NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

1 Basis of Preparation

This interim financial report 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"). KPMG's review report to the Board of Directors is set out on page 75. In addition, this interim financial report has been reviewed by the Company's Audit & Risk Committee.

This interim financial report 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, including compliance with Hong Kong Accounting Standard ("HKAS") 34, *Interim Financial Reporting*, issued by the HKICPA.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses on a year-to-date basis. Actual results may differ from these estimates.

This interim financial report contains the condensed consolidated interim accounts and selected explanatory notes, which include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Company and its subsidiaries (collectively referred to as the "Group") and the Group's interests in associates and joint ventures since the issuance of the 2021 annual accounts. The condensed consolidated interim accounts and notes thereto do not include all of the information required for a complete set of accounts prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), and should be read in conjunction with the 2021 annual accounts.

The financial information relating to the financial year ended 31 December 2021 included in this interim financial report as comparative information does not constitute the Company's statutory annual consolidated accounts for that financial year but is derived from those accounts. Further information relating to these statutory accounts 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 accounts for the year ended 31 December 2021 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 those accounts. 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.

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

The accounting policies adopted for the preparation of this interim financial report are the same as those adopted in the preparation of the 2021 annual accounts.

2 Revenue and Expenses relating to Mainland China and International Subsidiaries

Revenue and expenses relating to Mainland China and international subsidiaries comprise:

	Six months ended 30 June 2022		Six months ended 30 June 2021	
in HK$ million	Revenue	Expenses	Revenue	Expenses
Melbourne Train	**6,742**	**6,162**	6,259	5,960
Sydney Metro North West	**306**	**279**	327	294
Sydney Metro City & Southwest	**1,203**	**1,090**	746	742
MTR Nordic	**2,798**	**2,810**	2,669	2,648
TfL Rail/Elizabeth Line	**1,283**	**1,189**	1,170	1,096
Shenzhen Metro Line 4 ("SZL4")	**337**	**294**	396	340
Shenzhen Metro Line 13 ("SZL13")	**90**	**90**	–	–
Others	**391**	**313**	483	391
	13,150	**12,227**	12,050	11,471
Property development in Mainland China	**138**	**89**	32	25
Total Mainland China and international subsidiaries	**13,288**	**12,316**	12,082	11,496

3 Segmental Information

The Group's businesses consist of (i) recurrent businesses (comprising Hong Kong transport operations, Hong Kong station commercial businesses, Hong Kong property rental and management businesses, Mainland China and international railway, property rental and management businesses and other businesses, and excluding fair value measurement on investment properties in Hong Kong and Mainland China) 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) ("High Speed Rail"), light rail and bus feeder with railway system in the north-west New Territories and intercity railway transport with certain cities in the Mainland 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 operations or properties such as Ngong Ping 360, which comprises cable car operation in Tung Chung and related businesses at the Ngong Ping Theme Village, railway consultancy business, investment in Octopus Holdings Limited and the provision of project management services to the Government of the Hong Kong Special Administrative Region (the "HKSAR Government").

