MTR CORPORATION LIMITED
香港鐵路有限公司

(the "Company")
(Incorporated in Hong Kong with limited liability)
(Stock Code: 66)

ANNOUNCEMENT OF UNAUDITED RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2023

RESULTS

HK$ million	Six months ended 30 June **2023**	2022	Favourable / (unfavourable) change
Total revenue	**27,574**	23,033	19.7%
Profit / (loss) from recurrent businesses	**2,420**	(678)	n/m
Profit from property development	**732**	7,786	(90.6)%
Gain / (loss) from fair value measurement of investment properties	**1,026**	(2,376)	n/m
Net profit attributable to shareholders of the Company	**4,178**	4,732	(11.7)%

n/m : not meaningful

- Interim ordinary dividend of HK$0.42 per share declared (with scrip dividend alternative)

HIGHLIGHTS

Hong Kong Businesses

- Our recurrent businesses benefited from higher patronage resulting from the removal of anti-pandemic measures, as well as gradual recovery of our Cross-boundary and Duty Free businesses following the reopening of rail links with Mainland China
- Train service delivery and passenger journeys on-time for heavy rail maintained at 99.9% world-class level
- Fare Adjustment Mechanism review concluded in March 2023, with the resulting arrangements benefiting all passengers while seeking to maintain the Company's financial sustainability
- Implementing the recommendations from the comprehensive review of the Company's railway asset management and maintenance regime, including putting in over HK$65 billion on railway asset renewal and maintenance in the next five years
- Initial booking on the fair value measurement gain of THE SOUTHSIDE shopping mall
- Our new shopping mall in Tai Wai, The Wai, opened in July 2023
- Entered into project agreement with the Government for Tung Chung Line Extension

Mainland China and International Businesses

- Concessions of Melbourne's metropolitan train service in Australia and the South Western Railway in the United Kingdom extended to mid-2026 and May 2025 respectively
- Continuing challenges in operational and financial performances in Stockholms pendeltåg and Mälartåg regional traffic

HIGHLIGHTS *(continued)*

Outlook

- We are cautiously optimistic on our business outlook as the pandemic has mostly subsided, but we need to contend with other uncertainties such as high global inflation and interest rates
- Subject to the progress of construction and sales, and depending on the payment terms chosen by property buyers, we expect to continue booking profit from LOHAS Park Package 11 in the second half of 2023
- In our property business, we plan to tender out about 4,000 units in the next 12 months or so, subject to market conditions. Tung Chung East Station Package 1 is expected to be the first tender to be put to the market. Other projects are under preparation including technical studies, land grant and statutory procedures and will be launched subject to market conditions
- Continue to progress various new railway projects under RDS 2014 and assist on initiatives planned under Government's Northern Metropolis Development Strategy

The Directors of the Company announce the unaudited interim results of the Company and its subsidiaries ("the Group") for the six months ended 30 June 2023 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

HK$ million	**Six months ended 30 June 2023 (Unaudited)**	2022 (Unaudited)
Revenue from Hong Kong transport operations	**9,342**	5,815
Revenue from Hong Kong station commercial businesses	**2,415**	1,481
Revenue from Hong Kong property rental and management businesses	**2,456**	2,307
Revenue from Mainland China and international railway, property rental and management subsidiaries	**13,079**	13,150
Revenue from other businesses	**282**	142
	27,574	22,895
Revenue from Mainland China property development	**-**	138
Total revenue	**27,574**	23,033
Expenses relating to Hong Kong transport operations		
- Staff costs and related expenses	**(3,363)**	(3,155)
- Maintenance and related works	**(1,154)**	(1,019)
- Energy and utilities	**(1,175)**	(877)
- General and administration expenses	**(349)**	(343)
- Stores and spares consumed	**(263)**	(253)
- Railway support services	**(154)**	(89)
- Government rent and rates	**(77)**	(77)
- Other expenses	**(127)**	(118)
	(6,662)	(5,931)
Expenses relating to Hong Kong station commercial businesses	**(255)**	(244)
Expenses relating to Hong Kong property rental and management businesses	**(458)**	(434)
Expenses relating to Mainland China and international railway, property rental and management subsidiaries	**(12,547)**	(12,227)
Expenses relating to other businesses	**(240)**	(253)

HK$ million	Six months ended 30 June **2023** **(Unaudited)**	 2022 (Unaudited)
Project study and business development expenses	**(156)**	(173)
	(20,318)	(19,262)
Expenses relating to Mainland China property development	**(9)**	(89)
Operating expenses before depreciation, amortisation and variable annual payment	**(20,327)**	(19,351)
Operating profit / (loss) before Hong Kong property development, fair value measurement of investment properties, depreciation, amortisation and variable annual payment		
- Arising from recurrent businesses	**7,256**	3,633
- Arising from Mainland China property development	**(9)**	49
	7,247	3,682
Hong Kong property development profit from share of surplus and interest in unsold properties	**783**	9,277
Gain / (loss) from fair value measurement of investment properties	**1,005**	(2,389)
Operating profit before depreciation, amortisation and variable annual payment	**9,035**	10,570
Depreciation and amortisation	**(3,046)**	(2,773)
Impairment loss	**-**	(962)
Variable annual payment	**(1,052)**	(198)
Share of profit of associates and joint ventures	**632**	490
Profit before interest, finance charges and taxation	**5,569**	7,127
Interest and finance charges	**(589)**	(458)
Profit before taxation	**4,980**	6,669
Income tax	**(627)**	(1,741)
Profit for the period	**4,353**	4,928
Attributable to:		
- Shareholders of the Company	**4,178**	4,732
- Non-controlling interests	**175**	196
Profit for the period	**4,353**	4,928

HK$ million	Six months ended 30 June 2023 (Unaudited)	 2022 (Unaudited)
Profit / (loss) for the period attributable to shareholders of the Company:		
- Arising from recurrent businesses		
- in Hong Kong	**2,227**	(232)
- outside Hong Kong	**193**	(446)
	2,420	(678)
- Arising from property development		
- in Hong Kong	**712**	7,747
- outside Hong Kong	**20**	39
	732	7,786
- Arising from underlying businesses	**3,152**	7,108
- Arising from fair value measurement of investment properties	**1,026**	(2,376)
	4,178	4,732
Earnings per share:		
- Basic	**HK$0.67**	HK$0.76
- Diluted	**HK$0.67**	HK$0.76

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

HK$ million	Six months ended 30 June 2023 (Unaudited)	2022 (Unaudited)
Profit for the period	**4,353**	4,928
Other comprehensive income / (loss) for the period (after taxation and reclassification adjustments):		
Item that will not be reclassified to profit or loss:		
- Surplus / (loss) on revaluation of self-occupied land and buildings	**18**	(21)
Items that may be reclassified subsequently to profit or loss:		
- Exchange differences on translation of:		
- financial statements of subsidiaries, associates and joint ventures outside Hong Kong	**(738)**	(951)
- non-controlling interests	**(4)**	(9)
- Cash flow hedges: net movement in hedging reserve	**(43)**	313
	(785)	(647)
	(767)	(668)
Total comprehensive income for the period	**3,586**	4,260
Attributable to:		
- Shareholders of the Company	**3,415**	4,073
- Non-controlling interests	**171**	187
Total comprehensive income for the period	**3,586**	4,260

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

HK$ million	**As at 30 June 2023 (Unaudited)**	As at 31 December 2022 (Audited)
Assets		
Fixed assets		
- Investment properties	**97,432**	91,671
- Other property, plant and equipment	**102,583**	102,297
- Service concession assets	**35,733**	35,523
	235,748	229,491
Goodwill and property management rights	**59**	61
Railway construction in progress	**1,125**	-
Property development in progress	**41,465**	41,269
Deferred expenditure	**1,976**	2,540
Interests in associates and joint ventures	**12,350**	12,338
Deferred tax assets	**600**	606
Investments in securities	**916**	959
Properties held for sale	**2,032**	1,888
Derivative financial assets	**246**	216
Stores and spares	**2,493**	2,261
Debtors and other receivables	**13,045**	13,889
Amounts due from related parties	**5,715**	5,429
Cash, bank balances and deposits	**23,956**	16,134
	341,726	327,081
Liabilities		
Short-term loans	**1,919**	1,592
Creditors, other payables and provisions	**77,065**	69,692
Current taxation	**1,500**	2,953
Amounts due to related parties	**5,858**	592
Loans and other obligations	**51,411**	46,254
Obligations under service concession	**10,090**	10,142
Derivative financial liabilities	**1,424**	1,104
Loans from holders of non-controlling interests	**137**	140
Deferred tax liabilities	**14,661**	14,700
	164,065	147,169
Net assets	**177,661**	179,912
Capital and reserves		
Share capital	**60,548**	60,547
Shares held for Executive Share Incentive Scheme	**(268)**	(262)
Other reserves	**116,869**	119,001
Total equity attributable to shareholders of the Company	**177,149**	179,286
Non-controlling interests	**512**	626
Total equity	**177,661**	179,912

Notes:

1. REVIEW OF INTERIM FINANCIAL REPORT

The interim results set out in this preliminary announcement do not constitute the Group's interim financial report for the six months ended 30 June 2023 but are extracted from that interim financial report.

The interim financial report for the six months ended 30 June 2023 is unaudited, but has been reviewed by the Company's auditor, KPMG, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The unmodified review report of KPMG is included in the interim report to be sent to shareholders. The interim financial report has also been reviewed by the Company's Audit & Risk Committee.

2. BASIS OF PREPARATION

This preliminary announcement of the Company's interim results has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The financial information relating to the financial year ended 31 December 2022 that is included in this preliminary announcement of the interim results as comparative information does not constitute the Company's statutory annual consolidated financial statements for that financial year but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Cap. 622) is as follows:

- The Company has delivered the financial statements for the year ended 31 December 2022 to the Registrar of Companies in accordance with section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance.

- The Company's auditor has reported on the consoliated financial statements for the year ended 31 December 2022. The auditor's report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Companies Ordinance.

This 2023 unaudited interim results should be read in conjunction with the 2022 annual financial statements.

The HKICPA has issued a new Hong Kong Financial Reporting Standard ("HKFRS") and a number of amendments to HKFRSs that are first effective for the current accounting period of the Group. None of these have had a material effect on the Group's results and financial position for the current or prior periods have been prepared or presented in the interim financial report. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

On 4 July 2023, the HKICPA issued guidance on the accounting considerations for the mandatory provident fund – long service payment offsetting mechanism in Hong Kong, and the abolition of such mechanism, which was gazetted by the Government of the Hong Kong Special Administrative Region (the "HKSAR Government" or "Government") on 9 June 2022. The Group has not yet implemented the accounting policy change brought by the HKICPA guidance on the basis that additional time and efforts are required to collate the necessary data and to implement the policy change. Please refer to note 14 for further details.

The accounting policies adopted for the preparation of the interim financial report are the same as those adopted in the preparation of the 2022 annual financial statements.

3. RETAINED PROFITS

The movements of the retained profits during the six months ended 30 June 2023 and the year ended 31 December 2022 are as follows:

HK$ million	
Balance as at 1 January 2023	**116,228**
Profit for the period attributable to shareholders of the Company	**4,178**
Vesting and forfeiture of award shares of Executive Share Incentive Scheme	**(2)**
Dividend proposed and approved	**(5,520)**
Balance as at 30 June 2023	**114,884**

HK$ million	
Balance as at 1 January 2022	115,439
Profit for the year attributable to shareholders of the Company	9,827
Other comprehensive loss arising from remeasurement of net asset / liability of defined benefit schemes	(117)
Vesting and forfeiture of award shares of Executive Share Incentive Scheme	(3)
Dividends declared and approved, net of scrip dividend for shares held for Executive Share Incentive Scheme	(8,918)
Balance as at 31 December 2022	116,228

4. HONG KONG PROPERTY DEVELOPMENT PROFIT FROM SHARE OF SURPLUS AND INTEREST IN UNSOLD PROPERTIES

Hong Kong property development profit from share of surplus and interest in unsold properties comprises:

	Six months ended 30 June	
HK$ million	**2023**	2022
Share of surplus and interest in unsold properties from property development	**786**	9,161
Agency fee and other income from West Rail property development	**4**	122
Overheads and miscellaneous studies	**(7)**	(6)
Hong Kong Property Development Profit (Pre-tax)	**783**	9,277
Hong Kong Property Development Profit (Post-tax)	**712**	7,747

Profit attributable to shareholders of the Company arising from Hong Kong property development for the six months ended 30 June 2023 of HK$712 million (2022: HK$7,747 million) represents Hong Kong property development profit of HK$783 million (2022: HK$9,277 million) and related income tax expenses of HK$71 million (2022: HK$1,530 million).

5. GAIN/(LOSS) FROM FAIR VALUE MEASUREMENT OF INVESTMENT PROPERTIES

Gain/(loss) from fair value measurement of investment properties comprises:

HK$ million	Six months ended 30 June **2023**	 2022
Loss from fair value remeasurement on investment properties	**-**	(2,389)
Gain from fair value measurement of investment properties on initial recognition from property development	**1,005**	-
	1,005	(2,389)

During the six months ended 30 June 2023, investment property with a carrying value of HK$5.2 billion was initially recognised upon the receipt of a shopping mall from a property development project.

Taking into account the outstanding risks and obligations of HK$4.0 billion retained by the Group and HK$0.2 billion cost incurred/to be incurred by the Group in connection with this property development, in accordance with the Group's accounting policies, HK$1.0 billion was recognised as gain from fair value measurement of investment properties on initial recognition from property development in profit or loss for the six months ended 30 June 2023. Deferred income of HK$4.0 billion retained was recognised in the Group's consolidated statement of financial position and included in "Creditors, other payables and provisions".

The outstanding risks and obligations retained by the Group will be reassessed at the end of each reporting period. Any reduction in the amount of outstanding risks and obligations will be accounted for as a decrease in deferred income and a corresponding "Gain from fair value measurement of investment properties on initial recognition from property development" in profit or loss of that reporting period.

6. INCOME TAX

Income tax in the consolidated statement of profit or loss represents:

HK$ million	Six months ended 30 June **2023**	 2022
Current tax		
- Hong Kong Profits Tax	**525**	1,583
- Tax outside Hong Kong	**138**	342
	663	1,925
Deferred tax		
- Origination and reversal of temporary differences on:		
- tax losses	**(57)**	(24)
- depreciation allowances in excess of related depreciation	**(17)**	(5)
- revaluation of properties	**(9)**	(9)
- provisions and others	**47**	(146)
	(36)	(184)
	627	1,741

Except for the Company which is a qualifying corporation under the two-tiered Profits Tax rate regime in Hong Kong, the provision for Hong Kong Profits Tax for the six months ended 30 June 2023 is calculated at 16.5% (2022: 16.5%) on the estimated assessable profits for the period after deducting accumulated tax losses brought forward, if any. Under the two-tiered Profits Tax rate regime, the Company's first HK$2 million of assessable profits are taxed at 8.25% and the remaining assessable profits are taxed at 16.5%. The provision for Hong Kong Profits Tax for the Company was calculated on the same basis as 2022.

