KCR
九廣鐵路

Kowloon-Canton Railway Corporation

Annual Report 2013

Contents

Managing Board & Key Management

Managing Board

Professor K C Chan GBS, JP
PhD
Chairman
Secretary for Financial Services and the Treasury of the Hong Kong Special Administrative Region Government

Professor Anthony Cheung Bing-leung GBS, JP
PhD
Secretary for Transport and Housing of the Hong Kong Special Administrative Region Government

Elizabeth Tse Man-yee, JP
Member of Audit Committee
Permanent Secretary for Financial Services and the Treasury (Treasury) of the Hong Kong Special Administrative Region Government

Joseph Lai Yee-tak, JP
Permanent Secretary for Transport and Housing (Transport) of the Hong Kong Special Administrative Region Government

Key Management

Edmund K H Leung, SBS, OBE, JP
BSc(Eng), CEng, R.P.E., FHKIE, FIMechE, FCIBSE, FIEAust., FHKEng
Chief Officer

Michael J Arnold
BSc, CEng, MICE, MCIHT
Senior Manager-Administration
Company Secretary

Mable Chan, JP
Member of Audit Committee
Deputy Secretary for Financial Services and the Treasury (Treasury) of the Hong Kong Special Administrative Region Government

Lesley Y C Wong, JP
CPA, FCCA, ACA, ACIS
Chairperson of Audit Committee
Director of Accounting Services of the Hong Kong Special Administrative Region Government
(up to 20 January 2014)

Martin Siu Man-tat
FCCA, CPA
Chairman of Audit Committee
Director of Accounting Services of the Hong Kong Special Administrative Region Government
(from 21 January 2014)

Julian P Walsh
MA, ACA, CPA
Senior Manager-Finance

Chairman's Statement

December 2013 marked the sixth anniversary of the rail merger, when the MTR Corporation Limited (MTRCL) was granted a service concession to operate the KCRC rail network for 50 years in return for KCRC receiving a share of the future annual revenues generated from the network. My statement for this annual report therefore provides me with a suitable opportunity to look back at some of the key changes that have taken place since the rail merger and which may assist readers to better place this year's annual report in context.

There is no doubt that from the perspective of rail users, the rail merger has proven to be a considerable success given the greater conveniences offered by the operational integration of the KCR and MTR networks. Less certain at the time of the rail merger was how KCRC would fare financially, especially in the early post-merger years.

Although the MTRCL paid HK$12.04 billion to KCRC at the time of the rail merger in return for receiving the service concession and various property development rights, that sum only covered part of the financial demands then faced by the Corporation. Arising from its previous investments in the construction of new lines such as West Rail and Ma On Shan Rail, the Corporation was left with some HK$18 billion in debts, incurring about HK$1.4 billion in annual interest charges. This burden was not helped by the need to continue heavy ongoing capital expenditure on completing various railway projects, most notably the Kowloon Southern Link, which now links West Rail with East Rail.

As far as revenues were concerned, for the first three years after the merger almost sole reliance had to be placed on the MTRCL's fixed annual payment of HK$750 million. For 2008 and 2009 the Corporation experienced a cash operating loss, but in 2010 the corner was turned. During 2009 and early 2010, the Corporation was able to pay off part of its outstanding debt and to refinance the remainder at much lower interest rates, reducing interest charges by half. In 2010 the Corporation made its first cash operating profit since the merger.

With full-year variable annual payments from the MTRCL beginning in 2011, cash operating profitability was assured thereafter. Each year since has seen the Corporation's financial situation continue to strengthen, with 2013 being no exception to that trend. The variable annual payments have grown more quickly than originally forecast in 2007, enabling full repayment of the Corporation's existing notes and bonds as they gradually mature without the need to raise fresh financing, thereby lowering the Corporation's debt level to HK$12.5 billion by end 2013.

As explained in more detail in the Chief Officer's statement and set out in the annual accounts, I can in conclusion state with confidence that financially 2013 was again a successful year for the Corporation.

As regards changes to the composition of the Managing Board, Mrs Lesley Wong was replaced by Mr Martin Siu on 21 January 2014, after she retired from the position of the Government's Director of Accounting Services. During her three years on the Board, Mrs Wong, who is a Certified Public Accountant, was also the Chairperson of the Corporation's Audit Committee, an important role that she discharged with admirable dedication and professionalism. I would take this opportunity, therefore, to express the Board's formal sincere thanks and appreciation to Mrs Wong for her sterling service during the past three years.

Professor K C Chan, GBS, JP
Chairman
18 March 2014

“With full-year variable annual payments from the MTRCL beginning in 2011, cash operating profitability was assured thereafter. Each year since has seen the Corporation’s financial situation continue to strengthen, with 2013 being no exception to that trend.”

“.....the Corporation clearly enjoyed a healthy cash operating profit for the year, with cash operating profit before depreciation, amortisation and impairment amounting to HK$2,366 million, an increase of HK$331 million from 2012.”

Chief Officer's Statement and Financial Review

While the Corporation is wholly owned by the Government of the HKSAR, the KCRC Ordinance requires that the Corporation shall conduct its business in a prudent commercial manner so as to ensure that as far as possible its revenue is sufficient to meet its expenditure. The Corporation again fully satisfied this requirement in 2013.

Continued strong growth in rail patronage and related station commercial revenue saw the Variable Annual Payment for 2013 made by the MTR Corporation Limited (MTRCL) under the Service Concession Agreement increase by some 41% as compared to 2012, from HK$883 million to HK$1,247 million. For each of the three years following the rail merger in December 2007, the MTRCL was required to make a Fixed Annual Payment of HK$750 million. From December 2010 additional Variable Annual Payments began, with the full year payment for 2011 being HK$647 million. The Variable Annual Payment amount has since nearly doubled.

Together with the Fixed Annual Payment of HK$750 million, in 2013 the Service Concession generated total revenue of HK$1,997 million for the Corporation. Also received by the Corporation were dividend payments from Octopus Holdings Limited amounting to HK$66 million, reflecting the Corporation's 22.1% share of the company; property rental income of HK$23 million from the Corporation's ownership of the 7th to 9th floors of Citylink Plaza above Shatin Station; and interest income of HK$59 million from prudent investment of the Corporation's cash holdings.

Cash operating costs for 2013 amounted to HK$585 million, mainly due to the interest charges of HK$553 million on the Corporation's debt portfolio, the latter being reduced during the year as a result of repayment of maturing notes and bonds from HK$14.8 billion to HK$12.5 billion, some HK$5 billion less than the amount of debt held by the Corporation six years earlier following the rail merger in December 2007. Direct staff costs amounted to HK$6 million, with a further HK$15 million being incurred on outsourced support services provided by the MTRCL and others.

As can be seen from the numbers, the Corporation clearly enjoyed a healthy cash operating profit for the year, with cash operating profit before depreciation, amortisation and impairment amounting to HK$2,366 million, an increase of HK$331 million from 2012.

Non-cash depreciation and amortisation charges for 2013 were HK$3,163 million, compared to HK$3,124 million in 2012, with the accrual accounting net loss for the year being HK$990 million, a decrease on the loss of HK$1,250 million recorded in 2012.

As I mentioned last year, the downgrading of the credit ratings of most major banks has had an impact on the Corporation's existing US cross-border leases. The Corporation's current policy is to terminate its existing cross-border leases whenever a suitable opportunity arises provided that it would be cost effective to do so.

During the year the Corporation was able to terminate two US cross-border leases. Out of an initial total of nine cross-border leases before the rail merger in 2007, only five now remain.

The Corporation is the majority shareholder of West Rail Property Development Limited (WRPDL) and its subsidiaries, which collectively with the MTRCL as their project management agent are responsible for developing a number of large residential and commercial sites along the West Rail Line.

Of the eleven sites now retained by WRPDL, development tenders for eight sites have been successfully awarded, with the last two of the eight being in 2013, namely, Tsuen Wan West Station TW6 in January and Long Ping South in June. The development of the site at Yuen Long Station is now subject to public consultation, which, if successful, will allow the site to be tendered shortly thereafter. Tendering of the final two remaining sites at Kam Sheung Road Station and above the Pat Heung Maintenance Depot will depend on the successful rezoning of these sites, public consultation in respect of which is expected to commence later in 2014.

Following on from the successful sale in the second half of 2012 of the first phase of the Tuen Mun Station development (Century Gateway), which involved 1,080 units, the sale of the remaining 911 units in the second and last phase commenced in late December 2013, with nearly all units sold before the end of February 2014.

While sales of the 1,717 units in the Tsuen Wan West Station TW 7 development (City Point) had previously been expected to begin in late 2013, labour shortages and other issues have delayed the expected commencement of sales until early 2014.

Looking to the future, the Corporation has continued to cooperate with the Government and the MTRCL in supporting the construction of the Shatin to Central Link, the works for which require both use of KCRC land and making substantial changes to KCRC's existing railway assets. This is in anticipation of adopting the service concession model followed in the rail merger in 2007, with the Government vesting the completed project in KCRC and the MTRCL in turn being granted the operating rights in return for making appropriate fixed and variable annual payments to KCRC.

Separately initial informal contact has been made with relevant government bureaux to explore whether there is any scope for the Corporation to play a role in the future management and operation of the Hong Kong section of the Express Rail Link (XRL). Unlike the future Shatin to Central Link, which forms a direct extension of and is wholly integrated into the existing East and West Rail Lines, the XRL is a completely standalone project connecting West Kowloon and Guangzhou.

Nonetheless the Corporation considers that it can demonstrate its ability to contribute positively to the planning processes now taking place within the Government, especially concerning service concession arrangements given the six years of experience that KCRC has acquired from administering the present service concession with the MTRCL.

All things taken together, I am confident that the Corporation is well on track to becoming effectively debt free and achieving sustained accounting profitability within only a few short years.

Edmund K H Leung, SBS, OBE, JP
BSc(Eng), CEng, R.P.E., FHKIE, FIMechE, FCIBSE, FIEAust, FHKEng
Chief Officer
18 March 2014

Corporate Governance Report

Corporate Governance

The Corporation maintains high standards of corporate governance. Being a statutory Corporation established in Hong Kong by the Kowloon-Canton Railway Corporation Ordinance (Chapter 372 of the Laws of Hong Kong) (the KCRC Ordinance), it is not bound by The Stock Exchange of Hong Kong Limited Listing Rules. Nonetheless, it supports the principles of good corporate governance contained in the Cadbury Committee's Code of Best Practice to the extent that they are applicable to the Corporation. As a matter of policy, the Corporation complies with The Stock Exchange of Hong Kong Limited Code of Corporate Governance Practices (the Code) as set out in Appendix 14 to the Listing Rules to the extent that they are applicable to the Corporation, International Financial Reporting Standards issued by the International Accounting Standards Board, Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the applicable disclosure requirements of the Hong Kong Companies Ordinance.

The Managing Board

The Corporation and its wholly or majority owned subsidiary companies are controlled through its Managing Board (the Board). The Board's main roles are to ensure that the Corporation complies in every respect with the provisions of the Ordinance to create value for its sole shareholder, to provide leadership to the Corporation, to approve the Corporation's strategic objectives and to ensure that the necessary financial and other resources are made available to Management to enable them to meet those objectives. The Board has a schedule of matters reserved for its approval. The specific responsibilities reserved for the Board include but are not limited to:

(a) rules for conduct of the Corporation's business;

(b) Three Year Business Plan, including revenue, expenses and capital budget for the ensuing year, annual manpower plan and pay review;

(c) annual budget;

(d) annual report and audited financial statements;

(e) recommendations with respect to dividend payments;

(f) major business strategies; and

(g) award of major contracts and significant variations to those contracts.

In addition to the above, Management must report to the Board monthly on significant developments, together with the operating and financial results, information on use of the Corporate Seal, letting of major contracts, and any other matters which may be required by the Board from time to time. The Board has delegated all other authorities to carry out the Corporation's activities to the Chief Officer.

The Roles of the Chairman and the Chief Officer

The division of responsibilities between the Chairman of the Board and the Chief Officer is clearly defined and has been approved by the Board. The non-executive Chairman leads the Board in the determination of its strategy and in the achievement of its objectives. The Chairman is responsible for the conduct of the business of the Board, ensuring its effectiveness and setting its agenda. The Chairman is not involved in the day-to-day business of the

Corporation. The Chairman facilitates the effective contribution of non-executive Members of the Board and constructive relations between executive management and Members, ensuring that Members receive accurate, timely and clear information, as well as ensuring effective communication with the Corporation's sole shareholder. The Chief Officer has direct charge of the Corporation on a day-to-day basis and is accountable to the Board for the Corporation's financial and operational performance.

Members and Members' Independence

The Board currently comprises the Chairman and five other non-executive Members, all of whom are senior public office holders in the Government of the Hong Kong Special Administrative Region. All are appointed to the Board on an ex-officio basis by the Chief Executive of the Hong Kong Special Administrative Region. Members have, if required, access to independent professional advice at the Corporation's expense, in order for them to carry out their responsibilities. Notwithstanding that they are public office holders, Members are expected to be independent in their judgement. The names of Members together with their biographical details are set out on pages 2 and 3.

Professionalism

Each Member receives information about the Corporation, the role of the Board and the matters reserved for its decision, the terms of reference and membership of the Board and its committees, and the powers delegated to those committees, the Corporation's corporate governance practices and procedures, including the powers reserved for the Corporation's senior executives, and the latest financial information about the Corporation. This is supplemented by visits to key locations and meetings with key senior executives. Throughout their period in office, Members are continually updated on the Corporation's business, the competitive and regulatory environments in which it operates, corporate social responsibility matters and other changes affecting the Corporation, and the industry it operates in as a whole, by written briefing papers and meetings with senior executives. Members are also advised of their legal and other duties and obligations as a Member of the Board by the Company Secretary. They are regularly reminded of these duties and updated on changes to the legal and governance requirements which impact on the Corporation and themselves as Members of the Board.

