 December	14	14
Net book value at 31 December	26	26

23 Railway Construction Projects under Entrustment by the HKSAR Government

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

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

(b) HSR Entrustment Agreement: In 2009, the HKSAR Government decided that the Company should be asked to proceed with the construction, testing and commissioning of the HSR on the understanding that the Company would subsequently be invited to undertake the operation of the HSR under the service concession approach. On 26 January 2010, the HKSAR Government and the Company entered into another entrustment agreement for the construction, and commissioning of the HSR (the “HSR Entrustment Agreement”). Pursuant to the HSR Entrustment Agreement, the Company is responsible for carrying out or procuring the carrying out of the agreed activities for the planning, design, construction, testing and commissioning of the HSR and the HKSAR Government, as owner of HSR, is responsible for bearing and financing the full amount of the total cost of such activities (the “Entrustment Cost”) and for paying to the Company a fee in accordance with an agreed payment schedule (the “Project Management Fee”) (subsequent amendments to these arrangements are described below). As at 31 December 2018 and up to the date of this annual report, the Company has received payments from the HKSAR Government in accordance with the originally agreed payment schedule.

The HKSAR Government has the right to claim against the Company if the Company breaches the HSR Entrustment Agreement (including, if the Company breaches the warranties it gave in respect of its project management services) and, under the HSR Entrustment Agreement, to be indemnified by the Company in relation to losses suffered by the HKSAR Government as a result of any negligence of the Company in performing its obligations under the HSR Entrustment Agreement or any breach of the HSR Entrustment Agreement by the Company. Under the HSR Entrustment Agreement, the Company’s total aggregate liability to the HKSAR Government arising out of or in connection with the HSR Preliminary Entrustment Agreement and the HSR Entrustment Agreement (other than for death or personal injury) is subject to a cap equal to the Project Management Fee and any other fees that the Company receives under the HSR Entrustment Agreement and certain fees received by the Company under the HSR Preliminary Entrustment Agreement (the “Liability Cap”). In accordance with general principles of law, such Liability Cap could not be relied upon if the Company were found to be liable for the fraudulent or other dishonest conduct of its employees or agents, to the extent that the relevant loss had been caused by such fraudulent or other dishonest conduct. Although the HKSAR Government has reserved the right to refer to arbitration the question of the Company’s liability for the Current Cost Overrun (if any) under the HSR Preliminary Entrustment Agreement and HSR Entrustment Agreement (as more particularly described in note 23A(c)(iv) below), up to the date of this annual report, no claim has been received from the HKSAR Government.

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

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

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

As a result of adjustments being made to certain elements of the Company’s estimated project cost of 30 June 2015, the HKSAR Government and the Company reached agreement that the estimated project cost be reduced to HK\$84.42 billion (the “Revised Cost Estimate”). Further particulars relating to the Revised Cost Estimate are set out in notes 23A(c) and (e) below.

(c) HSR Agreement: On 30 November 2015, the HKSAR Government and the Company entered into an agreement (the “HSR Agreement”) relating to the further funding and completion of the HSR. The HSR Agreement contains an integrated package of terms (subject to conditions as set out in note 23A(c)(vi) below) and provides that:

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

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

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

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

- bear such amount as is awarded to the HKSAR Government up to the Liability Cap;
 - seek the approval of its independent shareholders, at another General Meeting (at which the FSI, the HKSAR Government and their Close Associates and Associates and the Exchange Fund will be required to abstain from voting), for the Company to bear the excess liability; and
 - if the approval of the independent shareholders (referred to immediately above) is obtained, pay the excess liability to the HKSAR Government. If such approval is not obtained, the Company will not make such payment to the HKSAR Government;
- (v) Certain amendments are made to the HSR Entrustment Agreement to reflect the arrangements contained in the HSR Agreement, including an increase in Project Management Fee payable to the Company under HSR Entrustment Agreement to an aggregate of HK\$6.34 billion (which reflects the estimate of the Company’s expected internal costs in performing its obligations under HSR Entrustment Agreement in relation to HSR project) and to reflect the HSR Revised Programme;
- (vi) The arrangements under the HSR Agreement (including the payment of the Special Dividend) were conditional on:
- independent shareholder approval (which was sought at the General Meeting held on 1 February 2016); and
 - HKSAR Legislative Council approval in respect of the HKSAR Government’s additional funding obligations.

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

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

(e) Based on the Company’s latest review of the Revised Cost Estimate of HK\$84.42 billion for the agreed scope of the project and having taken account of the opinion of an independent expert who has reviewed the Revised Cost Estimate, the Company does not currently believe there is any need to revise further the Revised Cost Estimate of HK\$84.42 billion for the agreed scope of the project. However, the final project cost can only be ascertained upon finalisation of all contracts, some of which will involve the resolution of commercial issues and may take several years to reach agreement and settlement based on past experience.

Having considered the number of contracts yet to be finalised and the contingency allowance currently available, there can be no absolute assurance that the final project cost will not exceed HK\$84.42 billion, particularly if unforeseen difficulties arise in the resolution of commercial issues during the process of negotiating the final accounts. In such case, under the terms of the HSR Agreement, the Company will be required to bear and finance the portion of the project cost that exceeds HK\$84.42 billion (if any) except for certain agreed excluded costs (as more particularly described in note 23A(c)(ii) above).

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

- (i) any possible liability of the Company for any Further Cost Overrun (if any), given the Company does not currently believe based on information available to date there is any need to revise further the Revised Cost Estimate of HK\$84.42 billion. However, the final project cost can only be ascertained upon finalisation of all contracts, some of which will involve the resolution of commercial issues and may take several years to reach agreement and settlement;
- (ii) any possible liability of the Company that may be determined in accordance with any arbitration that may take place, (as more particularly described in note 23A(c)(iv) above), given that (a) the Company has not received any notification from the HKSAR Government of any claim by the HKSAR Government against the Company or of any referral by the HKSAR Government to arbitration (which, as a result of the HSR Agreement, cannot take place until after commencement of commercial operations on the HSR) (as of 31 December 2018 and up to the date of this annual report); (b) the Company has the benefit of the Liability Cap; and (c) as a result of the HSR Agreement, the Company will not make any payment to the HKSAR Government in excess of the Liability Cap pursuant to a determination of the arbitrator without the approval of its independent shareholders;

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

(g) During the year ended 31 December 2018, Project Management Fee of HK\$402 million (2017: HK\$733 million) was recognised in the consolidated profit and loss account. As at 31 December 2018, the total Project Management Fee and the additional fees referred to above recognised to date in the consolidated profit and loss account amounted to HK\$6,470 million (as at 31 December 2017: HK\$6,068 million). In relation to the sufficiency of the Project Management Fee, the Company estimated that the total costs to complete performance of its obligations in relation to the HSR project are likely to exceed the Project Management Fee. Accordingly, an appropriate amount of provision was charged in the consolidated profit and loss account in 2018.

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

B Shatin to Central Link ("SCL") Project

(a) SCL Preliminary Entrustment Agreement: On 24 November 2008, the HKSAR Government and the Company entered into an entrustment agreement for the design 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.

(b) SCL Advance Works Entrustment Agreement: 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 February 2016, the Company notified the HKSAR Government that the estimated exceedance would be HK\$1,267 million (including contingency). In December 2016, the Company completed its review for the project cost estimate of the works under the SCL Advance Works Entrustment Agreement and notified the HKSAR Government of the Company's revised estimate for the entrustment cost for such works of HK\$8,617.1 million. In January 2017, the HKSAR Government submitted to the Legislative Council Public Works Subcommittee the application for additional funding needed in excess of amounts retained by the HKSAR Government from the original funding. Such additional funding was approved by Legislative Council Finance Committee in June 2017.

(c) SCL Entrustment Agreement: 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 (including rolling stock, signalling, radio and main control systems) for which the Company is responsible under the existing service concession agreement with KCRC. The Company will contribute an amount in respect of the costs relating to such modifications, upgrades or expansions. This will predominantly be covered by the reduction in future maintenance capital expenditure which the Company would have otherwise incurred. The Company is responsible to carry out or procure the carrying out of the works specified in the SCL Preliminary Entrustment Agreement, the SCL Advance Works Entrustment Agreement and the SCL Entrustment Agreement (together, the "SCL Agreements") for a total project management fee of HK\$7,893 million. As at 31 December 2018 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.

The sum entrusted to the Company by the HKSAR Government for the main construction works under the SCL Entrustment Agreement is HK\$70,827 million. The Company has previously announced that, due to the continuing challenges posed by external factors, the SCL Cost to Complete ("CTC") would need to be revised upwards significantly.

The Company completed a detailed review of the estimated CTC for the main construction works under the SCL Entrustment Agreement and the latest estimate was submitted to the HKSAR Government for review on 5 December 2017. Taking into account a number of factors, including issues such as archaeological finds, the HKSAR Government's requests for additional scope and late or incomplete handover of construction sites, the Company has increased the latest estimate by HK\$16,501 million from HK\$70,827 million to HK\$87,328 million including an increase in the project management cost payable to the Company, which is subject to agreement and approval processes. Since submission of this latest estimate to the HKSAR Government, the Company has been liaising with the HKSAR Government to facilitate their review and verification process. The Company intends to carry out a further review and revalidation of the CTC (including, without limitation, to take account of the outcome of the verification and assurance works and the associated delays referred to below) within 2019.

Towards the end of the first half of 2018, there were allegations concerning workmanship and timely reporting of certain construction matters relating to three stations of the SCL, in particular regarding works at the Hung Hom Station extension. The Company has taken immediate steps to investigate the issues, report the Company's findings to the HKSAR Government and reserve the Company's position against relevant contractors. To address the allegations relating to the platform at the Hung Hom Station extension, the Company has submitted to the HKSAR Government a holistic proposal for the verification and assurance of the as-constructed conditions and workmanship quality of the Hung Hom Station extension. The verification and assurance works are ongoing and the overall structural integrity and safety of the Hung Hom Station extension will be assessed based on the detailed data collected in the verification process. The Company has also co-operated fully with the Commission of Inquiry ("COI") that has been set up by the HKSAR Chief Executive in Council to investigate matters relating to the diaphragm wall and the platform slab at the Hung Hom Station extension as well as, amongst others, the adequacy of the Company's project management and supervision systems. The COI process included hearing of evidence from factual witnesses and reviewing evidence from experts on project management and structural engineering issues. The HKSAR Government, on 29 January 2019, made its closing submission to the COI in which it stated its view that the Company ought to have provided the required skills and care reasonably expected of a professional and competent project manager but that the Company had failed to do so.

On 19 February 2019, the HKSAR Government announced that the terms of reference of the COI had been expanded to cover issues relating to the North Approach Tunnels ("NAT"), the South Approach Tunnels ("SAT") and the Hung Hom Stabling Sidings ("HHS") under Contract No. 1112. The HKSAR Government stated that it has recently come to light that, in respect of the NAT, SAT and HHS, some works-related documentation has been found missing and some of the construction works involving deviations from the designs, plans or drawings accepted by the Highways Department or the Building Authority might have been carried out. In view of the expanded scope of the COI, the Chief Executive in Council has approved a further extension of time for the COI to submit its report to the Chief Executive in Council by 30 August 2019, or such time as the Chief Executive in Council may allow. The COI may submit interim reports on any aspects of the inquiry as it may see fit under the terms of its appointment. On 25 February 2019, the COI submitted an interim report to the Chief Executive on its findings and recommendations on matters covered by the original terms of reference. The HKSAR Government has yet to publish the interim report, in whole or in part, up to the date of this annual report. The HKSAR Government is now conducting a review on construction documentation / records for the construction works in SCL Project.

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

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

The HKSAR Government has the right to claim against the Company if the Company breaches the SCL Agreements (including, if the Company breaches the warranties it gave in respect of its project management services) and, under each SCL Agreement, to be indemnified by the Company in relation to losses suffered by the HKSAR Government as a result of any negligence of the Company in performing its obligations under the relevant SCL Agreement or any breach thereof by the Company. 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. In accordance with general principles of law, such cap could not be relied upon if the Company were found to be liable for the fraudulent or other dishonest conduct of its employees or agents, to the extent that the relevant loss had been caused by such fraudulent or other dishonest conduct. Although the HKSAR Government has stated that it reserves all rights to pursue further actions against the Company and related contractors and has made the statements in its closing submission to the COI as stated above, up to the date of this annual report, no claim has been received from the HKSAR Government.