Current taxes for subsidiaries outside Hong Kong are charged at the appropriate current rates of taxation ruling in the relevant tax jurisdictions.

Provision for deferred tax on temporary differences arising in Hong Kong is calculated at the Hong Kong Profits Tax rate at 16.5% (2022: 16.5%), while that arising outside Hong Kong is calculated at the appropriate current rates of taxation ruling in the relevant tax jurisdictions.

Since the Rail Merger in 2007, the Company has claimed annual Hong Kong Profits Tax deductions in respect of the amortisation of upfront payment and cut-over liabilities, and fixed annual payments and variable annual payments relating to the Rail Merger (collectively "the Sums"). The total tax amount in respect of the Sums for the years of tax assessment from 2007/2008 to the first six months of 2023/2024 amounted to HK$4.9 billion. As disclosed in previous years, the Inland Revenue Department of Hong Kong ("IRD") issued notices of profits tax assessments/additional profits tax assessments for the years of assessment from 2009/2010 to 2017/2018 disallowing deduction of the Sums in the computation of the Company's assessable profits. Based on the strength of advice from the external legal counsels and tax advisor, the Company has lodged objections against these tax assessments (regarding the deductibility of the Sums) and has applied to hold over the additional tax demanded. The IRD has agreed to the holdover of the additional tax demanded subject to the purchases of tax reserve certificates ("TRCs") amounting to HK$2.3 billion. The Company has purchased the required TRCs and the additional tax demanded has been held over by IRD. The purchases of TRCs do not prejudice the Company's tax position and the purchased TRCs were included in "Debtors and other receivables" in the Group's consolidated statement of financial position.

On 20 May 2022, the Commissioner of Inland Revenue issued a determination to the Company disagreeing with the objections lodged by the Company and confirming profits tax assessment/additional profits tax assessments in respect of the Sums in dispute for the years of assessment from 2011/2012 to 2017/2018 (i.e. holding that the Sums are not deductible in the computation of the Company's assessable profits for those years of assessment). The Company re-affirmed the case with the external legal counsel who advised the Company previously and the tax advisor, and obtained further advice from another external legal counsel. Based on the advice from the external legal counsels and tax advisor, the directors of the Company believe that the Company has strong legal grounds and have determined to contest and appeal against the assessments for the years of assessment from 2011/2012 to 2017/2018. Accordingly, the Company lodged a notice of appeal to the Inland Revenue Board of Review on 16 June 2022. No additional tax provision has been made as a result of the determination received in respect of the above notices of profits tax assessments/additional profits tax assessments and other relevant years of assessment. The hearing before the Board of Review is scheduled to be held in early 2024.

7. DIVIDEND

Ordinary dividends to shareholders of the Company are as follows:

HK$ million	Six months ended 30 June **2023**	2022
Ordinary dividends attributable to the period		
- Interim ordinary dividend declared after the end of the reporting period of HK$0.42 (2022: HK$0.42) per share	**2,610**	2,604
Ordinary dividends attributable to the previous year		
- Final ordinary dividend of HK$0.89 (2022: HK$1.02 per share attributable to year 2021) per share approved and payable during the reporting period	**5,520**	6,317

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

The Board has resolved to pay an interim dividend of HK$0.42 per share and offer a scrip dividend option to all shareholders of the Company (except for those with registered addresses in New Zealand or the United States of America or any of its territories or possessions). The interim dividend, with a scrip dividend option, is expected to be distributed on 13 October 2023 to shareholders whose names appear on the Register of Members of the Company as at the close of business on 30 August 2023.

8. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to shareholders of the Company for the six months ended 30 June 2023 of HK$4,178 million (2022: HK$4,732 million) and the weighted average number of ordinary shares in issue less shares held for Executive Share Incentive Scheme during the period amounting to 6,196,252,133 shares (2022: 6,188,084,292 shares).

The calculation of diluted earnings per share is based on the profit attributable to shareholders of the Company for the six months ended 30 June 2023 of HK$4,178 million (2022: HK$4,732 million) and the weighted average number of ordinary shares in issue less shares held for Executive Share Incentive Scheme during the period after adjusting for the dilutive effect of the Company's Executive Share Incentive Scheme amounting to 6,202,341,238 shares (2022: 6,193,871,505 shares).

Both basic and diluted earnings per share would have been HK$0.51 (2022: HK$1.15), if the calculation is based on profit attributable to shareholders of the Company arising from underlying businesses of HK$3,152 million (2022: HK$7,108 million).

9. SEGMENTAL INFORMATION

The Group's businesses consist of (i) recurrent businesses (comprising Hong Kong transport operations, Hong Kong station commercial businesses, Hong Kong property rental and management businesses, and other businesses (collectively referred to as "recurrent businesses in Hong Kong"), and Mainland China and international railway, property rental and management businesses (referred as "recurrent businesses outside of Hong Kong"), and both excluding fair value measurement on investment properties) and (ii) property development businesses (together with recurrent businesses referred to as "underlying businesses").

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

(i) Hong Kong transport operations: The provision of passenger operation and related services on the domestic mass transit railway system in Hong Kong, the Airport Express serving both the Hong Kong International Airport and the AsiaWorld-Expo at Chek Lap Kok, cross-boundary railway connection with the Mainland China at Lo Wu and Lok Ma Chau, the Guangzhou-Shenzhen-Hong Kong Express Rail Link (Hong Kong Section), light rail and bus feeder with railway system in the north-west New Territories and intercity railway transport with certain cities in the Mainland China.

(ii) Hong Kong station commercial businesses: Commercial activities including the letting of advertising, retail and car parking spaces at railway stations, the provision of telecommunication, bandwidth and data centre services in railway and other premises, and other commercial activities within the Hong Kong transport operations network.

(iii) Hong Kong property rental and management businesses: The letting of retail, office and car parking spaces and the provision of estate management services in Hong Kong.

(iv) Hong Kong property development: Property development activities at locations near the railway systems in Hong Kong.

(v) Mainland China and international railway, property rental and management businesses: The construction, operation and maintenance of mass transit railway systems including station commercial activities outside of Hong Kong and the letting of retail spaces and provision of estate management services in the Mainland China.

(vi) Mainland China property development: Property development activities in the Mainland China.

(vii) Other businesses: Businesses not directly relating to transport services or properties such as Ngong Ping 360, which comprises cable car operation in Tung Chung and related businesses at the Ngong Ping Theme Village, railway consultancy business, investment in Octopus Holdings Limited and the provision of project management services to the HKSAR Government.

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

	Revenue		**Contribution to profit / (loss)**	
	Six months ended 30 June		**Six months ended 30 June**	
HK$ million	**2023**	2022	**2023**	2022
Hong Kong transport services				
- Hong Kong transport operations	**9,342**	5,815	**(774)**	(2,775)
- Hong Kong station commercial businesses	**2,415**	1,481	**1,798**	1,098
	11,757	7,296	**1,024**	(1,677)
Hong Kong property rental and management businesses	**2,456**	2,307	**1,990**	1,865
Mainland China and international railway, property rental and management businesses*	**13,079**	13,150	**290**	791
Mainland China property development	**-**	138	**(9)**	49
Other businesses	**282**	142	**10**	(144)
	27,574	23,033	**3,305**	884
Hong Kong property development			**783**	9,277
Project study and business development expenses			**(156)**	(173)
Gain/(loss) from fair value measurement of investment properties			**1,005**	(2,389)
Impairment loss			**-**	(962)
Share of profit of associates and joint ventures			**632**	490
Profit before interest, finance charges and taxation			**5,569**	7,127
Interest and finance charges			**(589)**	(458)
Income tax			**(627)**	(1,741)
Profit for the period			**4,353**	4,928

** Excluding the impairment loss of HK$962 million in respect of Shenzhen Metro Line 4 ("SZL4") in the Mainland China for the six months ended 30 June 2022*

Profit attributable to shareholders of the Company arising from property development for the six months ended 30 June 2023 of HK$732 million (2022: HK$7,786 million) represents Hong Kong property development profit of HK$783 million (2022: HK$9,277 million), Mainland China property development loss of HK$9 million (2022: profit of HK$49 million) and the related interest, finance charges and income tax expenses of HK$42 million (2022: HK$1,540 million).

Profit attributable to shareholders of the Company arising from fair value measurement of investment properties for the six months ended 30 June 2023 of HK$1,026 million (2022: loss of HK$2,376 million) represents gain from fair value remeasurement on investment properties of HK$nil (2022: loss of HK$2,389 million), gain from fair value measurement of investment properties on initial recognition from property development of HK$1,005 million (2022: HK$nil) and related income tax credit of HK$21 million (2022: HK$13 million).

The following table sets out information about the geographical location of the Group's revenue from external customers. The geographical location of customers is based on the location at which the services were provided or goods were delivered.

HK$ million	Six months ended 30 June **2023**	2022
Hong Kong SAR (place of domicile)	**14,474**	9,724
Australia	**8,414**	8,251
Mainland China and Macao SAR	**878**	970
Sweden	**2,394**	2,798
United Kingdom	**1,414**	1,290
	13,100	13,309
	27,574	23,033

10. RAILWAY CONSTRUCTION PROJECTS UNDER ENTRUSTMENT BY THE HKSAR GOVERNMENT

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

(a) Entrustment Agreements

The HKSAR Government and the Company entered into the HSR Preliminary Entrustment Agreement in 2008, and the HSR Entrustment Agreement in 2010 (together, the "**Entrustment Agreements**"), in relation to the HSR.

Pursuant to the HSR Preliminary Entrustment Agreement, the HKSAR Government is obligated to pay the Company the Company's in-house design costs and certain on-costs, preliminary costs and staff costs.

Pursuant to the HSR Entrustment Agreement, the Company is responsible for carrying out or procuring the carrying out of the agreed activities for the planning, design, construction, testing and commissioning of the HSR and the HKSAR Government, as owner of HSR, is responsible for bearing and financing the full amount of the total cost of such activities (the "**Entrustment Cost**") and for paying to the Company a fee in accordance with an agreed payment schedule (the "**HSR Project Management Fee**") (subsequent amendments to these arrangements are described below).

The HKSAR Government has the right to claim against the Company if the Company breaches the HSR Entrustment Agreement (including, if the Company breaches the warranties it gave in respect of its project management services) and, under the HSR Entrustment Agreement, to be indemnified by the Company in relation to losses suffered by the HKSAR Government as a result of any negligence of the Company in performing its obligations under the HSR Entrustment Agreement or any breach of the HSR Entrustment Agreement by the Company. Under the HSR Entrustment Agreement, the Company's total aggregate liability to the HKSAR Government arising out of or in connection with the Entrustment Agreements (other than for death or personal injury) is subject to a cap equal to the total of HSR Project Management Fee and any other fees that the Company receives under the HSR Entrustment Agreement and certain fees received by the Company under the HSR Preliminary Entrustment Agreement (the "**Liability Cap**"). In accordance with general principles of law, such Liability Cap could not be relied upon if the Company were found to be liable for the fraudulent or other dishonest conduct of its employees or agents, to the extent that the relevant loss had been caused by such fraudulent or other dishonest conduct. Although the HKSAR Government has reserved the right to refer to arbitration the question of the Company's liability for the Current Cost Overrun (as defined hereunder) (if any) under the HSR Preliminary Entrustment Agreement and the HSR Entrustment Agreement (as more particularly described in note 10A(b)(v) below), up to the date of the interim financial report, no claim has been received from the HKSAR Government.

(b) HSR Agreement

In 2015, as a result of the HSR programme being extended to the third quarter of 2018 and the Company and the HKSAR Government reaching agreement for revising the estimate project cost to HK$84.42 billion (the "**Revised Cost Estimate**"), the HKSAR Government and the Company entered into an agreement (the "**HSR Agreement**") relating to the further funding and completion of the HSR (and which made certain changes to the HSR Entrustment Agreement) which was subsequently approved by the Company's independent shareholders at an extraordinary general meeting, and the Legislative Council approved the HKSAR Government's additional funding obligations, during 2016. Pursuant to the HSR Agreement:

(i) The HKSAR Government will bear and finance the project cost up to HK$84.42 billion, which includes an increase in the project cost by the amount of HK$19.42 billion being the "**Current Cost Overrun**";

(ii) The Company will, if the project cost exceeds HK$84.42 billion, bear and finance the portion of the project cost which exceeds that sum (if any) (the "**Further Cost Overrun**") except for certain agreed excluded costs (namely, additional costs arising from changes in law, force majeure events or any suspension of construction contracts specified in the HSR Agreement);

(iii) The Company would pay a special dividend in cash of HK$4.40 in aggregate per share in two tranches in 2016 and 2017;

(iv) The HSR Project Management Fee increases from HK$4.59 billion to HK$6.34 billion. Consequently, the Liability Cap increases from up to HK$4.94 billion to up to HK$6.69 billion; and

(v) The HKSAR Government reserves the right to refer to arbitration the question of the Company's liability for the Current Cost Overrun (if any) under the Entrustment Agreements (including any question the HKSAR Government may have regarding the validity of the Liability Cap). The Entrustment Agreements contain dispute resolution mechanisms which include the right to refer a dispute to arbitration. If the arbitrator does not determine that the Liability Cap is invalid and determines that, but for the Liability Cap, the Company's liability under the Entrustment Agreements for the Current Cost Overrun would exceed the Liability Cap, the Company shall:

- bear such amount as is awarded to the HKSAR Government up to the Liability Cap;
- seek the approval of its independent shareholders, at another General Meeting (at which the Financial Secretary Incorporated, the HKSAR Government and their Close Associates and Associates and the Exchange Fund will be required to abstain from voting), for the Company to bear the excess liability; and
- if the approval of the independent shareholders (referred to immediately above) is obtained, pay the excess liability to the HKSAR Government. If such approval is not obtained, the Company will not make such payment to the HKSAR Government.

(c) As at 30 June 2023, the Company has not made any provision in its consolidated financial statements in respect of:

(i) any possible liability of the Company for any Further Cost Overrun (if any), given the Company does not currently believe based on information available to date there is any need to revise further the Revised Cost Estimate;

(ii) any possible liability of the Company that may be determined in accordance with any arbitration that may take place (as more particularly described in note 10A(b)(v) above), given that (a) the Company has not received any notification from the HKSAR Government of any claim by the HKSAR Government against the Company or of any referral by the HKSAR Government to arbitration as of 30 June 2023 and up to the date of the interim financial report; (b) the Company has the benefit of the Liability Cap; and (c) as a result of the HSR Agreement, the Company will not make any payment to the HKSAR Government in excess of the Liability Cap pursuant to a determination of the arbitrator without the approval of its independent shareholders; and where applicable, because the Company is not able to measure with sufficient reliability the amount of the Company's obligation or liability (if any).

