



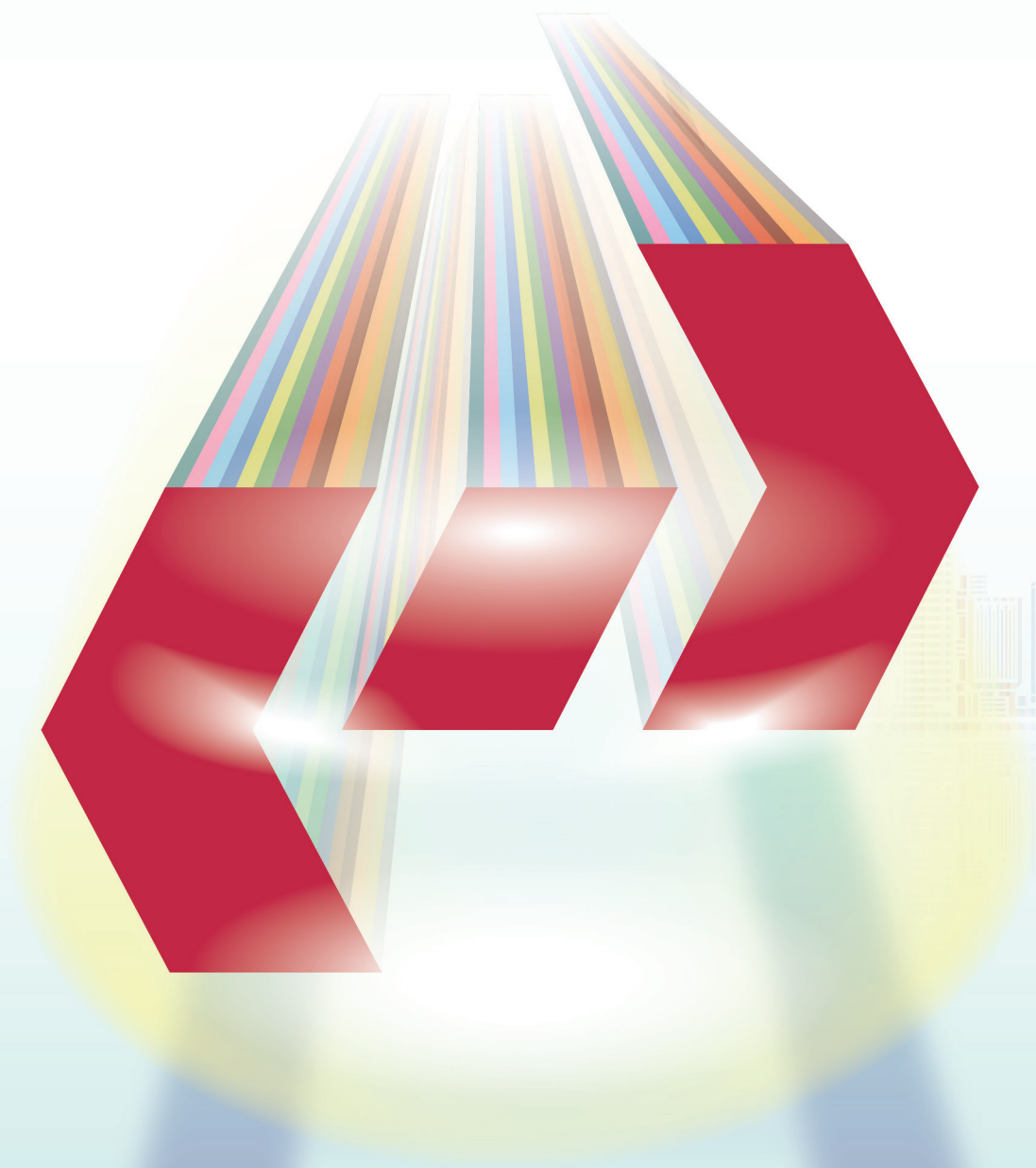
KCR

九廣鐵路

KOWLOON-CANTON RAILWAY CORPORATION

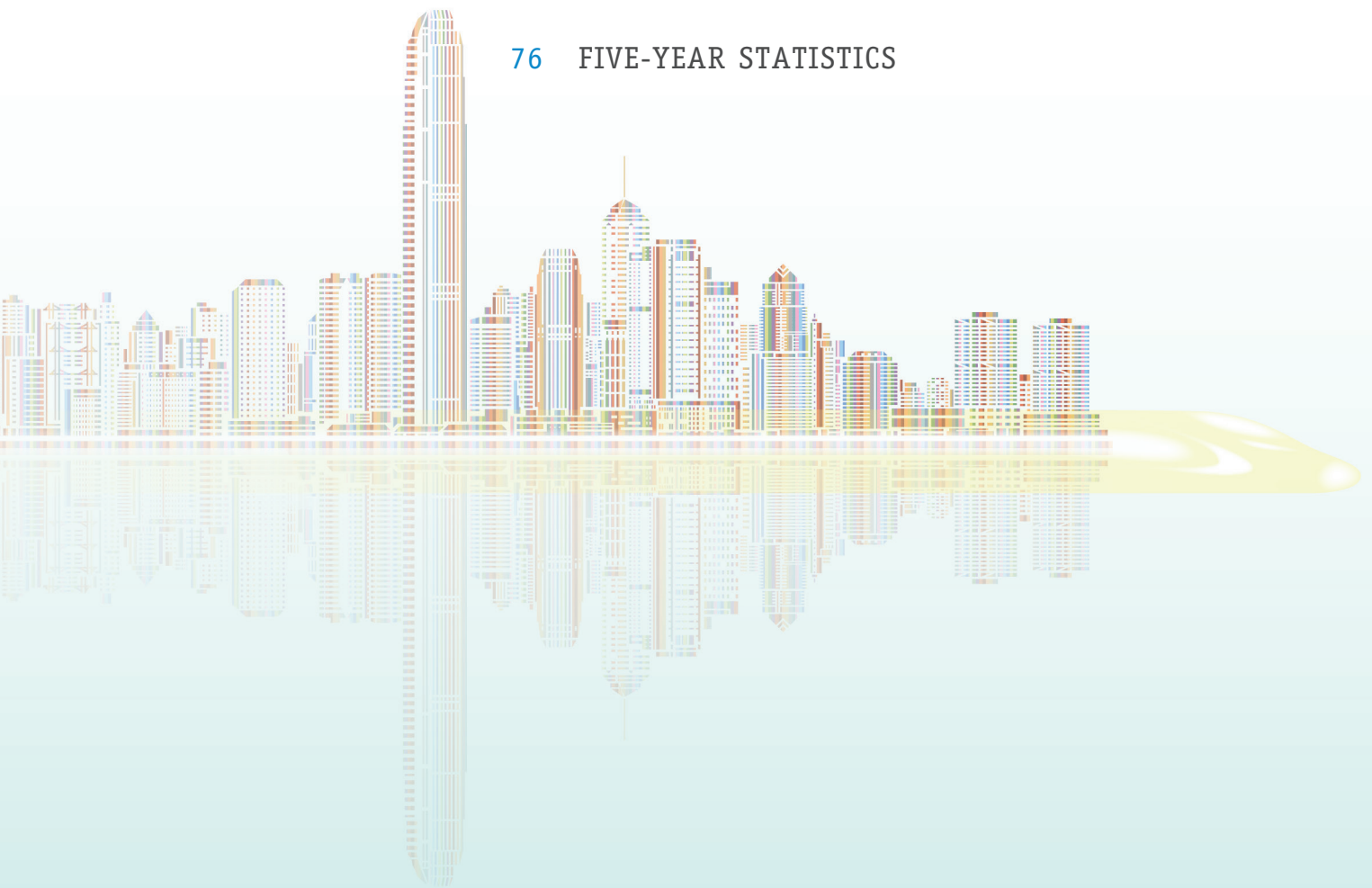


2025
ANNUAL REPORT



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Managing Board and Key Management

Managing Board



Christopher Hui Ching-yu,
GBS, JP
Chairman
Secretary for Financial
Services and the Treasury
of the Hong Kong Special
Administrative Region
Government



Andrew Lai Chi-wah, JP
Permanent Secretary for
Financial Services and
the Treasury (Treasury)
of the Hong Kong Special
Administrative Region
Government



Susanna Cheung Sau-lan, JP
FCPA (HKICPA), FCPA (Aust.)
Chairperson of Audit Committee
Director of Accounting
Services of the
Hong Kong Special
Administrative
Region Government
(up to 15 January 2025)



Raymond Ng Wai-man, JP
FCCA, CPA
Chairman of Audit Committee
Director of Accounting
Services of the
Hong Kong Special
Administrative Region
Government
(from 16 January 2025)



Eugene Fung Kin-yip, JP
Member of Audit Committee
Government Property
Administrator of the
Hong Kong Special
Administrative Region
Government
(up to 5 April 2026)



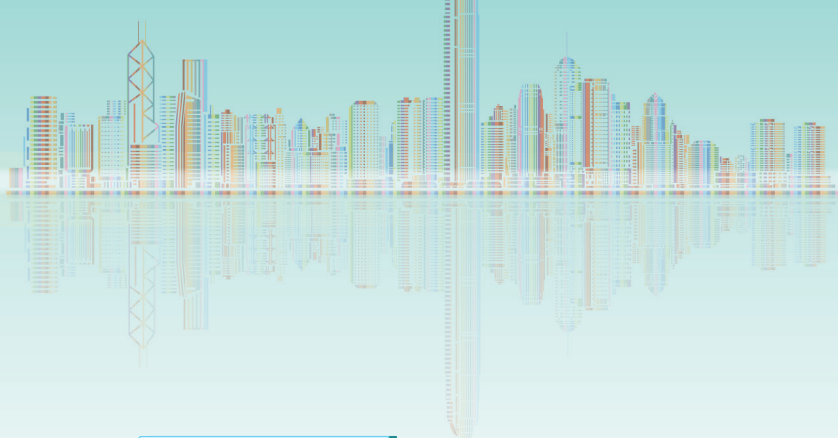
Aaricf Mok Chun-yu
Member of Audit Committee
Government Property
Administrator of the
Hong Kong Special
Administrative Region
Government
(acting from 6 April 2026)