Regular reports and papers are circulated to Members in a timely manner in preparation for Board and Committee meetings. These papers are supplemented by information specifically requested by Members from time to time. All Members receive monthly management accounts and regular management reports, which enable them to scrutinise the Corporation's and management's performance against agreed objectives.

The Company Secretary

The Company Secretary is responsible for advising the Board, through the Chairman, on all governance matters. Members have access to the advice and services of the Company Secretary.

Relations with the Sole Shareholder

To fulfil the Chairman's obligations under the Ordinance and the Code, the Chairman gives feedback to the Board on issues raised with him by the Corporation's sole shareholder. The Corporation maintains a corporate website, www.kcrc.com, containing a wide range of information of interest to all stakeholders.

Internal Control

The Board is ultimately responsible for the Corporation's system of internal control. It ensures through the Audit Committee that appropriate policies on internal control are in place and through this Committee seeks assurance that enables it to satisfy itself that the system is functioning effectively, and that the system of internal control is effective in managing risks in the manner which they are approved. Members are required to review the effectiveness of the Corporation's system of internal controls through the Audit Committee, including operational and compliance controls, risk management and the Corporation's internal control arrangements, and to consider and take appropriate action in respect of reports received from the external auditor on matters identified during the course of statutory audit work.

The Corporation views the careful management of risk as a key management activity. Managing business risk to deliver opportunities is a key element of all activities. This is done using a simple and flexible framework that provides a consistent and sustained way of implementing the Corporation's values. These business risks, which may be strategic, operational, or reputation-related, are made known to Members. The business context determines in each situation the level of acceptable risk and controls.

Board and Audit Committee Meetings

The Board usually meets quarterly, and on an ad hoc basis when appropriate. It is responsible, inter alia, for overall corporate strategy, approval of the Corporation's annual budget, major financing arrangements, and ensuring that sound administrative systems and procedures are in place. It reviews monthly the Corporation's operating results, and the progress made towards annual targets. With the position of Chief Executive Officer being left vacant from December 2007, the Board has delegated to the Chief Officer the authority for the management of day-to-day operations.

There were four Board and three Audit Committee Meetings held during the year up to 31 December 2013 and attended by Members as listed in the following table.

	Board Meetings	Audit Committee Meetings
Professor K C Chan (Note 1)	4	N.A.
Professor Anthony Cheung Bing-leung (Note 2)	4	N.A.
Ms Elizabeth Tse Man-yee	3	3
Mr Joseph Lai Yee-tak	4	N.A.
Ms Mable Chan (Note 3)	4	3
Mrs Lesley Y C Wong (Note 4)	4	3

Note 1. Chairman of the Board

Note 2. One Board meeting was attended by Mr Yau Shing-Mu, the Acting Secretary for Transport and Housing.

Note 3. One Board meeting and one Audit Committee meeting were attended by Ms Ophelia Tsang Oi-lin, the Acting Deputy Secretary for Financial Services and the Treasury (Treasury).

Note 4. Chairperson of the Audit Committee

In 2013, a total of 54 decision and information papers were considered by Board Members.

Audit Committee

During the year, the Audit Committee comprised Mrs Lesley Y C Wong (Chairperson), Ms Elizabeth Tse Man-yee, and Ms Mable Chan. All members of the Committee are non-executive Members. The Committee has at least one member possessing "recent and relevant experience", namely, Mrs Lesley Y C Wong, who is a certified public accountant and is also the Director of Accounting Services of the Government of the Hong Kong Special Administrative Region.

Under its terms of reference, the Audit Committee monitors the integrity of the financial statements and any formal announcements relating to the Corporation's performance. The Committee is responsible for monitoring the effectiveness of the external audit process and making recommendations to the Board in relation to the appointment, reappointment and remuneration of the external auditor. It is responsible for ensuring that an appropriate relationship between the Corporation and the external auditor is maintained, including reviewing non-audit services and fees. It also monitors the effectiveness of the Corporation's systems of internal control and the processes for monitoring and evaluating the risks facing the Corporation. The Committee reviews the effectiveness of the internal audit function, which is currently provided by the internal audit department of the MTR Corporation Limited under an outsourcing arrangement, and is responsible for recommending to the Managing Board the renewal and termination of that outsourced service function. The Committee has undertaken to review its terms of reference at least once every three years and its effectiveness and, if appropriate, will recommend to the Board any changes required as a result of the review.

The Committee meets with Management, as well as privately with both the external and internal auditors. The Committee's terms of reference are available from the Company Secretary and are displayed on the Corporation's website, www.kcrc.com. In 2013 the Audit Committee discharged its responsibilities by:

(a) reviewing the Corporation's draft financial statements prior to Board approval;

(b) reviewing the external auditor's report thereon;

(c) reviewing the appropriateness of the Corporation's accounting policies;

(d) reviewing the potential impact of the generally accepted accounting principles in Hong Kong on the Corporation's financial statements;

(e) reviewing, recommending or pre-approving audit fees or non-audit fees;

(f) reviewing the external auditor's plan for the audit of the Corporation's financial statements; and

(g) approving the annual internal audit plan and reviewing reports on the adequacy and effectiveness of systems of internal control, financial reporting and risk management.

The Audit Committee has taken on responsibility for monitoring the Corporation's whistle blowing procedures, which ensure that appropriate arrangements are in place for employees to be able to raise matters of possible impropriety in confidence, with suitable subsequent follow-up action.

Auditor's Independence and Objectivity

The Audit Committee monitors regularly and closely the non-audit services being provided to the Corporation and its subsidiary companies by its external auditor, who is appointed by the Chief Executive of the Hong Kong Special Administrative Region, to ensure that the provision of such services does not impair the external auditor's independence or objectivity. If and when appropriate the Committee will engage the services of alternative, appropriately qualified accounting firms to undertake non-audit services. When considering any non-audit work to be undertaken by the external auditor, the Committee is mindful of the need to be satisfied that the external auditor should not audit its own work, make management decisions for the Corporation or its subsidiaries, have a mutuality of financial interest with the Corporation or its subsidiaries, or be put in the role of advocate for the Corporation or its subsidiaries. The Committee also takes into consideration relevant professional and regulatory requirements so that these are not impaired by the provision of permissible non-audit services by the external auditor. Prior approval by the Audit Committee is required for any services provided by the external auditor. Any activities that may be perceived to be in conflict with the role of the external auditor must be submitted to the Committee for its consideration and approval prior to engagement. Details of the amounts paid to the external auditor during the year for audit and other services are set out in Note 7 (a) to the Financial Statements.

Report of the Members of the Managing Board

The Members of the Managing Board have pleasure in submitting herewith their report and audited financial statements for the financial year ended 31 December 2013.

Kowloon-Canton Railway Corporation Ordinance

The Kowloon-Canton Railway Corporation Ordinance (the KCRC Ordinance), enacted in 1982, established the Corporation and empowered it to operate the Kowloon-Canton Railway. Amendments in 1986 and 1998 empowered the Corporation to construct and operate Light Rail and new railways, and enabled the Government to inject equity into the Corporation to fund the construction of such new railways. Inter alia, the KCRC Ordinance contains provisions covering the appointments and roles of the Members of the Managing Board.

An amendment of the KCRC Ordinance in December 2001 provided for the separation of the functions and duties of the Chairman from those of the Chief Executive by creating the office of Chief Executive Officer of the Corporation. The Chief Executive Officer was also appointed as a Member of the Managing Board.

On 2 December 2007, following the enactment of the Rail Merger Ordinance, the MTR Corporation Limited commenced operating KCRC's railway assets by way of a service concession for an initial period of 50 years, which is extendable. KCRC retains ownership of the railway assets covered in the service concession agreement and should the MTR Corporation Limited fail to observe the terms of the agreement, there is provision for KCRC to take back and operate its assets. The Rail Merger Ordinance also made provision for the position of Chief Executive Officer to be left vacant, which the Managing Board agreed should be the case from 2 December 2007. Instead the Corporation appointed a Chief Officer, who is not a Member of the Managing Board, to head the executive management team.

Principal Activities of the Corporation

The principal activities of the Corporation are –

- railway asset holder, with responsibility for monitoring that the MTR Corporation Limited complies with the terms of the service concession agreement
- investing the annual payments from the MTR Corporation Limited
- servicing the Corporation's outstanding debts
- managing its subsidiaries

The principal activities of the subsidiary companies incorporated to facilitate the undertaking of the above activities are set out in Note 17 to the Financial Statements.

The Managing Board

The Board is the governing body of the Corporation with authority to exercise the duties conferred upon it by the KCRC Ordinance.

Members of the Board are all public officers (appointed ex-officio), being –

- Secretary for Financial Services and the Treasury, Professor K C Chan (Chairman);
- Secretary for Transport and Housing, Professor Anthony Cheung Bing-leung;
- Permanent Secretary for Financial Services and the Treasury (Treasury), Ms Elizabeth Tse Man-yee;
- Permanent Secretary for Transport and Housing (Transport), Mr Joseph Lai Yee-tak;
- Deputy Secretary for Financial Services and the Treasury (Treasury), Ms Mable Chan; and

- Director of Accounting Services, Mrs Lesley Y C Wong (up to 20 January 2014), and Mr Martin Siu Man-tat (from 21 January 2014).

Brief biographical details of Board Members are set out on pages 2 and 3.

Long-Term Planning, Business Planning and Financial Management Framework

Business plans, incorporating triennial forecasts of income and expenditure, are prepared each year for submission to the Managing Board. The first year of the Business Plan forms the basis for formulating the Budget for that year.

There are defined procedures and regular quality reviews of the operation of the Corporation's computerised systems to ensure the accuracy and completeness of financial records and the efficiency of data processing. There are defined procedures for the appraisal, review and approval of all major capital projects, and all major expenditure and revenue contracts. All contracts over HK$50 million and all consultancy services over HK$10 million require the approval of the Managing Board. Operating and financial reports, comparing results against their respective budgets and providing updates on significant events, are put to and considered by the Managing Board on a monthly basis.

Corporate Governance

As set out in the Corporate Governance Report, the Managing Board maintains high standards of corporate governance.

Interests in Contracts of Members of the Managing Board and Senior Executive Staff

No contracts of significance to which the Corporation or any of its subsidiaries was a party and in which a Member of the Managing Board, or Senior Executive Staff, had a material interest subsisted at the end of the year or at any time during the year.

At no time during the year was the Corporation or any of its subsidiaries a party to any arrangements to enable Members of the Managing Board, or Senior Executive Staff, to acquire benefits by means of the acquisition of shares in or debt securities of the Corporation or subsidiaries of the Corporation.

Financial Statements

The results of the Group for the year ended 31 December 2013 and the state of the Corporation's and the Group's affairs at that date are set out in the Financial Statements on pages 20 to 82.

Fixed Assets

Movements in fixed assets during the year are set out in Note 14 to the Financial Statements.

Share Capital

Details of the Corporation's share capital are set out in Note 26 to the Financial Statements. Any further contributions of capital will be determined by the Government in consultation with the Corporation.

Dividend

No dividend to the Government is proposed.

Interest and Finance Income/Expenses

Details of the Corporation's interest and finance income/expenses are set out in Note 9 to the Financial Statements.

Interest-Bearing Borrowings

Details of the Corporation's interest-bearing borrowings are set out in Note 24 to the Financial Statements.

Turnover, Financial Results and Financial Position

Details of the Corporation's turnover, financial results and financial position are set out in the Financial Statements, the Chief Officer's Statement and Financial Review, and the Five-Year Statistics of the Annual Report.

Going Concern

The Financial Statements on pages 20 to 82 have been prepared on a going concern basis. The Managing Board has approved the Corporation's budget for 2014 and is satisfied that the Corporation can operate in a viable manner for the foreseeable future.

Responsibility for the Financial Statements

The KCRC Ordinance requires the Corporation to produce financial statements. In doing so, the Corporation complies with International Financial Reporting Standards issued by the International Accounting Standards Board, Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong, the applicable disclosure requirements of the Hong Kong Companies Ordinance, and produces financial statements that give a true and fair view of the Corporation's financial results and position for the financial year to which they relate.

Auditor

In accordance with section 14B (4) of the KCRC Ordinance, KPMG were appointed as the auditor by the Chief Executive of the Hong Kong Special Administrative Region.

By order of the Managing Board

Michael J Arnold
Company Secretary
18 March 2014

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Independent Auditor's Report

Independent auditor's report to the members of the Managing Board of the Kowloon-Canton Railway Corporation

We have audited the consolidated financial statements of the Kowloon-Canton Railway Corporation ("the Corporation") and its subsidiaries (together "the Group") set out on pages 20 to 82, which comprise the consolidated and the Corporation balance sheets as at 31 December 2013, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information.

Board Members' responsibilities for the consolidated financial statements

The Board Members of the Corporation are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board, Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Kowloon-Canton Railway Corporation Ordinance and for such internal control as the Board Members determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, in accordance with section 14B(3) of the Kowloon-Canton Railway Corporation Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Corporation's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board Members, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent Auditor's Report

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Corporation and of the Group as at 31 December 2013 and of the Group's loss and cash flows for the year then ended in accordance with International Financial Reporting Standards and Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the applicable disclosure requirements of the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
18 March 2014

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2013 (Expressed in Hong Kong dollars)

	Note	**2013 $ million**	2012 $ million
Turnover	5	**2,398**	2,066
Operating costs before depreciation, amortisation and impairment	6	**(32)**	(31)
Operating profit before depreciation, amortisation and impairment	7	**2,366**	2,035
Depreciation and amortisation	8	**(3,163)**	(3,124)
Loss on disposal of fixed assets		**(25)**	(22)
Operating loss after depreciation, amortisation and impairment		**(822)**	(1,111)
Interest and finance income	9(a)	**196**	268
Interest and finance expenses	9(b)	**(553)**	(606)
Share of profit of associate	18	**86**	81
Loss before unrealised gains/losses		**(1,093)**	(1,368)
Net losses on changes in fair value of financial instruments	10	**(123)**	(153)
Loss before taxation		**(1,216)**	(1,521)
Income tax	11(a)	**226**	271
Loss and total comprehensive income for the year wholly attributable to the sole shareholder of the Corporation	12	**(990)**	(1,250)

The notes on pages 25 to 82 form part of these financial statements.