3 Segmental Information *(continued)*

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

	Hong Kong transport services				Mainland China and international affiliates				
in HK$ million	Hong Kong transport operations	Hong Kong station commercial businesses	Hong Kong property rental and management businesses	Hong Kong property development	Mainland China and international railway, property rental and management businesses	Mainland China property development	Other businesses	Un-allocated amount	Total
Six months ended 30 June 2022									
Revenue from contracts with customers within the scope of HKFRS 15	**5,815**	**712**	**119**	**–**	**12,992**	**138**	**142**	**–**	**19,918**
– Recognised at a point in time	**5,262**	**10**	**–**	**–**	**1,651**	**138**	**30**	**–**	**7,091**
– Recognised over time	**553**	**702**	**119**	**–**	**11,341**	**–**	**112**	**–**	**12,827**
Revenue from other sources	**–**	**769**	**2,188**	**–**	**158**	**–**	**–**	**–**	**3,115**
Total revenue	**5,815**	**1,481**	**2,307**	**–**	**13,150**	**138**	**142**	**–**	**23,033**
Operating expenses	**(5,931)**	**(244)**	**(434)**	**–**	**(12,227)**	**(89)**	**(253)**	**–**	**(19,178)**
Project study and business development expenses	**–**	**–**	**–**	**–**	**(140)**	**–**	**–**	**(33)**	**(173)**
Operating (loss)/profit before Hong Kong property development, fair value measurement of investment properties, depreciation, amortisation and variable annual payment	**(116)**	**1,237**	**1,873**	**–**	**783**	**49**	**(111)**	**(33)**	**3,682**
Hong Kong property development profit from share of surplus and interest in unsold properties	**–**	**–**	**–**	**9,277**	**–**	**–**	**–**	**–**	**9,277**
Loss from fair value measurement of investment properties^	**–**	**–**	**(2,336)**	**–**	**(53)**	**–**	**–**	**–**	**(2,389)**
Operating (loss)/profit before depreciation, amortisation and variable annual payment	**(116)**	**1,237**	**(463)**	**9,277**	**730**	**49**	**(111)**	**(33)**	**10,570**
Depreciation and amortisation	**(2,496)**	**(105)**	**(7)**	**–**	**(132)**	**–**	**(33)**	**–**	**(2,773)**
Impairment loss	**–**	**–**	**–**	**–**	**(962)**	**–**	**–**	**–**	**(962)**
Variable annual payment	**(163)**	**(34)**	**(1)**	**–**	**–**	**–**	**–**	**–**	**(198)**
Share of profit of associates and joint ventures	**–**	**–**	**–**	**–**	**292**	**–**	**198**	**–**	**490**
(Loss)/profit before interest, finance charges and taxation	**(2,775)**	**1,098**	**(471)**	**9,277**	**(72)**	**49**	**54**	**(33)**	**7,127**
Interest and finance charges	**–**	**–**	**–**	**–**	**(36)**	**43**	**–**	**(465)**	**(458)**
Income tax	**–**	**–**	**–**	**(1,530)**	**(182)**	**(53)**	**–**	**24**	**(1,741)**
(Loss)/profit for the six months ended 30 June 2022	**(2,775)**	**1,098**	**(471)**	**7,747**	**(290)**	**39**	**54**	**(474)**	**4,928**

^ Loss attributable to shareholders of the Company arising from fair value measurement of investment properties for the six months ended 30 June 2022 (HK$2,376 million) represents loss from fair value measurement of investment properties (HK$2,389 million) and net of related income tax credit (HK$13 million).

3 Segmental Information *(continued)*

in HK$ million	Hong Kong transport services: Hong Kong transport operations	Hong Kong transport services: Hong Kong station commercial businesses	Hong Kong property rental and management businesses	Hong Kong property development	Mainland China and international affiliates: Mainland China and international railway, property rental and management businesses	Mainland China and international affiliates: Mainland China property development	Other businesses	Un-allocated amount	Total
Six months ended 30 June 2021									
Revenue from contracts with customers within the scope of HKFRS 15	6,004	699	119	–	11,870	32	222	–	18,946
– Recognised at a point in time	5,544	18	–	–	1,082	32	53	–	6,729
– Recognised over time	460	681	119	–	10,788	–	169	–	12,217
Revenue from other sources	–	797	2,392	–	180	–	2	–	3,371
Total revenue	6,004	1,496	2,511	–	12,050	32	224	–	22,317
Operating expenses	(5,753)	(220)	(433)	–	(11,471)	(25)	(315)	–	(18,217)
Project study and business development expenses	–	–	–	–	(122)	–	–	(47)	(169)
Operating profit/(loss) before Hong Kong property development, fair value measurement of investment properties, depreciation, amortisation and variable annual payment	251	1,276	2,078	–	457	7	(91)	(47)	3,931
Hong Kong property development profit from share of surplus and interest in unsold properties	–	–	–	3,654	–	–	–	–	3,654
Loss from fair value measurement of investment properties^	–	–	(1,116)	–	(191)	–	–	–	(1,307)
Operating profit/(loss) before depreciation, amortisation and variable annual payment	251	1,276	962	3,654	266	7	(91)	(47)	6,278
Depreciation and amortisation	(2,362)	(95)	(10)	–	(134)	–	(34)	–	(2,635)
Variable annual payment	(174)	(36)	(1)	–	–	–	–	–	(211)
Share of profit of associates and joint ventures	–	–	–	–	430	–	100	–	530
(Loss)/profit before interest, finance charges and taxation	(2,285)	1,145	951	3,654	562	7	(25)	(47)	3,962
Interest and finance charges	–	–	–	–	(33)	37	–	(449)	(445)
Income tax	–	–	–	(602)	(45)	(15)	–	(73)	(735)
(Loss)/profit for the six months ended 30 June 2021	(2,285)	1,145	951	3,052	484	29	(25)	(569)	2,782

^ Loss attributable to shareholders of the Company arising from fair value measurement of investment properties for the six months ended 30 June 2021 (HK$1,320 million) represents loss from fair value measurement of investment properties (HK$1,307 million) and related income tax expenses (HK$13 million).