The target completion for Tai Wai to Hung Hom Section of the SCL is dependent on the verification and assurance processes in relation to the Hung Hom Station extension and any other parts of SCL deemed necessary by the HKSAR Government/statutory approving authorities referred to above. In light of the uncertainty of the results of the verification and assurance processes, the Company, at the request of the HKSAR Government, is now carrying out a feasibility study on opening the Tuen Ma Line in phases.

These matters are ongoing and the timing of their ultimate resolution and eventual outcome are highly uncertain at the current stage.

(d) 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;
- (ii) although the HKSAR Government has stated that it reserves all rights to pursue further actions against the Company and related contractors and has made the statements in its closing submission to the COI as stated above, the Company has not received any claim by the HKSAR Government against the Company in relation to any SCL Agreement (as of 31 December 2018 and up to the date of this annual report);
- (iii) the increase in the project management cost payable to the Company is still pending the agreement and approval processes set out in the SCL Entrustment Agreement; and

where applicable, 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 in light of the significant uncertainties involved, no provision has been made in the Company's accounts in respect of SCL.

(e) During the year ended 31 December 2018, project management fee of HK\$891 million (2017: HK\$992 million) was recognised in the consolidated profit and loss account. As at 31 December 2018, the total project management fee recognised to date in the consolidated profit and loss account amounted to HK\$6,471 million (as at 31 December 2017: HK\$5,580 million).

Additionally, during the year ended 31 December 2018, the SCL Advance Works Costs and the Interface Works Costs, both of which are payable by the HKSAR Government to the Company, were HK\$401 million (2017: HK\$1,268 million). As at 31 December 2018, 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\$1,107 million (as at 31 December 2017: HK\$1,318 million).

24 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 2018, the outstanding Hong Kong Property Development Projects of the Company include the Tseung Kwan O Extension Property Projects at the depot sites in Tseung Kwan O Area 86 (LOHAS Park) and at the ventilation building in Yau Tong, South Island Line Property Project at sites in Wong Chuk Hang, Kwun Tong Line Extension Property Project at sites in Ho Man Tin and the East Rail Line/Light Rail Property Projects at sites along the related railway lines.

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 Development Project"). Part of the net profits generated from this property development are shared with the Shenzhen Municipal Government. In 2017, this property development had been completed and the related amount in property development in progress had been transferred out to properties held for sale or to profit or loss.

24 Property Development in Progress *(continued)*

A Property Development in Progress

The Group

in HK\$ million	Balance at 1 January	Expenditure	Offset against payments received from developers	Transfer out to properties held for sale	Transfer out to profit or loss	Exchange differences	Balance at 31 December
2018							
Hong Kong Property Development Projects	14,810	1,121	(912)	–	(179)	–	14,840
2017							
Hong Kong Property Development Projects	14,479	483	(152)	–	–	–	14,810
Shenzhen Property Development Project	3,005	272	–	(178)	(3,194)	95	–
	17,484	755	(152)	(178)	(3,194)	95	14,810

The Company

in HK\$ million	Balance at 1 January	Expenditure	Offset against payments received from developers	Transfer out to profit or loss	Balance at 31 December
2018					
Hong Kong Property Development Projects	14,810	1,121	(912)	(179)	14,840
2017					
Hong Kong Property Development Projects	14,479	483	(152)	–	14,810

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

B Stakeholding Funds

Being the stakeholder under certain Airport Railway, Tseung Kwan O Extension and East Rail Line/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. As at 31 December 2018, the balance of the stakeholding funds was HK\$12,075 million (2017: HK\$3,950 million).

C West Rail Property Development

As part of the Rail Merger, the Company was appointed to act as the agent of KCRC and certain KCRC subsidiary companies ("West Rail Subsidiaries") in the development of specified development sites along the West Rail. The Company can receive an agency fee of 0.75% of the gross sale proceeds in respect of the developments except for the Tuen Mun development on which the Company can receive 10% of the net profits accrued under the development agreement. The Company can also recover from the West Rail Subsidiaries all the costs incurred in respect of the West Rail development sites plus 16.5% on-cost, together with interest accrued thereon. During the year ended 31 December 2018, HK\$139 million (2017: HK\$535 million) agency fee and other income in respect of West Rail property development was recognised (note 11). During the year ended 31 December 2018, the reimbursable costs incurred by the Company including on-cost and interest accrued were HK\$94 million (2017: HK\$102 million).

25 Deferred Expenditure

The Group and The Company

in HK\$ million	2018	2017
Balance at 1 January	710	463
Expenditure during the year	1,168	247
Balance at 31 December	1,878	710

NOTES TO THE CONSOLIDATED ACCOUNTS

26 Investments in Subsidiaries

The Company

in HK\$ million	2018	2017
Unlisted shares or registered capital, at cost	1,784	1,455

The following list contains details of subsidiaries as at 31 December 2018 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 2018						
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 Academy Investment Holdings (HK) Limited	HK\$1	100%	100%	–	Hong Kong	Investment holding
MTR Academy (HK) Company Limited	HK\$10,000	100%	–	100%	Hong Kong	Administering the operation of MTR Academy
MTR Australia Investment Holdings (Hong Kong) Limited	HK\$1	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	Consultancy services in connection with property management
MTR China Services Holding (Hong Kong) Limited	HK\$10,000	100%	100%	–	Hong Kong	Investment holding
MTR Hangzhou Line 1 Investment Company Limited	HK\$1,000	100%	100%	–	Hong Kong	Investment holding
MTR Hangzhou Line 5 Investment Holdings (Hong Kong) 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 Macau Investment Holdings (Hong Kong) Limited	HK\$1	100%	100%	–	Hong Kong	Investment holding
MTR MDP Company Limited	HK\$1,000	100%	100%	–	Hong Kong	Investment holding
MTR MDP Management Company Limited	HK\$1,000	100%	100%	–	Hong Kong	Investment holding
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

26 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 Property Consultancy (Hong Kong) Company Limited	HK\$1	100%	100%	–	Hong Kong	Investment holding
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 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
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 Australia Pty Ltd*	AUD23,750,005	60% on ordinary shares; 30% on Class A shares	–	60% on ordinary shares; 30% on Class A shares	Australia	Investment holding
Metro Trains Melbourne Pty. Ltd.*	AUD39,999,900	60% on ordinary shares; 30% on Class A shares	–	100% on ordinary shares; 100% on Class A shares	Australia	Railway operations and maintenance
Metro Trains Sydney Pty Ltd*	AUD100	60%	–	60%	Australia	Pre-operation mobilisation activities, including design approvals and transition planning for the operation and maintenance of the Sydney Metro Northwest
MTR Corporation (Australia) Pty Limited*	AUD2	100%	100%	–	Australia	Railway related consultancies and business

NOTES TO THE CONSOLIDATED ACCOUNTS

26 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 Corporation (Sydney) NRT Pty Limited	AUD2	100%	–	100%	Australia	Design and delivery of railway related systems
MTR Corporation (Sydney) SMCSW Pty Limited	AUD1	100%	–	100%	Australia	Consultancy services for the Sydney Metro City & Southwest Project
Fasttrack Insurance Ltd.	HK\$77,500,000	100%	100%	–	Bermuda	Insurance business
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 Consultadoria (Macau) Sociedade Unipessoal Lda.	MOP25,000	100%	–	100%	Macau	Railway consultancy services
MTR Operações Ferroviárias (Macau) Sociedade Unipessoal Lda. (also known as MTR Railway Operations (Macau) Company Limited)*	MOP25,000	100%	–	100%	Macau	Railway operations, management and technical support services
MTR Express (Sweden) AB	SEK10,050,000	100%	–	100%	Sweden	Railway operations and maintenance, property investment and management
MTR Nordic AB	SEK40,050,000	100%	–	100%	Sweden	Railway operations and maintenance through one or more subsidiaries, property investment and management
MTR Pendeltågen AB	SEK10,050,000	100%	–	100%	Sweden	Railway operations, maintenance and station management
MTR Tech AB	SEK30,000,000	100%	–	100%	Sweden	Railway maintenance
MTR Tunnelbanan AB	SEK40,000,000	100%	–	100%	Sweden	Railway operations and maintenance services
MTR Zeta AB	SEK50,000	100%	–	100%	Sweden	Project bidding
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 Consultancy (Beijing) Company Limited*	RMB8,000,000	100%	–	100%	The People's Republic of China	Commercial consultancy
MTR Commercial Management (Beijing) Co. Ltd.	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

26 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 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 [^]	RMB32,000,000	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 West Coast Partnership (UK) Limited (formerly known as MTR Corporation (London Overground) Limited) [#]	GBP1	100%	–	100%	United Kingdom	Project bidding
MTR Corporation (Silverlink) Limited	GBP1	100%	–	100%	United Kingdom	Investment holding
MTR Corporation (Cymru) 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
Subsidiaries established during 2018						
Bay Area Railway Investment (Hong Kong) No. 1 Company Limited	HK\$1	100%	100%	–	Hong Kong	Investment holding
Bay Area Railway Investment (Hong Kong) No. 2 Company Limited	HK\$1	100%	100%	–	Hong Kong	Investment holding
MTR Zhejiang Investment Holdings (Hong Kong) Limited	HK\$1	100%	100%	–	Hong Kong	Investment holding
Bay Area Railway Property (Foshan) Company Limited*	RMB1,000,000	100%	–	100%	The People's Republic of China	Property development (excluding golf course and villa construction), property consultancy, commercial management and consultancy
South China Bay Area Railway and Property Development (Shenzhen) Company Limited*	RMB500,000	100%	–	100%	The People's Republic of China	Railway and property development consultancy, property management, economic and business information consultancy, enterprise management consultancy
MTR UK Investment Holdings Limited ^{*#}	GBP1	100%	100%	–	United Kingdom	Investment holding
MTR West Coast Partnership Limited	GBP100	75%	–	75%	United Kingdom	Project bidding

* Subsidiaries not audited by KPMG

[^] Liquidation in progress

[#] Striking off in progress

MTR Qatar Transit (Hong Kong) Company Limited and MTR Engineering Services Limited were deregistered in April 2018 and June 2018 respectively.

NOTES TO THE CONSOLIDATED ACCOUNTS

27 Interests in Associates and Joint Venture

in HK\$ million	The Group		The Company	
	2018	2017	2018	2017
Unlisted shares or registered capital, at cost	–	–	24	24
Share of net assets	8,756	6,838	–	–
	8,756	6,838	24	24

The Group and the Company had interests in the following major associates and joint venture as at 31 December 2018:

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 2018</u>						
Octopus Holdings Limited	HK\$42,000,000	57.4%	57.4%	–	Hong Kong	Investment holding
NRT Holdings 2 Pty Ltd*	AUD10	20%	–	20%	Australia	Financing, construction, railway operations and maintenance
NRT Holdings Pty Ltd*	AUD10	20%	–	20%	Australia	Financing, construction, railway operations and maintenance
NRT Pty Ltd*	AUD10	20%	–	20%	Australia	Financing, construction, railway operations and maintenance
Emtrain AB	SEK1,000,000	50%	–	50%	Sweden	Railway maintenance
Beijing MTR Corporation Limited	RMB6,380,000,000	49%	–	49%	The People's Republic of China	Metro investment, construction, operations and passenger services
Beijing MTR L16 Corporation Limited	RMB5,000,000,000	49%	–	49%	The People's Republic of China	Metro investment, construction and operations
Hangzhou MTR Corporation Limited*	RMB4,540,000,000	49%	–	49%	The People's Republic of China	Railway operations and management
First MTR South Western Trains Limited*	GBP100	30%	–	30%	United Kingdom	Railway operations and management
London Overground Rail Operations Ltd*	GBP2	50%	–	50%	United Kingdom	Railway operations and management
<u>Joint venture held throughout 2018</u>						
Hangzhou MTR Line 5 Corporation Limited	RMB4,360,000,000	60%	–	60%	The People's Republic of China	Railway electrical and mechanical construction, operations and management

* Companies not audited by KPMG

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

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

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

in HK\$ million	2018	2017
Assets	26,061	22,749
Liabilities	(17,305)	(15,911)
Net assets	8,756	6,838
Income	9,340	6,691
Expenses and others	(8,412)	(5,983)
Profit before taxation	928	708
Income tax	(270)	(214)
Net profit	658	494
Other comprehensive income	(393)	394
Total comprehensive income	265	888

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. Up to the end of December 2018, the Group has contributed equity of RMB1,031 million to Beijing MTR in respect of Beijing Metro Line 14. The first three phases of Beijing Metro Line 14 opened in May 2013, December 2014 and December 2015 respectively. 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 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 will 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 will undertake the operations and maintenance of Line 16 for a term of 30 years. The first phase of Line 16 opened in December 2016, while tentative full line operation is targeted in 2021.