Consolidated Balance Sheet

at 31 December 2013 (Expressed in Hong Kong dollars)

	Note	2013 $ million	2012 $ million
Assets			
Fixed assets	14(a)	**62,523**	64,638
Interest in leasehold land held for own use under operating leases	14(a)	**4,506**	4,622
Construction in progress	15	**1,259**	798
Deferred expenditure	16	**1,188**	1,188
Interest in associate	18	**187**	167
Derivative financial assets	27(e)	**189**	317
Other financial assets	19	**550**	550
Interest and other receivables	20	**1,368**	1,024
Cash and cash equivalents	21	**5,574**	6,619
		77,344	79,923
Liabilities			
Interest and other payables	22	**113**	141
Accrued charges and provisions for capital projects	23	**288**	317
Derivative financial liabilities	27(e)	**7**	2
Interest-bearing borrowings	24	**12,453**	14,769
Deferred income	25	**7,805**	6,800
Deferred tax liabilities	11(c)	**807**	1,033
		21,473	23,062
Net Assets		**55,871**	56,861
Capital and Reserves			
Share capital	26(b)	**39,120**	39,120
Reserves		**16,751**	17,741
Total equity		**55,871**	56,861

Approved and authorised for issue by the Managing Board on 18 March 2014

Professor K C Chan
Professor Anthony Cheung Bing-leung
Members of the Managing Board

Edmund K H Leung
Chief Officer

The notes on pages 25 to 82 form part of these financial statements.

Corporation Balance Sheet

at 31 December 2013 (Expressed in Hong Kong dollars)

	Note	**2013 $ million**	2012 $ million
Assets			
Fixed assets	14(a)	**62,523**	64,638
Interest in leasehold land held for own use under operating leases	14(a)	**4,506**	4,622
Construction in progress	15	**1,259**	798
Deferred expenditure	16	**1,188**	1,188
Interest in associate	18	**9**	9
Derivative financial assets	27(e)	**189**	317
Other financial assets	19	**550**	550
Interest and other receivables	20	**1,368**	1,024
Cash and cash equivalents	21	**5,574**	6,619
		77,166	79,765
Liabilities			
Interest and other payables	22	**113**	141
Accrued charges and provisions for capital projects	23	**288**	317
Derivative financial liabilities	27(e)	**7**	2
Interest-bearing borrowings	24	**12,453**	14,769
Deferred income	25	**7,805**	6,800
Deferred tax liabilities	11(c)	**807**	1,033
		21,473	23,062
Net Assets		**55,693**	56,703
Capital and Reserves			
Share capital	26(b)	**39,120**	39,120
Reserves	26(a)	**16,573**	17,583
Total equity		**55,693**	56,703

Approved and authorised for issue by the Managing Board on 18 March 2014

Professor K C Chan
Professor Anthony Cheung Bing-leung
Members of the Managing Board

Edmund K H Leung
Chief Officer

The notes on pages 25 to 82 form part of these financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2013 (Expressed in Hong Kong dollars)

	Share capital $ million	Retained profits $ million	Total equity $ million
Balance at 1 January 2012	39,120	18,991	58,111
Changes in equity for 2012:			
Loss for the year	—	(1,250)	(1,250)
Total comprehensive income for the year	—	(1,250)	(1,250)
Balance at 31 December 2012 and 1 January 2013	**39,120**	**17,741**	**56,861**
Changes in equity for 2013:			
Loss for the year	**—**	**(990)**	**(990)**
Total comprehensive income for the year	**—**	**(990)**	**(990)**
Balance at 31 December 2013	**39,120**	**16,751**	**55,871**

The notes on pages 25 to 82 form part of these financial statements.

Consolidated Cash Flow Statement

for the year ended 31 December 2013 (Expressed in Hong Kong dollars)

	Note	**2013 $ million**	2012 $ million
Operating activities			
Net cash inflow from operations	28	**1,605**	2,036
Investing activities			
Increase in deposits with banks with more than three months to maturity when placed		**(1,240)**	(2,043)
Payments for capital expenditure		**(51)**	(152)
Interest received		**58**	64
Payment for purchase of other financial assets		**–**	(548)
Receipt of loan to West Rail Property Development Limited ("WRPDL")		**–**	4,405
Dividend received from associate		**66**	137
Net cash (outflow)/inflow from investing activities		**(1,167)**	1,863
Net cash inflow before financing activities		**438**	3,899
Financing activities			
Net cash flows on repayment of loans		**(2,300)**	(300)
Interest paid		**(573)**	(594)
Net cash inflow relating to derivative financial instruments		**154**	164
Finance expenses paid		**(4)**	(3)
Net cash outflow from financing activities		**(2,723)**	(733)
Net (decrease)/increase in cash and cash equivalents		**(2,285)**	3,166
Cash and cash equivalents at 1 January		**4,576**	1,410
Cash and cash equivalents at 31 December		**2,291**	4,576
Analysis of the balances of cash and cash equivalents			
Cash and cash equivalents in the consolidated balance sheet		**5,574**	6,619
Less: deposits with banks with more than three months to maturity when placed		**(3,283)**	(2,043)
Cash and cash equivalents in the consolidated cash flow statement	21	**2,291**	4,576

The notes on pages 25 to 82 form part of these financial statements.

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

1 Establishment of the Corporation

The Kowloon-Canton Railway Corporation ("the Corporation") was incorporated in Hong Kong under the Kowloon-Canton Railway Corporation Ordinance ("the Ordinance") on 24 December 1982 to undertake the operation of the Hong Kong section of the Kowloon-Canton Railway. The assets, rights and liabilities of the then existing railway were vested in the Corporation on 1 February 1983 in accordance with Section 7 of the Ordinance.

On 8 June 2007, the Legislative Council passed the Rail Merger Bill. Following agreement by the respective parties to the detailed merger transaction terms, the Rail Merger took place on 2 December 2007 (the "Appointed Day"). The Chief Executive of the HKSAR appointed six public officers as members of the Managing Board with effect from the Appointed Day. As provided for under the amendments made to the Ordinance by the Rail Merger Bill, the position of Chief Executive Officer has been left vacant, with a Chief Officer, who is not a member of the Managing Board, being appointed by the Board to be responsible for managing the day-to-day business of the Corporation.

2 Rail Merger with MTR Corporation Limited ("MTRCL")

The Rail Merger Ordinance permitted the granting of a long-term service concession (the "Service Concession") in respect of the Corporation's rail and bus operations and the sale of certain rail-related assets (the "Purchased Rail Assets"), certain subsidiaries and property-related rights and interests of the Corporation, to MTRCL.

Since the Appointed Day, the Corporation has been responsible for monitoring MTRCL's compliance with its obligations under the merger transaction, including revenue sharing, annual payments and the specified day-to-day activities of the Corporation outsourced to MTRCL. The Corporation, besides meeting its obligations under the merger transaction, retains responsibility for the management and financing of its debts, for investing any available funds and for managing its remaining subsidiaries and other assets excluded from the merger transaction (the "Excluded Assets").

Service Concession

The Service Concession grants MTRCL the right to operate the Corporation's existing railway lines (including the Kowloon Southern Link which was completed in August 2009) and other rail-related businesses ("concession assets") for a period of 50 years (the "Concession Period"). Under the Service Concession, MTRCL receives all revenues generated from the operation of the Corporation's rail network and other rail-related businesses. During the Concession Period, MTRCL is responsible for the daily operations and maintenance of the transport operations and will fund all related operating capital expenditure, including the improvement and replacement of the Corporation's railway network assets. The Corporation does not have responsibility for any railway or bus operations during the Concession Period.

2 Rail Merger with MTR Corporation Limited ("MTRCL") (continued)

Service Concession (continued)

In consideration for the Service Concession, MTRCL agreed to make a fixed annual payment of $750 million and, commencing after the first 36 months, an additional variable annual payment based on revenue generated above the first $2.5 billion from the operation of the Corporation's rail network and other rail-related businesses during each financial year of MTRCL. The variable payments are computed at 10% of such revenue between $2.5 billion and $5 billion; 15% of such revenue between $5 billion and $7.5 billion; and 35% of such revenue above $7.5 billion.

The Corporation's role during the Concession Period essentially comprises the following duties:

(i) acting as the grantor of the Service Concession to MTRCL, monitoring the compliance of MTRCL with the terms of the Service Concession and receiving concession payments from MTRCL;

(ii) holding legal and beneficial title to all assets not forming part of the sale to MTRCL, such as the initial concession assets, which are defined as the physical assets including the Corporation's railway land required for the operation of the Corporation's railway system which were capitalised by the Corporation immediately prior to the Appointed Day, the Corporation's shares in the associate and the Excluded Assets; and

(iii) acting as the borrower and obligor in relation to the Corporation's existing financial obligations and contingent liabilities.

Should the Corporation undertake any new railway projects during the Concession Period, these would be subject to a service concession granted by the Corporation in favour of MTRCL, with the parties entering into a Supplemental Service Concession Agreement.

3 Significant accounting policies

(a) Statement of compliance

Although not required to do so under the Ordinance, the Corporation has prepared these financial statements in accordance with all applicable International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB"). These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Hong Kong Companies Ordinance. These financial statements have also been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and accounting principles generally accepted in Hong Kong. A summary of the significant accounting policies adopted by the Corporation and its controlled subsidiaries (the "Group") is set out below.

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Corporation. The equivalent new and revised HKFRSs consequently issued by HKICPA have the same effective date as those issued by the IASB and are in all material respects identical to the pronouncements issued by the IASB. Note 4 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group and the Corporation for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The measurement basis used in the preparation of the financial statements is the historical cost basis except where stated otherwise in the accounting policies set out below.

The preparation of financial statements in conformity with IFRSs and HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. 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 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 with significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 35.

3 Significant accounting policies (continued)

(c) Basis of consolidation

The consolidated financial statements comprise the Corporation and its controlled subsidiaries and the Group's interest in associate made up to 31 December each year.

The financial statements of certain entities held by the Corporation for the sole purpose of developing, on behalf of the Government of the HKSAR ("the Government"), commercial or residential properties along the West Rail, Phase I route are excluded from consolidation on the basis that these are not considered to be controlled subsidiaries as the Corporation has no effective control over nor beneficial interests in the net assets of these entities, other than the amount of capital provided. The Corporation is not entitled to any earnings distribution, nor is it required to ultimately fund any losses which may be sustained by these entities.

Furthermore, the financial statements of the Metropolis Management Company Limited ("MMC"), which was established for the sole purpose of rendering property management services to a commercial property, are also excluded from consolidation on the basis that, under the Equity Sub-participation Agreement which formed part of the merger transaction, the Corporation is obliged to act on MTRCL's instructions in respect of the exercise of any and all rights the Corporation has as a shareholder of MMC. All the beneficial interests to which the Corporation was previously entitled now rest with MTRCL although there has been no direct disposition of the shares of MMC to MTRCL.

(d) Investments in subsidiaries

An investment in a controlled subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. The Corporation 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 Corporation has power, only substantive rights (held by the Corporation and other parties) are considered.

An investment in an entity in which the Corporation, directly or indirectly, holds more than half of the issued share capital but does not have control or significant influence is excluded from consolidation or equity accounting and is stated at cost less impairment losses, if any, in the Group's and the Corporation's balance sheets.

Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions with controlled subsidiaries are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions with controlled subsidiaries are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

In the Corporation's balance sheet, an investment in a controlled subsidiary is stated at cost less impairment losses, if any.

3 Significant accounting policies (continued)

(e) Interest in associate

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

An investment in an associate is accounted for in the Group's consolidated financial statements under the equity method and is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the associate's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the associate's net assets and any impairment loss relating to the investment (see note 3(l)). The Group's share of the post-acquisition post-tax results of an associate and any impairment losses for the year are recognised in profit or loss, whereas the Group's share of the post-acquisition post-tax items of an associate's other comprehensive income is recognised in other comprehensive income.

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

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

In the Corporation's balance sheet, an investment in an associate is stated at cost less impairment losses, if any.

The results of the associates are included in the Corporation's statement of comprehensive income to the extent of dividends received and receivable, providing the dividend in respect of a period ending on or before the Corporation's financial year and the Corporation's right to receive the dividend is established before the balance sheet date.

3 Significant accounting policies (continued)

(f) Investments in debt securities

The Group's and the Corporation's policies for investments in debt securities, other than investments in subsidiaries and associates, are as follows.

Investments in debt securities are initially stated at fair value, which is their transaction price unless it is determined that the fair value at initial recognition differs from the transaction price and that fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets. These investments are subsequently accounted for as follows:

– dated debt securities that the Group and the Corporation have the positive ability and intention to hold to maturity are classified as held-to-maturity securities. Held-to-maturity securities are stated at amortised cost less impairment, if any.

Investments are recognised/derecognised on the trade date, which is the date the Group commits to purchase/sell the investments or when the investments expire.

(g) Derivative financial assets and liabilities

The Group uses derivative financial instruments to hedge its exposure to currency and interest rate risks arising from operational, financing and investment activities. In accordance with its policies, the Group does not hold or issue derivative financial instruments for trading purposes.

All the Group's derivative financial instruments are recognised initially as derivative financial assets or liabilities at fair value. The fair value of each derivative financial instrument is remeasured at each balance sheet date, with any resultant gain or loss recognised immediately in profit or loss.

– Fair value hedges

  Interest rate swaps are designated as hedges of the variability in the fair value attributable to interest rate risk of certain of the Group's fixed rate interest-bearing borrowings recognised in the financial statements.

  Changes in fair value of interest rate swaps designated as hedging instruments in a fair value hedge are recognised in profit or loss.

  When a hedging relationship ceases to meet the requirements for hedge accounting, any adjustment to the carrying amount of the then hedged item is amortised to the profit or loss over the remaining life of the item based on a recalculated effective interest rate from the date the hedging relationship ceases.