Ann Chan Wai-yan, JP
Member of Audit Committee
Deputy Secretary for
Financial Services and the
Treasury (Treasury) 1 of
the Hong Kong Special
Administrative Region
Government



Joan Hung Sze-man, JP
Deputy Secretary for
Transport and Logistics 4
of the Hong Kong Special
Administrative Region
Government



Amy Wong Pui-man, JP
Permanent Secretary for
Transport and Logistics
of the Hong Kong Special
Administrative Region
Government
(acting up to 13 April
2025)



Kevin Choi, JP
Permanent Secretary for
Transport and Logistics
of the Hong Kong Special
Administrative Region
Government
(from 14 April 2025 to 26
October 2025)



Vic Yau Cheuk-hang, JP
Permanent Secretary for
Transport and Logistics
of the Hong Kong Special
Administrative Region
Government
(from 17 November 2025)

Key Management



LT Ma
SBS
BSc(Eng), MSc(Eng), CEng, FHKIE,
FCIWEM, FHKIHT, MICE,
MIStructE
Chief Officer



CL Wong
SBS
BSc(Eng), MPhil, MICE, MHKIE
Senior Manager-Administration
Company Secretary



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

Chairman's Statement

With Hong Kong staging robust economic performance and strong recovery in tourism, patronages of both the Guangzhou-Shenzhen-Hong Kong Express Rail Link ("XRL") and the domestic railway network of the Corporation continued to grow in 2025.

The XRL achieved a historic high patronage of 31.1 million in 2025, surpassing the previous record of 26.7 million in 2024, representing an increase of approximately 16%. In August 2025, patronage exceeded 3.2 million, whilst nearly 140,000 passengers were recorded on 27 December 2025 during the Christmas holiday, setting new records for the highest monthly and daily patronage respectively. Moreover, during the Golden Week from 1 October to 8 October 2025, the XRL recorded an average daily patronage of above 110,000, representing over 20% increase compared to the previous year. Since the commencement of service in 2018, the cumulative patronage of XRL has surpassed the 100 million milestone. The XRL network has been continuously expanding with the addition of new destinations, including major cities such as Nanjing, Wuxi and Hefei. Starting from January 2026, passengers could travel directly between Hong Kong and 110 Mainland destinations by the XRL, enjoying greater flexibility for travel adventures.

On the other hand, the Corporation's domestic railway continued to play a crucial role in supporting the public transportation system in Hong Kong, with the average daily patronage of the Corporation's domestic railway network in 2025 increased by over 3% compared to 2024.

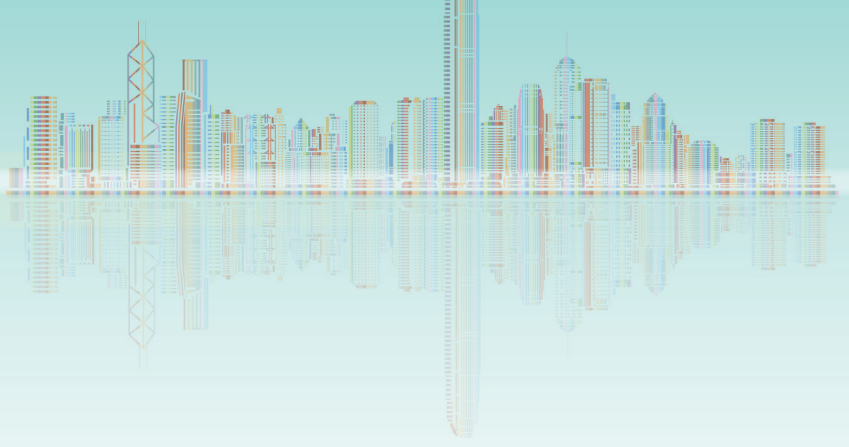
Financially, the Corporation delivered an operating profit of HK\$4,005 million and an accounting profit of HK\$577 million, as compared to the HK\$3,127 million and HK\$209 million respectively in 2024. We are optimistic about the Corporation's further growth and financial performance in the coming year, driven by the positive economic outlook and steady growth of the tourism sector. The deepening integration with the Guangdong-Hong Kong-Macao Greater Bay Area will also continue to reinforce Hong Kong's connectivity with the Mainland, positioning the Corporation for continued success.

I wish to extend my sincere gratitude to the Members of the Managing Board for their steadfast commitment and invaluable support, and to the management team for their dedication and sterling efforts throughout the past year. Their collective endeavours have been instrumental to the Corporation's achievements in 2025.

Christopher Hui Ching-yu, GBS, JP

Chairman

20 April 2026



“ We are optimistic about the Corporation’s further growth and financial performance in the coming year, driven by the positive economic outlook and steady growth of the tourism sector. ”



“ ... the Corporation is committed to collaborating closely with the MTRCL and the relevant government departments ... for the construction works of the NOL Main Line ... ”





The Hong Kong Special Administrative Region Government (“the Government”) is fast-tracking the Northern Metropolis development. Dovetailing with the development, the construction of Kwu Tung Station on the East Rail Line (“EAL”) and Hung Shui Kiu Station on the Tuen Ma Line (“TML”) of the Corporation is in full swing. In granting licenses to the MTR Corporation Limited (“MTRCL”) for the construction works of these two projects on the Corporation’s land, the Corporation has imposed conditions to ensure that the safety and operation of EAL and TML are not compromised. To meet these requirements and address the complexities associated with building new stations on operating railways, innovative technologies have been deployed including Common Data Environment, Building Information Modelling, automated groundwater pressure control system, 4D photogrammetry and Modular Integrated Construction.

Besides, the Northern Link (“NOL”) Main Line is set to become the essential public transportation backbone for the new development areas in the Northern Metropolis. To facilitate the implementation of this project, the Corporation is committed to collaborating closely with the MTRCL and the relevant government departments for granting of licenses to the MTRCL for the construction works of the NOL Main Line that are situated on the Corporation’s land.

In addition, the San Tin Technopole is poised to serve as a strategic base for innovation and technology in the Northern Metropolis. Certain parts of its development are adjacent to the Lok Ma Chau Spur Line and affect the Corporation’s facilities. The MTRCL and the Corporation have been actively liaising and collaborating with the relevant government departments to ensure the protection of the railway during the construction works, as well as to address the land-related issues.

In support of the Government’s initiative for revitalising the former Hung Hom Railway Freight Yard Pier before the long-term development, the Corporation has agreed to the Government’s request to use its land for a transformative project, which enables the public to enjoy the panoramic view of Victoria Harbour and the iconic Hong Kong Island skyline. The collaboration will facilitate the development and operation of a harbourfront event space and public open space for hosting a variety of events and activities in the area enriching the experiences of the locals and tourists.

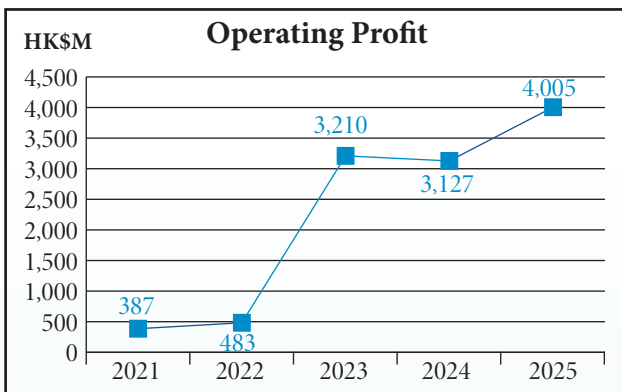
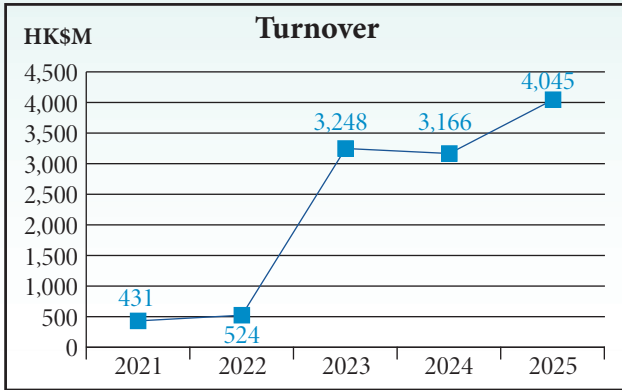
The Corporation is wholly owned by the Government. It conducts its business according to prudent commercial principles and at the same time serves the needs of the city’s public transport system as required under the Kowloon-Canton Railway Corporation Ordinance (Chapter 372 of the Laws of Hong Kong) (“the KCRC Ordinance”). Besides, the MTRCL is the Corporation’s business partner in operating the Corporation’s railway network under the Service Concession Agreement (“SCA”) and the Supplemental Service Concession Agreements (“SSCAs”). The Corporation has conducted its business with these two key stakeholders in a spirit of cooperation and mutual support.

Currently, the Corporation is not engaged in the construction of any new railway project or operation of railway network and has no major capital cost, operation cost or railway asset replacement expenditure. With its business focus as a railway asset holder after the Rail Merger in 2007, the Corporation enjoyed a relatively steady stream of income under the SCA and the SSCAs with the MTRCL.