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

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. The Group's share of investment in NRT Holdings 2 Pty Ltd is expected to represent equity contribution of approximately AUD27.8 million and loans to NRT Holdings 2 Pty Ltd of approximately AUD34.8 million. The Group contributed equity of AUD3.6 million and loans of AUD22.3 million to NRT Holdings 2 Pty Ltd in 2018.

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 for a period of 25 years.

In March 2017, First MTR South Western Trains Limited was awarded a franchise to operate and maintain the South Western rail ("SWR") from 20 August 2017 for a seven-year franchise period by the United Kingdom's Department for Transport. The franchise includes an option for an 11-month extension at discretion of the Department for Transport.

In 2018, the financial performance of SWR was impacted by factors including an industry-wide slowdown in growth in passenger numbers, industrial action, the delayed introduction of timetable changes and incidents involving infrastructure under the control of a third party.

If the abovementioned factors continue to adversely impact SWR, and are not appropriately ameliorated under the Franchise Agreement or by the relevant third party, the long-term financial viability of SWR is expected to be impacted.

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

In October 2017, Hangzhou MTR Line 5 Corporation Limited ("Hangzhou L5 Ltd.") signed a concession agreement with the Hangzhou Municipal Government and Hangzhou Metro Group for the PPP project for the investment, construction and operations of Hangzhou Metro Line 5 ("HZL5"). The construction portion of 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 Hangzhou Metro Group. Under the PPP arrangement, Hangzhou L5 Ltd. will take part in the investment and construction for Part B which covers electrical and mechanical systems as well as the operations and maintenance of the HZL5 for 25 years after commencement of passenger services. The new line is expected to go into operation by the end of 2019. The Group is responsible to contribute equity injection of up to RMB2,616 million. Up to the end of December 2018, the Group has contributed equity of RMB1,674 million into Hangzhou L5 Ltd.

During the year ended 31 December 2018, the Group provided staff secondment and other support services to Beijing MTR at a total amount of HK\$0.2 million (2017: HK\$20 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 AUD275 million (HK\$1,608 million) (2017: AUD220 million or HK\$1,307 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 AUD25 million (HK\$144 million) (2017: AUD7 million or HK\$44 million). London Overground Rail Operations Ltd ("LOROL") distributed GBP1 million (HK\$10 million) (2017: GBP2.5 million or HK\$26 million) of dividends to the Group. The Group provided management services to LOROL at a total amount of HK\$8 million in 2017.

During the year ended 31 December 2018, the Group incurred HK\$156 million (2017: HK\$150 million) of expenses for the central clearing services provided by Octopus Cards Limited ("OCL"), a wholly owned subsidiary of Octopus Holdings Limited ("OHL"). OCL incurred HK\$52.6 million (2017: HK\$43.4 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\$155 million (2017: HK\$132 million) of dividends to the Group.

28 Investments in Securities

Investments in securities represented debt securities held by the overseas insurance underwriting subsidiary measured at FVPL. As at 31 December 2018, all debt securities were expected to mature within one year except for HK\$240 million (2017: HK\$361 million) which were expected to mature after one year.

29 Properties Held for Sale

The Group

in HK\$ million	2018	2017
Properties held for sale		
– at cost	1,179	1,099
– at net realisable value	190	248
	1,369	1,347
Representing:		
Hong Kong property development	1,156	876
Mainland of China property development	213	471
	1,369	1,347

The Company

in HK\$ million	2018	2017
Properties held for sale		
– at cost	966	628
– at net realisable value	190	248
	1,156	876

Properties held for sale of the Group at 31 December 2018 comprise properties from property developments in Hong Kong and Mainland of China.

For Hong Kong property development, they comprise mainly residential units and/or car parking spaces at Wings at Sea and Wings at Sea II at LOHAS Park Station, Lake Silver at Wu Kai Sha Station and The Palazzo at Ho Tung Lau. They represent either the Group's interest in unsold properties or properties received by the Group as sharing in kind (notes 2L(iii) and (v)). The net realisable values as at 31 December 2018 and 2017 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.

For Mainland of China property development, they relate to properties at the Shenzhen Longhua Line Depot property development.

Properties held for sale at net realisable value of the Group and the Company are stated net of provision of HK\$18 million (2017: HK\$38 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.

30 Derivative Financial Assets and Liabilities

A Fair Value

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

The Group and The Company

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

NOTES TO THE CONSOLIDATED ACCOUNTS

30 Derivative Financial Assets and Liabilities *(continued)*

A Fair Value *(continued)*

The Group and The Company

in HK\$ million	Notional amount	Fair value	Contractual undiscounted cash flows maturing in				Total
			Less than 1 year	1-2 years	2-5 years	Over 5 years	
2017							
Derivative Financial Assets							
Gross settled:							
Foreign exchange forwards							
– cash flow hedges:	225	13					
– inflow			119	58	61	–	238
– outflow			(112)	(57)	(56)	–	(225)
– not qualified for hedge accounting:	209	7					
– inflow			178	–	39	–	217
– outflow			(173)	–	(36)	–	(209)
Cross currency swaps							
– fair value hedges:	775	3					
– inflow			469	1	2	307	779
– outflow			(465)	–	–	(310)	(775)
– cash flow hedges:	2,612	98					
– inflow			93	93	276	3,251	3,713
– outflow			(72)	(72)	(217)	(3,215)	(3,576)
Net settled:							
Interest rate swaps							
– fair value hedges	600	10	24	–	–	–	24
– cash flow hedges	1,350	37	3	12	23	1	39
	<u>5,771</u>	<u>168</u>	<u>64</u>	<u>35</u>	<u>92</u>	<u>34</u>	<u>225</u>
Derivative Financial Liabilities							
Gross settled:							
Foreign exchange forwards							
– cash flow hedges:	1,107	4					
– inflow			1,093	3	5	5	1,106
– outflow			(1,096)	(3)	(6)	(5)	(1,110)
– hedges of net investments:	2,140	22					
– inflow			2,082	–	–	–	2,082
– outflow			(2,104)	–	–	–	(2,104)
– not qualified for hedge accounting:	1,520	15					
– inflow			1,520	–	–	–	1,520
– outflow			(1,535)	–	–	–	(1,535)
Cross currency swaps							
– fair value hedges:	388	3					
– inflow			1	1	2	381	385
– outflow			–	–	–	(388)	(388)
– cash flow hedges:	8,601	367					
– inflow			238	240	718	9,487	10,683
– outflow			(247)	(247)	(740)	(9,725)	(10,959)
– hedges of net investments:	64	9					
– inflow			3	3	67	–	73
– outflow			(2)	(2)	(79)	–	(83)
Net settled:							
Interest rate swaps							
– fair value hedges	1,550	28	5	(5)	(24)	(3)	(27)
– cash flow hedges	600	3	(8)	–	–	–	(8)
	<u>15,970</u>	<u>451</u>	<u>(50)</u>	<u>(10)</u>	<u>(57)</u>	<u>(248)</u>	<u>(365)</u>
Total	21,741						

The Group's derivative financial instruments consist predominantly of interest rate and cross currency swaps entered into exclusively by the Company, and the relevant interest rate swap curves as of 31 December 2018 and 2017 were used to discount the cash flows of financial instruments. Interest rates used ranged from 2.110% to 2.485% (2017: 1.191% to 2.470%) for Hong Kong dollars, 2.411% to 3.005% (2017: 1.480% to 2.490%) for US dollars, 1.868% to 2.735% (2017: 1.710% to 3.003%) for Australian dollars and 0.008% to 0.380% (2017: -0.034% to 0.475%) for Japanese yen.

The table above details the remaining contractual maturities at the end of reporting period of 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 Company can be required to pay. The details of the fair value measurement are disclosed in note 43.

30 Derivative Financial Assets and Liabilities (continued)

B Financial Risks

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

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

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

(i) Liquidity Risk

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

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

The following table details the remaining contractual maturities at the end of 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	2018				2017			
	Capital market instruments	Bank loans and overdrafts	Others	Total	Capital market instruments	Bank loans and overdrafts	Others	Total
Loans and other obligations								
Amounts repayable beyond 5 years	25,830	1,225	610	27,665	26,902	1,495	1,053	29,450
Amounts repayable within a period of between 2 and 5 years	4,470	6,583	529	11,582	5,136	4,440	162	9,738
Amounts repayable within a period of between 1 and 2 years	2,310	371	46	2,727	971	11,475	49	12,495
Amounts repayable within 1 year	1,199	8,345	29	9,573	1,946	950	49	2,945
	33,809	16,524	1,214	51,547	34,955	18,360	1,313	54,628

NOTES TO THE CONSOLIDATED ACCOUNTS

30 Derivative Financial Assets and Liabilities *(continued)*

B Financial Risks *(continued)*

The Company

in HK\$ million	2018				2017			
	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	5,253	–	610	5,863	5,985	–	610	6,595
Amounts repayable within a period of between 2 and 5 years	322	5,862	–	6,184	323	3,710	–	4,033
Amounts repayable within a period of between 1 and 2 years	108	126	–	234	108	11,223	–	11,331
Amounts repayable within 1 year	108	8,062	–	8,170	613	600	3	1,216
	5,791	14,050	610	20,451	7,029	15,533	613	23,175

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 45% and 75% (2017: 40% and 70%) 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 2018, 61% (2017: 61%) of the Company's (including financing vehicles) total debt outstanding was denominated either in or converted to fixed interest rate after taking into account outstanding cross currency and interest rate swaps. Interest rate risk at subsidiary, associate and joint venture companies are managed separately based on their own borrowing requirement, circumstances and market practice.

As at 31 December 2018, 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\$117 million/HK\$109 million. Other components of consolidated equity would increase/decrease by approximately HK\$89 million/HK\$97 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 2017, 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\$113 million/HK\$98 million. Other components of consolidated equity would increase/decrease by approximately HK\$43 million/HK\$42 million.

(iii) Foreign Exchange Risk

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

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

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

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

30 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 32.

31 Stores and Spares

in HK\$ million	The Group		The Company	
	2018	2017	2018	2017
Stores and spares expected to be consumed:				
– within 1 year	1,134	1,039	729	708
– after 1 year	553	511	451	421
	1,687	1,550	1,180	1,129
Less: Provision for obsolete stock	(14)	(10)	(14)	(10)
	1,673	1,540	1,166	1,119

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

32 Debtors and Other Receivables

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

- (i) The majority of fare revenue from Hong Kong transport operation (except for that from the High Speed Rail as described in note 32(ii) below) is collected either through Octopus Cards with daily settlement on the next working day or in cash for other ticket types. A small portion of it is collected through pre-sale agents which settle the amounts due within 21 days.
- (ii) In respect of the High Speed Rail, tickets are sold by the Company and other mainland train operators. The clearance centre of China Railway Corporation administers the revenue allocation and settlement system of the Guangzhou-Shenzhen-Hong Kong Express Rail Link and allocates the revenue of the High Speed Rail to the Company under a "section-based" approach with settlement in the following month.
- (iii) Fare revenue from Shenzhen Metro Longhua Line is collected either through Shenzhen Tong Cards with daily settlement on the next working day or in cash for other ticket types. Fare revenue from MTR Express is collected through a third party financial institution with settlement within 14 days and sales through pre-sale agents are settled in the following month.
- (iv) Franchise revenue in Melbourne is collected either daily or monthly depending on the revenue nature. The majority of the franchise revenue from operations in Stockholm is collected in the transaction month with the remainder being collected in the following month. Concession revenue for MTR Crossrail is collected once every 4 weeks.

NOTES TO THE CONSOLIDATED ACCOUNTS

32 Debtors and Other Receivables *(continued)*

(v) 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.

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

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

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

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

The ageing of debtors is analysed as follows:

in HK\$ million	The Group		The Company	
	2018	2017	2018	2017
Amounts not yet due	2,807	2,322	1,069	784
Overdue by 30 days	275	359	151	237
Overdue by 60 days	34	47	6	11
Overdue by 90 days	10	62	2	45
Overdue by more than 90 days	91	16	63	3
Total debtors	3,217	2,806	1,291	1,080
Other receivables	6,334	4,252	4,452	2,380
Contract assets	25	–	–	–
	9,576	7,058	5,743	3,460

Upon the adoption of HKFRS 15, opening adjustments were made as at 1 January 2018 to reclassify the total debtors of HK\$18 million to contract assets. Comparative information has not been restated.

