Consolidated Statement of Comprehensive Income

for the year ended 31 December 2022 (Expressed in Hong Kong dollars)

	Note	2022 $ million	2021 $ million
Turnover	5	**524**	431
Operating costs before depreciation, amortisation and impairment	6	**(41)**	(44)
Operating profit before depreciation, amortisation and impairment	7	**483**	387
Depreciation and amortisation	8	**(3,229)**	(2,976)
Loss on disposal of property, plant and equipment		**(40)**	(35)
Operating loss after depreciation, amortisation and impairment		**(2,786)**	(2,624)
Interest and finance income	9(a)	**178**	52
Interest and finance expenses	9(b)	**(120)**	(121)
Share of profit of associate	17	**139**	89
Loss before taxation		**(2,589)**	(2,604)
Income tax	10(a)	**474**	449
Loss and total comprehensive income for the year wholly attributable to the sole shareholder of the Corporation	11	**(2,115)**	(2,155)

The notes on pages 28 to 81 form part of these financial statements.

Consolidated Statement of Financial Position

at 31 December 2022 (Expressed in Hong Kong dollars)

	Note	2022 $ million	2021 $ million
Assets			
Investment properties and other property, plant and equipment	13(a)	**53,953**	52,921
Interest in leasehold land held for own use	13(a)	**3,380**	3,459
Intangible assets	14	**1,950**	1,893
Construction in progress	15	**4,524**	5,659
Interest in associate	17	**465**	430
Deferred tax assets	10(c)	**909**	435
Other financial assets	18	**–**	556
Interest and other receivables	19	**527**	350
Cash and cash equivalents	20	**10,123**	10,423
		75,831	76,126
Liabilities			
Interest and other payables	21	**4,365**	4,277
Accrued charges and provisions for capital projects	22	**39**	29
Interest-bearing borrowings	23	**415**	414
Deferred income	24	**22,026**	20,305
		26,845	25,025
Net Assets		**48,986**	51,101
Capital and Reserves			
Share capital	25(c)	**39,120**	39,120
Reserves		**9,866**	11,981
Total Equity		**48,986**	51,101

Approved and authorised for issue by the Managing Board on 28 March 2023

Christopher Hui Ching-yu
Chairman of the Managing Board

Winnie Tse Wing-yee
Member of the Managing Board

L T Ma
Chief Officer

The notes on pages 28 to 81 form part of these financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2022 (Expressed in Hong Kong dollars)

	Share capital $ million	Retained profits $ million	Total equity $ million
Balance at 1 January 2021	39,120	14,136	53,256
Changes in equity for 2021:			
Loss for the year	–	(2,155)	(2,155)
Total comprehensive income for the year	–	(2,155)	(2,155)
Balance at 31 December 2021 and 1 January 2022	**39,120**	**11,981**	**51,101**
Changes in equity for 2022:			
Loss for the year	**–**	**(2,115)**	**(2,115)**
Total comprehensive income for the year	**–**	**(2,115)**	**(2,115)**
Balance at 31 December 2022	**39,120**	**9,866**	**48,986**

The notes on pages 28 to 81 form part of these financial statements.

Consolidated Cash Flow Statement

for the year ended 31 December 2022 (Expressed in Hong Kong dollars)

	Note	2022 $ million	2021 $ million
Operating activities			
Net cash outflow from operations	27(a)	**(326)**	(11)
Investing activities			
Decrease in deposits with banks with more than three months to maturity when placed		**1,891**	90
Payments for capital expenditure		**(690)**	(287)
Interest received		**122**	46
Proceeds from maturity of other financial assets		**559**	–
Dividend received from associate		**52**	69
Net cash inflow/(outflow) from investing activities		**1,934**	(82)
Net cash inflow/(outflow) before financing activities		**1,608**	(93)
Financing activities			
Repayment of loans	27(b)	**–**	(1,250)
Interest paid	27(b)	**(17)**	(56)
Net cash outflow from financing activities		**(17)**	(1,306)
Net increase/(decrease) in cash and cash equivalents		**1,591**	(1,399)
Cash and cash equivalents at 1 January		**433**	1,832
Cash and cash equivalents at 31 December		**2,024**	433
Analysis of the balances of cash and cash equivalents			
Cash and cash equivalents in the consolidated statement of financial position		**10,123**	10,423
Less: deposits with banks with more than three months to maturity when placed		**(8,099)**	(9,990)
Cash and cash equivalents in the consolidated cash flow statement	20	**2,024**	433

The notes on pages 28 to 81 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 KCRC 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 KCRC 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 Hong Kong Special Administrative Region 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 KCRC 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 commissioned in August 2009 but excluding the Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link ("the XRL") which was commissioned in September 2018 and the Shatin to Central Link ("the SCL") which was commissioned in February 2020, June 2021 and May 2022 by three phases) and other rail-related businesses ("concession assets") for a period of 50 years ("the Concession Period") under a service concession agreement ("the Service Concession Agreement"). 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 related 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.

Supplemental Service Concession for the XRL
In August 2018, the land or interests or other rights in respect of the land for the operation of the XRL were vested in and the movable assets of the XRL were assigned to the Corporation by the Hong Kong Special Administrative Region Government ("the Government").

On 23 September 2018, the XRL commenced its commercial operations. The right to operate the XRL was granted by the Corporation to MTRCL ("the Supplemental Service Concession (XRL)") for a concession period of 10 years ("the Concession Period (XRL)") under a supplemental service concession agreement ("the SSCA (XRL)"). Pursuant to the SSCA (XRL), the Corporation shall reimburse MTRCL the pre-operating costs incurred for the planning and commissioning of the XRL and shall pay to MTRCL fixed annual payments totalling $7,965 million during the Concession Period (XRL). In return, the Corporation is entitled to receive a variable annual payment from MTRCL, calculated based on revenue generated from the operation of the XRL. The applicable rate is as set out in the Service Concession above and based on the combined revenue from the Corporation's rail network and the XRL and other rail-related businesses. In addition, the SSCA (XRL) contains the following revenue-related arrangements for the XRL.

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

Supplemental Service Concession for the XRL (continued)

(a) If, and to the extent, the actual patronage of the XRL deviates from the projected patronage set out in the SSCA (XRL) by more than 15%, MTRCL and the Corporation shall share the impact of such shortfall/surplus according to a ratio of 30:70.

(b) If the XRL results in a reduction in the patronage of the existing cross-boundary and intercity rail network operated by MTRCL under the Service Concession, the Corporation is to bear the impact of such reduction calculated according to a formula set out in the SSCA (XRL) and subject to a cap of $1.5 billion over the Concession Period (XRL).