B Shatin to Central Link ("SCL") Project

(a) SCL Agreements

The Company and the HKSAR Government entered into the SCL Preliminary Entrustment Agreement ("**SCL EA1**") in 2008, the SCL Advance Works Entrustment Agreement ("**SCL EA2**") in 2011, and the SCL Entrustment Agreement ("**SCL EA3**") in 2012 (together, the "**SCL Agreements**"), in relation to the SCL.

Pursuant to the SCL EA1, the Company is responsible for carrying out or procuring the carrying out of the design, site investigation and procurement activities while the HKSAR Government is responsible for funding directly the total cost of such activities.

Pursuant to the SCL EA2, the Company is responsible for carrying out or procuring the carrying out of the agreed works while the HKSAR Government is responsible for bearing and paying to the Company all the work costs ("**EA2 Advance Works Costs**"). The EA2 Advance Works Costs and the Interface Works Costs (as described below) are reimbursable by the HKSAR Government to the Company. During the six months ended 30 June 2023, HK$39 million (2022: HK$77 million) of such costs were incurred by the Company, which are payable by the HKSAR Government. As at 30 June 2023, the amount of such costs which remained outstanding from the HKSAR Government was HK$206 million (31 December 2022: HK$209 million).

The SCL EA3 was entered into in 2012 for the construction and commissioning of the SCL. The HKSAR Government is responsible for bearing all the work costs specified in the SCL EA3 including costs to contractors and costs to the Company ("**Interface Works Costs**") (which the Company would pay upfront and recover from the HKSAR Government) except for certain costs of modification, upgrade or expansions of certain assets (including rolling stock, signalling, radio and main control systems) for which the Company is responsible under the existing service concession agreement with KCRC. The Company will contribute an amount in respect of the costs relating to such modifications, upgrades or expansions. This will predominantly be covered by the reduction in future maintenance capital expenditure which the Company would have otherwise incurred. The total sum entrusted to the Company by the HKSAR Government for the main construction works under the SCL EA3, including project management fee, was HK$70,827 million ("**Original Entrusted Amount**").

The Company is responsible for carrying out or procuring the carrying out of the works specified in the SCL Agreements for a project management fee of HK$7,893 million (the "**Original PMC**") which has been fully received by the Company and recognised in the consolidated statement of profit or loss in previous years.

(b) SCL EA3 Cost Overrun

(i) Cost to Complete

The Company has previously announced that, due to the continuing challenges posed by external factors, including issues such as delays due to the discovery of archaeological relics, the HKSAR Government's requests for additional scope and late or incomplete handover of construction sites, the Original Entrusted Amount under SCL EA3 would not be sufficient to cover the total estimated cost to complete ("**CTC**") and would need to be revised upwards significantly. After carrying out detailed reviews of the estimated CTC for the main construction works, on 10 February 2020, the Company submitted a revised estimated total CTC of HK$82,999 million ("**2020 CTC Estimate**"), including additional project management fee payable to the Company of HK$1,371 million ("**Additional PMC**"), being the additional cost to the Company of carrying out its remaining project management responsibilities under the SCL EA3, as detailed in note 10B(b)(ii) below but excluding the Hung Hom Incidents Related Costs in respect of which the Company had already recognised a provision of HK$2 billion in its consolidated statement of profit or loss for the year ended 31 December 2019 (as detailed in note 10B(c)(ii) below). The 2020 CTC Estimate represents an increase of HK$12,172 million from the Original Entrusted Amount of HK$70,827 million.

The HKSAR Government obtained the approval from Legislative Council on 12 June 2020 for additional funding required for the SCL Project amounting to HK$10,801 million ("Additional Funding") so that the SCL can be completed.

(ii) Provision for Additional PMC

As detailed in note 10B(b)(i) above and as previously disclosed by the Company, the programme for the delivery of the SCL Project has been significantly impacted by certain key external events. Not only do these matters increase the cost of works, they also increase the cost to the Company of carrying out its project management responsibilities under the relevant SCL entrustment agreement, which is estimated to be around HK$1,371 million.

The Additional Funding approved by the Legislative Council did not include any Additional PMC for the Company which the Company had previously sought from the HKSAR Government. Therefore, the cost to the Company of continuing to comply with its project management obligations under the SCL EA3 (which the Company has continued and will continue to comply with) is currently being met by the Company on an interim and without prejudice basis (to allow the SCL Project to progress in accordance with the latest programme) and the Company reserves its position as to the ultimate liability for such costs and as to its right to pursue the courses of action and remedies available under the SCL EA3.

After taking into account the matters described above, and in particular, the Company meeting, on an interim and without prejudice basis (on the basis outlined above), the cost to the Company of continuing to comply with its project management obligations, the Group recognised a provision of HK$1,371 million in its consolidated statement of profit or loss for the year ended 31 December 2020, for the estimated additional cost to the Company of continuing to comply with its project management responsibilities. During the six months ended 30 June 2023, the provision utilised amounted to HK$93 million (2022: HK$168 million) and no provision was written back (2022: HK$nil). As at 30 June 2023, the provision of HK$386 million (31 December 2022: HK$479 million), net of amount utilised, is included in "Creditors, other payables and provisions" in the consolidated statement of financial position.

This amount does not take into account any potential payment to the Company of any Additional PMC (whether as a result of an award, settlement or otherwise). Accordingly, if any such potential payment becomes virtually certain, the amount of any such payment will be recognised and credited to the Company's consolidated statement of profit or loss in that financial period.

(c) Hung Hom Incidents

As stated in the Company's announcement dated 18 July 2019, there were allegations in 2018 concerning workmanship in relation to the Hung Hom Station extension ("**First Hung Hom Incident**"). The Company took immediate steps to investigate the issues, report the Company's findings to the HKSAR Government and reserve the Company's position against relevant contractors.

In late 2018 and early 2019, the Company advised the HKSAR Government of an insufficiency of construction records and certain construction issues at the Hung Hom North Approach Tunnel ("**NAT**"), the South Approach Tunnel ("**SAT**") and the Hung Hom Stabling Sidings ("**HHS**"), forming an addition to the First Hung Hom Incident ("**Second Hung Hom Incident**").

*(i) Commission of Inquiry ("**COI**")*

On 10 July 2018, the COI was set up by the HKSAR Chief Executive in Council pursuant to the Commissions of Inquiry Ordinance (Chapter 86 of the Laws of Hong Kong). On 29 January 2019, the HKSAR Government made its closing submission to the first phase of the COI in which it stated its view that the Company ought to have provided the required skills and care reasonably expected of a professional and competent project manager but that the Company had failed to do so.

On 26 March 2019, the HKSAR Government published the redacted interim report of the COI in which the COI found that although the Hung Hom Station extension diaphragm wall and platform slab construction works are safe, they were not executed in accordance with the relevant contract in material aspects.

On 18 July 2019, the Company submitted to the HKSAR Government two separate final reports, one in respect of the First Hung Hom Incident and one in respect of the Second Hung Hom Incident, containing, inter alia, proposals for suitable measures required at certain locations to achieve code compliance. These suitable measures have been implemented.

On 22 January 2020, the HKSAR Government reiterated, in its closing submissions to the COI, that there was failure on the part of both the Company and the contractor Leighton Contractors Asia Limited to perform the obligations which the two parties undertook for the SCL project and that the Company, which was entrusted by the HKSAR Government as the project manager of the SCL project, ought to have provided the requisite degree of skill and care reasonably expected of a professional and competent project manager.

On 12 May 2020, the HKSAR Government published the final report of the COI in which the COI determined that it is fully satisfied that, with the suitable measures in place, the station box, NAT, SAT and HHS structures will be safe and also fit for purpose. The suitable measures for these structures were completed in 2020. The COI also made a number of comments on the construction process (including regarding failures in respect thereof such as unacceptable incidents of poor workmanship compounded by lax supervision and that in a number of respects also, management of the construction endeavour fell below the standards of reasonable competence) and made recommendations to the Company for the future.

(ii) Provision for the Hung Hom Incidents Related Costs

In order to progress the SCL Project and to facilitate the phased opening of the Tuen Ma Line in the first quarter of 2020, the Company announced in July 2019 that it would fund, on an interim and without prejudice basis, certain costs arising from the Hung Hom Incidents and certain costs associated with phased opening (being costs for alteration works, trial operations and other costs associated with the preparation activities for the phased opening) ("**Hung Hom Incidents Related Costs**"), whilst reserving the Company's position as to the ultimate liability for such costs.

The Company and the HKSAR Government will continue discussions with a view to reaching an overall settlement in relation to the Hung Hom Incidents and their respective funding obligations relating to the CTC and the Hung Hom Incidents Related Costs. If no overall settlement is reached between the Company and the HKSAR Government within a reasonable period, the provisions of the SCL EA3 shall continue to apply (as they currently do) including in relation to such costs, and the responsibility for the funding of such costs shall be determined in accordance with the SCL EA3.

After taking into account the matters described in note 10B(c) above, and in particular, the Company's decision to fund, on an interim and without prejudice basis, the Hung Hom Incidents Related Costs, the Company recognised a provision of HK$2,000 million in its consolidated statement of profit or loss for the year ended 31 December 2019. During the six months ended 30 June 2023, the provision utilised amounted to HK$24 million (2022: HK$66 million) and no provision was written back (2022: HK$nil). As at 30 June 2023, the provision of HK$803 million (31 December 2022: HK$827 million), net of amount utilised, is included in "Creditors, other payables and provisions" in the consolidated statement of financial position.

This amount does not take into account any potential recovery from any other party (whether in the circumstances that no overall settlement is reached and / or as a result of an award, settlement or otherwise). Accordingly, if any such potential recovery becomes virtually certain, the amount of any such recovery will be recognised and credited to the Company's consolidated statement of profit or loss in that financial period.

(d) Potential Claims from and Indemnification to the HKSAR Government

The HKSAR Government has the right to claim against the Company if the Company breaches the SCL Agreements (including, if the Company breaches the warranties it gave in respect of its project management services) and, under each SCL Agreement, to be indemnified by the Company in relation to losses incurred by the HKSAR Government as a result of the negligence of the Company in performing its obligations under the relevant SCL Agreement or breach thereof by the Company. Under the SCL EA3, the Company's total aggregate liability to the HKSAR Government arising out of or in connection with the SCL Agreements (other than for death or personal injury) is subject to a cap equal to the fees that the Company receives under the SCL Agreements. In accordance with general principles of law, such cap could not be relied upon if the Company were found to be liable for the fraudulent or other dishonest conduct of its employees or agents, to the extent that the relevant loss had been caused by such fraudulent or other dishonest conduct. Although the HKSAR Government has stated that it reserves all rights to pursue further actions against the Company and related contractors and has made the statements in its closing submission to the COI (as stated in note 10B(c)(i) above), up to the date of the interim financial report, no claim has been received from the HKSAR Government in relation to any SCL Agreement. It is uncertain as to whether such claim will be made against the Company in the future and, if made, the nature and amount of such claim.

The eventual outcome of the discussions between the Company and the HKSAR Government on various matters remain highly uncertain at the current stage. As a result, no additional provision other than as stated above has been made as the Company is currently not able to measure with sufficient reliability the ultimate amount of the Company's obligation or liability arising from the SCL Project as a whole in light of the significant uncertainties involved. While no provision in respect of the SCL Project related matters was recognised at 30 June 2023 other than as stated above, the Company will reassess on an ongoing basis the need to recognise any further provision in the future in light of any further development.

11. DEBTORS AND CREDITORS

A As at 30 June 2023, the Group's debtors and other receivables amounted to HK$13,045 million (31 December 2022: HK$13,889 million), of which debtors accounted for HK$5,289 million (31 December 2022: HK$4,310 million). Receivables in respect of rentals, advertising and telecommunication activities are due from immediately to 60 days. Receivables in respect of income from railway subsidiaries outside of Hong Kong are mainly due within 30 days or in the following month. Receivables relating to consultancy services and entrustment works are due within 30 days. Receivables under interest rate and currency swap agreements are due in accordance with the terms of the agreements. Receivables relating to property development are due in accordance with the terms of the relevant development agreements or sale and purchase agreements. The ageing of debtors by due dates as at 30 June 2023 is analysed as follows:

HK$ million	**At 30 June 2023 (Unaudited)**	At 31 December 2022 (Audited)
Amounts not yet due	**4,780**	3,715
Overdue by within 30 days	**200**	210
Overdue by more than 30 days but within 60 days	**61**	74
Overdue by more than 60 days but within 90 days	**66**	27
Overdue by more than 90 days	**182**	284
Total debtors	**5,289**	4,310
Other receivables and contract assets	**7,756**	9,579
	13,045	13,889

B As at 30 June 2023, creditors, other payables and provisions amounted to HK$77,065 million (31 December 2022: HK$69,692 million), of which creditors and accrued charges amounted to HK$21,750 million (31 December 2022: HK$19,583 million). As at 30 June 2023, the analysis of creditors by due dates is as follows:

HK$ million	**At 30 June 2023 (Unaudited)**	At 31 December 2022 (Audited)
Due within 30 days or on demand	**8,636**	8,143
Due after 30 days but within 60 days	**1,741**	2,012
Due after 60 days but within 90 days	**811**	886
Due after 90 days	**4,732**	4,544
	15,920	15,585
Rental and other refundable deposits	**2,508**	2,459
Accrued employee benefits	**1,926**	1,539
Dividends payable to other shareholders	**1,396**	-
Total creditors and accrued charges	**21,750**	19,583
Other payables, deferred income and provisions	**52,878**	47,522
Contract liabilities	**2,437**	2,587
	77,065	69,692

12. PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

The Group did not purchase, sell or redeem any of the Group's listed securities during the six months ended 30 June 2023. However, the Trustee of the Executive Share Incentive Scheme, pursuant to the terms of the rules and the trust deed of the Executive Share Incentive Scheme, purchased on the Hong Kong Stock Exchange a total of 2,310,000 Ordinary Shares of the Company for a total consideration of approximately HK$91 million during the six months ended 30 June 2023.

13. CHARGE ON GROUP ASSETS

As at 30 June 2023, MTR Corporation (Shenzhen) Limited, a wholly-owned subsidiary of the Company in Mainland China, has pledged the fare and non-fare revenue and the benefits of insurance contracts in relation to Phase 2 of Shenzhen Metro Line 4 as security for the RMB790 million (HK$853 million) bank loan facility granted to it.

As at 30 June 2023, MTR CREC Metro (Shenzhen) Company Limited, a subsidiary of the Company in Mainland China, has pledged the fare and non-fare revenue in relation to Shenzhen Metro Line 13 as security for the RMB3.2 billion (HK$3.5 billion) bank loan facility granted to it.