Included in other receivables as at 31 December 2018 was HK\$1,959 million (2017: HK\$381 million) in respect of property development profit in Hong Kong distributable from stakeholding funds based on the terms of the development agreements and sales and purchase agreements.

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

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

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

As at 31 December 2018, all debtors and other receivables were expected to be recovered within one year except for amounts relating to deposits and other receivables of HK\$2,429 million (2017: HK\$1,978 million) in the Group 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.

32 Debtors and Other Receivables (continued)

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

in million	The Group		The Company	
	2018	2017	2018	2017
Australian dollars	8	7	8	7
Macau pataca	63	208	63	208
United States dollars	8	8	8	8

33 Amounts Due from Related Parties

in HK\$ million	The Group		The Company	
	2018	2017	2018	2017
Amounts due from:				
– HKSAR Government	1,713	2,378	1,713	2,378
– KCRC	215	6	215	6
– associates	160	186	129	149
– subsidiaries (net of impairment losses)	–	–	14,179	12,612
	2,088	2,570	16,236	15,145

As at 31 December 2018, the amount due from the HKSAR Government mainly related to the recoverable cost for the advanced works in relation to the Shatin to Central Link, reimbursable costs for the essential public infrastructure works in respect of the South Island Line and Kwun Tong Line Extension projects, reimbursement of the fare revenue difference in relation to the Public Transport Fare Concession Scheme for the Elderly and Eligible Persons with Disabilities, agency fee receivables and reimbursable costs in respect of West Rail property development (note 24C), as well as receivables and retention for other entrustment and maintenance works.

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

The amounts due from associates as at 31 December 2018 included the outstanding balance of loan to First MTR South Western Trains Limited amounting to GBP9 million (HK\$90 million) (2017: GBP9 million (HK\$95 million)) which bears an interest rate of 5.5% per annum with repayment due by 31 March 2023.

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

As at 31 December 2018, all amounts due from related parties were expected to be recovered within one year except for HK\$333 million (2017: HK\$125 million) which were expected to be recovered after more than one year. The carrying amounts of amounts due from the HKSAR Government and other related parties are considered not significantly different from their fair values.

34 Cash, Bank Balances and Deposits

in HK\$ million	The Group		The Company	
	2018	2017	2018	2017
Deposits with banks and other financial institutions	11,229	12,095	10,337	10,897
Cash at banks and on hand	6,793	6,259	420	402
Cash, bank balances and deposits	18,022	18,354	10,757	11,299
Less: Bank deposits with more than three months to maturity when placed or pledged (note 35E)	(9,157)	(4,411)	(9,022)	(3,625)
Less: Bank overdrafts (note 35A)	–	(4)	–	(4)
Cash and cash equivalents in the cash flow statement	8,865	13,939	1,735	7,670

NOTES TO THE CONSOLIDATED ACCOUNTS

34 Cash, Bank Balances and Deposits *(continued)*

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	
	2018	2017	2018	2017
Australian dollars	49	68	45	68
Euros	11	100	10	99
Pound sterling	6	56	6	56
Renminbi	160	1	160	–
Swiss franc	1	23	1	23
United States dollars	3	145	1	139

35 Loans and Other Obligations

A By Type

The Group

in HK\$ million	2018			2017		
	Carrying amount	Fair value	Repayable amount	Carrying amount	Fair value	Repayable amount
Capital market instruments						
Listed or publicly traded:						
Debt issuance programme notes due during 2026 to 2047 (2017: due during 2026 to 2047)	8,738	9,367	8,853	8,769	9,649	8,853
Unlisted:						
Debt issuance programme notes due during 2019 to 2055 (2017: due during 2018 to 2055)	14,803	16,269	15,293	14,682	16,232	15,017
Total capital market instruments	23,541	25,636	24,146	23,451	25,881	23,870
Bank loans	11,312	11,312	11,331	17,313	17,313	17,376
Finance leases	450	553	450	492	635	492
Others	478	540	478	458	537	458
Loans and other obligations	35,781	38,041	36,405	41,714	44,366	42,196
Bank overdrafts	–	–	–	4	4	4
Short-term loans	4,424	4,424	4,424	325	325	325
Total	40,205	42,465	40,829	42,043	44,695	42,525

35 Loans and Other Obligations (continued)

A By Type (continued)

The Company

in HK\$ million	2018			2017		
	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 2043 to 2047 (2017: due during 2043 to 2047)	2,996	3,447	3,062	2,996	3,593	3,062
Unlisted:						
Debt issuance programme notes due during 2028 (2017: due during 2018 to 2028)	355	400	391	812	906	857
Total capital market instruments	3,351	3,847	3,453	3,808	4,499	3,919
Bank loans	8,981	8,981	9,000	14,537	14,537	14,600
Others	478	540	478	458	537	458
Loans and other obligations	12,810	13,368	12,931	18,803	19,573	18,977
Bank overdrafts	-	-	-	4	4	4
Short-term loans	4,395	4,395	4,395	325	325	325
Total	17,205	17,763	17,326	19,132	19,902	19,306

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

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 43.

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	
	2018	2017	2018	2017
Australian dollars	431	431	-	-
Japanese yen	15,000	15,000	-	-
United States dollars	1,030	1,090	-	-

The Company

in million	Before hedging activities		After hedging activities	
	2018	2017	2018	2017
Japanese yen	5,000	5,000	-	-
United States dollars	350	410	-	-

NOTES TO THE CONSOLIDATED ACCOUNTS

35 Loans and Other Obligations (continued)

B By Repayment Terms

The Group

in HK\$ million	2018					2017				
	Capital market instruments	Bank loans and overdrafts	Finance leases	Others	Total	Capital market instruments	Bank loans and overdrafts	Finance leases	Others	Total
Loans and other obligations										
Amounts repayable beyond 5 years	19,238	1,218	–	478	20,934	19,055	1,517	344	455	21,371
Amounts repayable within a period of between 2 and 5 years	2,760	6,164	404	–	9,328	3,300	4,300	81	–	7,681
Amounts repayable within a period of between 1 and 2 years	1,648	221	46	–	1,915	300	11,234	46	–	11,580
Amounts repayable within 1 year	500	3,728	–	–	4,228	1,215	325	21	3	1,564
	24,146	11,331	450	478	36,405	23,870	17,376	492	458	42,196
Bank overdrafts	–	–	–	–	–	–	4	–	–	4
Short-term loans	–	4,424	–	–	4,424	–	325	–	–	325
	24,146	15,755	450	478	40,829	23,870	17,705	492	458	42,525
Less: Unamortised discount/premium/finance charges outstanding	(155)	(19)	–	–	(174)	(160)	(63)	–	–	(223)
Adjustment due to fair value change of financial instruments	(450)	–	–	–	(450)	(259)	–	–	–	(259)
Total carrying amount of debt	23,541	15,736	450	478	40,205	23,451	17,642	492	458	42,043

The Company

in HK\$ million	2018				2017			
	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	3,453	–	478	3,931	3,454	–	455	3,909
Amounts repayable within a period of between 2 and 5 years	–	5,500	–	5,500	–	3,600	–	3,600
Amounts repayable within a period of between 1 and 2 years	–	–	–	–	–	11,000	–	11,000
Amounts repayable within 1 year	–	3,500	–	3,500	465	–	3	468
	3,453	9,000	478	12,931	3,919	14,600	458	18,977
Bank overdrafts	–	–	–	–	–	4	–	4
Short-term loans	–	4,395	–	4,395	–	325	–	325
	3,453	13,395	478	17,326	3,919	14,929	458	19,306
Less: Unamortised discount/premium/finance charges outstanding	(52)	(19)	–	(71)	(54)	(63)	–	(117)
Adjustment due to fair value change of financial instruments	(50)	–	–	(50)	(57)	–	–	(57)
Total carrying amount of debt	3,351	13,376	478	17,205	3,808	14,866	458	19,132

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.

35 Loans and Other Obligations *(continued)*

C Bonds and Notes Issued and Redeemed

Notes issued during the years ended 31 December 2018 and 2017 comprise:

The Group

in HK\$ million	2018		2017	
	Principal amount	Net consideration received	Principal amount	Net consideration received
Debt issuance programme notes	1,491	1,488	7,655	7,600

During the year ended 31 December 2018, notes of HK\$1,491 million (2017: HK\$4,637 million and AUD201 million (or HK\$1,198 million)) were issued in Hong Kong by a subsidiary, MTR Corporation (C.I.) Limited, while the Company did not issued any of its notes (2017: HK\$338 million and USD190 million (or HK\$1,482 million)). 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 2018, the Group redeemed HK\$750 million and USD60 million (or HK\$465 million) of its unlisted debt securities (2017: HK\$500 million and AUD50 million (or HK\$417 million)) and did not redeem any of its listed debt securities (2017: USD550 million (or HK\$4,268 million)).

D Obligations Under Finance Leases

At 31 December 2018 and 2017, the Group had obligations under finance leases repayable as follows:

in HK\$ million	2018		2017	
	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	–	22	21	48
After 1 year but within 2 years	46	89	46	96
After 2 years but within 5 years	404	451	81	155
After 5 years	–	–	344	350
	450	540	471	601
	450	562	492	649
Less: Total future interest expenses		(112)		(157)
Present value of lease obligations		450		492

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 2018 and 2017.
- (ii) As at 31 December 2018, MTR Corporation (Shenzhen) Limited, an indirect wholly owned subsidiary of the Company in the Mainland of China, has pledged the fare and non-fare revenue and the benefits of insurance contracts in relation to Phase 2 of Shenzhen Metro Longhua Line as security for the RMB2,041 million (2017: RMB2,236 million) bank loan facility granted to it.
- (iii) As at 31 December 2018, MTR Corporation (Sydney) NRT Pty Limited, an indirect wholly owned subsidiary of the Company in Australia, has pledged a bank deposit of AUD7.2 million (2017: AUD1.2 million) as a collateral for a bank guarantee of AUD7.2 million (2017: AUD1.2 million).

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 2018.

NOTES TO THE CONSOLIDATED ACCOUNTS

36 Creditors and Other Payables

in HK\$ million	The Group		The Company	
	2018	2017	2018	2017
Creditors and accrued charges	18,525	24,687	14,114	19,726
Other payables	5,306	3,479	4,680	2,625
Contract liabilities	2,116	–	982	–
	25,947	28,166	19,776	22,351

Upon the adoption of HKFRS 15, opening adjustments were made as at 1 January 2018 to reclassify the creditors and accrued charges of HK\$2,525 million to contract liabilities. Comparative information has not been restated.

A Creditors and Accrued Charges

The analysis of creditors by due dates is as follows:

in HK\$ million	The Group		The Company	
	2018	2017	2018	2017
Due within 30 days or on demand	6,152	11,274	3,457	8,747
Due after 30 days but within 60 days	1,142	1,290	1,052	1,216
Due after 60 days but within 90 days	911	1,332	520	546
Due after 90 days	4,398	4,766	3,538	3,539
	12,603	18,662	8,567	14,048
Rental and other refundable deposits	3,209	3,946	3,076	3,866
Accrued employee benefits	2,713	2,079	2,471	1,812
	18,525	24,687	14,114	19,726

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

Movements in contract liabilities of the Group during the year ended 31 December 2018 are as follows:

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

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

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

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

in million	The Group		The Company	
	2018	2017	2018	2017
Australian dollars	11	10	3	3
Euros	14	10	14	10
Pound sterling	3	5	3	5
Renminbi	140	2	140	2
Swiss franc	3	3	3	3
United States dollars	17	18	4	5

36 Creditors and Other Payables (continued)

B Other Payables

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

As at 31 December 2018, all of the creditors and other payables were expected to be settled or recognised as income within one year except for HK\$11,381 million (2017: HK\$8,327 million), including contract liabilities of HK\$502 million (1 January 2018: HK\$423 million), of the Group which were expected to be settled or recognised as income after one year. The amounts due after one year for the Group as at 31 December 2018 mainly relate to rental deposits received from investment property and station kiosk tenants and advance income received, majority of which are due to be repaid within three years. The Group considers the effect of discounting would be immaterial.