(c) The Corporation agrees to reimburse to MTRCL the service fees for Mainland journey tickets purchased at the West Kowloon Station and the fare discounts applicable to students and disabled army men as special classes of passengers in Mainland China.

The Corporation has also separately agreed to reimburse MTRCL in full all costs and expenses arising from the carrying out of certain post-day-1 works ("post-day-1 costs").

Supplemental Service Concessions for the SCL

In February 2020, the land or interests or other rights in respect of the land for the operation of the first phase of the Tuen Ma Line ("the TML1"), which forms part of the SCL, were vested in and the movable assets of the TML1 were assigned to the Corporation by the Government.

On 14 February 2020, the TML1 commenced its commercial operations. The right to operate the TML1 was granted by the Corporation to MTRCL ("the Supplemental Service Concession (TML1)") for a concession period of 2 years ("the Concession Period (TML1)") under another supplemental service concession agreement ("the SSCA (TML1)"). Pursuant to the SSCA (TML1), the Corporation shall pay to MTRCL fixed annual payments totalling $465 million during the Concession Period (TML1). The Concession Period (TML1) was terminated on the first date of commissioning and commercial operation of the entire Tuen Ma Line ("the TML") in June 2021, where the fixed annual payment for that calendar year was adjusted by a formula set out in the SSCA (TML1).

In June 2021, the land or interests or other rights in respect of the land and the movable assets for the operation of the second phase of the TML, which forms another part of the SCL, were vested in and assigned to the Corporation by the Government.

On 27 June 2021, the TML commenced its commercial operations. The right to operate the TML as a whole was granted by the Corporation to MTRCL ("the Supplemental Service Concession (TML)") for a concession period of 2 years ("the Concession Period (TML)") under a separate supplemental service concession agreement ("the SSCA (TML)"). The SSCA (TML1) was then terminated with effect from the date of the commencement of commercial operations of the TML. Pursuant to the SSCA (TML), the Corporation shall pay to MTRCL fixed annual payments totalling $492 million during the Concession Period (TML), subject to an adjustment mechanism under which if, and to the extent, the actual KCRC System Revenue in respect of the year ended 31 December 2021 is less than or greater than the thresholds set out in the SSCA (TML), MTRCL and the Corporation shall share the impact of such shortfall/surplus calculated according to a formula as set out therein.

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

Supplemental Service Concessions for the SCL (continued)

In May 2022, the land or interests or other rights in respect of the land and the movable assets for the operation of the final phase of the SCL were vested in and assigned to the Corporation by the Government respectively.

On 15 May 2022, the SCL commenced its commercial operations. The right to operate the SCL as a whole was granted by the Corporation to MTRCL ("the Supplemental Service Concession (SCL)") for a concession period of 10 years ("the Concession Period (SCL)") under another separate supplemental service concession agreement ("the SSCA (SCL)"). The SSCA (TML) was then terminated with effect from the date of the commencement of commercial operations of the entire SCL. Pursuant to the SSCA (SCL), the Corporation shall pay to MTRCL fixed annual payments totalling $7,177 million during the Concession Period (SCL), subject to an adjustment mechanism under which if, and to the extent, the actual KCRC System Revenue in respect of the year ended 31 December 2022 is less than or greater than the thresholds set out in the SSCA (SCL), MTRCL and the Corporation shall share the impact of such shortfall/surplus calculated according to a formula as set out therein. The Concession Period (TML) was terminated on the first date of commissioning and commercial operation of the entire SCL in May 2022, where the fixed annual payment for that calendar year was adjusted by a formula set out in the SSCA (TML).

Since the SCL is integrated into the Corporation's rail network, the revenue generated from the operation of the SCL is not isolated and the variable annual payment thereon, which the Corporation is entitled to receive from MTRCL in return, is calculated at the applicable rate as set out in the Service Concession above based on the combined revenue from the Corporation's rail network and the XRL and other rail-related businesses.

3 Significant accounting policies

(a) Statement of compliance

Although not required to do so under the KCRC 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 amendments to IFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Corporation. The equivalent amendments to HKFRSs consequently issued by the 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.

3 Significant accounting policies (continued)

(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 37.

(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, 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 prior to the Rail Merger now rest with MTRCL although there has been no direct disposition of the shares of MMC to MTRCL.

3 Significant accounting policies (continued)

(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 statements of financial position.

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 statement of financial position, an investment in a controlled subsidiary is stated at cost less impairment losses, if any.

(e) Interest in associate

An associate is an entity in which the Group or the Corporation has significant influence, but not control nor 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 losses relating to the investment (see note 3(l)(ii)). 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 associate 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.

3 Significant accounting policies (continued)

(e) Interest in associate (continued)

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 statement of financial position, an investment in an associate is stated at cost less impairment losses, if any.

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

(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 recognised/derecognised on the trade date, which is the date the Group commits to purchase/sell the investments or when the investments expire. The investments are initially stated at fair value plus directly attributable transaction costs.

The investments are subsequently accounted for and measured at amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method (see note 3(v)(ii)).

(g) 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.

3 Significant accounting policies (continued)

(h) Property, plant and equipment

(i) Property, plant and equipment, including those assets which are the subject of the Service Concession and the Supplemental Service Concession (SCL) with MTRCL, is stated in the statement of financial position 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 related expenditure including the improvement and replacement of the Corporation's railway network assets. Such expenditure on the improvement and replacement of the Corporation's railway network assets (other than those in relation to the XRL) 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 $121 billion of cumulative expenditure funded by MTRCL which will be adjusted from time to time pursuant to the provisions of the Service Concession Agreement and the SSCA (SCL). 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 statement of financial position at cost less accumulated depreciation and impairment losses, if any. The cost of the 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.

Property, plant and equipment relating to rail networks and ancillary commercial activities comprises:

- buildings which are situated on leasehold land (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.

3 Significant accounting policies (continued)

(h) Property, plant and equipment (continued)

The cost of property, plant and equipment acquired by the Group and the 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.

(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.