Saved as disclosed above, none of the other assets of the Group was charged or subject to any encumbrance as at 30 June 2023.

14. ACCOUNTING IMPLICATIONS OF THE ABOLITION OF THE MPF-LSP OFFSETTING MECHANISM IN HONG KONG

In June 2022, the HKSAR Government gazetted the Hong Kong Employment and Retirement Schemes Legislation (Offsetting Arrangement) (Amendment) Ordinance 2022 (the "Amendment Ordinance"), which will eventually abolish the statutory right of an employer to reduce its long service payment ("LSP") and severance payment payable to a Hong Kong employee by drawing on its mandatory contributions to the mandatory provident fund ("MPF") scheme (also known as the offsetting mechanism). The HKSAR Government has subsequently announced that the Amendment Ordinance will come into effect from 1 May 2025 (the "Transition Date"). Separately, the HKSAR Government is also expected to introduce a subsidy scheme to assist employers after the abolition.

Among other things, once the abolition of the offsetting mechanism takes effect, an employer can no longer use any of the accrued benefits derived from its mandatory MPF contributions (irrespective of the contributions made before, on or after the Transition Date) to reduce the LSP in respect of an employee's service from the Transition Date. However, where an employee's employment commenced before the Transition Date, the employer can continue to use the above accrued benefits to reduce the LSP in respect of the employee's service up to that date; in addition, the LSP in respect of the service before the Transition Date will be calculated based on the employee's monthly salary immediately before the Transition Date and the years of service up to that date.

In July 2023, the HKICPA published accounting implications of the abolition of the MPF-LSP offsetting mechanism in Hong Kong that provides guidance on the accounting considerations relating to the offsetting mechanism and the abolition of the mechanism. In particular, the guidance indicates that entities may account for the accrued benefits derived from its mandatory MPF contributions that are expected to be used to reduce the LSP payable to an employee as deemed contributions by that employee towards the LSP; however, upon the enactment of the Amendment Ordinance in June 2022, entities can no longer apply the practical expedient in paragraph 93(b) of HKAS 19, *Employee Benefits*, to recognise such deemed contributions as reduction of current service cost in the period the related service is rendered, and any impact from ceasing to apply the practical expedient is recognised as a catch-up adjustment in profit or loss with a corresponding adjustment to the LSP liability in the financial statements for the year ended 31 December 2022.

In the interim financial report and in prior periods, consistent with the HKICPA guidance the Group has been accounting for the accrued benefits derived from its mandatory MPF contributions that are expected to be used to reduce the LSP payable to an employee as deemed employee contributions towards the LSP. However, the Group has been applying the abovementioned practical expedient.

The Group has assessed the implications of this new guidance on the above accounting policies and has decided to change those accounting policies to conform with the guidance. The management has commenced the processes on implementing the change including additional data collection and impact assessment. However, the impact of the change is not reasonably estimable at the time the interim financial report is authorised for issue, as the Group has yet to fully complete its assessment of the impact of the HKICPA guidance. The Group expects to adopt this guidance in its annual financial statements for the year ending 31 December 2023.

15. CORPORATE GOVERNANCE

During the six months ended 30 June 2023, the Company has complied with the code provisions set out in Appendix 14 (Corporate Governance Code) to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

16. PUBLICATION OF THE INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This interim results announcement is published on the Company's website at www.mtr.com.hk and the website of the Stock Exchange of Hong Kong Limited ("the Stock Exchange"). The Interim Report will also be available at the Company's and the Stock Exchange's websites and will be despatched to shareholders of the Company in early September 2023.

KEY STATISTICS AND FINANCIAL

	Six months ended 30 June 2023	2022
Hong Kong transport operations		
Total passenger boardings (in millions)		
- Domestic Service	**777.2**	570.5
- Cross-boundary Service	**28.1**	0.2
- High Speed Rail	**7.6**	-
- Airport Express	**4.6**	1.0
- Light Rail and Bus	**102.6**	77.7
Average number of passengers (in thousands)		
- Domestic Service (weekday)	**4,599.1**	3,392.5
- Cross-boundary Service (daily)	**155.1**	1.2
- High Speed Rail (daily)	**45.6**※	-
- Airport Express (daily)	**25.2**	5.3
- Light Rail and Bus (weekday)	**596.4**	448.7
Financial		
EBITDA margin^		
- Including Mainland China and international subsidiaries	**26.3%**	16.0%
- Excluding Mainland China and international subsidiaries $^{\delta}$	**46.4%**	27.8%
EBIT margin*		
- Including Mainland China and international subsidiaries	**11.4%**	(1.1)% #
- Excluding Mainland China and international subsidiaries $^{\varphi}$	**19.8%**	(1.3)%
Profit attributable to shareholders of the Company arising from Hong Kong property development (HK$'million)	**712**	7,747
Profit attributable to shareholders of the Company arising from underlying businesses (HK$'million)	**3,152**	7,108

※ Average of 15 January 2023 to 30 June 2023

^ Operating profit before Hong Kong property development, fair value measurement of investment properties, depreciation, amortisation and variable annual payment as a percentage of total revenue

$^{\delta}$ Excluding the relevant revenue and expenses of Mainland China and international subsidiaries of HK$13,079 million and HK$12,556 million (2022: HK$13,288 million and HK$12,316 million) respectively

* Profit before interest, finance charges and taxation (excluding Hong Kong property development profit from share of surplus and interest in unsold properties, gain/(loss) from fair value measurement of investment properties and share of profit of associates and joint ventures) as a percentage of total revenue

\# Excluding the impairment loss of HK$962 million made in respect of SZL4, the EBIT margin would have been 3.1% during the six months ended 30 June 2022

$^{\varphi}$ Excluding the relevant revenue, expenses, depreciation and amortisation, and impairment loss of Mainland China and international subsidiaries of HK$13,079 million, HK$12,556 million, HK$242 million and HK$nil (2022: HK$13,288 million, HK$12,316 million, HK$132 million, and HK$962 million) respectively

CEO'S REVIEW OF OPERATIONS AND OUTLOOK

The first half of 2023 marked a period of transition and new promise. The removal of anti-pandemic restrictions and phased reopening of links with Mainland China spurred a rebound in patronage and provided a jump-start for MTR's cross-boundary, High Speed Rail ("HSR") and Duty Free businesses. We renewed the Fare Adjustment Mechanism ("FAM") with Government with certain new arrangements that will continue to ensure affordable fares for passengers while preserving the mechanism's objectivity, transparency and direct-drive formula. The FAM after review will also enable the Company to continue maintaining, upgrading and renewing its existing railway system and embarking upon new projects that will spur the growth of communities both old and new. Although patronage has yet to return fully to pre-pandemic levels, and external factors such as high inflation and rising interest rates continue to loom, we feel cautiously optimistic that the groundwork we have laid over the past few years – particularly as it relates to the implementation of our Corporate Strategy to create a better, more fit-for-future organisation – will give us a strong foundation upon which to build over the medium to long term.

BUSINESS PERFORMANCE AND GROWTH

One of the major milestones of the period was successfully concluding the FAM review with Government. Following the review, it was determined that the current direct-drive FAM formula will be retained for the upcoming five-year cycle (from 2023/2024 to 2027/2028) to provide a stable source of recurrent revenue for the maintenance, upgrading and renewal of railway assets. This will not only ensure that the community will continue to enjoy safe, reliable, efficient and high-quality railway services, but also maintain the financial sustainability of the Company to pursue new railway projects. Initiatives that have been implemented to reduce the fare increase adjustments include linking fare adjustments to the Company's property development profit and enhancing the service performance rebate with a new "Thank You Day" arrangement.

Patronage in Hong Kong gradually recovered over the first half of 2023. Together with the contribution from new lines, our Domestic Service patronage reached more than 90% of pre-pandemic levels. Considering the millions of passengers we serve every day, we are proud to have achieved excellent service reliability in Hong Kong once again, attaining 99.9% for both train service delivery and passenger journeys on-time.

Innovation and technology are playing increasingly important roles in our operations, and they are also vital to our efforts to develop "Smart Railways" and enhance the customer experience. More than HK$65 billion will be invested in railway asset maintenance and renewal over the next five years. We continued to "Go Smart Go Beyond" by launching a HK$1.3 billion programme to upgrade the Automatic Fare Collection system, which will feature new gates that support more e-payment options and have wider walkways. We also enhanced the MTR Mobile app by providing more information on train schedules and accessibility.

In our property businesses, we were thrilled to open our new 60,620-square-metre shopping mall at Tai Wai Station, The Wai. The Wai hosts more than 150 retail tenants providing dining, entertainment and other services for the community. Together with the 47,000-square-metre THE SOUTHSIDE at Wong Chuk Hang Station, which is expected to open in phases starting from the fourth quarter of the year, these new malls will expand our retail portfolio by approximately 30% in attributable GFA.

MTR is committed to Hong Kong and supports Government's development and housing supply strategies. We are forging ahead with determination and focus on the development of Oyster Bay, located on the Tung Chung Line, building a new community that will offer approximately 10,720 private residential units, all seamlessly connected by environmentally friendly rail transport. We also continued to progress the construction of 14 other residential property developments, which together will add about 16,000 more much-needed units to Hong Kong's housing supply.

Last year, MTR completed the Shatin to Central Link, marking the conclusion of an important era in the expansion of Hong Kong's railways. This February, we turned the page to an exciting new chapter by signing the Project Agreement with Government for the Tung Chung Line Extension, a major part of the Railway Development Strategy 2014 ("RDS 2014") blueprint for the city's railway transport infrastructure of the future. The Tung Chung Line Extension will serve new towns in the Tung Chung East new reclamation area and Tung Chung West, in turn enhancing the connectivity of Lantau North, supporting sustainable long-term population growth and boosting employment opportunities. Works on the extension commenced in May this year, and completion is scheduled for 2029. The Tung Chung Line Extension is an example of MTR and Government's shared goal to make rail transit the backbone of public transport by building thriving communities around railway stations. MTR also continues to work with Government on progressing several other RDS 2014 projects that will further connect communities across the city, including the Tuen Mun South Extension and Kwu Tung Station on the East Rail Line, the project agreements for which are at advanced stages of negotiation with Government. Construction on these projects is expected to commence later this year. Guided by our vision to "Go Beyond Boundaries" for our new railway projects, we will continue to support Government by implementing these and a number of other new railway extension projects that will enhance transportation capacity, unleash development potential and foster connections between Hong Kong and the Greater Bay Area.

We continue to seek opportunities in Mainland China and overseas that can both grow our business and build the MTR brand internationally. In March 2023, the concession for the metropolitan train service in Melbourne, Australia, was granted an 18-month extension until mid-2026. The National Rail Contract for the South Western Railway in the United Kingdom has also been extended by two years till May 2025. Elsewhere, we once again achieved stable operations in many other important markets across Mainland China, Macao, Europe and Australia.

As a mass transit railway service operator, we are dedicated to fighting climate change by making every effort to minimise our greenhouse gas ("GHG") emissions. We are pleased to announce that the Science Based Targets initiative (SBTi) recently approved our targets for reducing GHG emissions by 2030, providing valuable support as we work towards our long-term goal of achieving carbon neutrality by 2050.

FINANCIAL PERFORMANCE

Profit attributable to equity shareholders from recurrent businesses was HK$2,420 million in the first half of 2023 compared with HK$284 million in the first half of 2022 before the HK$962 million impairment provision made in respect of Shenzhen Metro Line 4. The improvement was largely due to higher patronage resulting from the relaxation and removal of anti-pandemic measures as well as the gradual recovery of the Company's Cross-boundary and Duty Free businesses following the phased reopening of rail links with Mainland China. Property development profit for the period decreased by 90.6% to HK$732 million, resulting in a decrease of 55.7% to HK$3,152 million in profit arising from underlying businesses. Including the gain arising from fair value measurement of investment properties (a non-cash accounting item) of HK$1,026 million, net profit attributable to shareholders of the Company decreased by 11.7% to HK$4,178 million, representing earnings per share of HK$0.67.

Your Board has declared an interim dividend of HK$0.42 per share, same as that of last year.

OUTLOOK

MTR's mission is to Keep Cities Moving with safe, reliable and inclusive low-carbon services. In this spirit, we are excited to help launch the next phase of Hong Kong's railway network development by commencing works on the Tung Chung Line Extension, a project that will connect communities across northern Lantau Island and help drive economic and job growth in these burgeoning areas. The Tung Chung Line Extension is the first RDS 2014 project to advance to the Project Agreement stage, and we look forward to participating in these and other future railway infrastructure works – including initiatives planned under Government's Northern Metropolis Development Strategy – as we seek to drive economic recovery in our home market as well as the Company's future business growth.

Since the lifting of anti-pandemic measures, MTR's Domestic Service has rebounded and is approaching pre-COVID patronage levels. The resumptions of Cross-boundary Service and HSR have also allowed our Duty Free business to resume and begin contributing to our financial performance once again. These revenue streams are very important to our recurrent business, and we are working hard to build them back to full strength as far as the economic recovery allows. We continue to face challenges in regard to station retail and property rental revenues due to negative rental reversions in the first half of this year. The openings of our new shopping malls, The Wai and THE SOUTHSIDE, are expected to make incremental contributions to property rental revenue. Advertising revenue remains dependent on the extent of the economic recovery and improvement in consumer sentiment and spending.

Employing the latest innovations and technologies is central to MTR's corporate strategy and business development. As part of our plan to employ smart railway operations and maintenance systems and develop smart customer services, we will not only invest more than HK$65 billion in railway asset maintenance and renewal over the next five years, but also implement further initiatives such as launching a digitised asset management system and setting up joint technology development with several research institutions. We will also keep rolling out smart asset management initiatives to optimise train safety and reliability, utilising artificial intelligence, cloud computing, big data and image processing technologies.

The pandemic has mostly subsided, but we are keeping a close eye on other macroeconomic factors that could still impact our operations. Although global inflation is falling, the rate of decrease is slow, and prices remain high compared to past levels. To contend with this, we will continue to exercise prudent cost controls and ensure efficient operations. Meanwhile, interest rates could potentially rise and remain at high levels for some time, potentially impacting the valuation of our investment property portfolio. Elsewhere, we must continue to monitor our supply chains closely for any potential disruptions that could affect our various projects.

In our property business, we plan to tender out about 4,000 units in the next 12 months or so, subject to market conditions. Tung Chung East Station Package 1 is expected to be the first tender to be put to the market. Other projects are under preparation including technical studies, land grant and statutory procedures and will be launched subject to market conditions. Applications for pre-sale consent are underway for THE SOUTHSIDE Package 3, LOHAS Park Package 12 and Package 13, Tin Wing Stop, Ho Man Tin Station Package 1, and the Yau Tong Ventilation Building. Recently, we have noted that more property buyers are opting for instalment payment terms (instead of equitable mortgage), which will delay the timing of profit recognition for our property development projects. Subject to the progress of construction and sales, and depending on the payment terms chosen by property buyers, we expect to continue booking profit from LOHAS Park Package 11 in the second half of 2023. However, given the current progress of construction and sales, we do not expect to book profit from THE SOUTHSIDE Package 4 or Ho Man Tin Station Package 2 in 2023.