37 Amounts Due to Related Parties

in HK\$ million	The Group		The Company	
	2018	2017	2018	2017
Amounts due to:				
– HKSAR Government	70	78	70	78
– KCRC	2,475	1,997	2,475	1,997
– associates	131	151	–	–
– subsidiaries	–	–	20,723	20,252
	2,676	2,226	23,268	22,327

The amount due to the HKSAR Government as at 31 December 2018 relates to land administrative fees in relation to railway extensions.

The amount due to KCRC as at 31 December 2018 mainly relates to the accrued portion of the fixed annual payment and variable annual payment that is expected to be settled within 12 months.

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

The amount due to the Company's subsidiaries included HK\$20,317 million (2017: HK\$19,778 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 35C). 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 2018, HK\$19,819 million (2017: HK\$19,041 million) is expected to be settled after one year.

38 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	
	2018	2017	2018	2017
Balance as at 1 January	10,470	10,507	10,292	10,343
Add: Net increase in interest payable	3	3	–	–
Less: Amount repaid during the year	(56)	(51)	(56)	(51)
Exchange differences	(8)	11	–	–
Balance as at 31 December	10,409	10,470	10,236	10,292

NOTES TO THE CONSOLIDATED ACCOUNTS

38 Obligations under Service Concession (continued)

The outstanding balances as at 31 December 2018 and 2017 are repayable as follows:

The Group

in HK\$ million	2018			2017		
	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	10,064	15,637	25,701	10,154	16,323	26,477
Amounts repayable within a period of between 2 and 5 years	223	2,061	2,284	202	2,084	2,286
Amounts repayable within a period of between 1 and 2 years	63	698	761	59	697	756
Amounts repayable within 1 year	59	697	756	55	701	756
	10,409	19,093	29,502	10,470	19,805	30,275

The Company

in HK\$ million	2018			2017		
	Present value of payment obligations	Interest expense relating to future periods	Total payment obligations	Present value of payment obligations	Interest expense relating to future periods	Total payment obligations
Amounts repayable beyond 5 years	9,898	15,539	25,437	9,976	16,212	26,188
Amounts repayable within a period of between 2 and 5 years	216	2,034	2,250	202	2,048	2,250
Amounts repayable within a period of between 1 and 2 years	63	687	750	59	691	750
Amounts repayable within 1 year	59	691	750	55	695	750
	10,236	18,951	29,187	10,292	19,646	29,938

39 Loan from Holders of Non-controlling Interests

Loan from holders of non-controlling interests as at 31 December 2018 mainly represents the portion of total shareholder loan of AUD60 million (HK\$332 million) granted to Metro Trains Australia Pty. Ltd. ("MTA") by the holders of its non-controlling interests. The loan carries an interest rate of 6.2% per annum and is repayable at the discretion of MTA or on 1 December 2024, whichever is earlier.

40 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 2018, chargeable at Hong Kong Profits Tax Rate at 16.5% (2017: 16.5%) and after netting off provisional tax paid, and tax outside Hong Kong chargeable at the appropriate current rates of taxation ruling in the relevant countries.

in HK\$ million	The Group		The Company	
	2018	2017	2018	2017
Provision for Hong Kong Profits Tax for the year (note 14)	1,933	1,305	1,876	1,256
Hong Kong Provisional Profits Tax paid	(912)	(596)	(871)	(563)
	1,021	709	1,005	693
Balance relating to tax outside Hong Kong	140	371	1	2
	1,161	1,080	1,006	695
Representing:				
Current Taxation	1,161	1,080	1,006	695

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

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	
2018						
Balance as at 1 January 2018	12,158	648	(107)	–	(8)	12,691
Charged/(credited) to consolidated profit and loss account	228	–	10	–	(102)	136
Charged/(credited) to reserves	–	103	(74)	(5)	–	24
Exchange differences	(1)	–	1	–	7	7
Balance as at 31 December 2018	12,385	751	(170)	(5)	(103)	12,858
2017						
Balance as at 1 January 2017	11,795	599	(314)	32	(12)	12,100
Charged to consolidated profit and loss account	361	–	45	–	4	410
Charged/(credited) to reserves	–	49	166	(32)	–	183
Exchange differences	2	–	(4)	–	–	(2)
Balance as at 31 December 2017	12,158	648	(107)	–	(8)	12,691

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	Tax losses	
2018						
Balance as at 1 January 2018	12,097	648	(96)	–	–	12,649
Charged/(credited) to profit and loss account	221	–	(91)	–	–	130
Charged/(credited) to reserves	–	103	(74)	(5)	–	24
Balance as at 31 December 2018	12,318	751	(261)	(5)	–	12,803
2017						
Balance as at 1 January 2017	11,730	599	(316)	32	–	12,045
Charged to profit and loss account	367	–	57	–	–	424
Charged/(credited) to reserves	–	49	163	(32)	–	180
Balance as at 31 December 2017	12,097	648	(96)	–	–	12,649

in HK\$ million	The Group		The Company	
	2018	2017	2018	2017
Net deferred tax assets	(121)	(69)	–	–
Net deferred tax liabilities	12,979	12,760	12,803	12,649
	12,858	12,691	12,803	12,649

C The Group has not recognised deferred tax assets in respect of some of its subsidiaries' cumulative tax losses of HK\$158 million (2017: HK\$113 million) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdictions and entities.

NOTES TO THE CONSOLIDATED ACCOUNTS

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

A Share Capital

	2018		2017	
	Number of shares	HK\$ million	Number of shares	HK\$ million
Ordinary shares, issued and fully paid:				
At 1 January	6,007,777,302	52,307	5,905,290,065	47,929
Shares issued in respect of scrip dividend of 2017/2016 final ordinary dividend	93,790,912	4,175	87,794,562	3,863
Shares issued in respect of scrip dividend of 2018/2017 interim ordinary dividend	32,348,875	1,298	3,032,675	137
Vesting of shares of Executive Share Incentive Scheme	–	15	–	2
Shares issued under the share option scheme	5,568,500	175	11,660,000	376
At 31 December	6,139,485,589	57,970	6,007,777,302	52,307

In accordance with section 135 of the Hong Kong Companies Ordinance (Cap. 622), the ordinary shares of the Company do not have a par value.

B Shares Held for Executive Share Incentive Scheme

During the year ended 31 December 2018, the Company awarded Performance Shares and Restricted Shares under the Company's Executive Share Incentive Scheme to certain eligible employees of the Company (note 44(ii)). In this regard, a total of 1,772,900 Performance Shares (2017: 112,200 Performance Shares) and 2,208,950 Restricted Shares (2017: 2,245,200 Restricted Shares) were awarded and accepted by the grantees on 10 April 2018 (2017: 10 April 2017). The fair values of these Award Shares were HK\$42.80 per share in 2018 (2017: HK\$44.45 per share).

During the year ended 31 December 2018, the Trustee of the Executive Share Incentive Scheme, pursuant to the terms of the rules and the trust deed of the Executive Share Incentive Scheme, purchased on the Hong Kong Stock Exchange a total of 5,351,600 Ordinary Shares (2017: nil) of the Company for a total consideration of approximately HK\$239 million (2017: HK\$nil). During the year ended 31 December 2018, 102,904 Ordinary Shares of the Company (2017: 110,053 Ordinary Shares) were issued to the Executive Share Incentive Scheme in relation to scrip dividend issued amounting to HK\$5 million (2017: HK\$5 million).

During the year ended 31 December 2018, 3,866,255 shares (2017: 1,570,047 shares) were transferred to the awardees under the Executive Share Incentive Scheme upon vesting. The total cost of the vested shares was HK\$152 million (2017: HK\$59 million). During the year ended 31 December 2018, HK\$15 million (2017: HK\$2 million) was credited to share capital in respect of vesting of shares whose fair values at the grant date were higher than the costs of the vested shares. During the year ended 31 December 2018, 579,488 award shares (2017: 169,764 award shares) were lapsed/forfeited.

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	5,568,500	29.094

An analysis of the Company's outstanding share options as at 31 December 2018 is disclosed in note 44.

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

(continued)

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

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\$59,551 million (2017: HK\$54,938 million) included in retained profits are non-distributable as they do not constitute realised profits. As at 31 December 2018, the Company considers that the total amount of reserves available for distribution to shareholders amounted to HK\$53,726 million (2017: HK\$50,378 million).

Included in the Group's retained profits as at 31 December 2018 is an amount of HK\$2,029 million (2017: HK\$1,536 million), being the retained profits attributable to the associates and joint venture.

E Capital Management

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

The Group manages the amount of capital in proportion to risk, and makes adjustments to its capital structure through the amount of dividend payment to shareholders, issuance of scrip and new shares, and managing its debt portfolio in conjunction with projected financing requirement. The Financial Secretary Incorporated of the HKSAR Government is the majority shareholder of the Company holding 4,634,173,932 shares as at 31 December 2018, representing 75.48% 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 20.6% at 31 December 2017 and 18.1% at 31 December 2018.

Fasttrack Insurance Ltd. is required to maintain a minimum level of shareholders' fund based on the Bermuda Insurance Act. MTR Corporation (Shenzhen) Limited is required to maintain a registered capital at or above 40% of the total investment for the Shenzhen Metro Longhua Line project in accordance with the concession agreement. MTR Property Development (Shenzhen) Company Limited is required to maintain a registered capital at or above 33% of the total investment based on Jianfang [2015] No. 122. Metro Trains Melbourne Pty. Ltd. is required to maintain total shareholders' funds at a specified amount in accordance with the franchise agreement. MTR Express (Sweden) AB, MTR Nordic AB, MTR Pendeltågen AB, MTR Tech AB, MTR Tunnelbanan AB and MTR Zeta 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 2018, all these capital requirements were met. Apart from these, neither the Company nor any of its other subsidiaries are subject to externally imposed capital requirements.

NOTES TO THE CONSOLIDATED ACCOUNTS

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

(continued)

F Company-level Movements in Components of Equity

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

in HK\$ million	Note	Share capital	Shares held for Executive Share Incentive Scheme	Other reserves				Total equity
				Fixed assets revaluation reserve	Hedging reserve	Employee share-based capital reserve	Retained profits	
2018								
Balance as at 1 January 2018	50	52,307	(173)	3,296	(143)	203	105,458	160,948
Profit for the year		-	-	-	-	-	15,052	15,052
Other comprehensive income for the year		-	-	519	44	-	(376)	187
Total comprehensive income for the year		-	-	519	44	-	14,676	15,239
2017 final ordinary dividend		-	-	-	-	-	(5,224)	(5,224)
Shares issued in respect of scrip dividend of 2017 final ordinary dividend		4,175	(4)	-	-	-	-	4,171
2018 interim ordinary dividend		-	-	-	-	-	(1,525)	(1,525)
Shares issued in respect of scrip dividend of 2018 interim ordinary dividend		1,298	(1)	-	-	-	-	1,297
Shares purchased for Executive Share Incentive Scheme		-	(239)	-	-	-	-	(239)
Vesting and forfeiture of award shares of Executive Share Incentive Scheme		15	152	-	-	(158)	(9)	-
Employee share-based payments		-	-	-	-	110	-	110
Employee share options exercised		175	-	-	-	(13)	-	162
Balance as at 31 December 2018	50	57,970	(265)	3,815	(99)	142	113,376	174,939
2017								
Balance as at 1 January 2017		47,929	(227)	3,043	150	182	96,101	147,178
Profit for the year		-	-	-	-	-	14,892	14,892
Other comprehensive income for the year		-	-	253	(293)	-	827	787
Total comprehensive income for the year		-	-	253	(293)	-	15,719	15,679
Special Dividend		-	-	-	-	-	(20)	(20)
2016 final ordinary dividend		-	-	-	-	-	(4,844)	(4,844)
Shares issued in respect of scrip dividend of 2016 final ordinary dividend		3,863	(4)	-	-	-	-	3,859
2017 interim ordinary dividend		-	-	-	-	-	(1,500)	(1,500)
Shares issued in respect of scrip dividend of 2017 interim ordinary dividend		137	(1)	-	-	-	-	136
Vesting and forfeiture of award shares of Executive Share Incentive Scheme		2	59	-	-	(63)	2	-
Employee share-based payments		-	-	-	-	119	-	119
Employee share options exercised		376	-	-	-	(35)	-	341
Balance as at 31 December 2017	50	52,307	(173)	3,296	(143)	203	105,458	160,948