(Expressed in Hong Kong dollars)

3 Significant accounting policies (continued)

(i) 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(i)(iii))	15-64
Buildings (see note 3(i)(iii))	7-50
Rolling stock	2-50
Locomotives and wagons	5-35
Lifts and escalators	20-25
Permanent way comprising rails, ballast, sleepers and concrete civil works (see note 3(i)(iii))	10-50
Machinery and equipment	2-45
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)

(j) Intangible assets

(i) XRL

The land or interests or other rights in respect of the land for the operation of the XRL were vested in and the movable assets of the XRL were assigned to the Corporation by the Government for a term of 50 years at a nominal premium of $1,000 and $1 respectively. These costs represent the adopted value for the acquisition of the right of use of the land and the related assets. Furthermore, the pre-operating costs for the planning and commissioning of the XRL and post-day-1 costs incurred by MTRCL and reimbursed by the Corporation (see note 2) are also an integral part of the assets for the XRL.

(ii) SCL

The land or interests or other rights in respect of the land for the operation of the TML1 were vested in and the movable assets of the TML1 were assigned to the Corporation by the Government for a term of 50 years at a nominal premium of $1,000 and $1 respectively. The same vesting and assignment terms apply to the land or interests or other rights in respect of the land and the movable assets for the operation of the second phase of the TML and the final phase of the SCL. These costs represent the adopted value for the acquisition of the right of use of the land and the related assets. Furthermore, the expenditure incurred by the Corporation for the SCL project that was previously recognised as deferred expenditure was transferred to intangible assets upon commencement of the Supplemental Service Concession (TML1).

All these costs are carried as intangible assets on the statement of financial position and are amortised to profit or loss on a straight-line basis over the unexpired lease term of the land vested.

(k) Leased assets

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

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease. Variable lease payments that do not depend on an index or a rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

3 Significant accounting policies (continued)

(k) Leased assets (continued)

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. The right-of-use asset is subsequently stated at cost less accumulated amortisation and impairment losses (see notes 3(i)(i) and 3(l)(ii)).

The Group presents right-of-use assets arising from interest in leasehold land where the Corporation is the registered owner of the land interest that do not meet the definition of investment property as "interest in leasehold land held for own use".

Land lease premiums, land resumption costs and other costs directly associated with the acquisition of leasehold land held for own use 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) Credit losses and impairment of assets

(i) Credit losses from financial assets

The Group recognises a loss allowance for expected credit losses ("ECLs") on financial assets measured at amortised cost (including cash and cash equivalents, interest and other receivables and debt securities). Financial assets measured at fair value are not subject to the ECL assessment.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive). The expected cash shortfalls for fixed-rate financial assets and interest and other receivables are discounted using the effective interest rate determined at initial recognition or an approximation thereof where the effect of discounting is material.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that 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.

3 Significant accounting policies (continued)

(l) Credit losses and impairment of assets (continued)

(ii) Impairment of other assets (continued)

– 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).

– 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.

3 Significant accounting policies (continued)

(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 property, plant and equipment 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 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.

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 intangible assets or construction in progress after the relevant project agreements are reached with the Government.

3 Significant accounting policies (continued)

(n) Property development

When the Corporation determines or reaches agreement with property developers to develop a site for resale or for rent, the carrying amounts 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; 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.

(o) 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. Cash and cash equivalents are assessed for ECLs in accordance with the policy set out in note 3(l)(i).

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.

3 Significant accounting policies (continued)

(p) Interest and other receivables

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due.

Receivables that do not contain a significant financing component are initially measured at their transaction price. Interest and other receivables are subsequently stated at amortised cost using the effective interest method and including allowance for credit losses (see note 3(l)(i)).

(q) Interest-bearing borrowings

Interest-bearing borrowings are measured initially at fair value less transaction costs. Subsequent to initial recognition, the interest-bearing borrowings are stated at amortised cost using the effective interest method. Interest expense is recognised in accordance with the Group's accounting policy for borrowing costs (see note 3(x)(ii)).

(r) 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 or the effect of discounting would be immaterial. In such cases, other payables are stated at invoice amounts.

(s) 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.

3 Significant accounting policies (continued)

(t) 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 directly in equity, respectively.

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

(iii) Deferred tax 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 end of the reporting period. Deferred tax assets and liabilities are not discounted.

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

(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)

(u) Provisions, contingent liabilities and onerous contracts

(i) Provisions and contingent liabilities

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

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, a separate asset is recognised for any expected reimbursement that would be virtually certain. The amount recognised for the reimbursement is limited to the carrying amount of the provision.

(ii) Onerous contracts

An onerous contract exists when the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract. Provisions for onerous contracts are measured at the present value of the lower of the expected cost of terminating the contract and the net cost of fulfilling the contract. The cost of fulfilling the contract includes both the incremental costs of fulfilling that contract and an allocation of other costs that relate directly to fulfilling that contract.

(v) Revenue and other income

(i) Concession income

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

Service Concession

- 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.

3 Significant accounting policies (continued)

(v) Revenue and other income (continued)

(i) Concession income (continued)

Supplemental Service Concession for the XRL

– Variable annual payments based on revenue generated from the operation of the XRL, net of fixed annual payments and any amounts under the revenue-related arrangements as set out in note 2, are recognised when earned during the Concession Period (XRL); and

– The fixed annual payments to MTRCL (see note 2) are executory in nature and are accrued on a straight-line basis over the Concession Period (XRL). The payment pattern of these payments, as set out in the SSCA (XRL), gives rise to a financing component. The fixed annual payments are therefore measured at the present value of the amount payable. The related interest component is accrued separately under the effective interest method (see note 3(x)(ii)).

Supplemental Service Concessions for the SCL

– Variable annual payments based on revenue generated from the operations of the TML and then the entire SCL as integrated into the Corporation's rail network, net of fixed annual payments as set out in note 2, are recognised when earned during the Concession Period (TML) and then the Concession Period (SCL);

– Similar to the XRL, the fixed annual payments to MTRCL (see note 2) are executory in nature and are accrued on a straight-line basis over the Concession Period (TML) or the Concession Period (SCL), where applicable. The payment pattern of these payments, as set out in the SSCA (TML) and SSCA (SCL), gives rise to a financing component. The fixed annual payments are therefore measured at the present value of the amount payable where the effect of discounting is material. The related interest component is accrued separately under the effective interest method (see note 3(x)(ii)); 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, using the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the gross carrying amount of the financial asset. For financial assets measured at amortised cost that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset.

3 Significant accounting policies (continued)

(v) Revenue and other income (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. Variable lease payments that do not depend on an index or a rate are recognised as income in the accounting period in which they are earned.

(w) 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. The transaction date is the date on which the Corporation initially recognises such non-monetary assets or liabilities. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the foreign exchange rates ruling at the end of the reporting period.

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.

(x) Interest and finance income/expenses

(i) Interest and finance income includes:

- interest income from bank deposits and investments; and
- net exchange gains arising from foreign currency transactions.