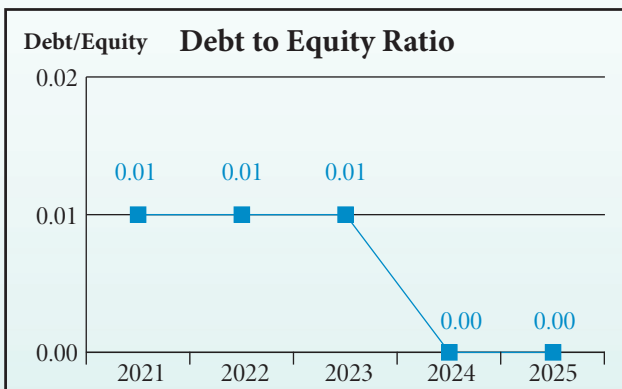
Although not being publicly listed, the Corporation, for good corporate governance, complies with the requirements for listed companies of the Stock Exchange of Hong Kong Limited as far as practicable and has been preparing its annual accounts following the commercial accounting standards as required under the KCRC Ordinance. In 2025, the Corporation continued to fully comply with all relevant laws and regulations.

Chief Officer's Statement and Business Review

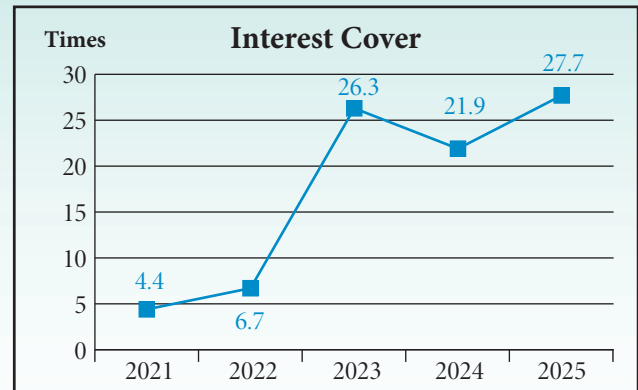
The Corporation adopts five Key Performance Indicators, namely Turnover, Operating Profit, Debt to Equity Ratio, Interest Cover and Profit/(Loss), to evaluate its financial position.



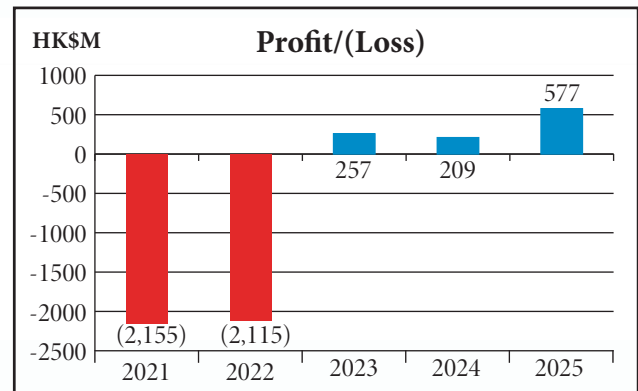
See Note 1



See Note 2



See Note 3



Note 1: Operating Profit is before depreciation, amortisation and impairment.

Note 2: Debt to Equity Ratio = $\frac{\text{Interest-bearing borrowings}}{\text{Total equity}}$

Note 3: Interest Cover = $\frac{\text{Operating profit before depreciation, amortisation and impairment} + \text{Interest and finance income} + \text{Share of profit of associate}}{\text{Interest and finance expenses}}$



The Corporation's revenue mainly comes from the annual payments under the SCA and SSCAs, comprising Fixed and Variable Annual Payments. The Variable Annual Payment for 2025 increased by about 10% compared with 2024, rising from HK\$3,025 million to HK\$3,330 million, mainly due to an increase in patronage.

The Corporation also recognised rental income of HK\$31 million from leasing the 7th to 10th floors of Citylink Plaza, dividends of HK\$120 million arising from the Corporation's 22.1% shareholding in Octopus Holdings Limited and interest income of HK\$261 million from investment of the Corporation's retained cash.

Operating costs of the Corporation (before depreciation, amortisation and impairment) plus interest and finance expenses amounted to HK\$199 million for 2025.

The Corporation currently has no debt and has no exposure to financial risks associated with interest rate movements.

The Corporation's operating profit for the year (before depreciation, amortisation and impairment) amounted to HK\$4,005 million upon accounting for scheduled revenue adjustments, an increase of HK\$878 million (28%) over 2024.

Non-cash depreciation and amortisation charges for 2025 amounted to HK\$3,606 million, compared with HK\$3,327 million in 2024. The accounting profit for the year was HK\$577 million, as compared with HK\$209 million in 2024.

Under the West Rail Shareholding Agreement signed with the Government in February 2000, the Corporation is the majority shareholder of the West Rail Property Development Limited and its subsidiaries. These companies, which employ the MTRCL as their project management agent, are responsible for developing residential and commercial sites along the West Rail Line. Development works in Kam Sheung Road continued in 2025 with two of its three phases completed.

The Corporation has achieved accounting profits for three consecutive years after the pandemic. I would like to take this opportunity to express my sincere gratitude to the Members of the Managing Board for their inspirational leadership and unwavering support to the management team throughout the past year. Their commitment has been instrumental in driving our continued success.

LT Ma, SBS

BSc(Eng), MSc(Eng), CEng, FHKIE, FCIWEM,
FHKIHT, MICE, MIStructE
Chief Officer
20 April 2026

Corporate Governance Report

Corporate Governance

The Corporation maintains high standards of corporate governance. Being a statutory corporation established in Hong Kong by the Kowloon-Canton Railway Corporation Ordinance (Chapter 372 of the Laws of Hong Kong) (“the KCRC Ordinance”), it is not bound by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“the Listing Rules”). As a matter of policy, the Corporation complies with the Corporate Governance Code (“the Code”) as set out in Appendix C1 to the Listing Rules to the extent that they are applicable to the Corporation, IFRS Accounting Standards issued by the International Accounting Standards Board, HKFRS Accounting Standards issued by the Hong Kong Institute of Certified Public Accountants and the applicable disclosure requirements of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong).

The Managing Board

The Corporation and its wholly or majority owned subsidiaries are controlled through its Managing Board (“the Board”). The Board’s main roles are to ensure that the Corporation complies in every respect with the provisions of the KCRC Ordinance to create value for its sole shareholder, i.e. the Hong Kong Special Administrative Region Government (“the Government”), to provide leadership to the Corporation, to approve the Corporation’s strategic objectives and to ensure that the necessary financial and other resources are made available to Management to enable it to meet those objectives. The Board has a schedule of matters reserved for its approval. The specific responsibilities reserved for the Board include but are not limited to:

- (a) rules for conduct of the Corporation’s business;
- (b) three-year business plans;
- (c) annual budgets;

- (d) annual reports and audited financial statements;
- (e) recommendations with respect to dividend payments;
- (f) major business strategies; and
- (g) award of major contracts and significant variations to those contracts.

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

The Roles of the Chairman and the Chief Officer

The division of responsibilities between the Chairman of the Board and the Chief Officer is clearly defined and has been approved by the Board. The non-executive Chairman leads the Board in the determination of its strategy and in the achievement of its objectives. The Chairman is responsible for the conduct of the business of the Board, ensuring its effectiveness and setting its agenda. The Chairman is not involved in the day-to-day business of the Corporation. The Chairman facilitates the effective contribution of non-executive Members of the Board and constructive relations between Management and Members, ensuring that Members receive accurate, timely and clear information, as well as ensuring effective communication with the Corporation’s sole shareholder. The Chief Officer has direct charge of the Corporation on a day-to-day basis and is accountable to the Board for the Corporation’s financial and operational performance.



Members and Members' Independence

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

Professionalism

Each Member receives information about the Corporation, the role of the Board and the matters reserved for its decision, the terms of reference and membership of the Board and its committee and the powers delegated to the committee, the Corporation's corporate governance practices and procedures including the powers reserved for the Corporation's senior executives, and the latest financial information about the Corporation. Throughout their period in office, Members are continually updated on the Corporation's business, the competitive and regulatory environments in which it operates, corporate social responsibility matters and other changes affecting the Corporation and the industry it operates in as a whole, by written briefing papers and meetings with senior executives. Members are also advised of their legal and other duties and obligations as a Member of the Board by the Company Secretary. They are regularly reminded of these duties and updated on changes to the legal and governance requirements which impact on the Corporation and themselves as Members of the Board. Regular reports and papers are circulated to Members in a timely manner in preparation for Board and committee meetings. These papers are supplemented by information specifically requested by Members from time to time. All Members receive monthly management accounts and regular management reports, which enable them to scrutinise the Corporation's and Management's performance against agreed objectives.

The Company Secretary

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

Relations with the Sole Shareholder

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

Internal Control and Risk Management

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

The Corporation views the careful management of risk as a key management activity and the Board is also ultimately responsible for the effectiveness of risk management. The Board ensures through the Audit Committee that opportunities be captured while managing business risks. This is done using a simple and flexible framework that provides a consistent and sustained way of implementing the Corporation's risk management. These business risks, which may be strategic, operational, or reputation-related, are made known to Members. The business context determines in each situation the level of acceptable risk and controls. The Board is required to review the effectiveness of risk management on an annual basis through the Audit Committee.

The annual review in 2025 concluded that the existing risk management and internal control system are effective and adequate.

Board and Audit Committee Meetings

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

There were four Board and three Audit Committee Meetings held during the year up to 31 December 2025 and attended by Members as listed in the following table.