3 Segmental Information *(continued)*

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.

in HK$ million	**Six months ended 30 June 2022**	Six months ended 30 June 2021
Hong Kong SAR (place of domicile)	**9,724**	10,193
Australia	**8,251**	7,332
Mainland China and Macao SAR	**970**	948
Sweden	**2,798**	2,669
United Kingdom	**1,290**	1,175
	13,309	12,124
	23,033	22,317

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:

in HK$ million	**Six months ended 30 June 2022**	Six months ended 30 June 2021
Share of surplus and interest in unsold properties from property development	**9,161**	3,635
Agency fee and other income from West Rail property development	**122**	29
Overheads and miscellaneous studies	**(6)**	(10)
	9,277	3,654

5 Loss from Fair Value Measurement of Investment Properties

Loss from fair value measurement of investment properties comprises:

in HK$ million	**Six months ended 30 June 2022**	Six months ended 30 June 2021
Loss from fair value remeasurement on investment properties	**(2,389)**	(1,386)
Gain from fair value measurement of investment properties on initial recognition from property development	**–**	79
	(2,389)	(1,307)

6 Share of Profit of Associates and Joint Ventures

Share of profit of associates and joint ventures comprises:

in HK$ million	**Six months ended 30 June 2022**	Six months ended 30 June 2021
Share of profit before taxation	**822**	786
Share of income tax expenses	**(332)**	(256)
	490	530

7 Interest and Finance Charges

Interest and finance charges comprise:

in HK$ million	**Six months ended 30 June 2022**		Six months ended 30 June 2021	
Interest expenses in respect of:				
– Bank loans, overdrafts and capital market instruments	**428**		464	
– Obligations under service concession	**344**		346	
– Lease liabilities	**23**		26	
– Others	**21**		12	
Finance charges	**21**		25	
Exchange gain	**(152)**		(105)	
		685		768
Utilisation of government subsidy for SZL4 operation		**(21)**		(28)
Derivative financial instruments:				
– Fair value hedges	**(17)**		2	
– Cash flow hedges:				
– transferred from hedging reserve to interest expenses	**(11)**		(5)	
– transferred from hedging reserve to offset exchange gain	**163**		106	
– transferred from hedging reserve upon discontinuation of hedge accounting	**–**		(93)	
– Derivatives not qualified for hedge accounting	**(7)**		(6)	
		128		4
Interest expenses capitalised		**(177)**		(161)
		615		583
Interest income in respect of:				
– Deposits with banks	**(119)**		(110)	
– Others	**(38)**		(28)	
		(157)		(138)
		458		445

8 Income Tax

Income tax in the consolidated profit and loss account represents:

in HK$ million	**Six months ended 30 June 2022**	Six months ended 30 June 2021
Current tax		
– Hong Kong Profits Tax	**1,583**	677
– Tax outside Hong Kong	**342**	89
	1,925	766
Deferred tax		
– Origination and reversal of temporary differences on:		
– tax losses	**(24)**	(9)
– depreciation allowances in excess of related depreciation	**(5)**	(3)
– revaluation of properties	**(9)**	(25)
– provisions and others	**(146)**	6
	(184)	(31)
	1,741	735

8 Income Tax *(continued)*

A 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 2022 is calculated at 16.5% (2021: 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 2021.

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% (2021: 16.5%), while that arising outside Hong Kong is calculated at the appropriate current rates of taxation ruling in the relevant tax jurisdictions.

B 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 2021/2022 amounted to HK$4.4 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. As of the date of this interim financial report, the date of hearing before the Board of Review is yet to be fixed.

9 Dividends

Ordinary dividends declared and proposed to shareholders of the Company comprise:

in HK$ million	**Six months ended 30 June 2022**	Six months ended 30 June 2021
Ordinary dividends attributable to the period		
– Interim ordinary dividend declared after the end of the reporting period of HK$0.42 (2021: HK$0.25) per share	**2,604**	1,548
Ordinary dividends attributable to the previous year		
– Final ordinary dividend of HK$1.02 (2021: HK$0.98 per share attributable to year 2020) per share approved and payable during the period	**6,317**	6,060

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 Company has recognised 2021 final ordinary dividend payable of HK$4,727 million to the Financial Secretary Incorporated (the "FSI") of the HKSAR Government and HK$1,590 million to other shareholders in the amounts due to related parties (note 20) and creditors, other payables and provisions (note 21) respectively in the consolidated statement of financial position as at 30 June 2022.