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

(ii) Interest and finance expenses include:

- interest payable on borrowings;
- interest accrued in relation to fixed annual payments for the XRL and the SCL;
- finance expenses including amortisation of discounts/premiums and ancillary costs incurred in connection with the arrangement of borrowings calculated using the effective interest rate; and
- net exchange losses arising from foreign currency transactions.

3 Significant accounting policies (continued)

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

(ii) Interest and finance expenses include: (continued)

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.

(y) 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).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

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.

(z) 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 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 the 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. Of these, Amendments to IAS 37 and HKAS 37, *Provisions, contingent liabilities and contingent assets: Onerous contracts – cost of fulfilling a contract* are relevant to the Group's financial statements.

The amendments clarify that for the purpose of assessing whether a contract is onerous, the cost of fulfilling the contract includes both the incremental costs of fulfilling that contract and an allocation of other costs that relate directly to fulfilling contracts.

Previously, the Group included only incremental costs when determining whether a contract was onerous. In accordance with the transitional provisions, the Group has applied the new accounting policy to contracts for which it has not yet fulfilled all its obligations at 1 January 2022, and has concluded that none of them is onerous.

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

5 Turnover

Turnover principally represents revenue from the Service Concession and the Supplemental Service Concessions ("Concession Income"). The amounts of revenue recognised in turnover during the year are as follows:

	2022 $ million	2021 $ million
Concession Income		
– fixed and variable annual payments#	**(791)**	(609)
– amortisation of upfront payment and net liabilities transferred to MTRCL	**83**	83
– income relating to ACP funded by MTRCL	**1,211**	932
	503	406
Property services (including rental income from MTRCL of $14 million (2021: $14 million))	**21**	25
	524	431

\# The amount represents the net fixed and variable annual payments from/to MTRCL in connection with the Service Concession and the Supplemental Service Concessions as disclosed in note 2, which are accounted for in accordance with the accounting policies set out in note 3(v)(i).

6 Operating costs before depreciation, amortisation and impairment

	2022 $ million	2021 $ million
Staff costs	**10**	11
Government rent and rates	**2**	2
Cost of services acquired (including services outsourced to MTRCL of $19 million (2021: $19 million))	**28**	29
Others	**1**	2
	41	44

7 Operating profit before depreciation, amortisation and impairment

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

	2022 $ million	2021 $ million
Auditor's remuneration		
– audit services	**2.2**	2.2
– other services	**0.3**	0.5
Emoluments of the Chief Officer who is not a Member of the Managing Board	**3**	3
and after crediting:		
Rentals receivable from operating leases less direct outgoings of $2 million (2021: $2 million) (including variable lease payments of nil (2021: nil))	**(19)**	(23)

(b) No fees have been paid nor are payable to any Member of the Managing Board, including the Chairman, in 2022 and 2021.

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:

	2022 $ million	2021 $ million
Mr LT Ma	**3.09**	3.48

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

	No. of employees 2022	No. of employees 2021
The remuneration of the five highest paid employees ranges from		
$3,500,001 – $4,000,000	**–**	1
$3,000,001 – $3,500,000	**2**	1
$2,500,001 – $3,000,000	**–**	1
$2,000,001 – $2,500,000	**1**	–
Nil – $1,000,000	**2**	2

8 Depreciation and amortisation

	2022 $ million	2021 $ million
Depreciation		
– investment properties	**2**	3
– other property, plant and equipment	**3,076**	2,825
	3,078	2,828
Amortisation		
– amortisation of interest in leasehold land held for own use	**111**	110
– amortisation of intangible assets	**40**	38
	3,229	2,976

9 Interest and finance income/expenses

(a) Interest and finance income

	2022 $ million	2021 $ million
Interest income from deposits	172	38
Interest income from other financial assets	6	9
Interest income from financial assets	178	47
Exchange gain (net)	–	5
	178	52

(b) Interest and finance expenses

	2022 $ million	2021 $ million
Interest expenses on loans	18	42
Interest accrued in relation to fixed annual payments for the XRL and the SCL	102	79
	120	121

10 Income tax

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

	2022 $ million	2021 $ million
Current tax		
Provision for Hong Kong Profits Tax at 16.5% (2021: 16.5%) of the estimated assessable profits for the year	–	–
Deferred tax credit		
Origination and reversal of temporary differences	(474)	(449)
	(474)	(449)

The Corporation sustained a loss for tax purposes for the years ended 31 December 2022 and 2021.

The Corporation has accumulated tax losses carried forward of approximately $45,300 million at 31 December 2022 (2021: approximately $41,800 million) which are available to set off against future assessable profits. The tax losses do not expire under current tax legislation.

10 Income tax (continued)

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

	2022 $ million	2021 $ million
Loss before taxation	(2,589)	(2,604)
Tax credit on accounting loss before taxation at 16.5% (2021: 16.5%)	(427)	(430)
Tax effect of non-deductible expenses	218	172
Tax effect of non-taxable income	(265)	(191)
Actual tax credit	(474)	(449)

(c) Deferred tax assets and liabilities recognised:

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

	Future benefit of tax losses $ million	Depreciation allowances in excess of the related depreciation $ million	Total $ million
At 1 January 2021	(6,354)	6,368	14
(Credited)/charged to profit or loss	(545)	96	(449)
At 31 December 2021	(6,899)	6,464	(435)
At 1 January 2022	(6,899)	6,464	(435)
(Credited)/charged to profit or loss	(572)	98	(474)
At 31 December 2022	(7,471)	6,562	(909)

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

Of the consolidated loss for the year amounting to $2,115 million (2021: $2,155 million), a loss of $2,150 million (2021: $2,175 million) has been dealt with in the financial statements of the Corporation.

12 Segment reporting

The Group manages its businesses as a whole as virtually all of the turnover and operating profit 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.