	Board Meetings	Audit Committee Meetings
Mr Christopher Hui Ching-yu (Note 1)	4	N.A.
Mr Andrew Lai Chi-wah	4	N.A.
Ms Amy Wong Pui-man	1	N.A.
Mr Kevin Choi	2	N.A.
Ms Susanna Cheung Sau-lan (Note 2)	1	0
Mr Raymond Ng Wai-man (Note 3)	3	3
Mr Eugene Fung Kin-yip	4	3
Ms Ann Chan Wai-yan (Note 4)	4	3
Ms Joan Hung Sze-man	3	N.A.

Note 1. Chairman of the Board.

Note 2. Chairperson of the Audit Committee (up to 15 January 2025).

Note 3. Chairman of the Audit Committee (from 16 January 2025).

Note 4. One Board meeting was attended by Ms Pinky Wong Nga-ping as acting Deputy Secretary for Financial Services and the Treasury (Treasury)1.



In 2025, a total of 50 decision and information papers were considered by the Board.

Audit Committee

The Audit Committee comprised Ms Susanna Cheung Sau-lan (Chairperson up to 15 January 2025), Mr Raymond Ng Wai-man (Chairman from 16 January 2025), Mr Eugene Fung Kin-yip (up to 5 April 2026), Mr Aaricf Mok Chun-yu (from 6 April 2026) and Ms Ann Chan Wai-yan. All members of the Audit Committee are non-executive Members of the Board. The Audit Committee has at least one member possessing “recent and relevant experience”, namely, Ms Susanna Cheung Sau-lan and Mr Raymond Ng Wai-man, who are certified public accountants and also the Director of Accounting Services of the Government in the respective time periods.

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

The Audit Committee meets with Management, as well as privately with both the external and internal auditors. The Audit Committee’s terms of reference are available from the Company Secretary and in the Corporate Governance Manual displayed on the corporate website, www.kcrc.com. In 2025 the Audit Committee discharged its responsibilities by:

- (a) reviewing the Corporation’s draft financial statements prior to Board approval;
- (b) reviewing the external auditor’s report thereon;
- (c) reviewing the appropriateness of the Corporation’s accounting policies;
- (d) reviewing the potential impact of the generally accepted accounting principles in Hong Kong on the Corporation’s financial statements;
- (e) reviewing, recommending or pre-approving audit fees or non-audit fees;
- (f) reviewing the external auditor’s plan for the audit of the Corporation’s financial statements; and
- (g) approving the annual internal audit plan and reviewing reports on the adequacy and effectiveness of system of internal control, financial reporting and risk management.

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

Auditor's Independence and Objectivity

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

Dividend Policy

Details of the dividend policy for the Corporation are set out in Note 23(d) to the Financial Statements.

Report of the Members of the Managing Board

The Members of the Managing Board (“the Board”) have pleasure in submitting herewith their report and audited financial statements for the financial year ended 31 December 2025.

Kowloon-Canton Railway Corporation Ordinance

The Kowloon-Canton Railway Corporation Ordinance (Chapter 372 of the Laws of Hong Kong) (“the KCRC Ordinance”), enacted in 1982, established the Corporation and empowered it to operate the Kowloon-Canton Railway. Amendments in 1986 and 1998 empowered the Corporation to construct and operate Light Rail and new railways, and enabled the Hong Kong Special Administrative Region Government (“the Government”) to inject equity into the Corporation to fund the construction of such new railways. Inter alia, the KCRC Ordinance contains provisions covering the appointments and roles of the Members of the Board.

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

On 2 December 2007, following the enactment of the Rail Merger Ordinance, the MTR Corporation Limited (“MTRCL”) commenced operating the Corporation’s railway assets by way of a service concession for an initial period of 50 years, which is extendable. The Corporation retains ownership of the railway assets covered in the Service Concession Agreement and should MTRCL fail to observe the terms of the agreement, there is provision for the Corporation to take back and operate its assets. The Rail Merger Ordinance also made provision for the position of Chief Executive Officer to be left vacant, from 2 December 2007. Instead the Corporation appointed a Chief Officer, who is not a Member of the Board, to head Management.

Principal Activities of the Corporation

The principal activities of the Corporation are:

- railway asset holder, with responsibility for monitoring that MTRCL complies with the terms of the Service Concession Agreement and the Supplemental Service Concession Agreements;
- investing the reserve funds; and
- managing its subsidiaries.

The principal activities of the subsidiaries are set out in Note 16 to the Financial Statements.

The Board

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

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

- Secretary for Financial Services and the Treasury, Mr Christopher Hui Ching-yu (Chairman);
- Permanent Secretary for Financial Services and the Treasury (Treasury), Mr Andrew Lai Chi-wah;
- Permanent Secretary for Transport and Logistics, Ms Amy Wong Pui-man (acting up to 13 April 2025), Mr Kevin Choi (from 14 April 2025 to 26 October 2025) and Mr Vic Yau Cheuk-hang (from 17 November 2025);
- Director of Accounting Services, Ms Susanna Cheung Sau-lan (up to 15 January 2025) and Mr Raymond Ng Wai-man (from 16 January 2025);

Report of the Members of the Managing Board

- Government Property Administrator, Mr Eugene Fung Kin-yip (up to 5 April 2026) and Mr Aaricf Mok Chun-yu (acting from 6 April 2026);
- Deputy Secretary for Financial Services and the Treasury (Treasury) 1, Ms Ann Chan Wai-yan; and
- Deputy Secretary for Transport and Logistics 4, Ms Joan Hung Sze-man.

Details of Members of the Board are set out on pages 2 and 3.

Long-Term Planning, Business Planning and Financial Management Framework

Business Plan, incorporating triennial forecasts of income and expenditure, is prepared each year for submission to the Board. The first year of the Business Plan forms the basis for formulating the budget for the ensuing year.

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

Corporate Governance

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

Indemnity of Members of the Board

A permitted indemnity provision as defined in section 469 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) for the benefit of the Members of the Board is currently in force and was in force throughout this year.

Interests in Transactions, Arrangements or Contracts of Members of the Board and Senior Executive Staff

No transactions, arrangements or contracts of significance to which the Corporation or any of its subsidiaries was a party and in which a Member of the Board, or senior executive of Management, had a material interest subsisted at the end of the year or at any time during the year.

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

Financial Statements

The results of the Group for the year ended 31 December 2025 and the Group's financial position at that date are set out in the Financial Statements on pages 24 to 75.



Property, Plant and Equipment and Interest in Leasehold Land

Movements in property, plant and equipment, and interest in leasehold land during the year are set out in Note 13 to the Financial Statements.

Share Capital

Details of the Corporation's share capital are set out in Note 23 to the Financial Statements. Any further contributions of capital will be determined by the Government in consultation with the Corporation.

Dividend

Details of the Corporation's proposed dividend to the Government are set out in Note 23(b) to the Financial Statements.

Interest and Finance Income/Expenses

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

Interest-Bearing Borrowings

The Corporation has no interest-bearing borrowings currently and throughout this year.

Turnover, Financial Results and Financial Position

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

Going Concern

The Financial Statements on pages 24 to 75 have been prepared on a going concern basis. The Board has approved the Corporation's budget for 2026 and is satisfied that the Corporation can operate in a viable manner for the foreseeable future.

Responsibility for the Financial Statements

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

Auditor

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

By order of the Board

CL Wong, SBS

Company Secretary
20 April 2026

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Independent Auditor's Report

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

Opinion

We have audited the consolidated financial statements of the Kowloon-Canton Railway Corporation (“the Corporation”) and its subsidiary (“the Group”) set out on pages 24 to 75, which comprise the consolidated statement of financial position as at 31 December 2025, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes, comprising material accounting policy information and other explanatory information.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2025 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board (“IASB”) and HKFRS Accounting Standards as issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and have been properly prepared in compliance with the applicable disclosure requirements of the Hong Kong Companies Ordinance.

Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing (“HKSA”) as issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (“the Code”), as applicable to audits of financial statements of public interest entities. We have also fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Independent Auditor's Report

Recognition of revenue under the Service Concession and the Supplemental Service Concessions	
<i>Refer to notes 2 and 5 and the accounting policies in note 3(u) to the consolidated financial statements</i>	
The Key Audit Matter	How the matter was addressed in our audit
<p>As disclosed in note 2 to the consolidated financial statements, the Corporation and MTR Corporation Limited ("MTRCL") entered into the Service Concession in respect of the Corporation's existing railway lines and other rail-related businesses ("Existing Lines") for a period of 50 years starting from December 2007, the Supplemental Service Concession relating to the Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link ("the XRL") for a period of 10 years starting from September 2018 and the Supplemental Service Concession relating to the Shatin to Central Link ("the SCL") for a period of 10 years starting from May 2022 ("the service concession arrangements"). The SCL has been fully integrated with the Corporation's Existing Lines and are collectively referred to as the KCR Network.</p> <p>During the respective concession periods, MTRCL is responsible for the daily operations and maintenance of the transport operations and will fund related capital expenditure, and will receive all revenues generated from the operation of the rail networks and other rail-related businesses.</p> <p>The consideration exchanged between MTRCL and the Corporation under the service concession arrangements includes both fixed amounts and amounts which vary based on the revenue generated from the operation of the rail networks and in accordance with the formulae set out in the service concession agreements, as disclosed in note 2 to the consolidated financial statements.</p> <p>The Corporation recognised total annual payments receivable from MTRCL of \$2,244 million under Concession Income for the year ended 31 December 2025.</p>	<p>Our audit procedures to assess the recognition of revenue under the Service Concession and the Supplemental Service Concessions included the following:</p> <ul style="list-style-type: none"> • inspecting the agreements relating to the Service Concession and the Supplemental Service Concessions and documentation provided by MTRCL to the Corporation in relation to the amounts of revenue from the KCR Network and the XRL and the amounts due under the service concession agreements, and discussing with the Corporation's management their review procedures exercised thereon; • evaluating the competence and objectivity of the two independent experts; • assessing the adequacy of the procedures performed by the two independent experts for the purposes of our audit; and • obtaining the reports issued by the two independent experts and inspecting the findings and conclusions therein. <p>In addition, our audit procedures included comparing the payments under the Service Concession and the Supplemental Service Concessions to the forecasts prepared by management in order to assess whether there was any indication of impairment of the railway network assets or the intangible assets relating to the KCR Network and the XRL and whether there was any provision for onerous contracts relating to the XRL.</p>