10 Earnings Per Share

A Basic Earnings Per Share

The calculation of basic earnings per share is based on the profit attributable to shareholders for the six months ended 30 June 2022 of HK$4,732 million (2021: HK$2,673 million) and the weighted average number of ordinary shares in issue less shares held for Executive Share Incentive Scheme, which is calculated as follows:

	Six months ended 30 June 2022	Six months ended 30 June 2021
Issued ordinary shares at 1 January	**6,193,462,514**	6,180,927,873
Effect of share options exercised	**–**	1,104,433
Less: Shares held for Executive Share Incentive Scheme	**(5,378,222)**	(5,178,777)
Weighted average number of ordinary shares less shares held for Executive Share Incentive Scheme for the six months ended 30 June	**6,188,084,292**	6,176,853,529

B Diluted Earnings Per Share

The calculation of diluted earnings per share is based on the profit attributable to shareholders for the six months ended 30 June 2022 of HK$4,732 million (2021: HK$2,673 million) and the weighted average number of ordinary shares in issue less shares held for Executive Share Incentive Scheme after adjusting for the dilutive effect of the Company's Executive Share Incentive Scheme (2021: after adjusting for the dilutive effect of the Company's share option scheme and Executive Share Incentive Scheme), which is calculated as follows:

	Six months ended 30 June 2022	Six months ended 30 June 2021
Weighted average number of ordinary shares less shares held for Executive Share Incentive Scheme for the six months ended 30 June	**6,188,084,292**	6,176,853,529
Effect of dilutive potential shares under the share option scheme	**–**	441,314
Effect of shares awarded under Executive Share Incentive Scheme	**5,787,213**	5,301,334
Weighted average number of shares (diluted) for the six months ended 30 June	**6,193,871,505**	6,182,596,177

C Both basic and diluted earnings per share would have been HK$1.15 (2021: HK$0.65) if the calculation is based on profit attributable to shareholders of the Company arising from underlying businesses of HK$7,108 million (2021: HK$3,993 million).

11 Other Comprehensive Loss

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

in HK$ million	Six months ended 30 June 2022 Before-tax amount	Tax credit/ (expenses)	Net-of-tax amount	Six months ended 30 June 2021 Before-tax amount	Tax (expenses)/ credit	Net-of-tax amount
Exchange differences on translation of:						
– Financial statements of subsidiaries, associates and joint ventures outside Hong Kong	**(951)**	**–**	**(951)**	38	–	38
– Non-controlling interests	**(9)**	**–**	**(9)**	23	–	23
	(960)	**–**	**(960)**	61	–	61
(Loss)/surplus on revaluation of self-occupied land and buildings (note 12B)	**(25)**	**4**	**(21)**	67	(11)	56
Cash flow hedges: net movement in hedging reserve (note 11B)	**375**	**(62)**	**313**	(156)	26	(130)
Other comprehensive loss	**(610)**	**(58)**	**(668)**	(28)	15	(13)

B The components of other comprehensive income/(loss) of the Group relating to cash flow hedges are as follows:

in HK$ million	Six months ended 30 June 2022	Six months ended 30 June 2021
Cash flow hedges:		
Effective portion of changes in fair value of hedging instruments recognised during the period	**213**	(164)
Amounts transferred to profit or loss:		
– Interest and finance charges (note 7)	**152**	8
– Other expenses	**10**	–
Deferred tax on the above items	**(62)**	26
	313	(130)

12 Investment Properties and Other Property, Plant and Equipment

A Investment Properties

Investment properties of the Group in Hong Kong and Mainland China were revalued at the reporting date by Colliers International (Hong Kong) Limited and Cushman & Wakefield Limited respectively. The valuations are based on the income capitalisation approach. Under this approach, the market value is derived from the capitalisation of the rental revenue to be received under existing tenancies and the estimated full market rental value to be received upon expiry of the existing tenancies with reference to the market rental levels prevailing as at the date of valuation by an appropriate single market yield rate.

The Group recognised the net decrease in fair value of HK$2,389 million for the six months ended 30 June 2022 (2021: HK$1,307 million) (note 5) under fair value measurement of investment properties in the consolidated profit and loss account. Investment properties are revalued semi-annually and future market condition changes may result in further gains or losses to be recognised through consolidated profit and loss account in subsequent periods.