Outside of Hong Kong, we continue to seek opportunities in Mainland China and overseas and in strengthening our connectivity within the Greater Bay Area in order to fulfil our business development strategies to grow MTR's prominence on the global stage.

I would like to take this opportunity to thank Mr Herbert L. W. Hui, who will retire from the position of Finance Director on 31 December 2023, for his valuable contributions to the Company and its success. Mr Michael Fitzgerald will join the Company on 19 September 2023 as the Finance Director – Designate to prepare to succeed Mr Hui as Finance Director with effect from 1 January 2024.

In closing, I want to thank everyone at MTR for their commitment and hard work in helping us emerge from the trials of the past few years as an even stronger, more resilient organisation. I believe that the next six months and beyond will see us continue to build on the strong foundations we have laid as we move confidently into a promising new era and Keep Cities Moving with world-class, eco-friendly services.

Dr Jacob Kam Chak-pui
Chief Executive Officer
Hong Kong, 10 August 2023

BUSINESS REVIEW

HONG KONG BUSINESSES

MTR operates largely under a rail plus property business model that comprises Hong Kong rail and bus services plus retail and other commercial activities at stations – collectively referred to as "Hong Kong Transport Services" – as well as the development, rental and management of the Company's railway-linked properties. This business model enables MTR to invest in the maintenance and continued advancement of its railway assets, promotes transit-oriented development ("TOD") for the benefit of communities located along its railway lines, ensures the sustainable growth of the Company, and delivers shareholder value. This segment forms the core of MTR's business activities.

Hong Kong Transport Services – Transport Operations

Highlights

- Fare Adjustment Mechanism ("FAM") review concluded, resulting in retention of existing direct-drive FAM formula with certain new arrangements and ensuring Company's financial sustainability
- More than HK$65 billion to be invested in railway asset maintenance and renewal over the next five years to create smart railways
- Maintained world-class 99.9% train service delivery and passenger journeys on-time

HK$ million	Six months ended 30 June **2023**	2022	Inc./(Dec.) %
Hong Kong Transport Operations			
Total Revenue	**9,342**	5,815	60.7
Operating Profit/(Loss) before Depreciation, Amortisation and Variable Annual Payment ("EBITDA")	**2,680**	(116)	n/m
(Loss)/Profit before Interest, Finance Charges, Taxation and after Variable Annual Payment ("EBIT")	**(774)**	(2,775)	72.1
EBITDA Margin (in %)	**28.7%**	(2.0)%	n/m
EBIT Margin (in %)	**(8.3)%**	(47.7)%	39.4% pts.

n/m: not meaningful

Revenue from Hong Kong transport operations over the first six months of 2023 increased by 60.7% to HK$9,342 million compared to the HK$5,815 million recorded over the same period last year, leading to a 72.1% decrease in loss before interest, finance charges, taxation and after the variable annual payment to HK$774 million versus the first half of 2022. These improved results were primarily due to recovery from the pandemic, as Domestic Service enjoyed growth in patronage and the Cross-boundary Service and High Speed Rail both resumed operations.

Patronage and Revenue

Hong Kong Transport Operations	Patronage In million Six months ended 30 June 2023	Inc./(Dec.) %	Revenue HK$ million Six months ended 30 June 2023	Inc./(Dec.) %
Domestic Service	**777.2**	36.2	**6,680**	39.7
Cross-boundary Service	**28.1**	n/m	**842**	n/m
High Speed Rail ("HSR")	**7.6**	n/m	**1,172**	62.1
Airport Express	**4.6**	374.0	**280**	748.5
Light Rail and Bus	**102.6**	32.0	**323**	30.2
Intercity	**-**	n/m	**-**	n/m
	920.1	41.7	**9,297**	60.6
Others			**45**	66.7
Total			**9,342**	60.7

n/m: not meaningful

As the pandemic situation came under control and travel restrictions were lifted, patronage began to recover over the first half of the year, especially with the phased resumption of rail services to Mainland China. The High Speed Rail gradually began resuming service starting from January. Cross-boundary Service to Lok Ma Chau and Lo Wu resumed in January and February, respectively. Over the first six months of the year, total patronage for all rail and bus services was 920.1 million compared to the 649.4 million recorded over the same period in 2022, representing an increase of 41.7%. Average weekday patronage increased by 40.3% to 5.40 million.

Market Share

The Company's overall market share of the franchised public transport market in Hong Kong was 49.6% in the first five months of 2023 compared with 47.2% during the corresponding period in 2022. This was mainly due to additional patronage from the opening of the East Rail Line cross-harbour extension in May 2022, coupled with patronage recovery for Cross-boundary Service, HSR and Airport Express – in which we have a relatively higher market share than other franchised public transport operators – after the gradual lifting of anti-pandemic measures. Of this total, our share of cross-harbour traffic was 71.8% compared with 67.1% in the first five months of 2022.

With the phased re-opening of HSR and the Cross-boundary Service, our share of the cross-boundary transport business in the first five months of 2023 rebounded to 53.5% from the 0.0% that was recorded over the same period last year due to service closures. Our share of traffic to and from the airport in the first five months of 2023 increased to 20.1% from 16.3%.

Fare Adjustment, Promotions and Concessions

In March, MTR and Government concluded the Fare Adjustment Mechanism ("FAM") review. Reviews are conducted every five years. Following the review, it was determined that the current direct-drive FAM formula will be retained for the upcoming five-year cycle (from 2023/2024 to 2027/2028) in order to provide a stable source of recurrent revenue for the maintenance, upgrading and renewal of railway assets. The existing "Affordability Cap" arrangement, by which the rate of any fare increase is capped at the change in the Median Monthly Household Income for the corresponding year, will also be kept in order to continue ensuring affordability. The "Productivity Factor" was enhanced to make reference to the Company's post-tax Hong Kong property development profit; as a result, the corresponding rate of the Productivity Factor will lower the fare adjustment rate by 0.6 to 0.8 percentage point. The Overall Fare Adjustment Rate for 2023/2024 is +2.3% after a special reduction of 1.2 percentage points as well as a special deferral of 1.65 percentage points and a voluntary deferral of 0.2 percentage point — both deferrals to 2024/2025 — to support the recovery of the economy after the pandemic. In addition, the service performance rebate has been enhanced with a new "Thank You Day" arrangement for passengers. Monthly Pass and City Saver tickets have also been extended to benefit medium- and long-distance travellers. From the fourth quarter of 2023, MTR will offer a HK$0.5 interchange discount with Green Minibuses – up from HK$0.3.

The Company also continues to offer on-going fare concessions for the benefit of all passengers, including commuters, elderly, children, eligible students and persons with disabilities.

Service Performance

MTR takes great pride in delivering world-class rail service and reliability. During the period under review, the Company achieved 99.9% passenger journeys on-time and train service delivery, exceeding its Operating Agreement commitment and its own even more demanding Customer Service Pledge.

Over the first six months of 2023, MTR ran more than 870,000 trips on its Heavy Rail network and more than 460,000 trips on its Light Rail network with just five delays in total (four from Heavy Rail and one from Light Rail). Delays are defined as those lasting 31 minutes or more and attributable to factors within MTR's control. We closely review each incident with the objective of preventing recurrence.

MTR places the highest possible priority on providing safe, reliable and efficient railway services to passengers. The Expert Panel appointed following two incidents in late 2022 completed a comprehensive review of the Company's railway asset management and maintenance regime in June 2023. The Company is now implementing the recommendations from the review, which include investing more than HK$65 billion in railway asset renewal and maintenance over the next five years and accelerating the application of innovation and technology to maintain railway assets at an even higher standard.

Enhancing the Customer Service Experience

As one of the world's leading rail transport providers, MTR is constantly seeking ways to improve its network, assets and services for a smarter and better customer experience. During the period under review, the Company made progress in a number of key areas by introducing new technologies, upgraded trains and equipment, and exciting innovations for better passenger comfort and convenience.

In March 2023, the Company launched a HK$1.3 billion programme to upgrade its Automatic Fare Collection ("AFC") system by progressively replacing 2,400 entry/ exit gates at MTR stations across Hong Kong. The new gates have a slimmer body that makes walkways wider, and they also feature software that supports more e-payment options for the convenience of passengers and tourists. As part of this long-term asset renewal plan for the AFC system, the Company is also gradually expanding payment functions at Customer Service Centres in stations to include cash, Octopus, QR code e-wallets and credit cards for the purchase of products such as Monthly Pass Extra, City Saver tickets and MTR souvenirs.

As part of our programme to phase out existing trains and replace them with newer, more comfortable models, eight new SACEM Q-trains have been put into service along the Kwun Tong Line up to June 2023. We target to have 13 new Q-trains in service on the Kwun Tong Line by the end of this year. In total, MTR has ordered 93 new heavy rail eight-car trains and 40 new light rail vehicles ("LRVs") as part of its programme to retire existing trains and vehicles and replace them with new models. As at June 2023, the Company had received delivery of 40 new LRVs, with 38 put into passenger service.

The programme to replace our existing SACEM signalling system with a communication-based train control signalling system ("CBTC System") along the Tsuen Wan, Island, Kwun Tong and Tseung Kwan O lines also continued during the review period. After undergoing necessary testing and meeting the requirements of relevant Government departments, the new CBTC System is expected to commence service on the Tsuen Wan Line between 2025 and 2026, followed by the Island, Kwun Tong and Tseung Kwan O lines. Overall project completion is expected between 2028 and 2029.

This year, we embarked upon a new programme to replace 31 chillers with newer, more energy-efficient models to provide greater comfort for commuters in stations while reducing energy usage. The programme is targeted for completion in 2026.

Starting from May 2023, we began our programme to install automatic platform gates at 35 platforms in 13 stations along the section between Lo Wu/ Lok Ma Chau and Mong Kok East of the East Rail Line. Approximately 1,600 pairs of automatic platform gates will be installed.

In April 2023, we extended the smart toilet management system, which provides passengers with digital display information on toilet cubicle availability and indoor air quality, to all toilets in Hong Kong Station. These innovative facilities can also be found in Central, Admiralty, Exhibition Centre and Tsim Sha Tsui stations, and they will be introduced at Diamond Hill and Yau Tong stations by the end of this year.

Smart Mobility, Operations and Maintenance

As part of its quest to "Go Smart Go Beyond", MTR constantly seeks to improve the customer experience through innovation. In the first six months of the year, we expanded our "Next Train" function – which allows passengers to see estimated train arrival times in real time on our MTR Mobile app and platforms – to cover the South Island and Tsuen Wan lines. This function will be further expanded to cover the entire rail network (including Light Rail). In April, we digitalised passenger information leaflets to promote a paperless environment and ensure prompt updates. In May, we worked closely with Octopus Cards Limited to further upgrade the MTR Student Travel Scheme by enabling customers with "Student Status" to transfer their physical Octopus cards onto Mobile Octopus, which marked the first-ever instance that Mobile Octopus has carried an MTR concessionary fare discount. We also demonstrated our commitment to accessibility and universal basic mobility through the "MTR • Care" app, which includes features designed to assist passengers with special needs and the elderly.

"Go Smart Go Beyond" is also critical to MTR's efforts to enhance operational efficiency. Over the first half of the year, we worked to implement a new "Smart Depot Operation" initiative that will help digitalise and automate certain operational and maintenance activities to optimise work productivity. Phase I went live at Ho Tung Lau Depot in July. Meanwhile, "Smart Train Planning", a cloud-based AI platform co-developed with Alibaba that optimises train mileage regulation and planning, is expected to be completed for the East Rail Line in the third quarter of this year.

Hong Kong Transport Services – Station Commercial Businesses

Highlights

- Duty-Free retail and advertising in cross-boundary stations resumed
- 79 stations now have 5G services

HK$ million	Six months ended 30 June **2023**	2022	Inc./(Dec.) %
Hong Kong Station Commercial Businesses			
Station Retail Rental Revenue	**1,640**	774	111.9
Advertising Revenue	**416**	352	18.2
Telecommunication Income	**309**	316	(2.2)
Other Station Commercial Income	**50**	39	28.2
Total Revenue	**2,415**	1,481	63.1
EBITDA	**2,160**	1,237	74.6
EBIT	**1,798**	1,098	63.8
EBITDA Margin (in %)	**89.4%**	83.5%	5.9% pts.
EBIT Margin (in %)	**74.5%**	74.1%	0.4% pt.

In the first half of 2023, total revenue from all Hong Kong station commercial activities increased by 63.1% year on year to HK$2,415 million. This was mainly due to rental revenue from the Duty Free business, which resumed with the re-opening of cross-boundary stations in early 2023.

Station retail rental revenue increased to HK$1,640 million from the HK$774 million recorded in the first half of 2022. Although the resumption of the Duty Free business and relaxation of social distancing measures helped business operations begin returning to normal, station retail rental revenue continued to be affected by negative rental reversions.

As at 30 June 2023, the total number of retail shops in our stations was 1,563, covering 68,273 square metres of station retail area. Rental reversion and average occupancy rates for our station kiosks were -8.4% and 97.0%, respectively.

To help tenants attract customers, MTR continued to run a variety of promotions via its popular MTR Mobile app, MTR Points loyalty scheme and signature Stamp Reward programme. In April 2023, we leveraged the latest round of Government's Consumption Voucher Scheme by partnering with the Octopus App on the "Grab Coupon" promotion and distributing MTR Shops electronic shopping coupons to passengers. We also continued to review our tenant mix – which included introducing pop-up stores – in order to drive rental revenue and ensure that our retail offerings meet the expectations of consumers.

As at 30 June 2023, the lease expiry profile of our station kiosks (including Duty Free shops) by area occupied was such that approximately 31% will expire in the second half of 2023, 25% in 2024, 30% in 2025, and 14% in 2026 and beyond.

In terms of trade mix, food and beverage accounted for approximately 45% of the leased area of our station kiosks (excluding Duty Free shops), followed by cake shops at 12%, convenience stores at 12%, passenger services at 12% and others at 19% as at 30 June 2023.

Revenue from advertising increased by 18.2% to HK$416 million in the first half of 2023. This was mainly the result of increased advertising spend following the relaxation of pandemic-related measures.

As at 30 June 2023, the total number of advertising units in stations and trains decreased to 42,817. This was mainly due to reduced in-train advertising card space in the new Q-trains as well as the revamp of advertising panels. In the first six months of the year, we continued the overall digitalisation of our advertising formats and enhancement of our distribution network to meet market demand for flexible display options, dynamic content and targeted advertising.