3 Significant accounting policies (continued)

(h) Fixed assets – investment properties

Investment properties comprise land and/or buildings which are owned or held under a leasehold interest to earn rental income and are held for their investment potential.

Investment properties are stated at cost less accumulated depreciation and impairment losses, if any. Depreciation is calculated to write off the cost of investment properties, using the straight-line method over the shorter of the unexpired term of leases and their estimated useful lives.

Gains or losses arising from the retirement or disposal of an investment property are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

(i) Fixed assets – property, plant and equipment

(i) Property, plant and equipment, including those assets which are the subject of the Service Concession with MTRCL, is stated in the balance sheet at cost less accumulated depreciation and impairment losses, if any.

During the Concession Period, MTRCL is responsible for the daily operations and maintenance of the railway operations and will fund all related expenditure including the improvement and replacement of the Corporation's railway network assets. Such expenditure on improvement and replacement of the Corporation's railway network assets is defined as Additional Concession Property ("ACP") pursuant to the Service Concession Agreement. According to the Service Concession Agreement, the ACP will be returned to the Corporation at no cost, together with the initial concession assets acquired by the Corporation, upon the expiry or termination of the Concession Period subject to a threshold of $115.8 billion of cumulative expenditure funded by MTRCL which will be adjusted from time to time pursuant to the provisions of the Service Concession Agreement. As the ACP will be returned together with the initial concession assets acquired by the Corporation before the Rail Merger, the ACP, although funded by MTRCL, is treated in the same way as the initial concession assets and is capitalised in the balance sheet at cost less accumulated depreciation and impairment losses, if any. The cost of ACP that is funded by MTRCL is credited to deferred income and amortised to profit or loss over the shorter of the useful life of the ACP and the remaining Concession Period.

3 Significant accounting policies (continued)

(i) Fixed assets – property, plant and equipment (continued)

Property, plant and equipment relating to rail networks and ancillary commercial activities which is the subject of the Service Concession comprises:

– buildings which are situated on leasehold land being classified as held under operating lease (see note 3(k)); and

– other items of plant and equipment including tunnels, bridges, roads, permanent way, rolling stock and other equipment.

The cost of property, plant and equipment vested by the Government has been determined as follows:

– for property, plant and equipment vested on 1 February 1983 – as determined by the Financial Secretary; and

– for property, plant and equipment vested subsequent to 1 February 1983 – based on actual cost as reflected in the Government's records.

The cost of property, plant and equipment acquired by the Group and ACP funded by MTRCL comprises:

– its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates; and

– any costs, such as the costs of material, direct labour, an appropriate proportion of production overheads and interest and finance income/expenses directly attributable to bringing the asset to the location and condition capable of operating in the manner intended by management.

Expenditure incurred by the Group on property, plant and equipment, which is below $20,000 per item or expected to be fully used within one year, is expensed to profit or loss when incurred.

(ii) Subsequent expenditure on existing property, plant and equipment, for both concession assets and non-concession assets, is added to the carrying amount of the asset if either future economic benefits will flow to the Group or the condition of the asset will improve beyond its originally assessed standard of performance.

Expenditure incurred by the Group on repairs or maintenance of existing property, plant and equipment to restore or maintain the originally assessed standard of performance of the asset is recognised as an expense when incurred.

Expenditure incurred by MTRCL after the Appointed Day on repairs or maintenance of concession assets is borne by MTRCL.

3 Significant accounting policies (continued)

(i) Fixed assets – property, plant and equipment (continued)

(iii) Gains or losses arising from the retirement or disposal of an item of property, plant and equipment, including concession assets, are determined as the difference between the net disposal proceeds attributable to the Group, if any, and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

(j) Depreciation and amortisation

(i) Depreciation for property, plant and equipment is calculated to write off the cost of an item of property, plant and equipment less its estimated residual value, if any, using the straight-line method over its estimated useful life as follows:

	No. of years
Tunnels, bridges and roads (see note 3(j)(iii))	38-64
Buildings (see note 3(j)(iii))	7-50
Rolling stock	2.5-50
Locomotives and wagons	5-35
Lifts and escalators	20-25
Permanent way comprising rails, ballast, sleepers and concrete civil works (see note 3(j)(iii))	10-50
Machinery and equipment	3-45
Telecommunication and signalling systems and air-conditioning plant	3-50
Fare collection systems	5-20
Mobile phone systems	7-15
Tools	10-40
Furniture and fixtures	3-40
Computer and office equipment (including computer software)	3-20
Buses	4-17
Other motor vehicles	4-15

(ii) Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually. The residual value of an asset is the estimated amount that the Group could currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset was already of the age and in the condition expected at the end of its useful life.

(iii) Tunnels, bridges, roads, concrete civil works and buildings situated on leasehold land are depreciated over the shorter of the unexpired term of the related lease and their estimated useful lives.

3 Significant accounting policies (continued)

(k) Leased assets

(i) Classification of leased assets

Leases of assets under which the lessee assumes substantially all the risks and rewards of ownership are classified as finance leases. Leases of assets under which the lessor has not transferred substantially all the risks and rewards of ownership are classified as operating leases, except that property held under an operating lease that would otherwise meet the definition of an investment property may be classified as an investment property on a property-by-property basis.

(ii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset.

Land lease premiums, land resumption costs and other costs directly associated with the acquisition of leasehold land held for own use under operating leases are amortised on a straight-line basis over the period of the lease term. The cost in relation to leasehold land vested by the Government has been determined as follows:

- vested on 1 February 1983 – as determined by the Financial Secretary; and
- vested subsequent to 1 February 1983 – based on actual cost as reflected in the Government's records or the costs incurred by the Corporation directly associated with the acquisition of leasehold land.

(l) Impairment of assets

(i) Impairment of financial assets

All financial assets are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

- significant financial difficulties being experienced by a debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becomes probable that the debtor will enter bankruptcy or some form of financial reorganisation; and
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

3 Significant accounting policies (continued)

(l) Impairment of assets (continued)

(i) Impairment of financial assets (continued)

If any such evidence exists, an impairment loss is determined and recognised as follows:

– For interest and other receivables that are carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material.

– For interest and other receivables and other financial assets carried at amortised cost, an impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (taking into account bad and doubtful debts), discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

– Impairment losses on interest and other receivables, and other financial assets are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances are recognised in profit or loss to the extent that the cumulative impairment loss has been charged to profit or loss.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that any assets, other than financial assets, may be impaired or an impairment loss previously recognised no longer exists or may have decreased.

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

– Calculation of recoverable amount

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

3 Significant accounting policies (continued)

(l) Impairment of assets (continued)

(ii) Impairment of other assets (continued)

– Recognition of impairment losses

An impairment loss is recognised in profit or loss if 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 to reduce the carrying amount of the 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, or value in use, if determinable.

– Reversals of impairment losses

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

A reversal of an impairment loss 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 profit or loss in the year in which the reversals are recognised.

(m) Construction in progress

Assets under construction and capital works for the operating railways are stated at cost incurred by the Corporation (or by MTRCL in the case of ACP) less impairment losses, if any. Costs comprise direct costs of construction, including materials, staff costs and overheads, interest and finance income/expenses and gains or losses arising from changes in fair value of pre-funding investments capitalised during the period of construction or installation and testing. Capitalisation of these costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use are interrupted or completed. The assets concerned are transferred to fixed assets when substantially all the activities necessary to prepare the assets for their intended use are completed, at which time the assets begin to be depreciated in accordance with the relevant policies. Land lease premiums, land resumption costs and other related costs incurred by the Corporation for the purpose of acquiring the land on which the new railways or extensions to existing railways are to be operated are initially included in construction in progress. These costs are transferred to interest in leasehold land held for own use under operating leases when the related assets are completed and ready for their intended use at which time the costs begin to be amortised in accordance with the relevant policies.

3 Significant accounting policies (continued)

(m) Construction in progress (continued)

Costs incurred by the Corporation (or MTRCL in the case of ACP) 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 the proposed project proceeding, the costs concerned are written off to profit or loss as incurred; and

– where the proposed projects are at a detailed study stage, having demonstrated an acceptable financial viability and having obtained the Managing Board's approval to proceed further, the costs concerned are initially dealt with as deferred expenditure and then transferred to construction in progress after the relevant project agreements are reached with the Government.

(n) Deferred expenditure

Deferred expenditure relates to costs incurred for proposed railway related construction projects which will be transferred to construction in progress after the relevant project agreements are reached with the Government. The composition of costs and their capitalisation criteria follow that of construction in progress as set out in note 3(m).

(o) Property development

When the Corporation determines or reaches agreement with property developers to develop a site for resale or for rent, the carrying amount of the leasehold land and existing buildings on the development site are transferred to properties under development. Costs related to the respective projects incurred by the Corporation are also dealt with as properties under development until such time that profit on the development is recognised by the Corporation.

Profits on property development undertaken in conjunction with property developers are recognised in profit or loss as follows:

– where the Corporation receives payments from property developers as a consequence of their participation in a project to develop a property, such payments are set off against the balance in properties under development in respect of that project. Any surplus amounts of payments received from property developers in excess of the balance in properties under development are transferred to deferred income. In such circumstances, further costs subsequently incurred by the Corporation in respect of that project are charged against the related balance of deferred income and any excess is charged to properties under development to the extent it is considered to be recoverable. The balance of deferred income is credited to profit or loss when the property enabling works are completed and acceptable for development and after taking into account the outstanding risks and obligations in connection with the development, if any, retained by the Corporation. The balance of properties under development not previously offset by payments received from property developers is charged to profit or loss where the costs are considered to be irrecoverable, together with provision for losses, if any, borne by the Corporation in respect of the development;

3 Significant accounting policies (continued)

(o) Property development (continued)

– where the Corporation receives a share of profits from the sale of properties, profits are recognised upon the issue of occupation permits provided that the amounts of revenue and related costs can be measured reliably; and

– where the Corporation retains certain assets of the development, profits are measured based on the fair value of such assets and are recognised at the time of receipt after taking into account the costs incurred by the Corporation in respect of the development and the outstanding risks, if any, retained by the Corporation in connection with the development.

(p) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand, demand deposits with banks and other financial institutions and short-term, highly liquid investments. Cash equivalents are readily convertible into known amounts of cash with an insignificant risk of changes in value and have a maturity of less than three months at acquisition.

For the purposes of the consolidated cash flow statement, cash equivalents exclude bank deposits with a maturity of more than three months when placed but include bank overdrafts that are repayable on demand and form an integral part of the Group's cash management.

(q) Interest and other receivables

Interest and other receivables are initially recognised at fair value and thereafter are stated at amortised cost using the effective interest method less impairment losses, if any, except where the present value is not determinable because there is no fixed repayment term. In such cases, interest and other receivables are stated at cost less impairment losses, if any.

(r) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, the unhedged portion of interest-bearing borrowings is stated at amortised cost with any difference between the cost and redemption value being recognised in profit or loss over the period of the borrowings using the effective interest method.

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

3 Significant accounting policies (continued)

(s) Interest and other payables

Interest and other payables are initially recognised at fair value and thereafter are stated at amortised cost except where the present value is not determinable because there are no fixed payment terms. In such cases, other payables are stated at cost.

(t) Employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees.

(ii) Termination benefits

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(u) Income tax

(i) Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or direct in equity, respectively.

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

3 Significant accounting policies (continued)

(u) Income tax (continued)

(iii) Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the 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.

All deferred tax assets, to the extent that it is probable that future taxable profits will be available against which the assets can be utilised, are recognised. All deferred tax liabilities are recognised.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

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

(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 the Group or the Corporation 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 Group or the Corporation 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 intend to realise the current tax assets and settle the current tax liabilities on a net basis in the same period.

3 Significant accounting policies (continued)

(v) Provisions and contingent liabilities

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

(w) Revenue recognition

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

(i) Concession income

Different components of concession income are recognised in profit or loss as follows:

- Fixed annual payments of $750 million and variable annual payments based on revenue generated from the operation of the Corporation's rail network and other rail-related businesses are recognised when earned during the Concession Period;

- The upfront payment received less the cost of Purchased Rail Assets for the Service Concession and the assets and liabilities assumed by MTRCL are amortised over the Concession Period on a straight-line basis; and

- ACP funded by MTRCL is recognised as deferred income and amortised over the shorter of its useful life and the remaining Concession Period.

(ii) Interest income

Interest income is recognised as it accrues using the effective interest method.

3 Significant accounting policies (continued)

(w) Revenue recognition (continued)

(iii) Rental income

Rental income receivable 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 asset. Lease incentives granted are recognised in profit or loss 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.

(iv) Other income

Other income is recognised once the related services or goods are delivered and the related risks and rewards of ownership have been transferred.

(x) Lease out and lease back transactions

A series of lease out and lease back transactions with third parties is linked and accounted for as one arrangement when the overall economic effect cannot be understood without reference to the series of transactions as a whole and when the series of transactions is closely interrelated, negotiated as a single arrangement and takes place concurrently or in a continued sequence.

The primary purpose of such arrangements is to achieve a particular tax result for the third parties in return for a fee. The arrangements do not, in substance, involve a lease under IAS 17 and HKAS 17 since the Group retains all the risks and rewards incidental to the ownership of the underlying assets and enjoys substantially the same rights to their use as before the transactions were entered into. The transactions are, therefore, not accounted for as leases.

Where commitments to make long-term lease payments have been defeased by the placement of security deposits or by the advance of loans to third parties, they are not recognised in the balance sheet. Where commitments and deposits or advances of loans to third parties meet the definition of a liability and an asset, they are recognised in the balance sheet.

The income and expenses arising from the arrangements are accounted for on a net basis in order to reflect the overall commercial effect of the transactions. The net amounts are accounted for as deferred income and are amortised over the applicable lease terms of the transactions.