12 Investment Properties and Other Property, Plant and Equipment *(continued)*

B Other Property, Plant and Equipment

(i) Acquisitions of Owned Assets

During the six months ended 30 June 2022, the Group acquired or commissioned assets (other than right-of-use assets) at a total cost of HK$1,790 million (2021: HK$1,547 million).

(ii) Valuation

All of the Group's self-occupied land and buildings are held in Hong Kong and carried at fair value. All self-occupied land and buildings were revalued by using primarily the direct comparison approach assuming sale of properties in their existing state with vacant possession at the reporting date by Colliers International (Hong Kong) Limited. The valuation resulted in a revaluation loss of HK$25 million (2021: surplus of HK$67 million), which, net of deferred tax credit of HK$4 million (2021: deferred tax expenses of HK$11 million), has been recognised in other comprehensive loss (note 11A) and accumulated in the fixed assets revaluation reserve account.

(iii) As at 30 June 2022, included in assets under construction is cost amounting to HK$2.6 billion incurred on a project ("New Signalling System") of replacing the existing signalling system ("SACEM System") of the Group's four urban lines (Island, Tseung Kwan O, Kwun Tong and Tsuen Wan Lines) in Hong Kong.

Due to the technical complexity involved and the pandemic situation, the contractor for the New Signalling System is taking longer than expected to complete the software safety assurance processes required by the Group. The Group is working closely with the contractor to progress the project, together with necessary measures to replace certain assets and to equip new trains with the SACEM System so as to be able to continue to provide quality and reliable train services in the short term whilst the necessary assurance processes for the New Signalling System are in progress. Meanwhile, the Group started to study alternative options which might deliver improved outcomes and their associated costs within a reasonable time span. There are a number of options being studied which include the possibility of upgrading the existing SACEM System for the long run instead of the full implementation of the New Signalling System.

As a result of the delay as referred to above, the Group is closely monitoring the progress of the signalling replacement project. In the event that the Company decides not to implement the whole, or any part, of the New Signalling System, the associated costs capitalised by then, to the extent not directly attributable to the acquisition of an asset expected to bring future economic benefits to the Group, will be written-off and charged to the consolidated profit and loss account in the reporting period when such determination is made.

C Right-of-use Assets

During the six months ended 30 June 2022, additions to right-of-use assets were HK$324 million (2021: HK$183 million). This amount primarily related to additions of plant and equipment leased of HK$200 million (2021: HK$15 million) and leasehold investment properties of HK$98 million (2021: HK$168 million).

13 Service Concession Assets

During the six months ended 30 June 2022, the Group incurred HK$1,113 million (2021: HK$865 million) of expenditure for the replacement and upgrade of the Kowloon-Canton Railway Corporation ("KCRC") system ("Additional Concession Property") under the service concession arrangement in the Rail Merger, HK$44 million (2021: HK$31 million) and HK$22 million (2021: HK$18 million) of expenditure for the replacement and upgrade of the concession property of the High Speed Rail ("Additional Concession Property (High Speed Rail)") and the Shatin to Central Link ("Additional Concession Property (SCL)") respectively under the supplemental service concession arrangements with KCRC, and HK$13 million (2021: HK$14 million) of expenditure for asset additions in respect of Shenzhen Metro Line 4 ("SZL4").

SZL4 forms part of the Shenzhen Metro, which is operated by a wholly owned subsidiary, MTR Corporation (Shenzhen) Limited ("MTRSZ"). In July 2020, the Shenzhen Municipal Government announced that a fare adjustment framework for the Shenzhen Metro network would come into effect on 1 January 2021. The framework was expected to enable the establishment of a mechanism for fare setting and the implementation procedures for fare adjustments. Up to 30 June 2022, there has been no increase in SZL4's fare since MTRSZ started operating the line in 2010 whilst the operating costs continue to rise. As disclosed in previous years, if a suitable fare increase and adjustment mechanism are not implemented soon, the long-term financial viability of this line will be impacted.

As it is anticipated that the mechanism and procedures for fare adjustments will take longer time to implement and patronage will remain at a lower level for a period of time, an impairment test was performed for SZL4, which carried a book value of HK$4,589 million, and the corresponding recoverable amount was determined at HK$3,627 million as at 30 June 2022. As such, an impairment provision of HK$962 million was recognised for the SZL4 service concession assets in the consolidated profit and loss account for the six months ended 30 June 2022. The recoverable amount tested for impairment has been determined based on a value in use calculation covering the remaining services concession period. An estimated pre-tax discount rate of 9.2% was used in estimating SZL4 's value in use.