42 Other Cash Flow Information

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

in HK\$ million	2018	2017
Operating profit before Hong Kong property development, depreciation, amortisation and variable annual payment from recurrent businesses	18,843	17,677
Adjustments for:		
– Loss on disposal of fixed assets	45	44
– Amortisation of deferred income from transfers of assets from customers	(24)	(21)
– (Increase)/decrease in fair value of derivative instruments	(27)	46
– Unrealised loss on revaluation of investment in securities	2	2
– Employee share-based payment expenses	110	119
– Exchange (gain)/loss	(4)	25
Operating profit before working capital changes	18,945	17,892
Increase in debtors and other receivables	(1,183)	(767)
Increase in stores and spares	(169)	(31)
(Decrease)/increase in creditors and other payables	(4,664)	5,145
Cash generated from operations	12,929	22,239

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

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

NOTES TO THE CONSOLIDATED ACCOUNTS

42 Other Cash Flow Information *(continued)*

in HK\$ million	Loans and other obligations					Short-term loans	Interest and finance charges payables	Total
	Capital market instruments	Bank loans	Finance leases	Others				
2017								
At 1 January 2017	20,677	17,018	460	434	1,350	101	40,040	
Changes from financing cash flows:								
– Proceeds from loans and capital market instruments	7,601	17,823	–	–	–	–	25,424	
– Repayment of loans and capital market instruments	(5,185)	(17,705)	(19)	–	(1,025)	–	(23,934)	
– Interest and finance charges	–	–	–	–	–	(923)	(923)	
	2,416	118	(19)	–	(1,025)	(923)	567	
Exchange differences	1	207	51	3	–	(48)	214	
Other changes:								
– Unamortised discount/premium/finance charges outstanding	(35)	(30)	–	–	–	–	(65)	
– Adjustment due to fair value change of financial instruments	338	–	–	–	–	–	338	
– Interest and finance charges	–	–	–	21	–	1,047	1,068	
– Discount on issuance of capital market instruments	54	–	–	–	–	(54)	–	
	357	(30)	–	21	–	993	1,341	
At 31 December 2017	23,451	17,313	492	458	325	123	42,162	

43 Fair Value Measurement

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

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

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

Level 3: Fair value measured using significant unobservable inputs

A Fair Value Measurements of Fixed Assets

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

During the year ended 31 December 2018, 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 2018 and 2017 by independent qualified surveyors. The Group's senior management have discussion with the surveyors on the valuation assumptions and valuation results when the valuation is performed at each interim and annual reporting date.

The fair value of all the Group's self-occupied 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.

43 Fair Value Measurement *(continued)*

A Fair Value Measurements of Fixed Assets *(continued)*

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 2018 was 3.50% – 5.75% (2017: 3.50% – 6.00%) with a weighted average of 4.8% (2017: 4.9%). The fair value measurement is negatively correlated to the market yield rate.

The movements of investment properties during the year ended 31 December 2018 are shown in note 19. All the fair value adjustment related to investment properties held as at 31 December 2018 and was recognised under investment property revaluation in the consolidated profit and loss account.

B Fair Value Measurements of Financial Instruments

(i) Financial Assets and Liabilities Carried at Fair Value

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 2018	Fair value measurements as at 31 December 2018	
		Level 1	Level 2
Financial Assets			
Derivative financial assets			
– Foreign exchange forwards	1	–	1
– Cross currency swaps	25	–	25
– Interest rate swaps	35	–	35
	61	–	61
Investments in securities	294	294	–
	355	294	61
Financial Liabilities			
Derivative financial liabilities			
– Foreign exchange forwards	33	–	33
– Cross currency swaps	481	–	481
– Interest rate swaps	31	–	31
	545	–	545

in HK\$ million	Fair value at 31 December 2017	Fair value measurements as at 31 December 2017	
		Level 1	Level 2
Financial Assets			
Derivative financial assets			
– Foreign exchange forwards	20	–	20
– Cross currency swaps	101	–	101
– Interest rate swaps	47	–	47
	168	–	168
Investments in securities	443	443	–
	611	443	168
Financial Liabilities			
Derivative financial liabilities			
– Foreign exchange forwards	41	–	41
– Cross currency swaps	379	–	379
– Interest rate swaps	31	–	31
	451	–	451

NOTES TO THE CONSOLIDATED ACCOUNTS

43 Fair Value Measurement *(continued)*

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

The Company

in HK\$ million	Fair value at 31 December 2018	Fair value measurements as at 31 December 2018	
		Level 1	Level 2
Financial Assets			
Derivative financial assets			
– Foreign exchange forwards	1	–	1
– Cross currency swaps	25	–	25
– Interest rate swaps	35	–	35
	61	–	61
Financial Liabilities			
Derivative financial liabilities			
– Foreign exchange forwards	33	–	33
– Cross currency swaps	481	–	481
– Interest rate swaps	31	–	31
	545	–	545

in HK\$ million	Fair value at 31 December 2017	Fair value measurements as at 31 December 2017	
		Level 1	Level 2
Financial Assets			
Derivative financial assets			
– Foreign exchange forwards	20	–	20
– Cross currency swaps	101	–	101
– Interest rate swaps	47	–	47
	168	–	168
Financial Liabilities			
Derivative financial liabilities			
– Foreign exchange forwards	41	–	41
– Cross currency swaps	379	–	379
– Interest rate swaps	31	–	31
	451	–	451

There are no Level 3 measurements of financial instruments. During the years ended 31 December 2018 and 2017, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

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

43 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 2018 and 2017 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 2018		At 31 December 2017	
	Carrying amount	Fair value	Carrying amount	Fair value
Capital market instruments	23,541	25,636	23,451	25,881
Other obligations	928	1,093	950	1,172

The Company

in HK\$ million	At 31 December 2018		At 31 December 2017	
	Carrying amount	Fair value	Carrying amount	Fair value
Capital market instruments	3,351	3,847	3,808	4,499
Other obligations	478	540	458	537

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.

44 Share-based Payments

Equity-settled Share-based Payments

The Group granted share options under share option scheme and share awards under Executive Share Incentive Scheme to its Members of the Executive Directorate and certain employees. As at 31 December 2018, the Company maintained the 2007 Share Option Scheme and the Executive Share Incentive Scheme. Details of the schemes are as follows:

(i) 2007 Share Option Scheme

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

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

NOTES TO THE CONSOLIDATED ACCOUNTS

44 Share-based Payments *(continued)*

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

As at 31 December 2018, 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 2018 granted under the 2007 Option Scheme since inception:

Date of grant	Number of share options	Exercise price HK\$	Exercisable period
<u>2012 Award</u> 30 March 2012	840,000	27.48	on or prior to 23 March 2019
<u>2013 Award</u> 6 May 2013	2,709,000	31.40	on or prior to 26 April 2020
<u>2014 Award</u> 30 May 2014	4,621,500	28.65	on or prior to 23 May 2021

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

	2018		2017	
	Number of share options	Weighted average exercise price HK\$	Number of share options	Weighted average exercise price HK\$
Outstanding at 1 January	13,794,000	29.298	25,605,000	29.284
Exercised during the year	(5,568,500)	29.094	(11,660,000)	29.267
Forfeited during the year	(55,000)	28.650	(151,000)	29.219
Lapsed during the year	–	–	–	–
Outstanding at 31 December	8,170,500	29.441	13,794,000	29.298
Exercisable at 31 December	8,170,500	29.441	13,794,000	29.298

The weighted average closing price in respect of the share options exercised during the year was HK\$41.700 (2017: HK\$45.264).

Share options outstanding at 31 December 2018 had the following exercise prices and remaining contractual lives:

Exercise price	2018		2017	
	Number of share options	Remaining contractual life years	Number of share options	Remaining contractual life years
HK\$27.48	840,000	–	1,793,500	1
HK\$31.40	2,709,000	1	4,014,500	2
HK\$28.65	4,621,500	2	7,986,000	3
	8,170,500		13,794,000	

During the year ended 31 December 2018, no expense was recognised for the equity-settled share-based payments relating to the 2007 Share Option Scheme (2017: HK\$2 million).

44 Share-based Payments *(continued)*

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

(ii) Executive Share Incentive Scheme

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

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

As at 31 December 2018, the following awards of shares were offered to Members of the Executive Directorate and selected employees of the Company under the Executive Share Incentive Scheme:

Restricted Shares

Date of award	Number of Award Shares granted	Average fair value per share HK\$	Vesting period
27 April 2015	2,348,150	38.60	20 April 2015 to 20 April 2018
8 April 2016	2,401,150	38.65	1 April 2016 to 1 April 2019
19 August 2016	71,428	42.50	15 August 2016 to 15 August 2019
10 April 2017	2,245,200	44.45	3 April 2017 to 3 April 2020
10 April 2018	2,208,950	42.80	3 April 2018 to 3 April 2021

Performance Shares

Date of award	Number of Award Shares granted	Average fair value per share HK\$	Vesting period
27 April 2015	1,681,050	38.60	20 April 2015 to 20 April 2018
8 April 2016	187,200	38.65	1 April 2016 to 20 April 2018
10 April 2017	112,200	44.45	3 April 2017 to 20 April 2018
10 April 2018	1,772,900	42.80	3 April 2018 to 3 April 2021

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

	2018		2017
	Number of Award Shares	Number of Award Shares	Number of Award Shares
Outstanding at 1 January	6,142,188		5,524,599
Awarded during the year	3,981,850		2,357,400
Vested during the year	(3,866,255)		(1,570,047)
Forfeited during the year	(579,488)		(169,764)
Outstanding at 31 December	5,678,295		6,142,188

NOTES TO THE CONSOLIDATED ACCOUNTS

44 Share-based Payments *(continued)*

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

Award Shares outstanding at 31 December 2018 had the following remaining vesting periods:

Award Shares	Remaining vesting period years	Number of Award Shares
Restricted Shares		
8 April 2016	0.25	644,774
19 August 2016	0.62	23,810
10 April 2017	1.26	1,307,461
10 April 2018	2.26	2,063,800
Performance Shares		
10 April 2018	2.26	1,638,450

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

During the year ended 31 December 2018, the equity-settled share-based payments relating to the Executive Share Incentive Scheme recognised as an expense amounted to HK\$110 million (2017: HK\$117 million).

45 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 2018, including the MTR Corporation Limited Retirement Scheme (the "MTR Retirement Scheme"), the MTR Corporation Limited Provident Fund Scheme (the "MTR Provident Fund Scheme") and two Mandatory Provident Fund ("MPF") Schemes, the "MTR MPF Scheme" and the "KCRC MPF Scheme".

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

(i) MTR Retirement Scheme

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

The MTR Retirement Scheme has been closed to new employees from 1 April 1999 onwards. It is administrated in accordance with the Trust Deed and Rules by the Board of Trustees, comprising management and employee representatives, and independent non-employer trustees. It provides benefits based on the greater of a multiple of final salary times service and a factor times the accumulated member contributions with investment returns. Members' contributions are based on fixed percentages of base salary. The Company's contributions are determined by reference to an annual actuarial valuation carried out by an independent actuarial consulting firm. As at 31 December 2018, the total number of member was 3,600 (2017: 3,858). In 2018, members contributed HK\$72 million (2017: HK\$74 million) and the Company contributed HK\$183 million (2017: HK\$662 million) to the MTR Retirement Scheme. The net asset value of the MTR Retirement Scheme excluding the portion attributable to members' voluntary contributions as at 31 December 2018 was HK\$8,662 million (2017: HK\$9,903 million).

The actuarial valuations as at 31 December 2017 and 2018 to determine the accounting obligations in accordance with HKAS 19, *Employee benefits*, were carried out by an independent actuarial consulting firm, Willis Towers Watson, using the Projected Unit Credit Method. The results of the valuation are shown in note 46.

The actuarial valuations as at 31 December 2017 and 2018 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 2018 included a long-term rate of investment return net of salary increases of 1.17% (2017: 1.00%) 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 2018:

- the MTR Retirement Scheme was insolvent, covering 98.6% of the aggregate vested liability had all members left service with their leaving service benefits secured, resulting in a solvency deficit of HK\$122 million; and
- in the normal course of events, and provided that the MTR Retirement Scheme is funded in accordance with the minimum contribution level required by the Company as determined by the actuarial review as at 31 December 2018, together with the members' contributions, it is expected that the Scheme's assets would be sufficient to meet the aggregate vested liability and the aggregate past service liability within a period of three years from the valuation date.