3 Significant accounting policies (continued)

(y) Translation of foreign currencies

Foreign currency transactions during the year are translated into Hong Kong dollars at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the foreign exchange rates ruling at the balance sheet date.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated into Hong Kong dollars using the foreign exchange rates ruling at the dates the fair value was determined.

Exchange gains and losses are recognised in profit or loss.

(z) Interest and finance income/expenses

(i) Interest and finance income includes:

- interest income from bank deposits and investments;
- interest income arising from delayed reimbursement from MTRCL relating to property development enabling works;
- realised gains arising from derivative financial instruments designated as hedges for borrowings;
- net gains on redemption and disposal of investments; and
- net exchange gains arising from foreign currency transactions.

(ii) The Group's interest and finance income arising from non-derivative financial assets are not classified as at fair value through profit or loss.

Interest and finance income is credited to profit or loss in the period in which it is earned.

(iii) Interest and finance expenses include:

- interest payable on borrowings;
- finance expenses including amortisation of discounts/premiums and ancillary costs incurred in connection with the arrangement of borrowings calculated using the effective interest rate;
- realised losses arising from derivative financial instruments designated as hedges for borrowings;
- net realised losses on redemption and disposal of investments; and
- net exchange losses arising from foreign currency transactions.

3 Significant accounting policies (continued)

(z) Interest and finance income/expenses (continued)

(iv) The Group's interest and finance expenses arising from non-derivative financial liabilities are not classified as at fair value through profit or loss.

Interest and finance expenses are expensed in profit or loss in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

(aa) Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

3 Significant accounting policies (continued)

(ab) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's direct management team for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

4 Changes in accounting policies

The IASB has issued a number of new IFRSs and amendments to IFRSs that are first effective for the current accounting period of the Group and the Corporation. The equivalent revised HKFRSs consequently issued by HKICPA have the same effective date as those issued by the IASB and are in all material respects identical to the pronouncements issued by IASB. Of these, the following developments are relevant to the Group's financial statements:

– IFRS 10 and HKFRS 10, *Consolidated financial statements*
– IFRS 12 and HKFRS 12, *Disclosure of interests in other entities*
– IFRS 13 and HKFRS 13, *Fair value measurement*
– Amendments to IFRS 7 and HKFRS 7, *Disclosures – Offsetting financial assets and financial liabilities*

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

The impacts of these developments are discussed below:

– IFRS 10 and HKFRS 10, *Consolidated financial statements*

IFRS 10 and HKFRS 10 replace the requirements in IAS 27 and HKAS 27, Consolidated and separate financial statements relating to the preparation of consolidated financial statements and SIC 12 and HK-SIC 12 Consolidation – Special purpose entities. They introduce a single control model to determine whether an investee should be consolidated, by focusing on whether the entity has power over the investee, exposure or rights to variable returns from its involvement with the investee and the ability to use its power to affect the amount of those returns. The adoption does not change any of the control conclusions reached by the Group in respect of its involvement with other entities as at 1 January 2013.

– IFRS 12 and HKFRS 12, *Disclosure of interests in other entities*

IFRS 12 and HKFRS 12 bring together into a single standard all the disclosure requirements relevant to an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The disclosures required by IFRS 12 and HKFRS 12 are generally more extensive than those previously required by the respective standards. To the extent that the requirements are applicable to the Group, the Group has provided those disclosures in note 18.

4 Changes in accounting policies (continued)

– IFRS 13 and HKFRS 13, *Fair value measurement*

IFRS 13 and HKFRS 13 replace existing guidance in individual IFRSs and HKFRSs with a single source of fair value measurement guidance. IFRS 13 and HKFRS 13 also contain extensive disclosure requirements about fair value measurements for both financial instruments and non-financial instruments. To the extent that the requirements are applicable to the Group, the Group has provided those disclosures in note 14(h) and note 27.

– Amendments to IFRS 7 and HKFRS 7, *Disclosures – Offsetting financial assets and financial liabilities*

The amendments introduce new disclosures in respect of offsetting financial assets and financial liabilities. Those new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 and HKAS 32, Financial instruments: Presentation and those that are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments and transactions, irrespective of whether the financial instruments are set off in accordance with IAS 32 and HKAS 32. The adoption of the amendments does not have an impact on these financial statements because the Group has not offset financial instruments, nor has it entered into master netting arrangement or similar agreement which is subject to the disclosures of IFRS 7 and HKFRS 7 during the periods presented.

5 Turnover

Turnover principally represents revenue from the Service Concession. The amounts of revenue recognised in turnover during the year are as follows:

	2013 $ million	2012 $ million
Service Concession income		
– fixed and variable annual payments	**1,997**	1,633
– amortisation of upfront payment and net liabilities transferred to MTRCL	**83**	83
Income relating to ACP funded by MTRCL	**262**	176
Property services	**23**	26
Income from lease out and lease back transactions	**33**	15
Income relating to property development	**–**	133
	2,398	2,066

6 Operating costs before depreciation, amortisation and impairment

	2013 $ million	2012 $ million
Staff costs	**6**	6
Government rent and rates	**1**	1
Cost of services acquired (including services outsourced to MTRCL of $15 million (2012: $13 million))	**22**	19
Others	**3**	5
	32	31

7 Operating profit before depreciation, amortisation and impairment

(a) Operating profit before depreciation, amortisation and impairment is arrived at after charging/(crediting):

	2013 $ million	2012 $ million
Auditor's remuneration	**2**	2
Emoluments of the Chief Officer who is not a Member of the Managing Board	**1**	1
and after crediting:		
Rentals receivable from operating leases less direct outgoings of $2 million (2012: $2 million) (including contingent rentals of nil (2012: nil))	**(21)**	(24)

(b) No fees have been paid nor are payable to any Member of the Managing Board including the Chairman in 2013 and 2012.

7 Operating profit before depreciation, amortisation and impairment (continued)

(c) Emoluments of the Chief Officer who is not a Member of the Managing Board include fixed remuneration which comprises base pay, allowances and gratuities and benefits-in-kind. Details of emoluments are shown below:

	2013 $ million	2012 $ million
Mr Edmund K H Leung#	**1.35**	–
Mr James Blake#	**–**	1.29

Mr Edmund K H Leung was appointed as the Chief Officer from 1 January 2013 and his predecessor, Mr James Blake, retired on 31 December 2012.

The ranges of remuneration set out below include the five highest paid employees of the Corporation.

	No. of employees	
	2013	2012
The remuneration of the highest five employees ranges from		
$2,000,001 – $2,500,000	**1**	1
$1,000,001 – $1,500,000	**2**	2
Nil – $1,000,000	**2**	2

8 Depreciation and amortisation

	2013 $ million	2012 $ million
Depreciation:		
– investment properties	**3**	2
– other assets	**3,044**	3,009
	3,047	3,011
Amortisation:		
– amortisation of interest in leasehold land held for own use under operating leases	**116**	113
	3,163	3,124

9 Interest and finance income/expenses

(a) Interest and finance income

	2013 $ million	2012 $ million
Interest income from deposits	**56**	67
Interest income from MTRCL relating to property development enabling works	**–**	17
Interest income from other financial assets	**3**	1
Interest income from non-derivative financial assets	**59**	85
Realised gains arising from derivative financial instruments	**125**	164
Exchange gain (net)	**12**	19
	196	268

(b) Interest and finance expenses

	2013 $ million	2012 $ million
Interest and finance expenses on non-derivative financial liabilities:		
Interest expenses on loans	**552**	603
Finance expenses	**1**	3
	553	606

10 Net losses on changes in fair value of financial instruments

	2013 $ million	2012 $ million
Net losses on derivative financial instruments	**(133)**	(172)
Net gains arising from hedged interest-bearing borrowings	**10**	19
	(123)	(153)

11 Income tax

(a) Income tax in the consolidated statement of comprehensive income represents:

	2013 $ million	2012 $ million
Current tax		
Provision for Hong Kong Profits Tax at 16.5% (2012: 16.5%) of the estimated assessable profits for the year	–	–
Deferred tax credit		
Origination and reversal of temporary differences	(226)	(271)
	(226)	(271)

The Corporation sustained a loss for tax purposes during the year and has accumulated tax losses carried forward of approximately $31,700 million at 31 December 2013 (2012: approximately $30,200 million) which are available to set off against future assessable profits. The tax losses do not expire under current tax legislation.

(b) Reconciliation between tax credit and accounting loss at applicable tax rates:

	2013 $ million	2012 $ million
Loss before taxation	(1,216)	(1,521)
Tax credit on accounting loss before taxation at 16.5% (2012: 16.5%)	(201)	(251)
Tax effect of non-deductible expenses	58	50
Tax effect of non-taxable income	(83)	(70)
Actual tax credit	(226)	(271)

11 Income tax (continued)

(c) Deferred tax assets and liabilities of the Group and the Corporation recognised:

The components of deferred tax (assets)/liabilities of the Group and the Corporation recognised in the Group's and the Corporation's balance sheets and the movements during the year are as follows:

The Group and the Corporation

	Future benefit of tax losses $ million	Depreciation allowances in excess of the related depreciation $ million	Total $ million
At 1 January 2012	(4,690)	5,994	1,304
(Credited)/charged to profit or loss	(300)	29	(271)
At 31 December 2012	(4,990)	6,023	1,033
At 1 January 2013	**(4,990)**	**6,023**	**1,033**
(Credited)/charged to profit or loss	**(245)**	**19**	**(226)**
At 31 December 2013	**(5,235)**	**6,042**	**807**

12 Loss for the year wholly attributable to the sole shareholder of the Corporation

Of the consolidated loss for the year amounting to $990 million (2012: $1,250 million), a loss of $1,010 million (2012: $1,194 million) has been dealt with in the financial statements of the Corporation.

13 Segment reporting

The Group manages its businesses as a whole as the Service Concession is the only reporting segment and virtually all of the turnover and operating loss is derived from activities in Hong Kong. The financial statements are already presented in a manner consistent with the way in which information is reported internally to the Group's direct management team for the purposes of resource allocation and performance assessment. Accordingly, no business and geographical segment information is disclosed in accordance with IFRS 8 and HKFRS 8.

14 Fixed assets and interest in leasehold land held for own use under operating leases

(a) The Group and the Corporation

	Fixed assets						
	Investment properties $ million	Tunnels, bridges, roads and permanent way $ million	Buildings $ million	Rolling stock $ million	Other equipment $ million	Total $ million	Interest in leasehold land held for own use $ million
Cost:							
At 1 January 2012	70	29,039	31,059	11,403	19,968	91,539	5,777
Transfer from construction in progress	–	64	14	171	473	722	–
Additions	–	–	–	–	3	3	–
Purchase of ACP by MTRCL	–	–	–	–	19	19	–
Disposals	–	(25)	(1)	(39)	(86)	(151)	–
Reclassifications	–	(11)	(34)	–	(7)	(52)	52
At 31 December 2012	70	29,067	31,038	11,535	20,370	92,080	5,829
At 1 January 2013	**70**	**29,067**	**31,038**	**11,535**	**20,370**	**92,080**	**5,829**
Transfer from construction in progress	**–**	**84**	**65**	**247**	**531**	**927**	**–**
Additions	**–**	**1**	**–**	**–**	**–**	**1**	**–**
Purchase of ACP by MTRCL	**–**	**–**	**–**	**–**	**29**	**29**	**–**
Disposals	**–**	**(26)**	**(3)**	**(61)**	**(102)**	**(192)**	**–**
At 31 December 2013	**70**	**29,126**	**31,100**	**11,721**	**20,828**	**92,845**	**5,829**
Accumulated depreciation, amortisation and impairment:							
At 1 January 2012	37	4,444	5,716	4,404	9,959	24,560	1,094
Charge for the year	2	691	764	590	964	3,011	113
Written back on disposals	–	(13)	–	(35)	(81)	(129)	–
At 31 December 2012	39	5,122	6,480	4,959	10,842	27,442	1,207
At 1 January 2013	**39**	**5,122**	**6,480**	**4,959**	**10,842**	**27,442**	**1,207**
Charge for the year	**3**	**691**	**765**	**587**	**1,001**	**3,047**	**116**
Written back on disposals	**–**	**(16)**	**(2)**	**(51)**	**(98)**	**(167)**	**–**
At 31 December 2013	**42**	**5,797**	**7,243**	**5,495**	**11,745**	**30,322**	**1,323**
Carrying amounts:							
At 31 December 2013	**28**	**23,329**	**23,857**	**6,226**	**9,083**	**62,523**	**4,506**
At 31 December 2012	31	23,945	24,558	6,576	9,528	64,638	4,622

14 Fixed assets and interest in leasehold land held for own use under operating leases (continued)

(b) Permanent way principally comprises the cost of rail tracks, sleepers, track base and ballast.

(c) Other equipment comprises lifts and escalators, telecommunication and signalling systems, machinery, furniture and fixtures, motor vehicles and computer and office equipment.

(d) The minimum total future amounts receivable by the Group and the Corporation under non-cancellable operating leases are expected to be received as follows:

	2013 $ million	2012 $ million
Within one year	**21**	19
After one year but within five years	**41**	23
After five years	**–**	3
	62	45

(e) The Group and the Corporation have previously entered into a number of individually structured transactions or arrangements with unrelated parties to lease out and lease back assets which include rolling stock, signalling equipment, revenue collection equipment and railway infrastructure. Under each arrangement, the Group and the Corporation have leased the assets to an overseas investor, who has prepaid all the rentals in relation to a lease agreement. Simultaneously, the Group and the Corporation have leased the assets back from the overseas investor and the commitments to make long-term lease payments as set out in pre-determined schedules have been defeased by the placement of security deposits or by the advance of loans to third parties that are not recognised in the balance sheet (see note 3(x)). The Group and the Corporation have an option to purchase the overseas investor's leasehold interest in the assets at a pre-determined date for a fixed or agreed amount and it is the intention of the Group and the Corporation to exercise such purchase options. As long as the Group and the Corporation comply with the requirements of the lease agreements, the Group and the Corporation will continue to be entitled to quiet enjoyment of and continued possession, use or operation of the assets subject to these arrangements. The arrangements have been entered into with investors in the United States.