Revenue from our telecommunications business over the first six months of 2023 decreased by 2.2% to HK$309 million. We have now launched 5G service in 79 stations throughout our network. In the third quarter of this year, we expect to award the tender for a new commercial system that can support more 5G services and provide even faster data throughput at 24 stations. As at 30 June 2023, around 75% of the capacity at our data centre in Tseung Kwan O had been reserved. We target reaching over 95% within a year. Meanwhile, we continue to explore other data centre opportunities.

Property and Other Businesses

Highlights
- Opened The Wai shopping centre in July 2023
- Booked property development profits from LOHAS Park Package 11 and various completed projects

Property Rental and Management

HK$ million	Six months ended 30 June **2023**	2022	Inc./(Dec.) %
Hong Kong Property Rental and Property Management Businesses			
Revenue from Property Rental	**2,324**	2,188	6.2
Revenue from Property Management	**132**	119	10.9
Total Revenue	**2,456**	2,307	6.5
EBITDA	**1,998**	1,873	6.7
EBIT	**1,990**	1,865	6.7
EBITDA Margin (in %)	**81.4%**	81.2%	0.2% pt.
EBIT Margin (in %)	**81.0%**	80.8%	0.2% pt.

Property rental revenue increased by 6.2% to HK$2,324 million in the first half of 2023, which was mainly the result of lower rental concessions provided to tenants following the relaxation of pandemic-related measures. The increase was partially offset by negative rental reversions.

MTR shopping malls in Hong Kong recorded a rental reversion of -12.6% and an average occupancy rate of 99%. The Company's 18 floors in Two International Finance Centre were 99% let on average.

Over the first half of the year, MTR rolled out tactical promotions and targeted marketing campaigns to attract shoppers. In May, MTR Malls organised the "Happy Music Festival", a series of music performances and themed events, in support of Government's "Happy Hong Kong" campaign. That same month, MTR Malls launched the "Happy Together" Click & Grab Coupon campaign, giving away shopping vouchers worth a total of more than HK$20 million.

On 22 July 2023, we proudly opened our newest mall, The Wai, located in Tai Wai. The new 60,620-square-metre shopping centre hosts more than 150 retail tenants providing dining, entertainment and other services for the community.

As at 30 June 2023, our attributable share of investment properties in Hong Kong was 257,021 square metres of lettable floor area of retail properties, 39,451 square metres of lettable floor area of office space and 19,206 square metres of property for other use.

As at 30 June 2023, the lease expiry profile of our shopping malls by area occupied was such that approximately 14% will expire in the second half of 2023, 34% in 2024, 21% in 2025, and 31% in 2026 and beyond.

In terms of trade mix, food and beverage accounted for approximately 30% of the leased area of our shopping malls, followed by services at 22%, fashion, beauty and accessories at 21%, leisure and entertainment at 18%, and department stores and supermarkets at 9%.

Property management revenue in Hong Kong increased by 10.9% to HK$132 million over the first six months of the year, which was mainly due to incremental income from new intake of managed units. As at 30 June 2023, MTR managed more than 121,000 residential units and about 820,000 sqm of commercial and office space.

Property Development and Tendering

Hong Kong property development profit (post-tax) for the first half of 2023 was HK$712 million, which was mainly derived from the initial profit recognition of LOHAS Park Package 11 and residual profits from various completed projects.

Sales activities continued for SOUTHLAND (THE SOUTHSIDE Package 1), La Marina (THE SOUTHSIDE Package 2) and LP10 (LOHAS Park Package 10), with 79%, 84% and 90% of units sold, respectively, during the period under review. Meanwhile, pre-sale activities continued for a number of property development projects. As at 30 June 2023, Villa Garda I and II (LOHAS Park Package 11) were 79% and 24% sold, respectively. Pre-sales for IN ONE (Ho Man Tin Station Package 2) Phases IA, IB and IC were launched in May, March and April, respectively, and were 13%, 98% and 85% sold as at the end of the reporting period. Pre-sale for La Montagne (THE SOUTHSIDE Package 4 Phase 4A) was also launched in July 2023.

For West Rail properties, where we act as agent for relevant subsidiaries of the Kowloon-Canton Railway Corporation, sales activities continued for the Cullinan West Development (Nam Cheong Station). As at 30 June 2023, The YOHO Hub Phase 1 (Yuen Long Station) was 43% sold; pre-sale consent has also been obtained for Phase 2. Pre-sales for GRAND MAYFAIR I and II (Kam Sheung Road Station Package 1) continued, with 99% and 82% of units sold as at 30 June 2023, respectively; meanwhile, pre-sale consent has also been obtained for GRAND MAYFAIR III.

Other Businesses

Revenue from Ngong Ping 360 increased to HK$146 million from the HK$22 million recorded in the first half of 2022 as visitation rose to 560,000. These results were mainly due to the low base for comparison versus the same period in 2022, when the cable car service was suspended between 7 January and 20 April due to the outbreak of the fifth wave of COVID-19.

Our share of profit from Octopus Holdings Limited increased by 36.4% to HK$270 million in the first half of the year as a result of the reopening of cross-boundary stations, improved consumer sentiment following the relaxation of social distancing policies and the spill-over effect from Government's Consumption Voucher Scheme. As at 30 June 2023, more than 97,000 service providers in Hong Kong accepted Octopus payments. Another 30 million payment acceptance points are now available in Mainland China and globally through Octopus' collaboration with a third-party payment system. Total cards and other stored-value Octopus products in circulation were 23.7 million, while average daily transaction volumes and value were 15.9 million and HK$353.4 million, respectively.

GROWING OUR HONG KONG BUSINESSES

Highlights

- Entered into a Project Agreement with Government for the Tung Chung Line Extension
- Progressed THE SOUTHSIDE shopping mall in preparation for phased opening starting from the fourth quarter of 2023

In the first half of 2023, we began construction on another major infrastructure project, the Tung Chung Line Extension. The project marks the dawn of a new era in Hong Kong's rail network expansion that will see the Company "Go Beyond Boundaries" by making further enhancements to transport efficiency and introducing quality TOD across the city over the next decade. This phase includes several other new projects under Government's Railway Development Strategy 2014 ("RDS 2014") and projects under Northern Metropolis Development Strategy, initiatives that are designed to enhance connectivity between local communities and neighbouring cities in the Greater Bay Area. Meanwhile, we continued to expand MTR's retail portfolio with exciting new mall developments that will provide even more quality shopping options for growing areas along the Company's network.

During the first half of 2023, we completed the periodic review of our Operating Agreement with Government. In addition to reviewing a number of the performance requirements, we also reviewed the provisions relating to the land premium arrangements for future projects in light, in particular, of the revised arrangements which were agreed for the Oyster Bay and Tung Chung Line Extension projects, for which the land premium was to be assessed on a full market value basis (i.e. on a with-railway basis rather than ignoring the presence of the railway), with certain agreed amounts deducted. The revised Operating Agreement provides that, going forward, the same approach will be adopted (unless otherwise agreed by the Company and the Government) having regard to the acknowledgements contained in the Operating Agreement that the Company will continue to require an appropriate commercial rate of return when undertaking new projects.

Projects in Progress

On 28 February, MTR signed a Project Agreement with Government for the financing, design, construction, operation and maintenance of the Tung Chung Line Extension. The Company will also undertake the construction of the Airport Railway Extended Overrun Tunnel. The Tung Chung Line Extension includes the diversion of an approximately 1.2km-long section of track between the existing Tung Chung Station and Sunny Bay Station; the westward extension of the existing Tung Chung Line by approximately 1.3km; and the construction of a new Tung Chung East Station, located between Tung Chung Station and Sunny Bay Station, and a new Tung Chung West Station, which will become the line's new terminus. Upon its commissioning, the Tung Chung Line Extension will provide the Tung Chung new town extension and its existing population with a direct railway service. The Airport Railway Extended Overrun Tunnel will facilitate an enhanced turnaround for Tung Chung Line and Airport Express trains. The overall project is being funded by the financial contribution from the "Rail plus Property" model and the Company's internal resources.

A ground-breaking ceremony was held on 25 May, making the Tung Chung Line Extension the first RDS 2014 project to commence construction. The Tung Chung Line Extension is targeted for completion in 2029. Construction on the Airport Railway Extended Overrun Tunnel is targeted to commence in 2025 for completion in 2032.

In addition to the Tung Chung Line Extension, the upcoming Oyster Bay Station is set to enhance connectivity in Lantau North and cater to the future population of Oyster Bay. The station will be located at Siu Ho Wan, between Sunny Bay and Tung Chung stations. Construction is expected to commence in 2023, and the project is targeted for completion in 2030.

Other New Railway Projects
We are closely involved in a number of other key projects under RDS 2014, the blueprint for the next phase of Hong Kong's railway network expansion. The scheme for the Tuen Mun South Extension was authorised under the Railways Ordinance in June 2022. Construction is targeted to commence in 2023, and the project is expected to be completed in 2030. The scheme for the new Kwu Tung Station, located on the East Rail Line between Lok Ma Chau and Sheung Shui stations, was authorised under the Railways Ordinance in November 2022. Construction is expected to begin later this year with a target completion date of 2027. The negotiations for the project agreements with Government in respect of both the Tuen Mun South Extension and Kwu Tung Station are at advanced stages. The design works of the Northern Link main line remain in progress. We also continue to develop detailed design and planning for Hung Shui Kiu Station, which is to be located on the Tuen Ma Line between Tin Shui Wai and Siu Hong stations. Elsewhere, we continue to work with Government on challenges pertaining to the North Island Line and South Island Line (West).

MTR fully supports Government's proposed Northern Metropolis Development Strategy as well as the railway projects recommended under the Strategic Studies on Railways and Major Roads Beyond 2030 ("RMR2030+"), which together will extend Hong Kong's rail network to provide greater connectivity between local communities while strengthening linkage with other cities in the Greater Bay Area. We are currently working with Government on RMR2030+ projects, including the Tseung Kwan O Line Southern Extension and Central Rail Link. We are also progressing a construction study on the new Pak Shek Kok Station located on the East Rail Line.

Expanding the Property Portfolio
Investment Properties
After the soft opening of The Wai in July 2023, we anticipate opening THE SOUTHSIDE shopping mall in Wong Chuk Hang in phases starting from the fourth quarter of the year. THE SOUTHSIDE is more than 50% pre-leased and will feature approximately 150 merchants across its 47,000 square metres of GFA.

Residential Property Development
Oyster Bay, adjacent to the future Oyster Bay Station, will be developed in phases and provide about 10,720 private residential units. The intake for the first batch of residents is expected in 2030 subject to the awarding of the tender, which is dependent on market conditions.

We have 14 on-going residential property projects in the pipeline that will deliver a total of approximately 16,000 units to the local housing market in the near to medium term. Regarding the property development at Tung Chung East Station, we will start preparation work for tendering subject to market conditions. We also continue to study the development potential of other areas along our existing and future railway lines.

MAINLAND CHINA AND INTERNATIONAL BUSINESSES

Highlights

- Concessions for South Western Railway and Melbourne's metropolitan rail service extended to May 2025 and mid-2026, respectively
- Remaining section of Beijing Metro Line 16 continued to progress and is targeted to open by the end of this year

This segment enables us to diversify our revenue streams geographically while building the MTR brand around the world. It also forms an important pillar of our Corporate Strategy alongside our Hong Kong Core and New Growth Engine, creating opportunities in high-potential markets that can support the Company's long-term business development goals. During the period under review, MTR provided world-class, low-carbon mass transit services to approximately 1.1 billion passengers in Mainland China, Macao, Europe and Australia through its subsidiaries, associates and joint ventures.

	Mainland China and International Businesses								
Six months ended 30 June	Mainland China and Macao Railway, Property Rental and Property Management Businesses *			International Railway Businesses			Total		
HK$' million	**2023**	2022	Inc./(Dec.) %	**2023**	2022	Inc./(Dec.) %	**2023**	2022	Inc./(Dec.) %
Recurrent Businesses									
Subsidiaries									
Revenue	**863**	818	5.5	**12,216**	12,332	(0.9)	**13,079**	13,150	(0.5)
EBITDA	**152**	121	25.6	**380**	802	(52.6)	**532**	923	(42.4)
EBIT	**22**	114	(80.7)	**268**	677	(60.4)	**290**	791	(63.3)
EBITDA Margin (in %)	**17.6%**	14.8%	2.8 % pts.	**3.1%**	6.5%	(3.4)% pts.	**4.1%**	7.0%	(2.9)% pts.
EBIT Margin (in %)	**2.5%**	13.9%	(11.4)% pts.	**2.2%**	5.5%	(3.3)% pts.	**2.2%**	6.0%	(3.8)% pts.
Recurrent Business (Loss)/ Profit (Net of Non-controlling Interests)	**(9)**	**94**	**n/m**	**(32)**	**270**	**n/m**	**(41)**	**364**	**n/m**
Associates and Joint Ventures									
Share of Profit	**335**	**257**	**30.4**	**27**	**35**	**(22.9)**	**362**	**292**	**24.0**
Profit/ (Loss) Attributable to Shareholders of the Company									
- Arising from Recurrent Businesses (before Business Development Expenses and Impairment Loss)							**321**	**656**	**(51.1)**
- Business Development Expenses							**(128)**	(140)	8.6
- Arising from Recurrent Businesses (after Business Development Expenses but before Impairment Loss)							**193**	**516**	**(62.6)**
- Impairment Loss on Shenzhen Metro Line 4							**-**	(962)	**n/m**
- Arising from Recurrent Businesses (after Business Development Expenses and Impairment Loss)							**193**	**(446)**	**n/m**
- Arising from Mainland China Property Development							**20**	39	(48.7)
- Arising from Underlying Businesses							**213**	**(407)**	**n/m**

n/m: not meaningful

** Excluding the impairment loss of HK$962 million on Shenzhen Metro Line 4 in the Mainland China provided during the six months ended 30 June 2022*

Excluding Mainland China property development, our railway, property rental and management subsidiaries (after business development expenses), together with our associates and joint ventures outside of Hong Kong, contributed a net after-tax profit of HK$193 million in the first half of 2023 on an attributable basis compared with the net after-tax profit of HK$516 million that was recorded during the first six months of last year, before the HK$962 million impairment provision made for Shenzhen Metro Line 4 ("SZL4") in 2022.

In Mainland China and Macao, recurrent business loss from railway, property rental and property management subsidiaries was HK$9 million in the first half of 2023. The loss was mainly due to a lower contribution from SZL4.

In our International businesses, recurrent business loss from our railway subsidiaries was HK$32 million in the first half of 2023. This was mainly because of the continued operating losses incurred by Stockholms pendeltåg and Mälartåg due to operational challenges.

Our share of profits from our associates and joint venture increased to HK$362 million from the HK$292 million recorded in the first half of 2022. This was primarily due to the improved performance of our operations in Mainland China.