14 Railway Construction Projects under Entrustment by the HKSAR Government

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

(a) HSR Preliminary Entrustment Agreement

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

(b) HSR Entrustment Agreement

In 2009, the HKSAR Government decided that the Company should be asked to proceed with the construction, testing and commissioning of the HSR on the understanding that the Company would subsequently be invited to undertake the operation of the HSR under the service concession approach. On 26 January 2010, the HKSAR Government and the Company entered into another entrustment agreement for the construction, and commissioning of the HSR (the "**HSR Entrustment Agreement**"). Pursuant to the HSR Entrustment Agreement, the Company is responsible for carrying out or procuring the carrying out of the agreed activities for the planning, design, construction, testing and commissioning of the HSR and the HKSAR Government, as owner of HSR, is responsible for bearing and financing the full amount of the total cost of such activities (the "**Entrustment Cost**") and for paying to the Company a fee in accordance with an agreed payment schedule (the "**HSR Project Management Fee**") (subsequent amendments to these arrangements are described below). As of 30 June 2022, the Company had received full payment of the HSR Project Management Fee from the HKSAR Government.

The HKSAR Government has the right to claim against the Company if the Company breaches the HSR Entrustment Agreement (including, if the Company breaches the warranties it gave in respect of its project management services) and, under the HSR Entrustment Agreement, to be indemnified by the Company in relation to losses suffered by the HKSAR Government as a result of any negligence of the Company in performing its obligations under the HSR Entrustment Agreement or any breach of the HSR Entrustment Agreement by the Company. Under the HSR Entrustment Agreement, the Company's total aggregate liability to the HKSAR Government arising out of or in connection with the HSR Preliminary Entrustment Agreement and the HSR Entrustment Agreement (other than for death or personal injury) is subject to a cap equal to the 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 14A(c)(iv) below), up to the date of this interim financial report, no claim has been received from the HKSAR Government.

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

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

- the HSR would be completed in the third quarter of 2018 (including programme contingency of six months) (the "**HSR Revised Programme**"); and
- the total project cost of HK$85.3 billion (including contingency), based on the HSR Revised Programme.

As a result of adjustments being made to certain elements of the Company's estimated project cost of 30 June 2015, the HKSAR Government and the Company reached agreement that the estimated project cost be reduced to HK$84.42 billion (the "**Revised Cost Estimate**"). Further particulars relating to the Revised Cost Estimate are set out in notes 14A(c) and (e) below.

(c) HSR Agreement

On 30 November 2015, the HKSAR Government and the Company entered into an agreement (the "**HSR Agreement**") relating to the further funding and completion of the HSR. The HSR Agreement contains an integrated package of terms (subject to conditions as set out in note 14A(c)(vi) below) and provides that:

(i) The HKSAR Government will bear and finance the project cost up to HK$84.42 billion (which includes the original budgeted cost of HK$65 billion plus the agreed increase in the estimated project cost of HK$19.42 billion (the portion of the entrustment cost (up to HK$84.42 billion) that exceeds HK$65 billion being the "**Current Cost Overrun**"));

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

(iii) The Company will pay a special dividend in cash of HK$4.40 in aggregate per share in two equal tranches (of HK$2.20 per share in cash in each tranche) ("**Special Dividend**"). The first tranche was paid on 13 July 2016 and the second tranche was paid on 12 July 2017;

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

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

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

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

(v) Certain amendments are made to the HSR Entrustment Agreement to reflect the arrangements contained in the HSR Agreement, including an increase in HSR Project Management Fee payable to the Company under HSR Entrustment Agreement to an aggregate of HK$6.34 billion (which reflects the estimate of the Company's expected internal costs in performing its obligations under the HSR Entrustment Agreement in relation to HSR project) and to reflect the HSR Revised Programme;

(vi) The arrangements under the HSR Agreement (including the payment of the Special Dividend) were conditional on:

- independent shareholder approval (which was sought at the General Meeting held on 1 February 2016); and
- Legislative Council approval in respect of the HKSAR Government's additional funding obligations.

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

(d) Operations of HSR

On 23 August 2018, the Company and KCRC entered into the supplemental service concession agreement for the HSR ("**SSCA-HSR**") to supplement the Service Concession Agreement dated 9 August 2007 in order for KCRC to grant a concession to the Company in respect of the HSR and to prescribe the operational and financial requirements that will apply to the HSR. The commercial operation of HSR began on 23 September 2018.