14 Fixed assets and interest in leasehold land held for own use under operating leases (continued)

(e) As at 31 December 2013, a portion of the Group's and the Corporation's assets (including assets replaced during the lease periods) with a total cost of $6,214 million (2012: $9,011 million) and net book value of $2,589 million (2012: $3,359 million) is covered by five arrangements (2012: seven arrangements). Three arrangements involve rolling stock, with basic lease terms of 17 to 28 years. One arrangement involving the revenue collection system has a basic lease term of 15 years. The remaining arrangement involving railway infrastructure has basic lease terms of between 24 years and 27 years. Since the Group and the Corporation retain risks and rewards incidental to ownership of the underlying assets in respect of each arrangement and enjoy substantially the same rights to their use as before the arrangements were entered into, no adjustment has been made to fixed assets. As a result of these arrangements, the Group and the Corporation have received cash of $6,358 million at the inception of the arrangements. Assuming exercise of the purchase option in each arrangement, the obligations to make long-term lease payments over the duration of the relevant leases by the Group and the Corporation are expected to be funded by the proceeds to be generated from existing deposits and investments, which are not recognised in the balance sheet, over the relevant lease periods. The total estimated net present value of these obligations at the inception of the arrangements amounted to $6,045 million.

The total net amounts of cash received by the Group and the Corporation from the arrangements have been recorded as deferred income and are being amortised to profit or loss over the applicable lease terms of the arrangements.

Under these lease arrangements, letters of credit were arranged by the Group and the Corporation to secure the lease obligations. In 2012, a letter of credit arranged under one of the seven lease arrangements expired and the Group and the Corporation acquired other financial assets as replacement to pledge against the lease obligations (see note 19).

(f) In compliance with IAS 16 and HKAS 16 which require an annual review of the estimated useful lives of fixed assets, a review of the estimated useful lives of all major fixed asset categories was undertaken by in-house engineers of MTRCL during the year. As a result, the depreciation charge for the year increased by $41 million.

14 Fixed assets and interest in leasehold land held for own use under operating leases (continued)

(g) The Group's and the Corporation's interest in leasehold land held in Hong Kong under medium-term leases (less than 50 years) amounted to $4,506 million (2012: $4,622 million) at 31 December 2013.

(h) During 2009, the Corporation reclassified certain floors of Citylink Plaza at Sha Tin Station, which are leased out under operating leases, from held for own use to investment property as a result of a change in the terms of the land grant. The revised land grant allows the Corporation to sell these floors separately from the railway network on which Citylink Plaza is situated. The carrying amount and fair value of the Group's and the Corporation's investment properties and the level of fair value hierarchy (as defined in note 27 (e)) are disclosed below:

			Fair value measurements as at 31 December 2013 categorised into				
	Carrying amount at 31 December 2013 $ million	**Fair value at 31 December 2013 $ million**	**Level 1 $ million**	**Level 2 $ million**	**Level 3 $ million**	Carrying amount at 31 December 2012 $ million	Fair Value at 31 December 2012 $ million
Investment properties	**28**	**1,794**	**—**	**1,794**	**—**	31	1,703
	28	**1,794**	**—**	**1,794**	**—**	31	1,703

Valuation techniques and inputs used in Level 2 fair value measurements:

– The fair value of the investment properties was estimated with reference to recent average transaction prices of properties with comparable rental value.

15 Construction in progress

Construction in progress comprises:

The Group and the Corporation

	2013 $ million	2012 $ million
Balance at 1 January	**798**	631
Costs incurred during the year	**18**	40
Purchase of ACP by MTRCL	**1,370**	849
Transfer to fixed assets or leasehold land	**(927)**	(722)
Balance at 31 December	**1,259**	798

16 Deferred expenditure

(a) Deferred expenditure comprises:

The Group and the Corporation

	2013 $ million	2012 $ million
Shatin to Central Link		
Balance at 1 January and 31 December	**1,188**	1,188

(b) The Government has indicated that the Shatin to Central Link ("the SCL"), upon completion, is likely to be vested in the Corporation and operated by MTRCL through an additional or supplemental service concession arrangement. A suitable arrangement of vesting the SCL in the Corporation will be made in due course with Government policy approval properly sought. Although the final details of the arrangement are subject to Government policy approval as noted above, management are confident that the recovery of the costs incurred to date by the Corporation on the SCL will be achieved over the duration of the additional or supplemental service concession arrangement with MTRCL.

(c) As at 31 December 2013, land related costs totalling approximately $6 million (2012: $6 million) directly associated with the acquisition of leasehold land for the purpose of the SCL are included in the balance of deferred expenditure. These costs will be transferred to interest in leasehold land when the land is vested in the Corporation by the Government, at which time the costs will begin to be amortised in accordance with the relevant policies.

17 Investments in subsidiaries

	Corporation	
	2013 $ million	2012 $ million
Unlisted shares, at cost	**–**	–

17 Investments in subsidiaries (continued)

Details of the subsidiaries listed by principal activities are as follows:

Name of company	Place of incorporation and operation	Number of issued and fully paid ordinary shares	Par value of each share	Percentage of shares held by the Corporation
Asset Leasing				
Buoyant Asset Limited	Hong Kong	100	$10	100%
Advanced Asset Limited @	Hong Kong	100	$10	100%
Quality Asset Limited @	Hong Kong	100	$10	100%
Kasey Asset Limited	Hong Kong	100	$10	100%
Circuit Asset Limited ^	Hong Kong	100	$10	100%
Shining Asset Limited	Hong Kong	100	$10	100%
Fluent Asset Limited	Hong Kong	100	$10	100%
Bowman Asset Limited	Cayman Islands	1,000	US$1	100%
Statesman Asset Limited	Cayman Islands	1,000	US$1	100%

@ At 31 December 2013, Advanced Asset Limited and Quality Asset Limited were in the process of de-registration from the Companies Registry as the related leasing transactions were terminated in 2013.

^ Circuit Asset Limited was deregistered on 26 April 2013.

Details of entities in which the Corporation holds more than half of the issued share capital but does not have control are as follows:

Name of company	Place of incorporation and operation	Number of issued and fully paid ordinary shares	Par value of each share	Percentage of shares held by the Corporation
Property development				
West Rail Property Development Limited, and its 13 wholly owned subsidiaries *	Hong Kong	51 'A' 49 'B'	$10 $10	100% Nil
Property management				
The Metropolis Management Company Limited **	Hong Kong	25,500 'A' 24,500 'B'	$1 $1	100% Nil

* These entities are held by the Corporation for the sole purpose of developing commercial or residential property along the West Rail, Phase I route on behalf of the Government. Their financial statements are excluded from consolidation as the Corporation has no effective control over nor beneficial interests in the net assets of these entities, other than the amount of capital provided.

** This entity is held by the Corporation for the sole purpose of rendering property management services to a commercial property. The financial statements are excluded from consolidation on the basis that, under the Equity Sub-participation Agreement which formed part of the merger transaction, the Corporation is obliged to act on MTRCL's instructions in respect of the exercise of any and all rights the Corporation has as a shareholder of the MMC. All the beneficial interests to which the Corporation was previously entitled now rest with MTRCL although there has been no direct disposition of the shares of MMC to MTRCL.

17 Investments in subsidiaries (continued)

A summary of consolidated financial information of WRPDL and its subsidiaries based on the management accounts of these companies as of 31 December is as follows:

	2013 $ million	2012 $ million
Assets	11,564	16,013
Liabilities	3,133	2,663
Equity	8,431	13,350
Turnover	4,622	13,580
Profit after taxation for the year	3,097	12,775

18 Interest in associate

The interest in associate is as follows:

	Group		Corporation	
	2013 $ million	2012 $ million	2013 $ million	2012 $ million
Unlisted shares, at cost	–	–	9	9
Share of net assets	187	167	–	–
	187	167	9	9

Details of the associate, which is an unlisted corporate entity and is incorporated and operates in Hong Kong, are as follows:

Name of company	Number of issued and fully paid ordinary shares	Par value of each share	Percentage of shares held	Principal activity
Octopus Holdings Limited	42,000,000	$1	22.1%	Operates a common payment system using Octopus Cards (Note 1)

Note 1: Octopus Holdings Limited facilitates the commuters to use the Octopus Cards for the transportation services along the KCR railway system.

18 Interest in associate (continued)

A summary of financial information of the associate based on its consolidated management accounts as of 31 December and a reconciliation of the net assets of the associate to the carrying amount in the consolidated financial statements are as follows:

	2013		2012	
	Gross amounts of the associate (100%)	Group's effective interest (22.1%)	Gross amounts of the associate (100%)	Group's effective interest (22.1%)
	$ million	$ million	$ million	$ million
Assets	4,125	911	3,693	816
Liabilities	3,277	724	2,938	649
Equity (Net assets)	848	187	755	167
Turnover	821	181	811	179
Profit after tax for the year	392	86	368	81
Other comprehensive income	1	–	–	–
Total comprehensive income	393	86	368	81
Dividend paid	300	66	623	137

19 Other financial assets

Other financial assets comprise:

The Group and the Corporation

	2013 $ million	2012 $ million
Held-to-maturity debt securities – unlisted	550	550

In 2012, the Group and the Corporation acquired certain financial assets to replace the expired letter of credit arranged under one of the lease arrangements as pledge of the lease obligations (see note 14(e)).

20 Interest and other receivables

(a) Interest and other receivables comprise:

The Group and the Corporation

	2013 $ million	2012 $ million
Interest receivable	7	6
Debtors, deposits, prepayments and revenue in arrears	36	66
Amount due from MTRCL relating to property under development	23	19
Amount due from MTRCL	1,302	933
	1,368	1,024

The amount due from MTRCL relating to property under development represents property development enabling work costs incurred by the Corporation. The amount will be reimbursed from MTRCL once the joint venture for the respective property development site is formed in accordance with the Merger Framework Agreement.

(b) Interest and other receivables are expected to be recovered as follows:

The Group and the Corporation

	2013 $ million	2012 $ million
Within one year	1,359	1,014
After one year	9	10
	1,368	1,024

(c) Included in interest and other receivables are debtors with the following ageing analysis:

The Group and the Corporation

	2013 $ million	2012 $ million
Current	25	53
Deposits, prepayments and revenue in arrears	11	13
	36	66

21 Cash and cash equivalents

Cash and cash equivalents comprise:

The Group and the Corporation

	2013 $ million	2012 $ million
Deposits with banks		
– within three months to maturity when placed	**2,277**	4,556
– more than three months to maturity when placed	**3,283**	2,043
Cash at bank and in hand	**14**	20
Cash and cash equivalents in the balance sheets	**5,574**	6,619
Less: deposits with banks with more than three months to maturity when placed	**(3,283)**	(2,043)
Cash and cash equivalents in the consolidated cash flow statement	**2,291**	4,576

22 Interest and other payables

(a) Interest and other payables comprise:

The Group and the Corporation

	2013 $ million	2012 $ million
Interest payable	**85**	113
Deposits and advances	**13**	12
Creditors and accrued charges	**15**	16
	113	141

(b) Interest and other payables are expected to be settled as follows:

The Group and the Corporation

	2013 $ million	2012 $ million
Within one year	**103**	135
After one year	**10**	6
	113	141

22 Interest and other payables (continued)

(c) Included in interest and other payables are interest payable and creditors with the following ageing analysis:

The Group and the Corporation

	2013 $ million	2012 $ million
Due within one month or on demand	36	24
Due between one month to three months	–	12
Due between three months to six months	52	80
Total interest payable and creditors	88	116
Deposits and advances	13	12
Accrued charges	12	13
	113	141

23 Accrued charges and provisions for capital projects

The balance includes accrued charges and provisions for claims on land resumption and business losses related to capital projects. Accrued charges will be settled upon certification of work done. Provisions for claims relate to the West Rail and East Rail Extensions projects.

The balance includes an aggregate amount of $288 million (2012: $317 million) payable to the Government for accrued charges and provisions for claims in relation to the West Rail, East Rail Extensions and Shatin to Central Link projects. The provisions for claims amounted to $282 million (2012: $311 million).

The movement of provisions for claims and accrued charges related to capital projects is as follows:

The Group and the Corporation

	2013 $ million	2012 $ million
Provisions for claims		
Balance at 1 January	311	402
Amount utilised	(29)	(91)
Balance at 31 December	282	311
Accrued charges		
Balance at 1 January and 31 December	6	6
	288	317

23 Accrued charges and provisions for capital projects (continued)

Accrued charges and provisions for capital projects are expected to be settled or utilised as follows:

The Group and the Corporation

	2013 $ million	2012 $ million
Within one year	31	45
After one year	257	272
	288	317

24 Interest-bearing borrowings

(a) Interest-bearing borrowings comprise:

The Group and the Corporation

	2013		2012	
	Carrying amount $ million	Fair value $ million	Carrying amount $ million	Fair value $ million
Capital market instruments				
HK dollar retail notes due 2013 – see (c) below	–	–	698	712
HK dollar notes due 2013 – see (d) below	–	–	813	813
US dollar notes due 2014 – see (d) below	388	411	389	437
HK dollar notes due 2014 – see (e) below	400	402	399	408
HK dollar notes due 2019 – see (e) below	1,289	1,355	1,287	1,447
HK dollar notes due 2024 – see (e) below	413	433	413	493
US dollar notes due 2019 – see (e) below	5,793	6,194	5,802	6,533
HK dollar notes due 2021 – see (e) below	495	539	494	597
HK dollar notes due 2021 – see (e) below	741	780	740	861
HK dollar notes due 2019 – see (e) below	434	464	434	499
HK dollar notes due 2015 – see (e) below	1,000	1,018	1,000	1,044
HK dollar notes due 2013 – see (e) below	–	–	800	802
	10,953	11,596	13,269	14,646
Bank loans – see (f) below	1,500	1,500	1,500	1,500
	12,453	13,096	14,769	16,146

(Expressed in Hong Kong dollars)

24 Interest-bearing borrowings (continued)

(b) The fair values of capital market instruments were determined using discounted cash flow techniques.