13 Investment properties, other property, plant and equipment and interest in leasehold land held for own use

(a) Movements in investment properties, other property, plant and equipment and interest in leasehold land held for own use comprise:

		Other property, plant and equipment					
	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 2021	80	29,768	31,644	13,985	24,681	100,158	5,629
Transfer from construction in progress	2	261	26	1,574	1,778	3,641	–
Additions	–	4	–	–	–	4	34
Purchase of ACP by MTRCL	–	1	4	–	56	61	–
Disposals	–	(84)	(54)	(1,933)	(1,821)	(3,892)	–
Reclassification	–	–	24	4	(28)	–	–
At 31 December 2021	82	29,950	31,644	13,630	24,666	99,972	5,663
At 1 January 2022	**82**	**29,950**	**31,644**	**13,630**	**24,666**	**99,972**	**5,663**
Transfer from construction in progress	**–**	**503**	**10**	**1,969**	**1,624**	**4,106**	**–**
Additions	**–**	**–**	**–**	**–**	**–**	**–**	**32**
Purchase of ACP by MTRCL	**–**	**–**	**–**	**–**	**44**	**44**	**–**
Disposals	**–**	**(96)**	**–**	**(1,969)**	**(748)**	**(2,813)**	**–**
Reclassification	**–**	**–**	**(1)**	**(1)**	**2**	**–**	**–**
At 31 December 2022	**82**	**30,357**	**31,653**	**13,629**	**25,588**	**101,309**	**5,695**
Accumulated depreciation, amortisation and impairment:							
At 1 January 2021	56	10,380	12,541	8,979	16,124	48,080	2,094
Charge for the year	3	694	771	482	878	2,828	110
Written back on disposals	–	(70)	(54)	(1,929)	(1,804)	(3,857)	–
Reclassification	–	–	2	–	(2)	–	–
At 31 December 2021	59	11,004	13,260	7,532	15,196	47,051	2,204
At 1 January 2022	**59**	**11,004**	**13,260**	**7,532**	**15,196**	**47,051**	**2,204**
Charge for the year	**2**	**712**	**775**	**575**	**1,014**	**3,078**	**111**
Written back on disposals	**–**	**(85)**	**–**	**(1,958)**	**(730)**	**(2,773)**	**–**
At 31 December 2022	**61**	**11,631**	**14,035**	**6,149**	**15,480**	**47,356**	**2,315**
Carrying amount:							
At 31 December 2022	**21**	**18,726**	**17,618**	**7,480**	**10,108**	**53,953**	**3,380**
At 31 December 2021	23	18,946	18,384	6,098	9,470	52,921	3,459

13 Investment properties, other property, plant and equipment and interest in leasehold land held for own use (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 total future undiscounted lease payments receivable under non-cancellable operating leases are expected to be received as follows:

	2022 **$ million**	2021 $ million
Within one year	**24**	24
After one year but within two years	**17**	12
After two years but within three years	**11**	6
After three years but within four years	**3**	6
After four years but within five years	**–**	3
	55	51

(e) In compliance with IAS 16 and HKAS 16, *Property, plant and equipment* which require an annual review of the estimated useful lives of property, plant and equipment, a review of the estimated useful lives of all major asset categories was undertaken by in-house engineers of MTRCL during the year. As a result, the depreciation charge for the year increased by $40 million.

(f) The Group holds several land interests for its railway business and is the registered owner of these land interests. Lump sum payments were made upfront to acquire these land interests from their previous registered owners or the Government, and there are no ongoing payments to be made under the terms of the land leases.

The Group's interest in leasehold land held in Hong Kong under medium-term leases (less than 50 years but more than 10 years) amounted to $3,380 million (2021: $3,459 million) at 31 December 2022 and is accounted for as right-of-use assets.

13 Investment properties, other property, plant and equipment and interest in leasehold land held for own use (continued)

(g) As at 31 December 2022, the Corporation held certain floors of Citylink Plaza at Sha Tin Station as investment properties. The carrying amount and fair value of these investment properties and the level of fair value hierarchy (as defined in note 26(e)) are disclosed as below:

			Fair value measurements as at 31 December 2022 categorised into		
	Carrying amount at 31 December 2022 $ million	**Fair value at 31 December 2022 $ million**	**Level 1 $ million**	**Level 2 $ million**	**Level 3 $ million**
Investment properties	**21**	**1,576**	**–**	**1,576**	**–**

			Fair value measurements as at 31 December 2021 categorised into		
	Carrying amount at 31 December 2021 $ million	Fair value at 31 December 2021 $ million	Level 1 $ million	Level 2 $ million	Level 3 $ million
Investment properties	23	1,721	–	1,721	–

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.

14 Intangible assets

Intangible assets comprise:

	XRL $ million	SCL $ million	Total $ million
Cost:			
At 1 January 2022	**795**	**1,188**	**1,983**
Additions	**99**	**-**	**99**
Reversal of over-accruals	**(2)**	**-**	**(2)**
At 31 December 2022	**892**	**1,188**	**2,080**
Accumulated amortisation:			
At 1 January 2022	**45**	**45**	**90**
Charge for the year	**17**	**23**	**40**
At 31 December 2022	**62**	**68**	**130**
Net book value:			
At 31 December 2022	**830**	**1,120**	**1,950**
Cost:			
At 1 January 2021	725	1,188	1,913
Additions	70	–	70
At 31 December 2021	795	1,188	1,983
Accumulated amortisation:			
At 1 January 2021	30	22	52
Charge for the year	15	23	38
At 31 December 2021	45	45	90
Net book value:			
At 31 December 2021	750	1,143	1,893

As at 31 December 2021, the pre-operating costs reimbursable to MTRCL in connection with the XRL (see note 2) had not yet been finalised and agreed with MTRCL. The accrued amount of $670 million included above represented management's best estimate based on information available back then. During the year, the Corporation agreed with and reimbursed to MTRCL an amount of $668 million as final settlement of the pre-operating costs.

15 Construction in progress

Construction in progress comprises:

	2022 $ million	2021 $ million
Balance at 1 January	**5,659**	7,083
Costs incurred for ACP funded by MTRCL	**2,971**	2,217
Transfer to other property, plant and equipment	**(4,106)**	(3,641)
Balance at 31 December	**4,524**	5,659

16 Investments in subsidiaries

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

Name of company	Place of incorporation and operation	Particulars of issued and paid up capital	Percentage of shares held by the Corporation
Asset leasing			
Kasey Asset Limited#	Hong Kong	100 ordinary shares	100%
Fluent Asset Limited#^	Hong Kong	100 ordinary shares	100%

\# As both Kasey Asset Limited and Fluent Asset Limited have no accounting transactions to be recognised in their financial statements, the Companies Registry approved the dormant status of these companies with effect from 1 September 2017.

^ Fluent Asset Limited was de-registered from the Companies Registry on 30 April 2021.

16 Investments in subsidiaries (continued)

(b) 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	Particulars of issued and paid up capital	Percentage of shares held by the Corporation
Property development			
West Rail Property Development Limited, and its 11 wholly owned subsidiaries*	Hong Kong	51 'A' shares 49 'B' shares	100% Nil
Property management			
The Metropolis Management Company Limited ("MMC")**	Hong Kong	25,500 'A' shares 24,500 'B' shares	100% Nil

* These entities are held by the Corporation for the sole purpose of developing commercial or residential properties 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 interest 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 MMC. All the beneficial interests to which the Corporation was previously entitled prior to the Rail Merger now rest with MTRCL although there has been no direct disposition of the shares of MMC to MTRCL.