(e) Based on the Company's latest review of the Revised Cost Estimate for the agreed scope of the project and having taken account of the opinion of independent experts including one on the review of the Revised Cost Estimate previously obtained, the Company believes that, although the latest final project cost is likely to come close to the Revised Cost Estimate, the Revised Cost Estimate is still achievable and there is no current need to revise further such estimate. However, the final project cost can only be ascertained upon finalisation of all contracts, some of which will involve the resolution of commercial issues and may take several years to reach settlement based on past experience.

Having considered the number of contracts yet to be finalised and the contingency allowance currently available, there can be no absolute assurance that the final project cost will not exceed the Revised Cost Estimate, particularly if unforeseen difficulties arise in the resolution of commercial issues during the process of negotiating the final accounts. In such case, under the terms of the HSR Agreement, the Company will be required to bear and finance the portion of the project cost that exceeds the Revised Cost Estimate (if any) except for certain agreed excluded costs (as more particularly described in note 14A(c)(ii) above).

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

(i) any possible liability of the Company for any Further Cost Overrun (if any), given the Company does not currently believe based on information available to date there is any need to revise further the Revised Cost Estimate. However, the final project cost can only be ascertained upon finalisation of all contracts, some of which will involve the resolution of commercial issues and may take several years to reach settlement;

(ii) any possible liability of the Company that may be determined in accordance with any arbitration that may take place (as more particularly described in note 14A(c)(iv) above), given that (a) the Company has not received any notification from the HKSAR Government of any claim by the HKSAR Government against the Company or of any referral by the HKSAR Government to arbitration as of 30 June 2022 and up to the date of this 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

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

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

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

(g) Total HSR Project Management Fee and the additional fees referred to above, of HK$6,548 million in aggregate, have been recognised in consolidated profit and loss account in the prior years.

In relation to the sufficiency of the HSR Project Management Fee, the Company estimated that the total costs to complete performance of its obligations in relation to the HSR project are likely to exceed the HSR Project Management Fee. Accordingly, an appropriate amount of provision was recognised in the consolidated profit and loss account in the prior years.

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 2022, HK$77 million (2021: HK$157 million) of such costs were incurred by the Company, which are payable by the HKSAR Government. As at 30 June 2022, the amount of such costs which remained outstanding from the HKSAR Government was HK$190 million (as at 31 December 2021: HK$246 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**"). As at 30 June 2022, the Company has received full payment of the Original PMC from the HKSAR Government in accordance with the original agreed payment schedule. The total Original PMC of HK$7,893 million has been fully recognised in the consolidated profit and loss account 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, 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. The Company carried out a detailed review of the estimated CTC for the main construction works in 2017 and submitted a revised estimated total CTC of HK$87,328 million, including an increase in the project management fee payable to the Company ("**2017 CTC Estimate**") to the HKSAR Government on 5 December 2017, taking into account a number of factors, including issues such as archaeological relics, the HKSAR Government's requests for additional scope and late or incomplete handover of construction sites.

The Company then carried out and completed a further review and revalidation of the CTC and, on 10 February 2020, notified the HKSAR Government, in accordance with the terms of the SCL EA3, of the latest estimate of the CTC, being 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 14B(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 profit and loss account for the year ended 31 December 2019 (as detailed in note 14B(c)(iii) below). The 2020 CTC Estimate represents an increase of HK$12,172 million from the Original Entrusted Amount of HK$70,827 million, which is less than the increase in the 2017 CTC Estimate of HK$16,501 million.

In accordance with the terms of SCL EA3, the HKSAR Government issued its paper on 18 March 2020 to seek the approval of Legislative Council for additional funding required for the SCL Project amounting to HK$10,801 million ("**Additional Funding**") so that the SCL can be completed. On 12 June 2020, the Legislative Council approved the Additional Funding for the SCL Project. For the avoidance of doubt, the Additional Funding sought by the HKSAR Government and approved by the Legislative Council excluded the Hung Hom Incidents Related Costs (as detailed in note 14B(c)(iii) below) and any Additional PMC for the Company as further detailed in note 14B(b)(ii) below.

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

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

(ii) Additional PMC

As detailed in note 14B(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.

By December 2020, the aggregate amount of project management fee paid by the HKSAR Government to the Company in accordance with the payment schedule contained in the SCL EA3 was substantially close to the Original PMC (excluding, for the avoidance of doubt, the Additional PMC of HK$1,371 million previously sought by the Company) and has been expended in full by the Company. 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 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.