45 Retirement Schemes *(continued)*

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

(ii) MTR Provident Fund Scheme

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

As at 31 December 2018, the total number of employees participating in the MTR Provident Fund Scheme was 10,177 (2017: 9,662). In 2018, total members' contributions were HK\$138 million (2017: HK\$125 million) and total contributions from the Company were HK\$335 million (2017: HK\$312 million). The net asset value as at 31 December 2018 was HK\$5,992 million (2017: HK\$6,247 million).

(iii) MTR MPF Scheme

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

As at 31 December 2018, the total number of employees participating in the MTR MPF Scheme was 5,809 (2017: 6,109). In 2018, total members' contributions were HK\$50 million (2017: HK\$53 million) and total contribution from the Company were HK\$55 million (2017: HK\$58 million).

(iv) KCRC MPF Scheme

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

As at 31 December 2018, the total number of employees participating in the KCRC MPF Scheme was 429 (2017: 515). In 2018, total members' contributions were HK\$5 million (2017: HK\$6 million) and total contribution from the Company were HK\$5 million (2017: HK\$6 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.

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 2018, total number of the Group's employees participating in this scheme was 575 (2017: 611). In 2018, total members' contributions were HK\$26 million (2017: HK\$25 million) and total contribution from the Group was HK\$54 million (2017: HK\$46 million).

Certain employees of the Group's Swedish subsidiary are entitled to receive retirement benefits from the ITP 2 Retirement Scheme operated in Sweden. The benefit amounts are calculated based on the member's years of service and annual salary. The Group does not recognise any defined benefit liability in respect of this scheme because the Group has no legal or constructive obligation to pay future benefits relating to its employees; its only obligation is to pay contributions as they fall due. As at 31 December 2018, total number of the Group's employees participating in this scheme was 607 (2017: 670). In 2018, total contribution from the Group was HK\$23 million (2017: HK\$20 million).

Certain employees of the Group's MTR Crossrail subsidiary are entitled to join the MTR Corporation (Crossrail) section of the Railway Pension Scheme in the United Kingdom. The scheme is a shared cost arrangement whereby the Group is only responsible for a share of the cost. The benefit amounts are calculated based on the member's years of service and final average salary. The Group does not recognise any net defined benefit liability in respect of this scheme because the Group has no legal or constructive obligation for any deficit in the value of the scheme. Its only obligation is to pay contributions as they fall due. As at 31 December 2018, total number of the Group's employees participating in this scheme was 535 (2017: 394). In 2018, total members' contributions were HK\$17 million (2017: HK\$10 million) and total contribution from the Group was HK\$26 million (2017: HK\$15 million). Pension expense of HK\$53 million (2017: HK\$29 million) was recognised in profit and loss and actuarial gain of HK\$28 million (2017: HK\$11 million) was recognised in the statement of other comprehensive income.

Except for the retirement schemes described above, all other retirement schemes to cover employees in overseas offices or in subsidiaries in Hong Kong, the Mainland of China or overseas are defined contribution schemes. For Hong Kong employees, these schemes are registered under the MPFSO in Hong Kong. For the Mainland of China or overseas employees, these schemes are operated in accordance with the respective local laws and regulations. As at 31 December 2018, the total number of employees of the Group participating in these schemes was 12,875 (2017: 11,655). In 2018, total members' contributions were HK\$95 million (2017: HK\$99 million) and total contribution from the Group was HK\$454 million (2017: HK\$394 million).

46 Defined Benefit Retirement Scheme

During the year ended 31 December 2018, 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 45). This defined benefit scheme exposes the Group to actuarial risks, such as interest rate, salary increase and investment risks. The information about the MTR Retirement Scheme is summarised as below:

A The amounts recognised in the consolidated statement of financial position are as follows:

The Group and The Company

in HK\$ million	2018	2017
Present value of defined benefit obligations	(10,022)	(10,672)
Fair value of scheme assets	8,662	9,903
Net liabilities	(1,360)	(769)

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\$356 million in contribution to the MTR Retirement Scheme in 2019.

B Scheme assets consist of the following:

The Group and The Company

in HK\$ million	2018	2017
Equity securities		
– Financial institutions	638	901
– Non-financial institutions	3,697	4,778
	4,335	5,679
Bonds		
– Government	2,229	1,821
– Non-government	1,851	2,212
	4,080	4,033
Cash	415	366
	8,830	10,078
Voluntary units	(168)	(175)
	8,662	9,903

The scheme assets include no amount invested in the ordinary shares of the Company as at 31 December 2018 (2017: HK\$nil). Also, there were no investment in other shares and debt securities of the Company as at 31 December 2018 and 2017. 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 2018 (2017: 52.5% in equities and 47.5% in bonds and cash).

46 Defined Benefit Retirement Scheme *(continued)*

C Movements in the Present Value of the Defined Benefit Obligations

The Group and The Company

in HK\$ million	2018	2017
At 1 January	10,672	10,455
Remeasurements:		
– Actuarial (gains)/losses arising from changes in liability experience	(97)	232
– Actuarial losses arising from changes in demographic assumptions	13	1
– Actuarial (gains)/losses arising from changes in financial assumptions	(172)	168
	(256)	401
Members' contributions paid to the scheme	72	74
Benefits paid by the scheme	(1,002)	(853)
Current service cost	303	328
Interest cost	233	267
At 31 December	10,022	10,672

The weighted average duration of the present value of the defined benefit obligations is 6.3 years (2017: 6.6 years).

D Movements in Scheme Assets

The Group and The Company

in HK\$ million	2018	2017
At 1 January	9,903	8,413
Company's contributions paid to the scheme	183	662
Members' contributions paid to the scheme	72	74
Benefits paid by the scheme	(1,002)	(853)
Administrative expenses paid from scheme assets	(6)	(6)
Interest income	218	222
Return on scheme assets, excluding interest income	(706)	1,391
At 31 December	8,662	9,903

NOTES TO THE CONSOLIDATED ACCOUNTS

46 Defined Benefit Retirement Scheme *(continued)*

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

in HK\$ million	2018	2017
Current service cost	303	328
Net interest on net defined benefit liability	15	45
Administrative expenses paid from scheme assets	6	6
	324	379
Less: Amount capitalised	(40)	(47)
Net amount recognised in profit or loss	284	332
Actuarial (gains)/losses	(256)	401
Return on scheme assets, excluding interest income	706	(1,391)
Amount recognised in other comprehensive income	450	(990)

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:

	2018	2017
Discount rate	2.65%	2.29%
Future salary increases	4.08%	4.00%
Unit value increase	5.25%	5.00%

The below analysis shows how the present value of the defined benefit obligations as at 31 December 2018 would have increased/(decreased) as a result of 0.25% change in the significant actuarial assumptions:

	2018		2017	
	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	(153)	157	(171)	176
Future salary increases	131	(124)	129	(121)
Unit value increase	22	(18)	48	(42)

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.

47 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 2018:

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 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 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	2018
Package Five	Residential	102,336	2019
Package Six	Residential	136,970	2020
Package Seven	Residential/Retail/Kindergarten	115,920	2022
Package Eight	Residential	97,000	2021
Package Nine	Residential/Kindergarten	104,920	2022
Package Ten	Residential	75,400	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
Ho Man Tin Station			
Package One	Residential	69,000	2022
Package Two	Residential	59,400	2024
Wong Chuk Hang Station			
Package One	Residential	53,600	2022
Package Two	Residential	45,800	2023
Package Three	Residential/Retail	139,900	2024
Yau Tong Ventilation Building	Residential	30,225	2025

* Completion based on issuance of occupation permit

47 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 or deferred income included in creditors and other payables as the case may be.

During the year ended 31 December 2018, profits attributable to joint operations of HK\$2,480 million (2017: HK\$609 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*
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.

48 Material Related Party Transactions

The Financial Secretary Incorporated, which holds approximately 75.48% 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 which laid down the detailed provisions for the design, construction, maintenance and operation of the railway under the franchise. With the Rail Merger, the operating agreement was replaced with effect from 2 December 2007 by a new operating agreement, details of which are set out in note 48C below.

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

C In connection with the Rail Merger (note 3), on 9 August 2007, the Company and the HKSAR Government entered into a new operating agreement ("OA"), which is based on the then existing operating agreement referred to in note 48A 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 OA detailed the design, construction, maintenance and operation of the railways under the expanded franchise. Pursuant to the terms of the OA and the MTR Ordinance, the Company may apply for extensions of the franchise and the Secretary for Transport and Housing shall, subject to certain provisions, recommend to the Chief Executive in Council that the franchise should be extended for a further period of 50 years (from a date relating to certain capital expenditure requirements) if the Company has satisfied such capital expenditure requirements, at no additional payment for any such extension. If the franchise is not extended, it will expire on 1 December 2057. Following such expiry, the HKSAR Government has the right to take possession of railway property (and, where the HKSAR Government has taken possession of any such property which is not concession property, the Company may require the HKSAR Government to take possession of any other property which the HKSAR Government was entitled to take possession of, but did not take possession of), but must compensate the Company: (i) in the case of such property which is not concession property, at the higher of fair value and depreciated book value, and (ii) in the case of such property which is concession property, in an amount equal to the reimbursement described in note 3. The 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 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.

48 Material Related Party Transactions *(continued)*

D Other than the OA described in note 48C 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 49E.

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 the following principal agreements with KCRC and the HKSAR Government in connection with the operation of the High Speed Rail:

- (i) Amendment Operating Agreement, which was entered into with the HKSAR Government on 23 August 2018, to amend and supplement the OA, in order to prescribe the operational requirements that would apply to the High Speed Rail.
- (ii) Supplemental Service Concession Agreement, which was entered into with KCRC on 23 August 2018, to supplement the SCA, in order for KCRC to grant a concession to the Company in respect of the High Speed Rail and to prescribe the operational and financial requirements that will apply to the High Speed Rail. During the year ended 31 December 2018, net revenue received or receivable from KCRC in respect of High Speed Rail amounted to HK\$104 million (2017: HK\$nil).

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

F 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. The timeframe for the repayment mechanism was extended to no later than 30 June 2018 by a supplemental agreement between the Company and the HKSAR Government dated 23 December 2016, and further extended for a period ending on or before 31 March 2019 by a second supplemental agreement between the Company and the HKSAR Government dated 29 June 2018. During the year ended 31 December 2018, no payment has been made by the Company to the HKSAR Government under the repayment mechanism (2017: HK\$nil). Such transactions are considered to be related party transactions and also constitute continuing connected transactions as defined under the Listing Rules. A detailed description of the Project Agreement is contained under the paragraph "Continuing Connected Transactions" of the Report of the Members of the Board;
- (iii) Project Agreement in respect of the South Island Line, which was signed on 17 May 2011 and includes the granting of property development rights at a site in Wong Chuk Hang. 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

48 Material Related Party Transactions *(continued)*

(iv) Project Agreement in respect of the Kwun Tong Line Extension, which was signed on 17 May 2011 and includes the granting of property development rights at a site in Ho Man Tin. 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).

G 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 during the year ended 31 December 2018 include:

(i) The HSR Preliminary Entrustment Agreement, which was signed on 24 November 2008, and the HSR Entrustment Agreement, which was signed on 26 January 2010, in respect of the Guangzhou-Shenzhen-Hong Kong Express Rail Link ("High Speed Rail" or "HSR"). The two agreements together entrust the Company with the project management of activities leading to the completion of HSR. Detailed description of the agreements and the amount of project management fees recognised for the year ended 31 December 2018 are provided in note 23A; 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 2018 are provided in note 23B.

On 30 November 2015, the HKSAR Government and the Company entered into the deed of agreement relating to the further funding and completion of HSR project. Detailed description of the agreement is provided in note 23A.

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.

H 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.

I 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 2018 are provided in notes 33 and 37 respectively.

J 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/ land premium offer acceptance date	Total land premium in HK\$ million	Land premium settlement date
Yau Tong Ventilation Building	18 May 2018	151	18 May 2018
		1,364	3 August 2018
		1,515	
Site C of Aberdeen Inland Lot No. 467	17 August 2018	12,971	24 September 2018
Site B of Kowloon Inland Lot No. 11264	1 November 2018	7,487	13 December 2018

K 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.

L 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 ("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\$97 million was recognised as consultancy income during the year ended 31 December 2018 (2017: HK\$70 million).

48 Material Related Party Transactions (continued)

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

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

M Other than those stated in notes 48A to 48L, 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 27, 33 and 37.