(c) A summary of consolidated financial information of West Rail Property Development Limited and its subsidiaries based on the management accounts of these companies as of 31 December is as follows:

	2022 $ million	2021 $ million
Assets	**4,558**	4,542
Liabilities	**204**	271
Equity (Net assets)	**4,354**	4,271
Turnover	**86**	271
Profit after taxation and total comprehensive income for the year	**83**	226

17 Interest in associate

The interest in associate is as follows:

	2022 $ million	2021 $ million
Share of net assets	**465**	430

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

Name of company	Particulars of issued and paid up capital	Percentage of shares held by the Corporation	Principal activity
Octopus Holdings Limited	42,000,000 ordinary shares	22.1%	Operates a common payment system using Octopus Cards *

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

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:

	2022		2021	
	Gross amounts of the associate (100%) $ million	Group's effective interest (22.1%) $ million	Gross amounts of the associate (100%) $ million	Group's effective interest (22.1%) $ million
Assets	**11,289**	**2,495**	9,756	2,156
Liabilities	**9,186**	**2,030**	7,813	1,726
Equity (Net assets)	**2,103**	**465**	1,943	430
Turnover	**1,709**	**378**	1,378	305
Profit after taxation and total comprehensive income for the year	**629**	**139**	404	89
Dividend	**469**	**104**	311	69

18 Other financial assets

Other financial assets comprise:

	2022 $ million	2021 $ million
Debt securities measured at amortised cost – unlisted	–	556

The financial assets matured on 31 August 2022 and the Group received the principal proceeds of $559 million during the year.

19 Interest and other receivables

(a) Interest and other receivables comprise:

	2022 $ million	2021 $ million
Interest receivable relating to deposits with banks and other financial assets	63	7
Dividend receivable	52	–
Deposits, prepayments and revenue in arrears	5	10
Amount receivable from MTRCL	407	333
	527	350

As at 31 December 2022, the above amount receivable from MTRCL includes an amount of $323 million (2021: $260 million) in relation to variable annual payments as set out in note 2.

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

	2022 $ million	2021 $ million
Within one year	524	347
After one year	3	3
	527	350

19 Interest and other receivables (continued)

(c) Included in interest and other receivables are interest receivable, dividend receivable and amount receivable from MTRCL with the following ageing analysis:

	2022 $ million	2021 $ million
Due within three months	**407**	277
Due over three months but within one year	**115**	63
Interest receivable, dividend receivable and amount receivable from MTRCL	**522**	340
Deposits, prepayments and revenue in arrears	**5**	10
	527	350

20 Cash and cash equivalents

Cash and cash equivalents comprise:

	2022 $ million	2021 $ million
Deposits with banks		
– within three months to maturity when placed	**2,000**	385
– more than three months to maturity when placed	**8,099**	9,990
Cash at bank and in hand	**24**	48
Cash and cash equivalents in the consolidated statement of financial position	**10,123**	10,423
Less: deposits with banks with more than three months to maturity when placed	**(8,099)**	(9,990)
Cash and cash equivalents in the consolidated cash flow statement	**2,024**	433

21 Interest and other payables

(a) Interest and other payables comprise:

	2022 $ million	2021 $ million
Interest payable	**2**	2
Deposits and advances	**11**	13
Creditors and accrued charges	**224**	782
Amount payable to MTRCL	**4,128**	3,480
	4,365	4,277

As at 31 December 2022, the above amount payable to MTRCL includes an amount of $3,720 million (2021: $3,462 million) for the XRL and $407 million (2021: $nil) for the SCL in relation to the respective service concession arrangements as set out in note 2.

As at 31 December 2021, the accrual for pre-operating costs of $670 million (see note 14) under the Supplemental Service Concession (XRL) was included in accrued charges above.

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

	2022 $ million	2021 $ million
Within one year	**1,587**	1,903
After one year	**2,778**	2,374
	4,365	4,277

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

	2022 $ million	2021 $ million
Due within one month or on demand	**4**	7
Due between one month and six months	**659**	622
Due between six months and twelve months	**705**	605
Due after one year and within two years	**1,800**	720
Due after two years and within five years	**702**	1,532
Due after five years	**263**	–
Interest payable, creditors and amount payable to MTRCL	**4,133**	3,486
Deposits and advances	**11**	13
Accrued charges	**221**	778
	4,365	4,277

22 Accrued charges and provisions for capital projects

The balance includes an aggregate amount of $39 million (2021: $29 million) payable to the Government for accrued charges and provisions for claims on land resumption and business losses in relation to the West Rail and East Rail Extensions projects. The provisions for claims amounted to $19 million (2021: $20 million).

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

	2022 $ million	2021 $ million
Within one year	**20**	9
After one year	**19**	20
	39	29

23 Interest-bearing borrowings

(a) Interest-bearing borrowings comprise:

	2022 Carrying amount $ million	**2022 Fair value $ million**	2021 Carrying amount $ million	2021 Fair value $ million
Capital market instruments				
HK dollar notes due 2024 – see (c) below	**415**	**432**	414	438

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

(c) 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
15 May 2009	$415 million	4.13%	2024	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

\# The notes were repaid in full in 2021.

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

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

23 Interest-bearing borrowings (continued)

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

	2022 $ million	2021 $ million
After one year but within two years	415	–
After two years but within five years	–	414
	415	414

24 Deferred income

(a) The balance of deferred income at 31 December 2022 includes cash received from property developers for property development sites along the Light Rail; 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 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:

	2022 $ million	2021 $ million
Balance at 1 January	20,305	19,042
Deferred income relating to ACP funded by MTRCL	3,015	2,278
Recognised in profit or loss	(1,294)	(1,015)
Balance at 31 December	22,026	20,305

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

	2022 $ million	2021 $ million
Within one year	1,283	990
After one year	20,743	19,315
	22,026	20,305

25 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 equity $ million
Balance at 1 January 2021	39,120	13,735	52,855
Changes in equity for 2021:			
Total comprehensive income for the year	–	(2,175)	(2,175)
Balance at 31 December 2021 and 1 January 2022	**39,120**	**11,560**	**50,680**
Changes in equity for 2022:			
Total comprehensive income for the year	**–**	**(2,150)**	**(2,150)**
Balance at 31 December 2022	**39,120**	**9,410**	**48,530**

(i) Included in the retained profits of the Group is an amount of $456 million (2021: $421 million) being the retained profits attributable to the associate.