Railway Businesses in Mainland China

Beijing

In Beijing, our associate operates Beijing Metro Line 4, the Daxing Line, Beijing Metro Line 14, the Northern, Middle and Southern sections of Beijing Metro Line 16 ("BJL16"), and the initial section of Beijing Metro Line 17 ("BJL17"). All lines delivered 99.9% on-time performance in the first half of the year. BJL16 Erligou Station opened in March, and the remaining section is targeted for opening by the end of this year. The remaining sections of BJL17 are under construction, and the northern section is targeted to open by the end of this year.

Shenzhen

SZL4, including the SZL4 North Extension, is operated by our wholly owned subsidiary. The line maintained stable operations during the first half of the year with on-time performance of 99.9%. Shenzhen Metro Line 13 remains under construction with an expected initial opening date of 2024.

As previously stated, there has been no increase in fares for SZL4 since we began operating the line in 2010. We anticipate that the mechanism and procedures for fare adjustments will take a longer time to implement, and that patronage will remain at a lower level for longer than expected. Hence, an impairment provision of HK$962 million was recognised for the SZL4 service concession assets in the first half of last year.

Hangzhou

In Hangzhou, Hangzhou Metro Line 1 ("HZL1"), the Xiasha Extension and Airport Extension, and Hangzhou Metro Line 5 all achieved stable operations over the first six months of 2023 with on-time performance of 99.9%.

HZL1 has been suffering from losses for much of the past several years due to slow growth in patronage and the pandemic. As there is no patronage protection mechanism under this concession agreement, the line's long-term financial viability will be impacted if patronage remains at a lower level over a further period of time, especially when compounded by the lower average fare resulting from the expanded network.

Property Business in Mainland China

As at 30 June 2023, 30 of the remaining 32 units at the Tiara, the residential development located at SZL4 Depot Site Lot 1, had been sold. Foot traffic at TIA Mall in Shenzhen and Ginza Mall in Beijing have shown gradual signs of recovery from the pandemic.

The construction of the shopping mall at Tianjin Beiyunhe Station is targeted for completion in 2024. The Company is now studying possible strategic options for this mall in light of challenging retail property market conditions. Elsewhere, we continued to progress the Hangzhou West Station TOD project during the first half of 2023.

Macao

MTR operates and maintains Macao's first rapid transit system, the Macao Light Rapid Transit Taipa Line. Train services achieved stable operations over the first half of the year. This service contract will end in December 2024.

Europe

United Kingdom

In 2022, the concession to operate the Elizabeth line was extended to May 2025. The Elizabeth line achieved stable operations during the first half of the year. The final full peak timetable was introduced in May 2023, increasing peak-time frequencies to 24 trains per hour from 22 in each direction between Paddington and Whitechapel stations. On 4 May, the Prince and Princess of Wales took their first-ever trip on the Elizabeth line.

Our associate operates the South Western Railway, one of the UK's largest rail networks. Services were stable during the first half of the year. Under the National Rail Contract that was extended in February 2023 by two years till May 2025, the UK Department for Transport retains all revenue risk and substantially all cost risk for this service.

Sweden

MTR is the largest rail operator in Sweden by passenger volume. We operate four rail businesses in the country via wholly owned subsidiaries: Stockholm Metro (Stockholms tunnelbana), MTRX, the Stockholm commuter rail service (Stockholms pendeltåg) and Mälartåg regional traffic.

Stockholm Metro achieved stable operations over the first half of 2023. Our contract for this service runs to 2025. We submitted a bid for the new Stockholm Metro service contract in July 2023, and the result is expected in the first half of 2024.

Operations at MTRX were also stable during the first six months of the year. However, due to various challenges, we are exploring divestment as well as other options for this business.

Stockholms pendeltåg continued to face challenges from a shortage of local drivers and maintenance issues during the reporting period. We are working hard to improve the financial situation of this service, which is operating at a loss, and reviewing our options for how best to proceed. As previously announced by the Stockholm Transport Authority, this contract will not be extended when it ends in 2026.

At Mälartåg, operations over the first six months of 2023 were also impacted by a shortage of local drivers and maintenance issues, and we are trying to improve the financial performance of this service as well. If the issues cannot be resolved in the near term, the financial sustainability of this contract may be impacted, and a loss provision would need to be considered. We are currently studying options as to the way forward for this business.

Australia

The Melbourne metropolitan rail network achieved stable operations during the period under review. The concession for this service has been extended by 18 months to mid-2026, and we continue to support our client, the Victoria State Government, on various network improvement initiatives. We are currently supporting the delivery of the 9-km-long Metro Tunnel, which will provide a new railway connection through Melbourne's CBD and boost capacity by more than half a million passengers a week. The tunnel is scheduled to open in 2025.

The Sydney Metro North West Line achieved stable operational performance and customer satisfaction over the first six months of the year. We were proud to receive the "Operator & Service Provider Excellence Award" for this line at the National Infrastructure Awards 2023. For the Sydney Metro City & Southwest Project, we began dynamic testing for the Phase 1 City Section in April 2023 with the first train running under Sydney Harbour.

Growth Outside of Hong Kong

During the reporting period, we continued to seek growth opportunities in Mainland China as well as overseas. In July, the Company signed a Memorandum of Understanding with Mass Rapid Transit Corporation Sdn. Bhd. ("MRT Corp") to collaborate on the setting out of a framework for a TOD project adjacent to the new terminal station of a new rapid transit line in Malaysia. The project would see MTR and MRT Corp build a new community integrating railway, residential and commercial elements. Discussions regarding transport infrastructure, station commercial and TOD opportunities are also on-going in areas including Chengdu and the Greater Bay Area.

NEW GROWTH ENGINE

MTR Lab, an innovation investment company under our "New Growth Engine" strategic pillar, creates strategic value by investing in technologies and formulating innovative solutions that support the long-term growth of communities. In April, it was announced that MTR Lab and Cyberport had jointly invested in alfred24, a locally based logistics technology start-up with innovative solutions designed to help reduce the time, costs and carbon emissions associated with the commercial delivery cycle. In June, MTR Lab partnered with 2150 and Taronga Ventures to invest in Ampd Energy, a provider of energy storage systems for construction sites that produce up to 85% less carbon dioxide emissions than traditional diesel generators.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

Environmental, Social and Governance ("ESG") lies at the heart of everything we do at MTR. From providing safe, reliable and low-carbon rail transit services for people from all walks of life, to helping build and rejuvenate neighbourhoods with world-class residential and retail projects, we constantly strive to meet the high standards of environmental and social responsibility that our stakeholders expect of us. For 2023, we have set 44 key performance indicators to gauge our performance across 10 focus areas in our three environmental and social objectives of Greenhouse Gas ("GHG") Emissions Reduction, Social Inclusion, and Advancement and Opportunities. Achieving these objectives is paramount to driving sustainable growth for the Company and the communities it serves.

Environmental Aspects

In June, we announced that the Science Based Targets initiative (SBTi) has approved MTR's targets for reducing the Company's GHG emissions for its railway and property businesses in Hong Kong. Under these targets, we will reduce about half of our GHG emissions by 2030, using the base year of 2019 for comparison. Meeting these targets will help us attain our long-term goal of achieving carbon neutrality by 2050. At the same time, MTR employs solar technology to generate renewable energy. We currently have five solar photovoltaic projects at our depots and stations, and all of the installation work has already been completed. In June, we organised our first-ever Green Week in Hong Kong, collaborating with over 20 green NGOs and partners to enhance colleagues' understanding of our objectives in GHG emissions reduction.

Social Aspects

Railways form the backbone of mass transit in Hong Kong, which is why MTR aims to ensure that its services are accessible, inclusive, safe and affordable for everyone. The Company also works hard to promote diversity, equity and inclusion in our workforce and equal opportunities for communities and business partners. During the period under review, we continued to reach out to families and youth through several educational and artistic initiatives. Some highlights of the first half of the year included the transformation of Admiralty Station into the "Double Ducks–Themed Station" and the relaunch of the "Living Arts Stage" at Hong Kong Station. The Budding Station Master Programme was also relaunched to offer primary school students a unique learning experience at stations. In collaboration with the True Colors Symphony and The Zubin Foundation, the Company hosted the "Multicultural Green Music Show" in Maritime Square in June, bringing together families from diverse cultural backgrounds to perform music using instruments made from retired train parts. Our International Women's Day celebration in March included the launch of our Gender Equity Network 2023 events, which aim to promote equal opportunities in the workplace.

Passengers around the world depend on MTR for their daily commuting needs, which makes ensuring their safety our number one priority. During the period under review, we completed an asset management system review of the Company's operations and railway portfolio in Hong Kong, continued to review our safety and health practices, conducted thorough staff training on the fundamentals of public and workplace safety, and raised awareness among members of the public – particularly youth and the elderly – on the principles of keeping safe when travelling the MTR network. In the first half of 2023, the number of reportable events on our heavy rail and light rail networks increased by 107% and 70%, respectively, compared to the same period in 2022. These events were mostly related to escalators. In response, our Escalator Safety Special Task Force continued to promote the importance of riding escalators safely to prevent accidents. We also established a tailor-made Elderly Caring Programme focusing on incident prevention and reduction as well as education for the elderly.

Governance
The Company strives to achieve world-class standards of corporate governance in order to ensure ethical conduct and transparency in its business activities and instil confidence among shareholders and stakeholders. Over the first six months of the year, we further strengthened our governance efforts by achieving our target of having 25% female members on the Board by 2025.

Being one of the world's largest operators of mass transit railways, the Company must adhere to comprehensive enterprise risk management practices across a broad range of areas and activities to, inter alia, protect the safety and health of the general public and staff and ensure business continuity in the event of emerging developments. Our robust enterprise risk management framework covers a wide range of risks, including strategic, operational, financial, compliance and reputational risks, as well as measures to enhance resiliency, such as preparedness, mitigations and contingencies. We also conduct regular reviews of our top risks, emerging risks and ESG-related risks to account for our constantly evolving business and operating environments. During the reporting period, we continued to implement our "three lines of defence" framework to ensure proactive and effective management of risk, and we also commissioned an independent review of our enterprise risk management framework to identify continuous improvement opportunities and leading risk management practices.

HUMAN RESOURCES

As at 30 June 2023, MTR and its subsidiaries employed 17,180 people in Hong Kong and 15,797 people outside of Hong Kong. Our associates and joint ventures employed an additional 20,739 people in Hong Kong and worldwide. The voluntary staff turnover rate in Hong Kong was 7.4% over the first six months of the year.

In a challenging labour market, we seek to attract and retain top talent by offering competitive pay and benefits, short- and long-term incentive schemes, a broad range of career development opportunities, and performance-based recognition and rewards. We offer advancement and opportunities for our staff by investing significantly in their training, development and careers while promoting work-life balance through well-being initiatives and family-friendly policies. Over the first six months of the year, we provided an average of 2.5 training days per employee in Hong Kong. To build a talent pipeline for the long term and provide career opportunities for Hong Kong's youth, we have also continued our graduate, apprenticeship and internship recruitment initiatives this year through a variety of virtual and physical means.

As part of our continuous listening strategy, we conducted an Employee Engagement Survey Pulse Survey in December 2022, and the results, analyses and insights were communicated to management and staff in February 2023. Since then, we have implemented follow-up actions at the Corporate and Business Unit/ Function levels to address staff concerns and create a better work experience for colleagues in a challenging business environment. A full survey will be conducted in the fourth quarter of 2023.

MTR ACADEMY

Through the MTR Academy, we offer our railway management and engineering expertise to young and established professionals alike through high-quality accredited programmes and short courses in an effort to further careers and nurture the next generation of industry talent. The Academy is also an effective vehicle for promoting the MTR brand across Mainland China and Belt and Road countries.

In February 2023, the Academy launched its MTR Research Funding scheme, which supports forward-looking research projects at universities that aim to explore, shape and realise the mass public transport systems of tomorrow. Research outcomes are expected to complement MTR's own efforts to utilise technology and innovation to create smart railways. As at end-June 2023, a total of 84 applications had been received. Stringent evaluations are now underway to shortlist potential projects to be funded.

FINANCIAL REVIEW

A review of the Group's results and operations is featured in the preceding sections. This section discusses and analyses these results in a greater level of detail.

Consolidated Profit or Loss

HK$ million	Six months ended 30 June 2023	2022	Favourable / (Unfavorable) Change HK$ million	%
Total Revenue	**27,574**	**23,033**	**4,541**	**19.7**
Recurrent Business Profit / (Loss) ζ				
EBIT#				
Hong Kong Transport Services				
- Hong Kong Transport Operations	**(774)**	(2,775)	2,001	72.1
- Hong Kong Station Commercial Businesses	**1,798**	1,098	700	63.8
Total Hong Kong Transport Services	**1,024**	(1,677)	2,701	n/m
Hong Kong Property Rental and Management Businesses	**1,990**	1,865	125	6.7
Mainland China and International Railway, Property Rental and Management Subsidiaries*	**290**	791	(501)	(63.3)
Other Businesses, Project Study and Business Development Expenses	**(146)**	(317)	171	53.9
Share of Profit of Associates and Joint Ventures	**632**	490	142	29.0
Total Recurrent EBIT (before Impairment Loss)	**3,790**	**1,152**	**2,638**	**229.0**
Impairment Loss on Shenzhen Metro Line 4	**-**	(962)	962	n/m
Total Recurrent EBIT (after Impairment Loss)	**3,790**	**190**	**3,600**	**n/m**
Interest and Finance Charges	**(626)**	(501)	(125)	(25.0)
Income Tax	**(569)**	(171)	(398)	(232.7)
Non-controlling Interests	**(175)**	(196)	21	10.7
Recurrent Business Profit / (Loss)	**2,420**	**(678)**	**3,098**	**n/m**
Property Development Profit (Post-tax)				
Hong Kong	**712**	7,747	(7,035)	(90.8)
Mainland China	**20**	39	(19)	(48.7)
Property Development Profit (Post-tax)	**732**	**7,786**	**(7,054)**	**(90.6)**
Underlying Business Profit ε	**3,152**	**7,108**	**(3,956)**	**(55.7)**
Gain / (Loss) from Fair Value Measurement of Investment Properties (Post-tax)				
Gain / (Loss) from Fair Value Remeasurement on Investment Properties	**21**	(2,376)	2,397	n/m
Gain from Fair Value Measurement of Investment Properties on Initial Recognition from Property Development	**1,005**	-	1,005	n/m
Gain / (Loss) from Fair Value Measurement of Investment Properties (Post-tax)	**1,026**	(2,376)	3,402	n/m
Net Profit Attributable to Shareholders of the Company	**4,178**	**4,732**	**(554)**	**(11.7)**

ζ : Recurrent business profit / (loss) represents profit / (loss) from the Group's Hong Kong transport operations, Hong Kong station commercial businesses, Hong Kong property rental and management businesses, Mainland China and international railway, property rental and management businesses and other businesses (excluding fair value measurement of investment properties in Hong Kong and Mainland China)

 # : EBIT represents profit before interest, finance charges and taxation

** : Excluding the impairment loss of HK$962 million in respect of Shenzhen Metro Line 4 in the Mainland China for the six months ended 30 June 2022*

ε : Underlying business profit represents profit / (loss) from the Group's recurrent businesses and property development businesses

n/m : not meaningful

Our recurrent business financial performance for the six months ended 30 June 2023 shows gradual recovery, having benefited from the removal of anti-pandemic restrictions and phased reopening of rail links with Mainland China. On the other hand, our property development business delivered modest profits from LOHAS Park Package 11 and various completed projects, as compared to three of our development projects having profits booked in the same period last year.