Recognition of revenue under the Service Concession and the Supplemental Service Concessions	
<i>Refer to notes 2 and 5 and the accounting policies in note 3(u) to the consolidated financial statements</i>	
The Key Audit Matter	How the matter was addressed in our audit
<p>MTRCL is responsible for designing, implementing and maintaining internal controls over the revenue from the KCR Network and the XRL and for calculating the amounts due under the service concession agreements and reporting such amounts to the Corporation. MTRCL has appointed its external auditors and another firm of auditors as independent experts, pursuant to and as defined in the Service Concession agreement, to perform certain procedures on the calculation of these amounts and to report thereon.</p> <p>We identified the recognition of revenue under the Service Concession and the Supplemental Service Concessions as a key audit matter because of its significance to the Corporation's total revenue and its significance in assessing the recoverable amounts of the railway network assets and the intangible assets relating to the KCR Network and the XRL and if any provision for onerous contracts relating to the XRL is required in view of the net fixed and variable annual payments payable to MTRCL for the year in respect of the XRL's operation; and because the amounts are recognised in reliance on the information reported by MTRCL and the reports issued by the two independent experts.</p>	

Information other than the consolidated financial statements and auditor's report thereon

The Board Members are responsible for the other information. The other information comprises all the information included in the annual report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Independent Auditor's Report

Responsibilities of the Board Members for the consolidated financial statements

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

In preparing the consolidated financial statements, the Board Members are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board Members either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Board Members are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with section 14B(3) of the Kowloon-Canton Railway Corporation Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with HKSAAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board Members.



- Conclude on the appropriateness of the Board Members' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Plan and perform the group audit to obtain sufficient appropriate audit evidence regarding the financial information of the entities or business units within the Group as a basis for forming an opinion on the consolidated financial statements. We are responsible for the direction, supervision and review of the audit work performed for purposes of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Chui Kin Pong (practising certificate number: P06609).

KPMG

Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
20 April 2026

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2025 (Expressed in Hong Kong dollars)

	Note	2025 \$ million	2024 \$ million
Turnover	5	4,045	3,166
Operating costs before depreciation, amortisation and impairment	6	(40)	(39)
Operating profit before depreciation, amortisation and impairment	7	4,005	3,127
Depreciation and amortisation	8	(3,606)	(3,327)
Loss on disposal of property, plant and equipment		(25)	(26)
Operating profit/(loss) after depreciation, amortisation and impairment		374	(226)
Interest and finance income	9(a)	261	394
Interest and finance expenses	9(b)	(159)	(168)
Share of profit of associate	17	141	150
Profit before taxation		617	150
Income tax	10(a)	(40)	59
Profit and total comprehensive income for the year wholly attributable to the sole shareholder of the Corporation	11	577	209

The notes on pages 28 to 75 form part of these financial statements.

Consolidated Statement of Financial Position

at 31 December 2025 (Expressed in Hong Kong dollars)

	Note	2025 \$ million	2024 \$ million
Assets			
Investment properties and other property, plant and equipment	13(a)	51,780	53,131
Interest in leasehold land held for own use	13(a)	3,076	3,176
Intangible assets	14	1,821	1,863
Construction in progress	15	5,606	4,778
Interest in associate	17	533	512
Deferred tax assets	10(c)	982	1,022
Interest and other receivables	18	3,482	3,187
Cash and cash equivalents	19	7,212	7,722
		74,492	75,391
Liabilities			
Interest and other payables	20	5,338	4,996
Accrued charges and provisions for capital projects	21	39	39
Deferred income	22	26,086	24,904
		31,463	29,939
Net Assets		43,029	45,452
Capital and Reserves			
Share capital	23(c)	39,120	39,120
Reserves		3,909	6,332
Total Equity		43,029	45,452

Approved and authorised for issue by the Managing Board on 20 April 2026

Christopher Hui Ching-yu
Chairman of the Managing Board

Joan Hung Sze-man
Member of the Managing Board

LT Ma
Chief Officer

The notes on pages 28 to 75 form part of these financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2025 (Expressed in Hong Kong dollars)

	Share capital \$ million	Retained profits \$ million	Total equity \$ million
Balance at 1 January 2024	39,120	8,123	47,243
Changes in equity for 2024:			
Profit for the year	–	209	209
Total comprehensive income for the year	–	209	209
Dividend declared and paid during the year	–	(2,000)	(2,000)
Balance at 31 December 2024 and 1 January 2025	39,120	6,332	45,452
Changes in equity for 2025:			
Profit for the year	–	577	577
Total comprehensive income for the year	–	577	577
Dividend declared and paid during the year	–	(3,000)	(3,000)
Balance at 31 December 2025	39,120	3,909	43,029

The notes on pages 28 to 75 form part of these financial statements.

Consolidated Cash Flow Statement

for the year ended 31 December 2025 (Expressed in Hong Kong dollars)

	Note	2025 \$ million	2024 \$ million
Operating activities			
Net cash inflow from operations	25(a)	2,113	1,249
Investing activities			
Increase in deposits with banks with more than three months to maturity when placed		(267)	(511)
Payments for capital expenditure		(14)	(17)
Interest received		266	432
Dividend received from associate		125	137
Net cash inflow from investing activities		110	41
Net cash inflow before financing activities		2,223	1,290
Financing activities			
Repayment of loans	25(b)	–	(415)
Dividend paid	23(b)	(3,000)	(2,000)
Interest paid	25(b)	–	(9)
Net cash outflow from financing activities		(3,000)	(2,424)
Net decrease in cash and cash equivalents		(777)	(1,134)
Cash and cash equivalents at 1 January		1,450	2,584
Cash and cash equivalents at 31 December		673	1,450
Analysis of the balances of cash and cash equivalents			
Cash and cash equivalents in the consolidated statement of financial position		7,212	7,722
Less: deposits with banks with more than three months to maturity when placed		(6,539)	(6,272)
Cash and cash equivalents in the consolidated cash flow statement	19	673	1,450

The notes on pages 28 to 75 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 on 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”).

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

2 Rail Merger with MTR Corporation Limited (“MTRCL”) (continued)

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.

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.

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

2 Rail Merger with MTR Corporation Limited (“MTRCL”) (continued)

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.

- (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 the Mainland.

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”).

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

2 Rail Merger with MTR Corporation Limited (“MTRCL”) (continued)

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.

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 respectively.

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)”). 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.

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.

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

3 Material 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 IFRS Accounting Standards 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 HKFRS Accounting Standards issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). Material accounting policies adopted by the Corporation and its controlled subsidiary (“the Group”) are set out below.

The IASB has issued certain amendments to IFRS Accounting Standards that are first effective or available for early adoption for the current accounting period of the Group and the Corporation. The equivalent amendments to HKFRS Accounting Standards 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.

(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 IFRS Accounting Standards and HKFRS Accounting Standards requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

Judgements with significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 35.

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

3 Material accounting policies (continued)

(c) Basis of consolidation

The consolidated financial statements comprise the Corporation and its controlled subsidiary 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.

(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 the controlled subsidiary are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions with the controlled subsidiary 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.

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

3 Material accounting policies (continued)

(e) Interest in associate

An associate is an entity in which the Group or the Corporation has significant influence, but not control 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(k)(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 impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

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

In the Corporation's 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.

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

3 Material accounting policies (continued)

(f) 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.

(g) 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(j)); and
- other items of plant and equipment including tunnels, bridges, roads, permanent way, rolling stock and other equipment.

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

3 Material accounting policies (continued)

(g) Property, plant and equipment (continued)

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

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

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

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

3 Material accounting policies (continued)

(h) 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(h)(iii))	15-64
Buildings (see note 3(h)(iii))	7-50
Rolling stock	2-50
Locomotives and wagons	5-40
Lifts and escalators	20-45
Permanent way comprising rails, ballast, sleepers and concrete civil works (see note 3(h)(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.

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

3 Material accounting policies (continued)

(i) 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 for the 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.

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

3 Material accounting policies (continued)

(j) 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.

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(h)(i) and 3(k)(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.

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

3 Material accounting policies (continued)

(k) 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). 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.

– 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.

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

3 Material accounting policies (continued)

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

(ii) Impairment of other assets (continued)

- 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.

(l) 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 by 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 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.

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

3 Material accounting policies (continued)

(m) Property development

When the Corporation determines or reaches agreement with property developers to develop a site for resale or for rent, the carrying amount of the leasehold land and existing buildings on the development site is 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 they are 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.

(n) 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(k)(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.

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

3 Material accounting policies (continued)

(o) 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(k)(i)).

(p) 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(w)(ii)).

(q) 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.

(r) 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.

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

3 Material accounting policies (continued)

(s) 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.

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

3 Material accounting policies (continued)

(s) Income tax (continued)

- (iv) Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if 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.

(t) 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.

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

3 Material accounting policies (continued)

(t) Provisions, contingent liabilities and onerous contracts (continued)

(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.

(u) 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.

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(w)(ii)).

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

3 Material accounting policies (continued)

(u) Revenue and other income (continued)

(i) Concession income (continued)

Supplemental Service Concessions for the SCL

- Variable annual payments based on revenue generated from the operations of the 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 (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 (SCL), where applicable. The payment pattern of these payments, as set out in the 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(w)(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.