N 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. Details of the terms of these options are disclosed in note 10B and the Report of the Members of the Board. Their gross remuneration charged to the profit and loss account is summarised as follows:

in HK\$ million	2018	2017
Short-term employee benefits	94.5	90.3
Post-employment benefits	7.7	11.7
Equity compensation benefits	19.3	22.2
	121.5	124.2

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

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

in HK\$ million	2018	2017
Ordinary dividends		
– Cash dividends paid	–	1,129
– Shares allotted in respect of scrip dividends	5,081	3,636
	5,081	4,765
Special dividend paid in cash	–	9,756
	5,081	14,521

49 Commitments

A Capital Commitments

(i) Outstanding capital commitments as at 31 December 2018 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
At 31 December 2018					
Authorised but not yet contracted for	8,444	–	2,560	19	11,023
Authorised and contracted for	14,109	194	4,756	16	19,075
	22,553	194	7,316	35	30,098
At 31 December 2017					
Authorised but not yet contracted for	6,246	–	1,868	22	8,136
Authorised and contracted for	13,758	298	5,497	30	19,583
	20,004	298	7,365	52	27,719

In addition to the above, the Group has certain capital commitments in respect of its investments in associates and joint venture. Please refer to note 27 for details.

NOTES TO THE CONSOLIDATED ACCOUNTS

49 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
At 31 December 2018				
Authorised but not yet contracted for	8,388	–	2,522	10,910
Authorised and contracted for	14,109	194	4,743	19,046
	22,497	194	7,265	29,956
At 31 December 2017				
Authorised but not yet contracted for	6,214	–	1,821	8,035
Authorised and contracted for	13,758	298	5,482	19,538
	19,972	298	7,303	27,573

(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
At 31 December 2018				
Authorised but not yet contracted for	4,577	573	3,294	8,444
Authorised and contracted for	10,113	250	3,746	14,109
	14,690	823	7,040	22,553
At 31 December 2017				
Authorised but not yet contracted for	3,081	614	2,551	6,246
Authorised and contracted for	9,767	79	3,912	13,758
	12,848	693	6,463	20,004

The Company

in HK\$ million	Improvement, enhancement and replacement works	Acquisition of property, plant and equipment	Additional concession property	Total
At 31 December 2018				
Authorised but not yet contracted for	4,521	573	3,294	8,388
Authorised and contracted for	10,113	250	3,746	14,109
	14,634	823	7,040	22,497
At 31 December 2017				
Authorised but not yet contracted for	3,049	614	2,551	6,214
Authorised and contracted for	9,767	79	3,912	13,758
	12,816	693	6,463	19,972

49 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 2018. The total future minimum lease payments under non-cancellable operating leases are payable as follows:

in HK\$million	The Group		The Company	
	2018	2017	2018	2017
Payable within one year	132	148	14	24
Payable after one but within five years	5	13	1	8
	137	161	15	32

In addition to the above, the Group has future operating lease commitments of HK\$8,698 million (2017: HK\$10,557 million) in respect of railway-related subsidiaries outside of Hong Kong over the respective franchise periods, of which HK\$1,534 million (2017: HK\$1,615 million) is payable within one year, HK\$5,518 million (2017: HK\$5,949 million) is payable after one but within five years and HK\$1,646 million (2017: HK\$2,993 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 2018, the Group had total outstanding liabilities and contractual commitments of HK\$2,767 million (2017: HK\$2,565 million) in respect of these works and services. Cash funds totalling HK\$2,496 million (2017: HK\$2,232 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 35C), the Company has provided guarantees to the investors of approximately HK\$24,146 million (in notional amount) as at 31 December 2018. 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\$97.2 million (HK\$761 million) as at 31 December 2018. 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\$56.0 million (HK\$439 million) as at 31 December 2018.

In respect of the operating lease on the shopping centre in Beijing, the Group provided a bank guarantee of RMB12.5 million (HK\$14 million) and a parent company guarantee of RMB52.5 million (HK\$60 million) in respect of the quarterly rental payments to the landlord.

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

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

In respect of the Melbourne train system franchise, the Group and the other shareholders of the Group's 60% owned subsidiary, Metro Trains Melbourne Pty. Ltd. ("MTM"), have provided to the Public Transport Victoria a joint and several parent company guarantee of AUD147.3 million (HK\$815 million) and a performance bond of AUD56.3 million (HK\$312 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 AUD4.4 million (HK\$24 million) for the monthly rental payments to the landlords.

In respect of the Stockholm metro franchise, the Group has provided to the Stockholm transport authority a guarantee of SEK1,000 million (HK\$875 million), which can be called if the franchise is terminated early as a result of default by MTR Tunnelbanan AB, the wholly owned subsidiary of the Group to undertake the franchise.

49 Commitments *(continued)*

D Material Financial and Performance Guarantees *(continued)*

In respect of the Stockholms pendeltåg franchise, the Group has provided to the Stockholm transport authorities a guarantee of SEK1,000 million (HK\$875 million), which can be called if the franchise is terminated early as a result of default by MTR Pendeltågen AB, the wholly owned subsidiary of the Group to undertake the franchise.

In respect of the London Crossrail Franchise, the Group has provided to the Rail for London Limited a parent company guarantee of GBP80 million (HK\$799 million) and a performance bond of GBP25 million (HK\$250 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 with a liability cap totalling AUD1,558 million (HK\$8,622 million) for the design and construction contract as well as the mobilisation phase of the operations and maintenance contract (the cap being subject to the usual exclusions of losses arising from wilful misconduct, fraudulent and criminal actions and, in addition, losses arising from abandonment of the contracts). The Group has also provided a performance bond of AUD53.5 million (HK\$296 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 AUD25.5 million (HK\$141 million) as at 31 December 2018 to cover the equity and preferred equity to be invested in the Sydney Metro Northwest project.

As at 31 December 2018, the Group has also provided two parent company guarantees to local government authority as part of the overall Sydney Metro City & Southwest bidding process. One of parent company guarantees is capped at AUD52.0 million (HK\$288 million) (the cap being subject to the usual exclusions of losses arising from wilful misconduct, fraudulent and criminal actions) while the other provides support in relation to an underlying bid process document which does not attract any express financial liability to the Company and is intended to only provide the corporate commitment by the Group to the bid process. These parent company guarantees will expire upon the financial close of the bid which is expected later in 2019.

In respect of the South Western Trains Franchise, the Group has provided to the Secretary of State for Transport several parent company guarantees of GBP26.2 million (HK\$262 million), a performance bond of GBP4.5 million (HK\$45 million) and a season ticket bond amounting to GBP23.5 million (HK\$235 million) as at 31 December 2018 for the performance and other obligations under the franchise agreement.

In respect of the Macau Light Rapid Transit Taipa Line, the Group has provided to the Macau transport authorities a number of bank guarantees amounting to MOP259.2 million (HK\$252 million) as at 31 December 2018 for the performance and other obligations under the project.

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

As at 31 December 2018, no provision was recognised in respect of the above financial and performance guarantees.

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.

50 Company-level Statement of Financial Position

in HK\$ million	Note	At 31 December 2018	At 31 December 2017
Assets			
Fixed assets			
– Investment properties	19	80,396	75,352
– Other property, plant and equipment	20	101,319	101,405
– Service concession assets	21	24,392	22,996
		206,107	199,753
Property management rights	22	26	26
Property development in progress	24A	14,840	14,810
Deferred expenditure	25	1,878	710
Investments in subsidiaries	26	1,784	1,455
Interests in associates	27	24	24
Properties held for sale	29	1,156	876
Derivative financial assets	30	61	168
Stores and spares	31	1,166	1,119
Debtors and other receivables	32	5,743	3,460
Amounts due from related parties	33	16,236	15,145
Cash, bank balances and deposits	34	10,757	11,299
		259,778	248,845
Liabilities			
Bank overdrafts	35A	–	4
Short-term loans	35A	4,395	325
Creditors and other payables	36	19,776	22,351
Current taxation	40A	1,006	695
Amounts due to related parties	37	23,268	22,327
Loans and other obligations	35A	12,810	18,803
Obligations under service concession	38	10,236	10,292
Derivative financial liabilities	30	545	451
Deferred tax liabilities	40B	12,803	12,649
		84,839	87,897
Net assets		174,939	160,948
Capital and reserves			
Share capital	41	57,970	52,307
Shares held for Executive Share Incentive Scheme		(265)	(173)
Other reserves		117,234	108,814
Total equity		174,939	160,948

Approved and authorised for issue by the Members of the Board on 7 March 2019

Frederick S H Ma
Chairman

Lincoln K K Leong
Chief Executive Officer

Herbert L W Hui
Finance Director

51 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 21).

(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 2H(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 scheme is dependent on certain assumptions and factors provided by the Company, which are disclosed in notes 45A(i) and 46F.

(iv) Profit Recognition on Hong Kong Property Development

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

(v) Properties Held for Sale

The Group values unsold properties at the lower of their costs and net realisable values (note 29) 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. As set out in note 48C, pursuant to the terms stipulated in the new Operating Agreement with the HKSAR Government, the Company may apply for extensions of the franchise for further periods of 50 years. If the franchise is not extended, the HKSAR Government has the right to take possession of railway property (and, where the HKSAR Government has taken possession of any such property which is not concession property, the Company may require the HKSAR Government to take possession of any other property which the HKSAR Government was entitled to take possession of, but did not take possession of), but must compensate the Company, in the case of such property which is not concession property, at the higher of fair value and depreciated book value. The Group's depreciation policies (note 21) for such property which is not concession property with assets' lives which extend beyond 2057 reflect the above.

51 Accounting Estimates and Judgements *(continued)*

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

(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 2018 accounts, the Company has predominantly followed the tax treatments it has adopted in these tax returns, which may be different from the final outcome in due course.

As detailed in note 32, there are tax queries from the IRD with the Company on tax deductibility of certain expenses and payments for which the ultimate tax determination is uncertain up to the date of this annual report. The Group recognises tax provision for these tax matters based on estimates of whether additional taxes will eventually be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such difference will impact the income tax expenses in the period when such determination is made.

(ix) Project Provisions

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

(x) Deferred Expenditure

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

(xi) Fair Value of Derivatives and Other Financial Instruments

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

(xii) Obligations under Service Concession

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

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

Provisions and Contingent Liabilities

The Group recognises provisions for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event (including in relation to those under entrustment arrangements), and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as contingent liability. Other than set out in note 23, as at 31 December 2018, 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.

52 Possible Impact of Amendments, New Standards and Interpretations Issued but Not Yet Effective for the Annual Accounting Year Ended 31 December 2018

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 2018 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
HKFRS 16, <i>Leases</i>	1 January 2019
HK(IFRIC) 23, <i>Uncertainty over Income Tax Treatments</i>	1 January 2019
Annual Improvements to HKFRSs 2015-2017 Cycle	1 January 2019
Amendments to HKAS 28, <i>Long-term Interest in Associates and Joint Ventures</i>	1 January 2019

So far, the Group considers that the adoption of them is unlikely to have a significant impact on the Group's accounts, except for HKFRS 16, *Leases*.

HKFRS 16 is not expected to impact significantly on the way that the Group accounts for its rights and obligations under a lease when it is the lessor under the lease. HKFRS 16 will primarily affect the Group's accounting as a lessee of leases for other property, plant and equipment which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the consolidated statement of profit and loss account over the period of the lease.

The Group plans to elect to use the modified retrospective approach for the adoption of HKFRS 16 and will recognise the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019 and will not restate the comparative information. As disclosed in note 49B, at 31 December 2018 the Group's future minimum lease payments under non-cancellable operating leases amounted to HK\$8,835 million, the majority of which is payable either between 1 and 5 years after the reporting date or in more than 5 years. Upon the initial adoption of HKFRS 16, the opening balances of lease liabilities and the corresponding right-of-use assets will be adjusted accordingly after taking account the effects of discounting, as at 1 January 2019. Other than the recognition of lease liabilities and right-of-use assets, the Group expects that the transition adjustments to be made upon the initial adoption of HKFRS 16 will not be material.

The above assessment is based on the information currently available to the Group and the actual impact upon the initial adoption of this standard may differ from the assessment completed to date and further impacts may be identified before the standard is initially applied in the Group's interim financial report for the six months ended 30 June 2019. The Group may also change its accounting policy elections, including the transition options, until the standard is initially applied in that financial report.

53 Approval of Consolidated Accounts

The consolidated accounts were approved by the Board on 7 March 2019.