(c) The Corporation issued 4.80% notes due 2013 with an aggregate nominal value of $700 million at a premium on 6 June 2003. All the notes issued are unsecured and rank equally with all of the Corporation's other unsecured senior indebtedness. The notes were repaid in full during 2013.

(d) The Corporation issued 7.77% notes due 2014 with an aggregate nominal value of US$50 million at a discount on 17 November 1999, and 4.65% notes due 2013 with an aggregate nominal value of $800 million at par on 9 June 2003 under its US$3 billion medium term note programme. All the notes issued are unsecured and rank equally with all of the Corporation's other unsecured senior indebtedness. The 4.65% notes with an aggregate nominal value of $800 million were repaid in full during 2013.

(e) The Corporation issued the following notes under its 2009 US$3 billion medium term note programme:

Date of issue	Nominal value	Interest rate	Maturity	Pricing
28 April 2009	$400 million	2.65%	2014	At a discount
28 April 2009	$1.3 billion	3.5%	2019	At a discount
15 May 2009	$415 million	4.13%	2024	At a discount
18 May 2009	US$750 million	5.125%	2019	At a discount
15 June 2009	$500 million	3.88%	2021	At a discount
9 July 2009	$750 million	3.82%	2021	At a discount
24 July 2009	$435 million	3.64%	2019	At a discount
2 February 2010	$1 billion	2.8%	2015	At par
20 May 2010[#]	$800 million	1.3%	2013	At par

The notes were repaid in full during 2013.

All the notes issued are unsecured and rank equally with all of the Corporation's other unsecured senior indebtedness.

(f) As at 31 December 2013, all bank loans are unsecured and interest-bearing at rates ranging from 0.99% (2012: 1.06%) to 1.06% (2012: 1.14%) per annum.

(g) The covenants attached to the Corporation's interest-bearing borrowings are customary ones.

24 Interest-bearing borrowings (continued)

(h) The interest-bearing borrowings were repayable as follows:

	2013 $ million	2012 $ million
Within one year	**788**	2,311
After one year but within two years	**1,000**	788
After two years but within five years	**1,500**	2,500
After five years	**9,165**	9,170
	12,453	14,769

25 Deferred income

(a) The balance of deferred income at 31 December 2013 includes cash received from property developers for property development sites along East Rail and Ma On Shan Rail; cash receipts arising from the lease out and lease back arrangements; the upfront payment received less the cost of Purchased Rail Assets for the Service Concession; assets and liabilities assumed by MTRCL as part of the merger transaction; and the cost of ACP funded by MTRCL less related amortisation. Under the property package of the Rail Merger, the Corporation shall continue to be responsible for the funding of the property enabling works for the eight development sites sold to MTRCL. The cash received from property developers will be set off against costs to be incurred by the Corporation in respect of each property development. The unutilised balance will be credited to profit or loss when the property enabling works are completed and accepted for development and after taking into account the outstanding risks and obligations in connection with the development, if any, retained by the Corporation. The balance relating to the lease out and lease back arrangements is being amortised and credited to profit or loss over the applicable lease terms. The balance relating to the net upfront payment received for the Service Concession and assets and liabilities assumed by MTRCL is being amortised and credited to profit or loss over the Concession Period. The balance relating to ACP is being amortised to profit or loss over the shorter of the useful life of the ACP and the remaining Concession Period.

(b) Movements in deferred income comprise:

The Group and the Corporation

	2013 $ million	2012 $ million
Balance at 1 January	**6,800**	6,248
Net amount (paid and payable)/received and receivable	**(9)**	97
Deferred income relating to ACP funded by MTRCL	**1,399**	868
Recognised in profit or loss	**(385)**	(413)
Balance at 31 December	**7,805**	6,800

25 Deferred income (continued)

(c) Deferred income is expected to be recognised in profit or loss as follows:

The Group and the Corporation

	2013 $ million	2012 $ million
Within one year	341	281
After one year	7,464	6,519
	7,805	6,800

26 Capital, reserves and dividends

(a) 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 Corporation's individual components of equity between the beginning and the end of the year are set out below:

The Corporation

	Share capital $ million	Retained profits $ million	Total $ million
Balance at 1 January 2012	39,120	18,777	57,897
Changes in equity for 2012:			
Total comprehensive income for the year	—	(1,194)	(1,194)
Balance at 31 December 2012 and 1 January 2013	39,120	17,583	56,703
Changes in equity for 2013:			
Total comprehensive income for the year	—	(1,010)	(1,010)
Balance at 31 December 2013	39,120	16,573	55,693

(i) Included in the retained profits of the Group is an amount of $178 million (2012: $158 million) being the retained profits attributable to the associate.

(ii) Pursuant to the relevant provisions of the Ordinance, the reserves available for distribution comprise an amount out of the whole or part of the profits of the Corporation in any financial year after making allowance for any accumulated loss at the end of the financial year prior to the year in which the distribution is declared. The fair value change of financial assets and liabilities, net of related deferred tax, recognised in retained profits are not available for distribution to the sole shareholder because they are not realised profits of the Corporation. As at 31 December 2013, the amount of reserves available for distribution to the sole shareholder amounted to $16,443 million (2012: $17,350 million).

26 Capital, reserves and dividends (continued)

(b) Share capital

	2013		2012	
	No. of shares	**$ million**	No. of shares	$ million
Authorised:				
Shares of $100,000 each	**425,000**	**42,500**	425,000	42,500
Issued and fully paid:				
At 31 December	**391,200**	**39,120**	391,200	39,120

(c) Capital management

The Corporation's capital includes share capital and reserves.

The entire issued share capital of the Corporation is held by the Financial Secretary Incorporated.

Pursuant to the relevant provisions of the Ordinance, the Corporation may declare dividends to the Government as its sole shareholder. The Financial Secretary may, after consultation with the Corporation and after taking into account the extent of its loans and other obligations, direct the Corporation to declare a dividend.

27 Financial risk management and fair values of financial instruments

In the normal course of its business, the Group is exposed to a variety of financial risks: credit risk, interest rate risk, currency risk and liquidity risk. The Group uses derivative financial instruments to hedge certain risk exposures.

The Managing Board has approved policies in respect of credit risk, interest rate risk, currency risk, use of derivative financial instruments and investment of surplus funds. As part of its risk management, the Group identifies and evaluates the financial risks and, where appropriate, hedges those risks in accordance with the policies established by the Managing Board.

The Group documents at the inception of each hedging transaction the relationship between the hedging instrument and hedged item, as well as its risk management objective and strategy for undertaking the transaction. The Group also documents its assessment, both at inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are effective in offsetting changes in fair values of the hedged items.

27 Financial risk management and fair values of financial instruments (continued)

(a) Credit risk

The Group's credit risk is primarily attributable to its held-to-maturity debt securities, its deposits and over-the-counter derivative financial instruments entered into for hedging purposes.

The Group has no significant concentrations of credit risk. It has policies in place that limit the amount of credit exposure to any financial institution with which the Group has transactions. The Group can only invest in debt securities issued by or place deposits with financial institutions that meet the established credit rating or other criteria. Derivative counterparties are limited to high-credit-quality financial institutions. The exposures to these credit risks are monitored on an ongoing basis.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial assets and liabilities, in the balance sheets.

The Group and the Corporation

	2013 $ million	2012 $ million
Other financial assets	**550**	550
Interest rate swaps	**51**	246
Currency swaps	**138**	71
Interest and other receivables	**1,368**	1,024
	2,107	1,891

27 Financial risk management and fair values of financial instruments (continued)

(b) Interest rate risk

(i) Hedging

The Group's interest rate risk arises from its long-term borrowings. Borrowings at variable rates expose the Group to cash flow interest rate risk. Borrowings at fixed rates expose the Group to fair value interest rate risk. The Group aims to maintain the proportion of its fixed rate borrowings at between 30% and 75% of total borrowings. At 31 December 2013, 63% (2012: 53%) of total borrowings were at fixed rates.

The Group enters into receive-fixed-pay-floating interest rate swaps to hedge the fair value interest rate risk arising from fixed rate borrowings as well as to achieve an appropriate mix of fixed and floating rate exposure.

At 31 December 2012, the Group had interest rate swaps with a notional contract amount of $800 million which qualify as fair value hedges. These interest rate swaps were stated at fair value with changes in fair value being recognised in profit or loss to offset the effect of the gain or loss on the related hedged portion of interest-bearing borrowings. During 2013, all the interest rate swaps which qualify as fair value hedges expired.

The net fair value of interest rate swaps which qualify as fair value hedges, entered into by the Group at 31 December 2012 was assets of $13 million.

(ii) Fair value through profit or loss

For interest rate swaps where the hedging relationships do not qualify as fair value hedges or the Corporation does not opt for hedge accounting, changes in their fair values are recognised in profit or loss.

At 31 December 2013, the Group had such interest rate swaps with a notional contract amount of $3,135 million (2012: $4,635 million) and net fair value of $44 million (assets) (2012: $233 million (assets)), which comprises assets of $51 million (2012: $233 million) and liabilities of $7 million (2012: nil).

27 Financial risk management and fair values of financial instruments (continued)

(b) Interest rate risk (continued)

(iii) Sensitivity analysis

The sensitivity analysis below indicates the instantaneous change in the Group's loss after taxation (and retained profits) that would arise assuming that a general increase/decrease of 100 basis points (bps) in interest rates had occurred at the balance sheet date and such changes had been applied to re-measure those financial instruments held by the Group which expose the Group to fair value risk at the balance sheet date. In respect of the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Group at the balance sheet date, the impact on the Group's loss after taxation (and retained profits) is estimated as an annualised impact on interest expense or income of such a change in interest rates. The analysis is performed on the same basis for 2012.

Other than for currency swaps where the forward exchange rates are slightly changed by a parallel shift in the interest rates of the underlying currencies, all other variables, in particular spot foreign currency rates, remain constant.

The estimated impact of a general increase/decrease of 100 basis points in interest rates, with all other variables held constant other than the exception mentioned above, on the Group's and the Corporation's loss after taxation (and retained profits) is shown below:

The Group and the Corporation

	2013		2012	
	$ million +100 bps	$ million -100 bps	$ million +100 bps	$ million -100 bps
Effect on profit or loss:				
Interest rate swaps	(77)	81	(107)	101
Currency swaps	(3)	–	2	63
Interest-bearing borrowings	–	–	3	(2)
(Increase)/decrease in loss after taxation	(80)	81	(102)	162

27 Financial risk management and fair values of financial instruments (continued)

(c) Currency risk

The Group derives its revenues almost entirely in Hong Kong dollars and is, therefore, exposed to currency risk arising only from borrowings, purchases and capital expenditure payments in relation to the development of new railways that are denominated in foreign currencies.

The Corporation uses forward exchange contracts and currency swaps to hedge its foreign exchange risk. The Corporation's risk management policy is to hedge its foreign currency borrowings into either Hong Kong dollars or United States dollars and limit its exposure to United States dollars to no greater than 30% of its total borrowings.

The Corporation may have investments in debt securities and other financial assets from time to time. Where these investments are denominated in foreign currencies other than United States dollars or Hong Kong dollars, the Corporation hedges the exposure into either United States dollars or Hong Kong dollars.

(i) Recognised assets and liabilities

Changes in the fair value of currency swaps that could not effectively hedge recognised monetary liabilities denominated in foreign currencies are recognised in profit or loss. The net fair value of currency swaps used by the Corporation as economic hedges of monetary assets and liabilities in foreign currencies at 31 December 2013 and recognised as net derivative financial assets was $138 million (assets) (2012: $69 million (assets)), comprising assets of $138 million (2012: $71 million) and liabilities of nil (2012: $2 million).

(ii) Fair value through profit or loss

In respect of other receivables and other payables denominated in currencies other than the functional currency, the Corporation ensures that the net exposure is kept to an acceptable level by buying or selling foreign currencies at spot or forward rates where necessary.

All the Group's borrowings are denominated in either Hong Kong dollars or United States dollars. Given this, management does not expect that there will be any significant currency risk associated with the Group's borrowings.

27 Financial risk management and fair values of financial instruments (continued)

(c) Currency risk (continued)

(iii) Exposure to currency risk

Based on the notional amounts of the financial assets and liabilities, the following table shows the Group's and the Corporation's exposure at the balance sheet date to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the Group.

The Group and the Corporation

	US dollars million (Expressed in foreign currency)
2013	
Other financial assets	**71**
Interest and other receivables	**4**
Cash and cash equivalents	**45**
Currency swaps	**800**
Interest and other payables	**(5)**
Interest-bearing borrowings	**(800)**
Overall net exposure	**115**
2012	
Other financial assets	71
Interest and other receivables	4
Cash and cash equivalents	50
Currency swaps	800
Interest and other payables	(5)
Interest-bearing borrowings	(800)
Overall net exposure	120

27 Financial risk management and fair values of financial instruments (continued)

(c) Currency risk (continued)

(iv) Sensitivity analysis

The following table indicates the instantaneous change in the Group's loss after taxation (and retained profits) that would have arisen upon changes to foreign exchange rates to which the Group had exposure at the balance sheet date, assuming all other risk variables remained constant. Such exposure relates to the portion of United States dollars borrowings, currency swaps, and other assets and liabilities, such as deposits and future contract payments, denominated in foreign currencies.

	Increase/ (decrease) in foreign exchange rate	**2013** **Decrease/ (increase) in loss after taxation** **$ million**	2012 Decrease/ (increase) in loss after taxation $ million
US dollars	1%	**16**	20
	(1%)	**(16)**	(20)

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on the Group's loss after taxation (and retained profits) measured in the respective functional currencies, translated into Hong Kong dollars at exchange rates, based on direct quotes, prevailing at the balance sheet date for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the balance sheet date. The analysis is performed on the same basis for 2012.