(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.

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

3 Material accounting policies (continued)

(v) 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.

(w) 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.

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.

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

3 Material accounting policies (continued)

(x) 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.

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

3 Material accounting policies (continued)

(y) 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 IFRS Accounting Standards that are first effective for the current accounting period of the Group and the Corporation. The equivalent revised HKFRS Accounting Standards 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.

None of the developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented.

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:

	2025 \$ million	2024 \$ million
Concession Income		
– fixed and variable annual payments #	2,244	1,630
– amortisation of upfront payment and net liabilities transferred to MTRCL	83	83
– income relating to ACP funded by MTRCL	1,687	1,418
	4,014	3,131
Property services (including rental income from MTRCL of \$14 million (2024: \$14 million))	31	30
Other income	–	5
	4,045	3,166

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(u)(i).

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

6 Operating costs before depreciation, amortisation and impairment

	2025 \$ million	2024 \$ million
Staff costs	8	7
Government rent and rates	2	2
Cost of services acquired (including services outsourced to MTRCL of \$22 million (2024: \$21 million))	29	28
Others	1	2
	40	39

7 Operating profit before depreciation, amortisation and impairment

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

	2025 \$ million	2024 \$ million
Auditor's remuneration – audit services	2.5	2.4
Emoluments of the Chief Officer who is not a Member of the Managing Board	2	2
and after crediting:		
Rentals receivable from operating leases less direct outgoings of \$2 million (2024: \$2 million) (including variable lease payments of nil (2024: nil))	(29)	(28)

- (b) No fees have been paid nor are payable to any Member of the Managing Board, including the Chairman, in 2025 and 2024.

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

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:

	2025 \$ million	2024 \$ million
Mr LT Ma	2.2	1.9

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

	No. of employees	
	2025	2024
The remuneration of all the paid employees ranges from		
HK\$3,000,001 – HK\$3,500,000	1	1
HK\$2,000,001 – HK\$2,500,000	1	–
HK\$1,500,001 – HK\$2,000,000	–	1
HK\$1,000,001 – HK\$1,500,000	1	1
Nil – HK\$1,000,000	1	1

8 Depreciation and amortisation

	2025 \$ million	2024 \$ million
Depreciation		
– investment properties	2	2
– other property, plant and equipment	3,450	3,171
	3,452	3,173
Amortisation		
– amortisation of interest in leasehold land held for own use	112	112
– amortisation of intangible assets	42	42
	3,606	3,327

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

9 Interest and finance income/expenses

(a) Interest and finance income

	2025 \$ million	2024 \$ million
Interest income from deposits	258	394
Exchange gain (net)	3	–
	261	394

(b) Interest and finance expenses

	2025 \$ million	2024 \$ million
Interest expenses on loans	–	7
Interest accrued in relation to fixed annual payments for the XRL and the SCL	159	154
Exchange loss (net)	–	7
	159	168

10 Income tax

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

	2025 \$ million	2024 \$ million
<i>Current tax</i>		
Provision for Hong Kong Profits Tax at 16.5% (2024: 16.5%) of the estimated assessable profits for the year	–	–
<i>Deferred tax charge/(credit)</i>		
Origination and reversal of temporary differences	40	(59)
	40	(59)

The Corporation has sufficient tax losses brought forward to set off against the estimated assessable profits for the years ended 31 December 2025 and 2024.

The Corporation has accumulated tax losses carried forward of approximately \$42,900 million at 31 December 2025 (2024: approximately \$44,300 million) which are available to set off against future assessable profits. The tax losses do not expire under current tax legislation.

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

10 Income tax (continued)

(b) Reconciliation between tax charge/(credit) and accounting profit at applicable tax rates:

	2025 \$ million	2024 \$ million
Profit before taxation	617	150
Tax expense on accounting profit before taxation at 16.5% (2024: 16.5%)	102	25
Tax effect of non-deductible expenses	297	253
Tax effect of non-taxable income	(359)	(337)
Actual tax charge/(credit)	40	(59)

(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 2024	(7,438)	6,475	(963)
Charged/(credited) to profit or loss	124	(183)	(59)
At 31 December 2024	(7,314)	6,292	(1,022)
At 1 January 2025	(7,314)	6,292	(1,022)
Charged/(credited) to profit or loss	234	(194)	40
At 31 December 2025	(7,080)	6,098	(982)

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

Of the consolidated profit for the year amounting to \$577 million (2024: \$209 million), a profit of \$556 million (2024: \$189 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.

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

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					Total \$ million	Interest in leasehold land held for own use \$ million
	Investment properties \$ million	Tunnels, bridges, roads and permanent way \$ million	Buildings \$ million	Rolling stock \$ million	Other equipment \$ million		
Cost:							
At 1 January 2024	82	30,672	31,925	13,874	26,309	102,862	5,701
Transfer from construction in progress	-	342	-	151	2,110	2,603	-
Additions	-	2	-	-	-	2	13
Purchase of ACP by MTRCL	-	-	-	-	83	83	-
Disposals	-	(92)	(7)	(139)	(224)	(462)	-
Reclassification	-	(25)	(69)	15	79	-	-
At 31 December 2024	82	30,899	31,849	13,901	28,357	105,088	5,714
At 1 January 2025	82	30,899	31,849	13,901	28,357	105,088	5,714
Transfer from construction in progress	1	283	118	191	1,429	2,022	-
Additions	-	2	-	-	-	2	12
Purchase of ACP by MTRCL	-	-	3	37	62	102	-
Disposals	-	(104)	(11)	(108)	(457)	(680)	-
Reclassification	-	2	101	(4)	(99)	-	-
At 31 December 2025	83	31,082	32,060	14,017	29,292	106,534	5,726
Accumulated depreciation, amortisation and impairment:							
At 1 January 2024	63	12,263	14,812	6,368	15,714	49,220	2,426
Charge for the year	2	746	766	601	1,058	3,173	112
Written back on disposals	-	(84)	(6)	(138)	(208)	(436)	-
Reclassification	-	(1)	-	3	(2)	-	-
At 31 December 2024	65	12,924	15,572	6,834	16,562	51,957	2,538
At 1 January 2025	65	12,924	15,572	6,834	16,562	51,957	2,538
Charge for the year	2	747	776	726	1,201	3,452	112
Written back on disposals	-	(97)	(10)	(103)	(445)	(655)	-
Reclassification	-	-	4	-	(4)	-	-
At 31 December 2025	67	13,574	16,342	7,457	17,314	54,754	2,650
Carrying amount:							
At 31 December 2025	16	17,508	15,718	6,560	11,978	51,780	3,076
At 31 December 2024	17	17,975	16,277	7,067	11,795	53,131	3,176

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

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:

	2025 \$ million	2024 \$ million
Within one year	24	26
After one year but within two years	12	14
After two years but within three years	4	3
	40	43

- (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 \$41 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 \$3,076 million (2024: \$3,176 million) at 31 December 2025 and is accounted for as right-of-use assets.

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

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

- (g) As at 31 December 2025, 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 24(d)) are disclosed as below:

	Carrying amount at 31 December 2025 \$ million	Fair value at 31 December 2025 \$ million	Fair value measurements as at 31 December 2025 categorised into		
			Level 1 \$ million	Level 2 \$ million	Level 3 \$ million
Investment properties	16	921	-	921	-

	Carrying amount at 31 December 2024 \$ million	Fair value at 31 December 2024 \$ million	Fair value measurements as at 31 December 2024 categorised into		
			Level 1 \$ million	Level 2 \$ million	Level 3 \$ million
Investment properties	17	1,142	-	1,142	-

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.

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

14 Intangible assets

Intangible assets comprise:

	XRL \$ million	SCL \$ million	Total \$ million
Cost:			
At 1 January 2025 and 31 December 2025	889	1,188	2,077
Accumulated amortisation:			
At 1 January 2025	98	116	214
Charge for the year	18	24	42
At 31 December 2025	116	140	256
Net book value:			
At 31 December 2025	773	1,048	1,821
Cost:			
At 1 January 2024 and 31 December 2024	889	1,188	2,077
Accumulated amortisation:			
At 1 January 2024	80	92	172
Charge for the year	18	24	42
At 31 December 2024	98	116	214
Net book value:			
At 31 December 2024	791	1,072	1,863

15 Construction in progress

Construction in progress comprises:

	2025 \$ million	2024 \$ million
Balance at 1 January	4,778	4,189
Costs incurred by the Corporation	–	2
Costs incurred for ACP funded by MTRCL	2,850	3,190
Transfer to other property, plant and equipment	(2,022)	(2,603)
Balance at 31 December	5,606	4,778

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

16 Investments in subsidiaries

(a) Details of the controlled subsidiary 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%

Kasey Asset Limited was de-registered from the Companies Registry on 15 August 2025.

(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.

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

16 Investments in subsidiaries (continued)

- (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:

	2025 \$ million	2024 \$ million
Assets	1,987	4,879
Liabilities	134	153
Equity (Net assets)	1,853	4,726
Turnover	128	234
Profit after taxation and total comprehensive income for the year	127	143
Dividend paid	3,000	–

17 Interest in associate

The interest in associate is as follows:

	2025 \$ million	2024 \$ million
Share of net assets	533	512

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.

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

17 Interest in associate (continued)

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

	2025		2024	
	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	11,434	2,527	10,885	2,406
Liabilities	9,022	1,994	8,570	1,894
Equity (Net assets)	2,412	533	2,315	512
Turnover	1,743	385	1,765	390
Profit after taxation and total comprehensive income for the year	638	141	678	150
Dividend	542	120	588	130

18 Interest and other receivables

(a) Interest and other receivables comprise:

	2025 \$ million	2024 \$ million
Interest receivable relating to deposits with banks	22	27
Dividend receivable	60	65
Deposits, prepayments and revenue in arrears	5	5
Amount receivable from MTRCL	3,395	3,090
	3,482	3,187

As at 31 December 2025, the above amount receivable from MTRCL includes an amount of \$3,330 million (2024: \$3,025 million) in relation to variable annual payments as set out in note 2.