(ii) Pursuant to the relevant provisions of the KCRC 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. As at 31 December 2022, the amount of reserves available for distribution to the sole shareholder amounted to $9,410 million (2021: $11,560 million).

25 Capital, reserves and dividends (continued)

(b) Proposed dividend payable to the sole shareholder of the Corporation

	2022 $ million	2021 $ million
Dividend proposed after the end of the reporting period of $5,112.5 per share (2021: nil per share)	**2,000**	–

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

(c) Share capital

The Corporation

	2022 No. of shares	2022 $ million	2021 No. of shares	2021 $ 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

* The authorised share capital of the Corporation disclosed above is governed by the KCRC Ordinance, which sets out the maximum number of shares which can be allotted and issued by the Corporation.

(d) 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 KCRC 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.

26 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 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.

(a) Credit risk

The Group's credit risk is primarily attributable to its debt securities and deposits.

The Group has no significant concentration 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. 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 in the consolidated statement of financial position.

(b) Interest rate risk

The Group's interest rate risk arises from its long-term borrowings. Borrowings at fixed rates expose the Group to fair value interest rate risk.

(c) Currency risk

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

The Corporation's risk management policy is to hedge its foreign currency borrowings into either Hong Kong dollars or United States dollars.

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.

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

(c) Currency risk (continued)

(i) Recognised assets and liabilities

In respect of receivables 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 investments and 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 investments and borrowings.

(ii) Exposure to currency risk

Based on the notional amounts of the financial assets, the following table shows the Group's exposure at the end of the reporting period to currency risk arising from recognised assets denominated in a currency other than the functional currency of the Group.

	2022 US dollars million (Expressed in foreign currency)	2021 US dollars million (Expressed in foreign currency)
Other financial assets	**–**	71
Interest and other receivables	**2**	1
Cash and cash equivalents	**122**	49
Overall net exposure	**124**	121

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

(c) Currency risk (continued)

(iii) 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 end of the reporting period, assuming all other risk variables remained constant. Such exposure relates to the portion of assets, such as deposits, denominated in foreign currencies.

	Increase/ (decrease) in foreign exchange rate	**2022 Decrease/ (increase) in loss after taxation $ million**	2021 Decrease/ (increase) in loss after taxation $ million
US dollars	1%	**8**	8
	(1%)	**(8)**	(8)

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effect on the Group's loss after taxation (and retained profits) translated into Hong Kong dollars at exchange rates, based on direct quotes, prevailing at the end of the reporting period 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 end of the reporting period. The analysis is performed on the same basis for 2021.

(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 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 stand-by facilities to cater for short-term liquidity requirements.

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

(d) Liquidity risk (continued)

The following table shows the time periods after the end of the reporting period during which contractual payments of the Group's financial liabilities in the statement of financial position, 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 end of the reporting period (for floating rate instruments), in respect of the Group's financial liabilities which are due to be paid.

	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
2022						
Interest and other payables	**(1,587)**	**(1,800)**	**(706)**	**(272)**	**(4,365)**	**4,365**
Interest-bearing borrowings	**(15)**	**(424)**	**–**	**–**	**(439)**	**415**
	(1,602)	**(2,224)**	**(706)**	**(272)**	**(4,804)**	**4,780**
2021						
Interest and other payables	(1,903)	(832)	(1,533)	(9)	(4,277)	4,277
Interest-bearing borrowings	(15)	(17)	(424)	-	(456)	414
	(1,918)	(849)	(1,957)	(9)	(4,733)	4,691

(e) Fair value measurement

The fair value of financial instruments measured at the end of the reporting period on a recurring basis is 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

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

(e) Fair value measurement (continued)

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 December 2022 and 2021 except for the following financial instruments, for which their carrying amounts and fair values and the level of fair value hierarchy are disclosed below:

	Carrying amount at 31 December 2022 $ million	Fair value at 31 December 2022 $ million	Fair value measurements as at 31 December 2022 categorised into Level 1 $ million	Level 2 $ million	Level 3 $ million
Liabilities					
Interest-bearing borrowings	(415)	(432)	–	(432)	–
	(415)	(432)	–	(432)	–

	Carrying amount at 31 December 2021 $ million	Fair value at 31 December 2021 $ million	Fair value measurements as at 31 December 2021 categorised into Level 1 $ million	Level 2 $ million	Level 3 $ million
Assets					
Other financial assets	556	557	557	–	–
	556	557	557	–	–
Liabilities					
Interest-bearing borrowings	(414)	(438)	–	(438)	–
	(414)	(438)	–	(438)	–

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

(e) Fair value measurement (continued)

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.

27 Notes to the consolidated cash flow statement

(a) Reconciliation of operating loss after depreciation, amortisation and impairment to net cash outflow from operations

	2022 $ million	2021 $ million
Operating loss after depreciation, amortisation and impairment	**(2,786)**	(2,624)
Depreciation and amortisation	**3,229**	2,976
Loss on disposal of property, plant and equipment	**40**	35
(Increase)/decrease in other receivables	**(69)**	38
Decrease in other payables and deferred income	**(740)**	(436)
Net cash outflow from operations	**(326)**	(11)

27 Notes to the consolidated cash flow statement (continued)

(b) Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the Group's consolidated cash flow statement as cash flows from financing activities.

	Interest-bearing borrowings $ million (note 23)	Interest payable $ million (note 21(a))	Total $ million
Carrying amount at 1 January 2022	**414**	**2**	**416**
Changes from financing cash flows:			
Interest paid	–	(17)	(17)
Total changes from financing cash flows	–	(17)	(17)
Other changes:			
Interest expenses (note 9(b))	1	17	18
Total other changes	1	17	18
Carrying amount at 31 December 2022	**415**	**2**	**417**

27 Notes to the consolidated cash flow statement (continued)

(b) Reconciliation of liabilities arising from financing activities (continued)

	Interest-bearing borrowings $ million (note 23)	Interest payable $ million (note 21(a))	Total $ million
Carrying amount at 1 January 2021	1,663	17	1,680
Changes from financing cash flows:			
Repayment of loans	(1,250)	-	(1,250)
Interest paid	–	(56)	(56)
Total changes from financing cash flows	(1,250)	(56)	(1,306)
Other changes:			
Interest expenses (note 9(b))	1	41	42
Total other changes	1	41	42
Carrying amount at 31 December 2021	414	2	416

28 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, Shatin to Central Link, Kowloon Southern Link and the Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link, which are considered to be related party transactions under IAS 24 and HKAS 24, *Related party disclosures* and these are disclosed in notes 1, 2, 3(c), (h), (j) and (k), 6, 13(f), 16 and 22 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), (h), (j), (m), (v) and (x), 5, 6, 9(b), 13, 14, 15, 16, 19, 21 and 24 to the financial statements.