(d) Liquidity risk

Liquidity risk represents the Group's ability to meet its contractual obligations. The Group evaluates its liquidity requirements on an ongoing basis. It employs projected cash flow analyses to forecast its future funding requirements. The Group's approach to manage liquidity is to ensure there will be sufficient liquidity to meet its liabilities when they fall due, under both normal and stressed conditions.

The Group aims to secure committed credit facilities well ahead of funding needs. This protects the Group against adverse market conditions which may result in difficulties in raising funds to meet payment obligations. The Group has put in place committed revolving facilities and uncommitted stand-by facilities to cater for short-term liquidity requirements.

27 Financial risk management and fair values of financial instruments (continued)

(d) Liquidity risk (continued)

The following table shows the time periods after the balance sheet date during which contractual payments, presented on an undiscounted basis, are due to be made. These payments include, inter alia, interest payments computed using contractual rates (for fixed rate instruments) and rates prevalent at the balance sheet date (for floating rate instruments), in respect of the Group's and the Corporation's non-derivative and derivative financial liabilities which are due to be paid.

The Group and the Corporation

	Contractual undiscounted cash outflow					
	Within 1 year or on demand $ million	More than 1 year but less than 2 years $ million	More than 2 years but less than 5 years $ million	More than 5 years $ million	Total $ million	Carrying amount at 31 December $ million
2013						
Interest and other payables	**(103)**	**(4)**	**(2)**	**(4)**	**(113)**	**113**
Interest rate swaps	**(47)**	**–**	**(10)**	**(7)**	**(64)**	**(44)**
Currency swaps						
– outflow	**(660)**	**(269)**	**(806)**	**(5,946)**	**(7,681)**	**–**
– inflow	**687**	**298**	**895**	**5,973**	**7,853**	**(138)**
Interest-bearing borrowings	**(1,295)**	**(1,460)**	**(2,790)**	**(9,640)**	**(15,185)**	**12,453**
	(1,418)	**(1,435)**	**(2,713)**	**(9,624)**	**(15,190)**	**12,384**
2012						
Interest and other payables	(135)	(1)	–	(5)	(141)	141
Interest rate swaps	–	–	–	–	–	(246)
Currency swaps						
– outflow	(270)	(660)	(807)	(6,214)	(7,951)	2
– inflow	299	688	898	6,285	8,170	(71)
Interest-bearing borrowings	(2,877)	(1,294)	(3,822)	(10,079)	(18,072)	14,769
	(2,983)	(1,267)	(3,731)	(10,013)	(17,994)	14,595

27 Financial risk management and fair values of financial instruments (continued)

(e) Fair value measurement

(i) Financial assets and liabilities measured at fair value

The following table presents the fair value of the Group's and the Corporation's financial instruments measured at the balance sheet date on a recurring basis, categorised into the three-level fair value hierarchy as defined in IFRS 13 and 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 valuations: 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 valuations: 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 valuations: Fair value measured using significant unobservable inputs

The Group and the Corporation

Recurring fair value measurements

		Fair value measurements as at 31 December 2013 categorised into		
	Fair value at 31 December 2013 $ million	Level 1 $ million	Level 2 $ million	Level 3 $ million
2013				
Assets				
Derivative financial assets				
– interest rate swaps	51	–	51	–
– currency swaps	138	–	138	–
	189	–	189	–
Liabilities				
Derivative financial liabilities				
– interest rate swaps	(7)	–	(7)	–
	(7)	–	(7)	–

27 Financial risk management and fair values of financial instruments (continued)

(e) Fair value measurement (continued)

(i) Financial assets and liabilities measured at fair value (continued)

	Fair value at 31 December 2012 $ million	Fair value measurements as at 31 December 2012 categorised into Level 1 $ million	Level 2 $ million	Level 3 $ million
2012				
Assets				
Derivative financial assets				
– interest rate swaps	246	–	246	–
– currency swaps	71	–	71	–
	317	–	317	–
Liabilities				
Derivative financial liabilities				
– currency swaps	(2)	–	(2)	–
	(2)	–	(2)	–

Valuation techniques and inputs used in Level 2 fair value measurements:

– The fair value of the interest rate swaps and currency swaps was based on the present value of the estimated amount that the Group would receive or pay to terminate the swap at the balance sheet date, taking into account prevailing interest rates, foreign exchange rates and creditworthiness of the swap counterparties. Discounted cash flow techniques were used in determining the fair value of swaps.

27 Financial risk management and fair values of financial instruments (continued)

(e) Fair value measurement (continued)

(ii) Fair values of financial assets and liabilities carried at other than fair value

The carrying amounts of the Group's and the Corporation's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 December 2013 and 2012 except for the following financial instruments, for which their carrying amounts and fair value and the level of fair value hierarchy are disclosed below:

The Group and the Corporation

	Carrying amount at 31 December 2013 $ million	Fair value at 31 December 2013 $ million	Fair value measurements as at 31 December 2013 categorised into: Level 1 $ million	Level 2 $ million	Level 3 $ million	Carrying amount at 31 December 2012 $ million	Fair value at 31 December 2012 $ million
Assets							
Other financial assets	550	540	540	—	—	550	552
	550	540	540	—	—	550	552
Liabilities							
Interest-bearing borrowings	(12,453)	(13,096)	—	(13,096)	—	(14,769)	(16,146)
	(12,453)	(13,096)	—	(13,096)	—	(14,769)	(16,146)

Valuation techniques and inputs used in Level 2 fair value measurements:

– The fair value of the interest-bearing borrowings was calculated based on discounted cash flows of expected future principal and interest payments.

28 Notes to the consolidated cash flow statement

Reconciliation of operating loss after depreciation, amortisation and impairment to net cash inflow from operations

	2013 $ million	2012 $ million
Operating loss after depreciation, amortisation and impairment	(822)	(1,111)
Depreciation and amortisation	3,163	3,124
Loss on disposal of fixed assets	25	22
Increase in other receivables	(370)	(612)
(Decrease)/increase in other payables and deferred income	(391)	613
Net cash inflow from operations	1,605	2,036

29 Related parties

The Corporation is wholly owned by the Government. The Corporation has entered into transactions with the Government in respect of the developments of the West Rail, Phase I route, East Rail Extensions and Kowloon Southern Link which are considered to be related party transactions under IAS 24 and HKAS 24 and these are disclosed in notes 1, 3(c) and (i), 6, 16(b) and (c), 17 and 23 to the financial statements. Transactions with Government departments and agencies in the course of their normal dealings with the Corporation are not considered to be related party transactions.

Members of the Managing Board, the key management who are not Members of the Managing Board and parties related to them are also related parties of the Corporation. During the year there were no significant transactions with any such parties other than their remuneration which is disclosed in note 7 to the financial statements.

MTRCL is considered to be a related party of the Corporation under IAS 24 and HKAS 24 as they share a common shareholder, the Government. The Corporation has entered into transactions with MTRCL since the Appointed Day which are considered to be related party transactions and these are disclosed in notes 2, 3(c), (i), (m) and (w), 5, 6, 9(a), 14, 15, 17, 20 and 25 to the financial statements.

29 Related parties (continued)

Major related party transactions entered into by the Group in prior years which are still relevant for the current year comprise:

(i) On 15 September 1998, the Government approved the construction of West Rail, Phase I to be undertaken by the Corporation. The West Rail Project Agreement, which set out how the project was to be undertaken and the respective obligations of the Government and the Corporation in terms of the financing, design, construction and operation of West Rail, Phase I, was signed on 23 October 1998. On 24 February 2000, the Corporation and the Government entered into a shareholding agreement for undertaking all property developments along the West Rail, Phase I route.

(ii) The Corporation entered into a project agreement for the East Rail Extensions with the Government on 28 February 2003. The project agreement provided for the financing, design, construction and operations of the East Rail Extensions and related services and facilities.

(iii) The Corporation entered into a project agreement for the financing, design, construction and operation of Kowloon Southern Link with the Government on 6 October 2005. Under the terms of the KSL Project Agreement, the Corporation is responsible for, and will finance the entire capital cost of constructing the Kowloon Southern Link, along with the costs of the removal, replacement, modification or improvement of existing facilities affected by or required as a consequence of the construction of the Kowloon Southern Link.

(iv) The Corporation accepted an offer from the Government to allow the Corporation to proceed with the development of the sites at Ho Tung Lau, Wu Kai Sha and Tai Wai Maintenance Centre in March 2003, October 2005 and July 2006 respectively.

30 Outstanding commitments

Commitments outstanding in respect of capital expenditure not provided for in the financial statements were as follows:

The Group and the Corporation

	2013 $ million	2012 $ million
Fixed assets – property, plant and equipment		
– authorised and contracted for	**21**	9
– authorised but not contracted for	**27**	55
Balance at 31 December	**48**	64

31 Retirement benefit scheme

The Group operates a Mandatory Provident Fund Scheme ("MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance. The MPF Scheme is a defined contribution retirement plan administrated by independent trustees. Under the MPF Scheme, the employer and its employees are required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income which was adjusted from $20,000 to $25,000 effective from 1 June 2012.

32 Debt facilities

(a) Total unutilised debt facilities available to the Group and the Corporation comprise:

	2013 $ million	2012 $ million
Short-term uncommitted revolving credit facilities	**400**	400
Overdraft facilities	**30**	30
Letters of credit for leveraged leases	**1,103**	1,486
Revolving loan facility	**1,000**	1,000
	2,533	2,916

(b) The unutilised debt facilities are expected to expire as follows:

	2013 $ million	2012 $ million
Floating rate		
– expiring within one year	**1,430**	827
– expiring after one year	**1,103**	2,089
	2,533	2,916

33 Contingent liabilities

At 31 December 2013, the Group had contingent liabilities arising from the land resumption claims and certain contractors' claims in respect of the construction of the West Rail and East Rail Extensions projects. The Group has made provisions in the financial statements at 31 December 2013 for its best estimate of amounts which are likely to be payable in connection with these claims which the Group is in the process of resolving. The details of the provisions are set out in note 23 to the financial statements.

34 Impairment of railway assets

At 31 December 2013, the Group assessed whether there was any indication of impairment of the Group's railway assets at that date in accordance with the Group's accounting policies for the assessment of asset impairment by comparing the key determinant factors, such as inflation, cost of debt, expected return on equity, to those of 2012.

As a result of this assessment, management considers that no indication of impairment of the railway assets of the Group exists at 31 December 2013 and, accordingly, that no provision for impairment of the Group's railway assets is required at that date.

35 Accounting estimates and judgements

(a) Key sources of estimation uncertainty

Note 27 contains information about the assumptions and their risk factors relating to financial instruments. Other key sources of estimation uncertainty include the assessment of useful lives for depreciation of fixed assets (see note 3(j)), assessment of provisions and contingent liabilities (see notes 3(v), 23 and 33), determination of the recoverability of deferred tax assets (see note 11(c)), assessment of the possibility of implementation of the Shatin to Central Link project (see note 16(b)) and assessment of the outstanding risk and obligations in recognition of profit from property development (see note 25).

(b) Critical accounting judgements in applying the Group's accounting policies

Critical accounting judgements in applying the Group's accounting policies include the classification of revenue and expenditure as capital or revenue in nature (see note 3(i)(i)), the classification of revenue and cost-recovery, the classification of operating leases or lease-out and lease-back transactions (see note 3(k)(i) and (x)), transfers from construction in progress to fixed assets (see note 3(m)), assessment of controlled subsidiaries and non-controlled entities (see note 3(c)), the categorisation of financial assets and liabilities and impairment of railway assets (see note 34).

36 Possible impact of amendments, new standards and interpretations issued but not yet effective for the annual accounting year ended 31 December 2013

Up to the date of issue of these financial statements, the IASB and HKICPA have issued a few amendments and a new standard which are not yet effective for the year ended 31 December 2013 and which have not been adopted in these financial statements.

The Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's and the Corporation's results of operations and financial position.

In addition, the following developments may result in new or amended disclosures in the financial statements:

	Effective for accounting periods beginning on or after
Amendments to IAS 32 & HKAS 32, *Offsetting financial assets and financial liabilities*	1 January 2014
IFRS 9 & HKFRS 9, *Financial instruments*	1 January 2015

Five-Year Statistics

FINANCIAL (HK$ million)	2013	2012	2011	2010	2009
Statement of Comprehensive Income					
Turnover	**2,398**	2,066	1,675	1,013	921
Operating profit before depreciation, amortisation and impairment	**2,366**	2,035	1,641	979	828
Net interest and finance expenses	**357**	338	376	560	1,178
Loss before unrealised gains/losses	**(1,093)**	(1,368)	(1,674)	(2,639)	(3,178)
Loss after unrealised gains/losses and taxation	**(990)**	(1,250)	(451)	(2,034)	(2,761)
Balance Sheet					
Fixed assets (including interest in leasehold land held for own use under operating leases)	**67,029**	69,260	71,662	74,899	76,521
Construction in progress	**1,259**	798	631	525	994
Deferred expenditure	**1,188**	1,188	1,188	1,188	1,613
Loan to West Rail Property Development Limited	**—**	—	4,405	4,405	4,405
Other financial assets	**550**	550	—	435	402
Cash and cash equivalents	**5,574**	6,619	1,410	710	8,872
Other assets	**1,744**	1,508	2,024	1,277	1,129
Total assets	**77,344**	79,923	81,320	83,439	93,936
Interest-bearing borrowings	**12,453**	14,769	15,097	15,117	23,059
Deferred tax liabilities	**807**	1,033	1,304	2,375	2,774
Deferred income	**7,805**	6,800	6,248	5,873	5,441
Other liabilities	**408**	460	560	1,512	2,053
Total liabilities	**21,473**	23,062	23,209	24,877	33,327
Equity	**55,871**	56,861	58,111	58,562	60,609
Key financial data					
Return on equity (%)	**(2)**	(2)	(1)	(3)	(5)
Debt/equity ratio	**1:4.5**	1:3.9	1:3.8	1:3.9	1:2.6
Debt to total capitalisation (%)	**18**	21	21	21	28
Interest cover (times)	**4.8**	3.9	3.2	1.6	0.8

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