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

18 Interest and other receivables (continued)

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

	2025 \$ million	2024 \$ million
Within one year	3,479	3,184
After one year	3	3
	3,482	3,187

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

	2025 \$ million	2024 \$ million
Due within three months	3,355	3,055
Due over three months but within one year	122	127
Interest receivable, dividend receivable and amount receivable from MTRCL	3,477	3,182
Deposits, prepayments and revenue in arrears	5	5
	3,482	3,187

19 Cash and cash equivalents

Cash and cash equivalents comprise:

	2025 \$ million	2024 \$ million
Deposits with banks		
– within three months to maturity when placed	663	1,436
– more than three months to maturity when placed	6,539	6,272
Cash at bank and in hand	10	14
Cash and cash equivalents in the consolidated statement of financial position	7,212	7,722
Less: deposits with banks with more than three months to maturity when placed	(6,539)	(6,272)
Cash and cash equivalents in the consolidated cash flow statement	673	1,450

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

20 Interest and other payables

(a) Interest and other payables comprise:

	2025 \$ million	2024 \$ million
Deposits and advances	13	14
Creditors and accrued charges	299	297
Amount payable to MTRCL	5,026	4,685
	5,338	4,996

As at 31 December 2025, the above amount payable to MTRCL includes an amount of \$2,564 million (2024: \$2,931 million) for the XRL and \$2,462 million (2024: \$1,754 million) for the SCL in relation to the respective service concession arrangements as set out in note 2.

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

	2025 \$ million	2024 \$ million
Within one year	1,833	1,872
After one year	3,505	3,124
	5,338	4,996

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

	2025 \$ million	2024 \$ million
Due within one month or on demand	3	4
Due between one month and six months	185	300
Due between six months and twelve months	1,422	1,350
Due after one year and within two years	420	950
Due after two years and within five years	2,999	2,084
Creditors and amount payable to MTRCL	5,029	4,688
Deposits and advances	13	14
Accrued charges	296	294
	5,338	4,996

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

21 Accrued charges and provisions for capital projects

The balance includes an aggregate amount of \$39 million (2024: \$39 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 (2024: \$19 million).

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

	2025 \$ million	2024 \$ million
Within one year	10	10
After one year	29	29
	39	39

22 Deferred income

(a) The balance of deferred income at 31 December 2025 includes 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. 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:

	2025 \$ million	2024 \$ million
Balance at 1 January	24,904	23,137
Deferred income relating to ACP funded by MTRCL	2,952	3,273
Recognised in profit or loss	(1,770)	(1,506)
Balance at 31 December	26,086	24,904

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

	2025 \$ million	2024 \$ million
Within one year	1,750	1,480
After one year	24,336	23,424
	26,086	24,904

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

23 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 2024	39,120	7,640	46,760
Changes in equity for 2024:			
Total comprehensive income for the year	-	189	189
Dividend declared and paid during the year	-	(2,000)	(2,000)
Balance at 31 December 2024 and 1 January 2025	39,120	5,829	44,949
Changes in equity for 2025:			
Total comprehensive income for the year	-	556	556
Dividend declared and paid during the year	-	(3,000)	(3,000)
Balance at 31 December 2025	39,120	3,385	42,505

- (i) Included in the retained profits of the Group is an amount of \$524 million (2024: \$503 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 2025, the amount of reserves available for distribution to the sole shareholder amounted to \$3,385 million (2024: \$5,829 million).

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

	2025 \$ million	2024 \$ million
Dividend proposed after the end of the reporting period of \$2,556.2 per share (2024: \$7,668.7 per share)	1,000	3,000

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

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

23 Capital, reserves and dividends (continued)

(c) Share capital

The Corporation

	2025		2024	
	No. of shares	\$ million	No. of shares	\$ million
<i>Authorised:*</i>				
Shares of \$100,000 each	425,000	42,500	425,000	42,500
<i>Issued and fully paid:</i>				
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.

24 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, 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.

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

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

(a) Credit risk

The Group's credit risk is primarily attributable to its 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) Currency risk

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

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

(i) Recognised assets and liabilities

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

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

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

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

(b) Currency risk (continued)

(ii) Exposure to currency risk

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

	2025 US\$ million (Expressed in foreign currency)	2024 US\$ million (Expressed in foreign currency)
Cash and cash equivalents	143	137
Overall exposure	143	137

(iii) Sensitivity analysis

The following table indicates the instantaneous change in the Group's profit 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	2025 Increase/ (decrease) in profit after taxation \$ million	2024 Increase/ (decrease) in profit after taxation \$ million
US dollars	1%	9	9
	(1%)	(9)	(9)

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effect on the Group's profit 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 2024.

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

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

(c) 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.

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				Total \$ million	Carrying amount at 31 December \$ million
	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		
2025						
Interest and other payables	(1,833)	(424)	(3,077)	(4)	(5,338)	5,338
2024						
Interest and other payables	(1,872)	(960)	(2,160)	(4)	(4,996)	4,996

(d) 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

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 2025 and 2024.

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

25 Notes to the consolidated cash flow statement

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

	2025 \$ million	2024 \$ million
Operating profit/(loss) after depreciation, amortisation and impairment	374	(226)
Depreciation and amortisation	3,606	3,327
Loss on disposal of property, plant and equipment	25	26
Increase in other receivables	(305)	(670)
Decrease in other payables and deferred income	(1,587)	(1,208)
Net cash inflow from operations	2,113	1,249

(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	Interest payable \$ million	Total \$ million
Carrying amount at 1 January 2024	415	2	417
Changes from financing cash flows:			
Repayment of loans	(415)	–	(415)
Interest paid	–	(9)	(9)
Total changes from financing cash flows	(415)	(9)	(424)
Other changes:			
Interest expenses (note 9(b))	–	7	7
Total other changes	–	7	7
Carrying amount at 31 December 2024	–	–	–

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

26 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), (g), (i) and (j), 6, 13(f), 16 and 21 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), (g), (i), (l), (u) and (w), 5, 6, 9(b), 13, 14, 15, 16, 18, 20 and 22 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.

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

27 Corporation statement of financial position at 31 December 2025

	Note	2025 \$ million	2024 \$ million
Assets			
Investment properties and other property, plant and equipment		51,780	53,131
Interest in leasehold land held for own use		3,076	3,176
Intangible assets		1,821	1,863
Construction in progress		5,606	4,778
Interest in associate		9	9
Deferred tax assets		982	1,022
Interest and other receivables		3,482	3,187
Cash and cash equivalents		7,212	7,722
		73,968	74,888
Liabilities			
Interest and other payables		5,338	4,996
Accrued charges and provisions for capital projects		39	39
Deferred income		26,086	24,904
		31,463	29,939
Net Assets		42,505	44,949
Capital and Reserves			
Share capital	23(c)	39,120	39,120
Reserves	23(a)	3,385	5,829
Total Equity		42,505	44,949

Approved and authorised for issue by the Managing Board on 20 April 2026

Christopher Hui Ching-yu
Chairman of the Managing Board

Joan Hung Sze-man
Member of the Managing Board

LT Ma
Chief Officer

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

28 Outstanding commitments

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

	2025 \$ million	2024 \$ million
Authorised but not contracted for – post-day-1 costs for the XRL	61	61
Balance at 31 December	61	61

29 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.

30 Debt facilities

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

	2025 \$ million	2024 \$ 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:

	2025 \$ million	2024 \$ million
Floating rate – expiring within one year	430	430

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

31 Contingent liabilities

As at 31 December 2025, 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 2025 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 21 to the financial statements.

32 Impairment assessment of railway network assets and intangible assets

As at 31 December 2025, the Group assessed whether there was an indication of impairment of the Group's railway network assets and intangible assets at that date in accordance with the Group's accounting policies for the assessment of asset impairment by comparing the key determinant factors, such as patronage, inflation, cost of debt, expected return on equity, to those of prior years. As a result of this assessment, management considers that no indication of impairment of the Group's railway network assets and intangible assets relating to the SCL exists at that date.

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 respective intangible assets is required at 31 December 2025.

33 Assessment of provision for onerous contracts

As at 31 December 2025, the Group assessed whether the unavoidable costs of meeting the obligations for the remaining concession period 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.

34 Event after the end of the reporting period

After the end of the reporting period, the Corporation proposed a dividend. Further details are set out in note 23(b).

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

35 Accounting estimates and judgements

(a) Key sources of estimation uncertainty

Note 24 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(h)), calculation of the respective recoverable amount of railway network assets and intangible assets (see notes 3(k)(ii) and 32) and assessment of provision for onerous contracts (see notes 3(t)(ii) and 33).

(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 expenditure as capital or revenue in nature (see note 3(g)), classification of revenue and cost-recovery, transfers from construction in progress to property, plant and equipment (see note 3(l)), assessment of controlled subsidiaries and non-controlled entities (see note 3(c)), impairment of railway network assets and intangible assets (see note 32) and assessment of provision for onerous contracts (see note 33).

36 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2025

Up to the date of issue of these financial statements, the IASB and HKICPA have issued a number of new or amended standards which are not yet effective for the year ended 31 December 2025 and which have not been adopted in these financial statements.