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 the 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 the West Rail, Phase I, was signed on 23 October 1998.

(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 operation of the East Rail Extensions and related services and facilities.

29 Corporation statement of financial position at 31 December 2022

	Note	2022 $ million	2021 $ million
Assets			
Investment properties and other property, plant and equipment		**53,953**	52,921
Interest in leasehold land held for own use		**3,380**	3,459
Intangible assets		**1,950**	1,893
Construction in progress		**4,524**	5,659
Interest in associate		**9**	9
Deferred tax assets		**909**	435
Other financial assets		**–**	556
Interest and other receivables		**527**	350
Cash and cash equivalents		**10,123**	10,423
		75,375	75,705
Liabilities			
Interest and other payables		**4,365**	4,277
Accrued charges and provisions for capital projects		**39**	29
Interest-bearing borrowings		**415**	414
Deferred income		**22,026**	20,305
		26,845	25,025
Net Assets		**48,530**	50,680
Capital and Reserves			
Share capital	25(c)	**39,120**	39,120
Reserves	25(a)	**9,410**	11,560
Total Equity		**48,530**	50,680

Approved and authorised for issue by the Managing Board on 28 March 2023

Christopher Hui Ching-yu
Chairman of the Managing Board

Winnie Tse Wing-yee
Member of the Managing Board

L T Ma
Chief Officer

30 Outstanding commitments

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

	2022 $ million	2021 $ million
Authorised but not contracted for		
– post-day-1 costs for the XRL	58	156
Balance at 31 December	58	156

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 of $30,000.

32 Debt facilities

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

	2022 $ million	2021 $ million
Short-term uncommitted revolving credit facilities	400	400
Overdraft facilities	30	30
	430	430

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

	2022 $ million	2021 $ million
Floating rate		
– expiring within one year	430	430

33 Contingent liabilities

As at 31 December 2022, 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 2022 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 22 to the financial statements.

34 Impairment of railway network assets and intangible assets

As at 31 December 2022, the Group assessed whether there was an indication of impairment of the Group's railway network assets and intangible assets at that date in light of the outbreak of COVID-19 in accordance with the Group's accounting policies for the assessment of asset impairment by comparing the key determinant factors, such as patronage, inflation, cost of debt, expected return on equity, to those of prior years. As a result of this assessment, management considers that except for the intangible assets relating to the XRL, no indication of impairment of the Group's railway network assets and intangible assets exists at that date.

Accordingly, the Group estimated the recoverable amount of the intangible assets relating to the XRL based on projections of future cash flows from its operation at a discount rate that reflects current market assessments of the time value of money and the risks specific to the assets. Based on this assessment, management considers that no provision for impairment of the intangible assets is required at 31 December 2022.

35 Assessment of provision for onerous contracts

As at 31 December 2022, the Group assessed whether a provision for onerous contracts in relation to the XRL is required in view of the prolonged service suspension due to the outbreak of COVID-19. The Group assessed whether the unavoidable costs of meeting the obligations under the SSCA (XRL), including the committed payments to MTRCL as set out in note 2 and an allocation of amortisation on intangible assets for the XRL that relates directly to fulfilling the SSCA (XRL), exceed the economic benefits expected to be received therefrom. The Group estimated the variable annual payments to be received and amounts under the revenue-related arrangements receivable or payable over the remaining concession period based on projections of patronage and fare prices at a discount rate that reflects current market assessments of the time value of money and the risks specific to the liability arising from the SSCA (XRL).

As a result of this assessment, management considers that no provision for onerous contracts is required at that date.

36 Events after the end of the reporting period

Following the Government's measures to restrict cross-border traffic due to the outbreak of COVID-19, the railway services of the XRL and Intercity Through Train were suspended from 30 January 2020 and the Lo Wu Station and Lok Ma Chau Station of the East Rail Line were closed from 4 February 2020. On 5 January 2023, the Government announced details of the border reopening policy. The Lok Ma Chau Station was reopened on 8 January 2023 and the railway services of the XRL resumed on 15 January 2023, followed by the reopening of the Lo Wu Station on 6 February 2023. Management anticipates that the variable annual payments under the Service Concession and the Supplemental Service Concessions will improve in 2023.

After the end of the reporting period, the Corporation proposed a dividend. Further details are set out in note 25(b).

37 Accounting estimates and judgements

(a) Key sources of estimation uncertainty

Note 26 contains information about the assumptions and their risk factors relating to financial instruments. Key sources of estimation uncertainty include the assessment of useful lives for depreciation of property, plant and equipment (see note 3(i)), calculation of the respective recoverable amount of railway network assets and intangible assets (see notes 3(l)(ii) and 34) and assessment of provision for onerous contracts (see notes 3(u)(ii) and 35).

(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(h)), classification of revenue and cost-recovery, transfers from construction in progress to property, plant and equipment (see note 3(m)), assessment of controlled subsidiaries and non-controlled entities (see note 3(c)), impairment of railway network assets and intangible assets (see note 34) and assessment of provision for onerous contracts (see note 35).

(Expressed in Hong Kong dollars)

38 Possible impact of amendments, new standards and interpretations issued but not yet effective for the annual accounting year ended 31 December 2022

Up to the date of issue of these financial statements, the IASB and HKICPA have issued a number of new and amended standards which are not yet effective for the year ended 31 December 2022 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 developments is expected to be in the period of initial application. So far the Group has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

The developments include the following which may be relevant to the Group:

	Effective for accounting periods beginning on or after
Amendments to IAS 1 and HKAS 1, *Presentation of financial statements* and IFRS Practice Statement 2 and HKFRS Practice Statement 2, *Making materiality judgements: Disclosure of accounting policies*	1 January 2023
Amendments to IAS 8 and HKAS 8, *Accounting policies, changes in accounting estimates and errors: Definition of accounting estimates*	1 January 2023
Amendments to IAS 1 and HKAS 1, *Presentation of financial statements: Classification of liabilities as current or non-current*	1 January 2023
Amendments to IAS 12 and HKAS 12, *Income taxes: Deferred tax related to assets and liabilities arising from a single transaction*	1 January 2023