Total Revenue

The Group's total revenue for the six months ended 30 June 2023 increased by 19.7% to HK$27,574 million when compared to the same period in 2022. The increase was mainly contributed by (i) recovery in Domestic Service patronage as well as patronage growth resulting from a full six-month operation of the East Rail Line cross-harbour extension, compared to the low base of revenue recorded during the same period last year following the outbreak of the fifth wave of COVID-19 in Hong Kong; (ii) gradual resumption of Cross-boundary and High Speed Rail fare revenue together with Duty Free rental income following the phased reopening of rail links with Mainland China; and (iii) higher revenue from our Melbourne transport operations. These factors were partly offset by (i) decrease in design and delivery project income of the Sydney Metro City & Southwest project; and (ii) decrease in revenue in Sweden.

Recurrent Business Profit / (Loss)

The Group recorded recurrent business profit of HK$2,420 million during the six months ended 30 June 2023 compared to a loss of HK$678 million in the same period last year. The improvement in recurrent business profit was mainly contributed by (i) aforementioned increased revenue in Hong Kong transport operations ("HKTO") and Hong Kong station commercial businesses ("HKSC") following the resumption of cross-boundary rail services, as well as the low base of revenue recorded in the same period last year; and (ii) the impairment provision of HK$962 million in respect of Shenzhen Metro Line 4 made in the first half of 2022.

EBIT

HKTO: EBIT loss narrowed substantially by HK$2,001 million, or 72.1%, to HK$774 million for the six months ended 30 June 2023 compared to an EBIT loss of HK$2,775 million in the same period of 2022. This was the result of increased revenue arising from (i) a rebound in our Domestic patronage as COVID-19 has mostly subsided; (ii) recovery in Cross-boundary Service, High Speed Rail and Airport Express revenue after the removal of anti-pandemic restrictions and phased reopening of rail links with Mainland China; and (iii) the impact of a full six-month operating period for the East Rail Line cross-harbour extension, which opened in May 2022.

These favourable results were partially offset by (i) increased operating expenses due to inflation, enhanced train services in Domestic Service, resumption of operations for Cross-boundary Service and High Speed Rail, and incremental costs from the new East Rail Line cross-harbour extension, despite our continuous collective effort in maintaining stringent cost control measures; (ii) higher depreciation from railway asset renewal or commissioned; and (iii) higher variable annual payment to KCRC.

HKSC: EBIT increased significantly by HK$700 million, or 63.8%, to HK$1,798 million, predominantly due to the resumption of Duty Free Shop revenue after the reopening of boundary crossing stations. Other station retail rentals continued to be adversely affected by negative rental reversions on renewals and new lets.

Hong Kong property rental and management businesses: EBIT increased by HK$125 million, or 6.7%, to HK$1,990 million. This was mainly due to fewer rental concessions being granted and amortised during the six months ended 30 June 2023 when compared to the same period last year, though it was partly offset by the adverse impact of negative rental reversions.

Mainland China and international railway, property rental and management business subsidiaries: EBIT for the six months ended 30 June 2023 decreased significantly by HK$501 million, or 63.3%, to HK$290 million. This was mainly due to (i) continuous challenges being faced in operational and financial performances of Stockholms pendeltåg and Mälartåg regional traffic; and (ii) the depletion of the government subsidy in late 2022 for Shenzhen Metro Line 4, which resulted in no government subsidy being booked in profit or loss during the six months ended 30 June 2023. These factors were partially mitigated by recovery in patronage as the pandemic subsided.

Other businesses, project study and business development expenses: EBIT loss from these businesses was HK$146 million for the six months ended 30 June 2023 compared to an EBIT loss of HK$317 million for the same period in 2022. The reduction in loss of HK$171 million, or 53.9%, was due to increased visitor numbers and improved financial performance of Ngong Ping 360.

Share of Profit of Associates and Joint Ventures

Share of profit of associates and joint ventures increased by HK$142 million, or 29.0%, to HK$632 million for the six months ended 30 June 2023. This was mainly due to (i) higher profit sharing in Octopus Holdings Limited as a result of boundary reopening, improved consumer sentiment following the relaxation of social distancing policies and the spillover effect from the Government's Consumption Voucher Scheme; and (ii) improved performance of our operations in Mainland China.

Total Recurrent EBIT

Total recurrent EBIT before impairment loss increased by HK$2,638 million, or 229.0%, to HK$3,790 million. Including the impairment loss on Shenzhen Metro Line 4 of HK$962 million for the six months ended 30 June 2022, total recurrent EBIT increased by HK$3,600 million to HK$3,790 million.

Income Tax

Income tax increased by HK$398 million, or 232.7%, to HK$569 million for the six months ended 30 June 2023. This was mainly due to the increase in recurrent business profit in Hong Kong.

Since the Rail Merger in 2007, the Company has claimed annual Hong Kong Profits Tax deductions in respect of certain payments relating to the Rail Merger (collectively "the Sums"). The total tax amount in respect of the Sums for the years of tax assessment from 2007/2008 to the first six months of 2023/2024 amounted to HK$4.9 billion. On 20 May 2022, the Commissioner of Inland Revenue issued a determination to the Company disagreeing that the Sums are tax deductible. The Company lodged a notice of appeal to the Inland Revenue Board of Review on 16 June 2022. The hearing before the Board of Review is scheduled to be held in early 2024. Further details are set out in Note 6 "Income Tax" above in this interim results announcement.

Property Development Profit (Post-tax)

Property development profit (post-tax) was HK$732 million for the six months ended 30 June 2023, which was mainly derived from initial profit recognition from LOHAS Park Package 11 and residual profits from various completed projects. The decrease was HK$7,054 million when comparing to HK$7,786 million when three of our development projects having profits booked during the same period last year.

Gain / (Loss) from Fair Value Measurement of Investment Properties (Post-tax)

Gain from fair value measurement of investment properties in Hong Kong and Mainland China was HK$1,026 million during the six months ended 30 June 2023. This comprised (i) a portion of gain of HK$1,005 million recognised from the initial fair value measurement of our sharing-in-kind property (i.e. THE SOUTHSIDE shopping mall); and (ii) a marginal gain of HK$21 million from investment property fair value remeasurement after tax.

Net Profit Attributable to Shareholders of the Company

Taking into account the Group's recurrent businesses, property development businesses and fair value measurement of investment properties, the Group reported a net profit attributable to shareholders of the Company of HK$4,178 million for the six months ended 30 June 2023 compared to a net profit of HK$4,732 million for the same period in 2022.

Consolidated Financial Position

HK$ million	**At 30 June 2023**	At 31 December 2022	Inc. / (Dec.) HK$ million	%
Net Assets	**177,661**	179,912	(2,251)	(1.3)
Total Assets	**341,726**	327,081	14,645	4.5
Total Liabilities	**164,065**	147,169	16,896	11.5
Gross Debt^	**53,330**	47,846	5,484	11.5
Net Debt-to-equity Ratio$^{\delta}$	**22.3%**	23.3%		(1.0) pt

^ : *Gross debt represents loans and other obligations, and short-term loans.*

δ : *Net debt-to-equity ratio represents net debt of HK$39,601 million (31 December 2022: HK$41,994 million), which comprises loans and other obligations, short-term loans, obligations under service concession and loans from holders of non-controlling interests net of cash, bank balances and deposits in the consolidated statement of financial position, as a percentage of the total equity of HK$177,661 million (31 December 2022: HK$179,912 million).*

Net Assets

Our financial position remains strong. The Group's net assets decreased slightly by 1.3% to HK$177,661 million as at 30 June 2023. This was mainly due to the accrual for the 2022 final ordinary dividend for payment in July 2023, which was partly mitigated by the net profit recognised for the six months ended 30 June 2023.

Total Assets

Total assets increased slightly by 4.5% to HK$341,726 million. This was mainly due to the increase in cash, bank balances and deposits as well as the receipt of our shopping mall THE SOUTHSIDE as an investment property.

Total Liabilities

Total liabilities increased by 11.5% to HK$164,065 million. This was mainly due to the accrual for the 2022 final ordinary dividend and the net drawdown of loans, as well as deferred income retained regarding a portion of the gain from the initial fair value measurement of THE SOUTHSIDE shopping mall after considering the outstanding risks and obligations relating to The SOUTHSIDE Package 3 property development project.

Gross Debt and Cost of Borrowing

Gross debt of the Group (being loans and other obligations, and short-term loans) increased by 11.5% or HK$5,484 million as at 30 June 2023. Weighted average borrowing cost of the Group's interest-bearing borrowings for the six months ended 30 June 2023 was at 3.3% p.a., an increase of 1.1% points over the same period in 2022.

Net Debt-to-equity Ratio and Interest Cover

Net debt-to-equity ratio decreased by 1.0% point to 22.3% as at 30 June 2023 from 23.3% as at 31 December 2022. This was mainly due to the decrease of net debt. The Group's interest cover for the six months ended 30 June 2023 was 9.2 times, compared to 19.8 times during the same period in 2022.

Consolidated Cash Flows

HK$ million	Six months ended 30 June 2023	2022
Net Cash Generated from Operating Activities	**3,870**	**3,775**
Net Receipts from Property Development	**4,533**	11,152
Variable Annual Payment	**(323)**	(260)
Other Net Cash Outflow from Investing Activities	**(4,995)**	(4,270)
Net Cash (Used in) / Generated from Investing Activities	**(785)**	**6,622**
Net Drawdown / (Repayment) of Debts, Net of Lease Rental and Interest Payments	**5,223**	(4,362)
Other Net Cash Outflow from Financing Activities	**(376)**	(109)
Net Cash Generated from / (Used in) Financing Activities	**4,847**	**(4,471)**
Effect of Exchange Rate Changes	(110)	(475)
Increase in Cash, Bank Balances and Deposits, Net of Bank Overdraft	**7,822**	**5,451**

Net Cash Generated from Operating Activities

Net cash generated from operating activities was HK$3,870 million for the six months ended 30 June 2023 compared to HK$3,775 million for the same period in 2022. This was mainly due to the increase in operating profit as discussed above, offset by the higher tax payment made during the period.

Net Receipts from Property Development

Net receipts from property development were HK$4,533 million, comprising mainly cash receipts from THE PAVILIA FARM.

Other Net Cash Outflow from Investing Activities

Other net cash outflow from investing activities was HK$4,995 million, which mainly included capital expenditure of HK$5,200 million comprising HK$3,744 million for investments in additional assets such as station renovation works, new trains and signalling systems for existing Hong Kong railways and related operations; HK$770 million for Hong Kong railway extension projects, primarily initial works for RDS 2014 projects; HK$512 million for Hong Kong investment properties, in particular the fitting-out works for The Wai; and HK$174 million for Mainland China and overseas subsidiaries such as Shenzhen Metro Line 13.

Financing Activities

The United States Federal Reserve continued to hike interest rates in the first half of 2023, bringing the Federal Funds Target Rate to a range of 5%-5.25% p.a. as core inflation rates remained elevated.

The 3-month USD Libor increased from 4.77% p.a. at the beginning of the year to 5.55% p.a. by the end of June, whereas the 3-month HKD Hibor started the year at 4.99% p.a. and fell to a low of 3.42% p.a. in February before rising again to 4.97% p.a. The 10-year US Treasury yield fell from 3.87% p.a. to 3.84% p.a., and the 10-year HKD swap rate fell from 3.88% p.a. to 3.87% p.a.

In the first half of 2023 the Company arranged HK$8.5 billion worth of debt financing, including HK$7.5 billion from MTN issuances with maturities ranging between two to three years, and a HK$1 billion three-year bank loan. Approximately HK$930 million of the financing was arranged under our Sustainable Finance Framework, with proceeds earmarked for eligible investments.

The Group's consolidated gross debt position at the end of June 2023 was HK$53.3 billion, with a cash and deposit balance of HK$24.0 billion and undrawn committed facilities of over HK$13 billion.

The weighted average cost of the Group's interest-bearing borrowings over the first six months was 3.3% p.a. as compared to 2.2% p.a. for the same period in 2022. As at the end of June 2023, around 68% of the Group's borrowings were fixed-rate borrowings with an average interest rate of 2.8% p.a. and maturity of 9.9 years.

By Order of the Board
Dr Jacob Kam Chak-pui
Chief Executive Officer

Hong Kong, 10 August 2023

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 25 August 2023 to 30 August 2023 (both dates inclusive), during which time no transfers of shares in the Company will be effected. To qualify for the 2023 interim dividend, all completed transfer documents, accompanied by the relevant share certificates must be lodged for registration with the Company's Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on 24 August 2023 (Hong Kong time).

As at the date of this announcement:

Members of the Board: Dr Rex Auyeung Pak-kuen *(Chairman)***, Dr Jacob Kam Chak-pui *(Chief Executive Officer)*, Andrew Clifford Winawer Brandler*, Dr Bunny Chan Chung-bun*, Walter Chan Kar-lok*, Dr Dorothy Chan Yuen Tak-fai*, Cheng Yan-kee*, Hui Siu-wai*, Sunny Lee Wai-kwong*, Dr Rose Lee Wai-mun*, Jimmy Ng Wing-ka*, Carlson Tong*, Sandy Wong Hang-yee*, Adrian Wong Koon-man*, Professor Anna Wong Wai-kwan*, Christopher Hui Ching-yu (Secretary for Financial Services and the Treasury)**, Secretary for Transport and Logistics (Lam Sai-hung)**, Permanent Secretary for Development (Works) (Ricky Lau Chun-kit)** and Commissioner for Transport (Rosanna Law Shuk-pui)**

Members of the Executive Directorate: Dr Jacob Kam Chak-pui, Margaret Cheng Wai-ching, Linda Choy Siu-min, Carl Michael Devlin, Herbert Hui Leung-wah, Dr Tony Lee Kar-yun, Gillian Elizabeth Meller, David Tang Chi-fai, Sammy Wong Kwan-wai and Jeny Yeung Mei-chun

* *independent non-executive Director*
** *non-executive Director*

This announcement is made in English and Chinese. In case of any inconsistency, the English version shall prevail.