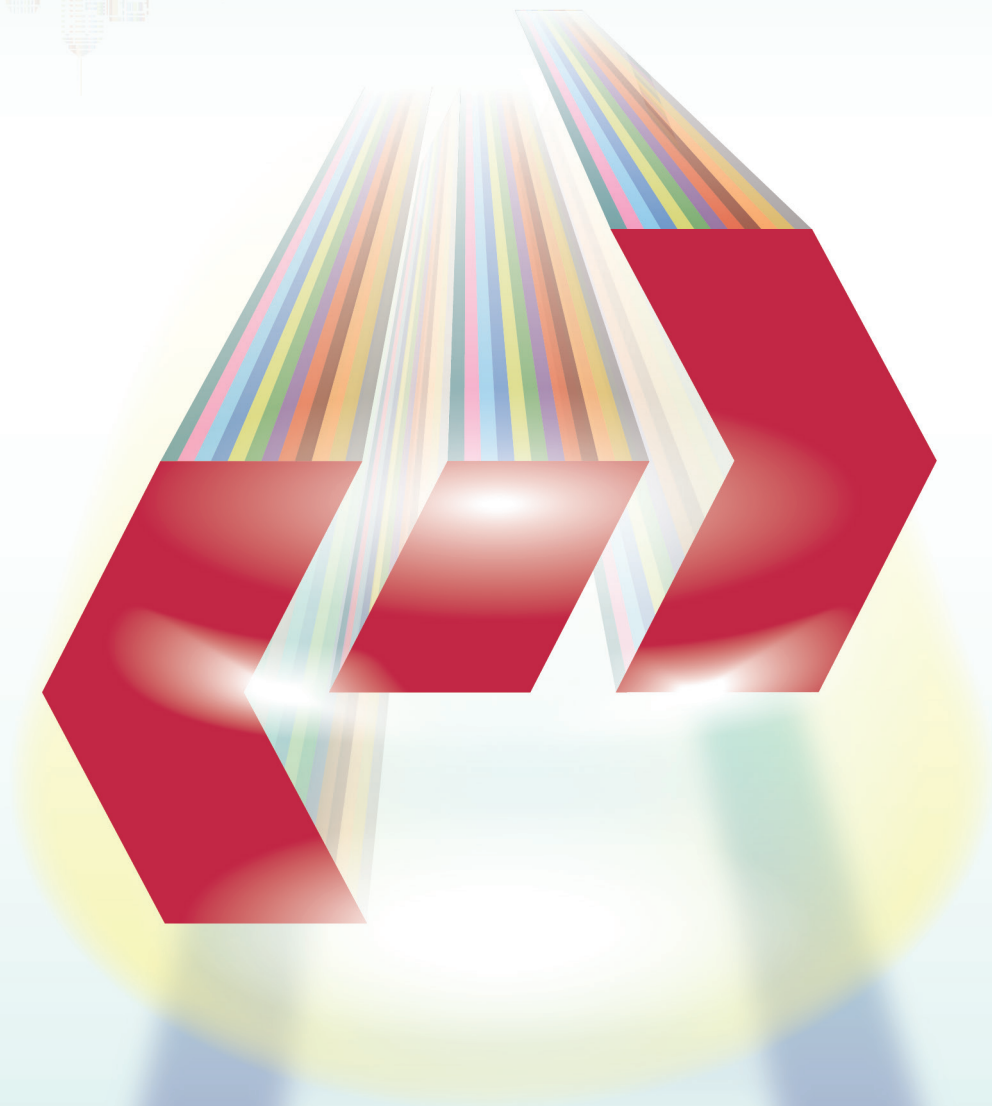
The Group is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far the Group has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

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

	Effective for accounting periods beginning on or after
Amendments to IFRS 9 and IFRS 7 and HKFRS 9 and HKFRS 7, <i>Contracts Referencing Nature-dependent Electricity</i>	1 January 2026
Amendments to IFRS 9 and IFRS 7 and HKFRS 9 and HKFRS 7, <i>Amendments to the Classification and Measurement of Financial Instruments</i>	1 January 2026
Annual Improvements to IFRS and HKFRS Accounting Standards	1 January 2026
IFRS 18 and HKFRS 18, <i>Presentation and Disclosure in Financial Statements</i>	1 January 2027
IFRS 19 and HKFRS 19, <i>Subsidiaries without Public Accountability: Disclosures</i>	1 January 2027
Amendments to IFRS 19, <i>Subsidiaries without Public Accountability: Disclosures</i>	1 January 2027

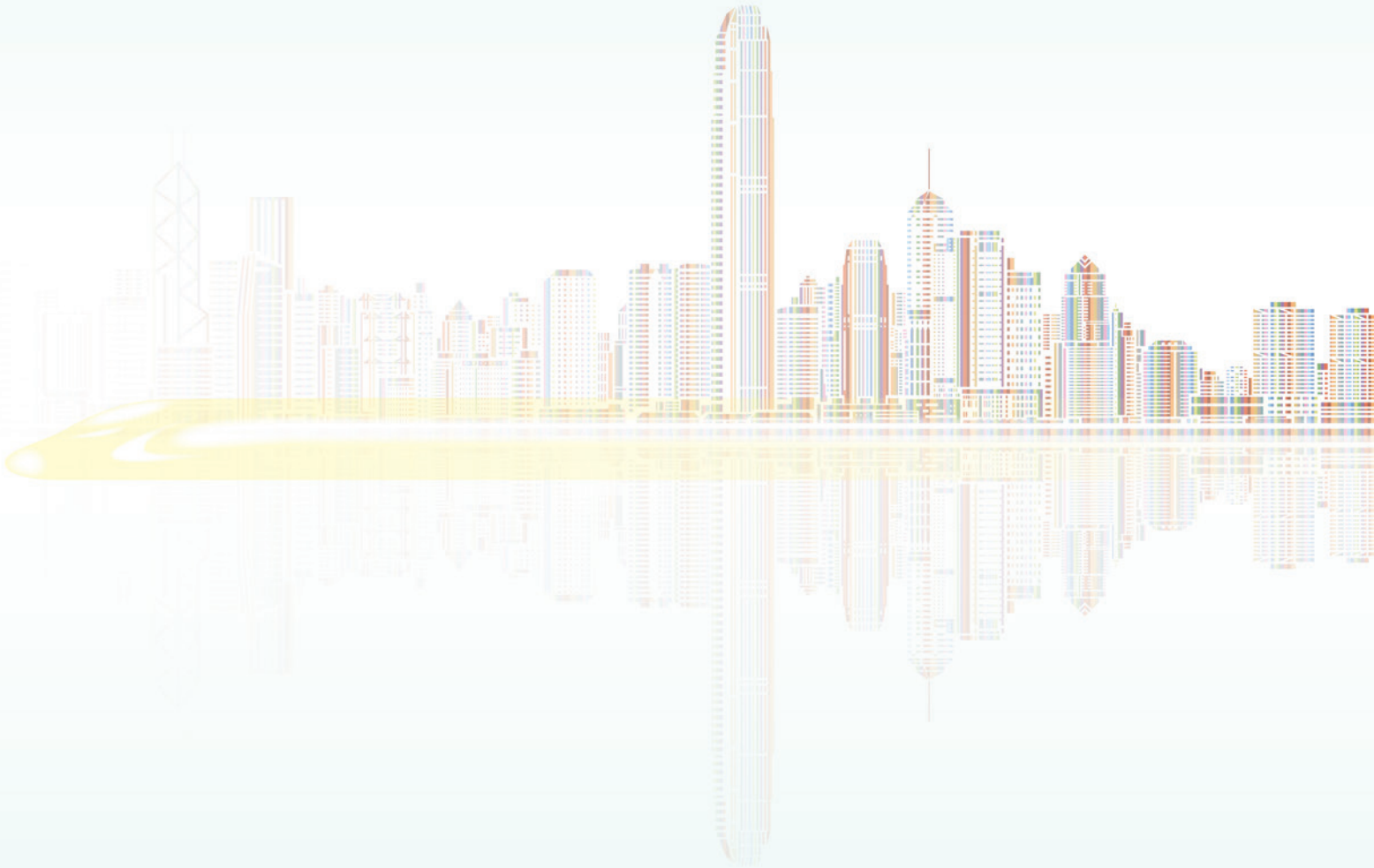
Five-Year Statistics

FINANCIAL (HK\$ million)	2025	2024	2023	2022	2021
Statement of Comprehensive Income					
Turnover	4,045	3,166	3,248	524	431
Operating profit before depreciation, amortisation and impairment	4,005	3,127	3,210	483	387
Net interest and finance income/(expenses)	102	226	264	58	(69)
Profit/(loss) before taxation	617	150	203	(2,589)	(2,604)
Profit/(loss) after taxation	577	209	257	(2,115)	(2,155)
Statement of Financial Position					
Investment properties, other property, plant and equipment and interest in leasehold land held for own use	54,856	56,307	56,917	57,333	56,380
Intangible assets	1,821	1,863	1,905	1,950	1,893
Construction in progress	5,606	4,778	4,189	4,524	5,659
Other financial assets	-	-	-	-	556
Cash and cash equivalents	7,212	7,722	8,345	10,123	10,423
Other assets	4,997	4,721	4,020	1,901	1,215
Total assets	74,492	75,391	75,376	75,831	76,126
Interest-bearing borrowings	-	-	415	415	414
Deferred income	26,086	24,904	23,137	22,026	20,305
Other liabilities	5,377	5,035	4,581	4,404	4,306
Total liabilities	31,463	29,939	28,133	26,845	25,025
Total equity	43,029	45,452	47,243	48,986	51,101
Key financial data					
Return on equity (%)	1.3	0.5	1	(4)	(4)
Debt/equity ratio	-	-	1:113.8	1:118.0	1:123.4
Debt to total capitalisation (%)	-	-	1	1	1
Interest cover (times)	27.7	21.9	26.3	6.7	4.4



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