However, given the Company's view that there has been a significant delay to the project programme and associated increase in project management costs to the Company, the Company has written to the HKSAR Government to restate the Company's belief that the Company is entitled (in accordance with the terms of the SCL EA3 and following the Company's receipt of independent expert advice) to an increase in the project management fee, to be agreed by way of good faith negotiations or otherwise determined in accordance with the provisions of the SCL EA3. However, the HKSAR Government has responded to the Company by reiterating that the HKSAR Government considers there have not been any material modifications to any of the scope of works, entrustment activities and/or entrustment programme contained in the SCL EA3 and, as such, the HKSAR Government maintains its position of disagreement to any increase in the project management fee.

Despite the fact that this matter needs to be resolved, the Company has continued, and will continue, to comply with its project management obligations under the SCL EA3 and has met, and will continue to meet, the costs thereof, on an interim and without prejudice basis, to allow the SCL Project to progress in accordance with the latest programme in order to achieve a full opening of the SCL as soon as reasonably practicable, whilst reserving its position as to the ultimate liability for such costs and as to its rights to pursue the courses of action and remedies available under the SCL EA3.

(iii) Provision for the SCL PMC

After taking into account the matters described in note 14B(b)(ii) above, and in particular, the Company meeting, on an interim and without prejudice basis (whilst reserving its position as to the ultimate liability for such costs and as to its rights to pursue the courses of action and remedies available under the SCL EA3), the cost to the Company of continuing to comply with its project management obligations, the Group recognised a provision of HK$1,371 million, for the estimated additional cost to the Company of continuing to comply with its project management responsibilities, in its consolidated profit and loss account for the year ended 31 December 2020. During the six months ended 30 June 2022, the provision utilised amounted to HK$168 million (2021: HK$277 million) and no provision was written back (2021: HK$nil). As at 30 June 2022, the provision of HK$625 million (as at 31 December 2021: HK$793 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 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 payment becomes virtually certain, the amount of any such payment will be recognised and credited to the Company's consolidated profit and loss account 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**").

To address each of the First Hung Hom Incident and the Second Hung Hom Incident, the Company has submitted to the HKSAR Government proposals for verification of the relevant as-constructed conditions and workmanship quality.

*(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.

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

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

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) Expert Adviser Team ("**EAT**")*

On 1 February 2021, the EAT on the SCL project, which was appointed by the HKSAR Government in August 2018 to conduct an overall review of the Company's project management system and recommend additional management and monitoring measures to be undertaken by the Company and the HKSAR Government in taking forward the SCL project, has submitted its final report to the HKSAR Government. The report noted that it is safe in practical terms to use the related built structures at Hung Hom Station for their intended purposes after the implementation of the suitable measures. The EAT has also put forward in the report recommendations to the Company and the HKSAR Government for the continuous improvement of railway project management.

(iii) Provision for the Hung Hom Incidents Related Costs

In July 2019, the HKSAR Government accepted the Company's recommendation that the Tuen Ma Line (Tai Wai to Hung Hom Section of the SCL) should open in phases, with the first phase involving the opening of commercial service on the Tuen Ma Line from Tai Wai Station to Kai Tak Station ("**Phased Opening**") which occurred on 14 February 2020.

In order to progress the SCL Project and to facilitate the Phased Opening 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 14B(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 profit and loss account for the year ended 31 December 2019. During the six months ended 30 June 2022, the provision utilised amounted to HK$66 million (2021: HK$136 million) and no provision was written back (2021: HK$nil). As at 30 June 2022, the provision of HK$878 million (as at 31 December 2021: HK$944 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 profit and loss account in that financial period.

(d) Mixed Fleet Operation Incident

On 11 September 2020, the Company announced the delay in service commencement of the new East Rail Line ("**EAL**") signalling system and introduction of new nine-car trains which was originally scheduled for 12 September 2020 (collectively "**Mixed Fleet Operation Incident**"), following a review on the new signalling system conducted by the Company prior to service commencement.

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

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

On 13 September 2020, the Company announced the setting up of the Investigation Panel to look into the Mixed Fleet Operation Incident and to submit an investigation report to the HKSAR Government. On 21 January 2021, the Company submitted to the HKSAR Government for its review the report from the Investigation Panel. The Company acknowledged and accepted the findings of the Investigation Panel which include a finding that the issue concerned in the Mixed Fleet Operation Incident is not an issue of safety but of service reliability. The Company also accepted and will implement the recommendations made in the report. Following the satisfactory completion of further additional testing and approval by relevant HKSAR Government departments, the new signalling system and the new nine-car trains on the EAL were commissioned on 6 February 2021 in preparation for extending the EAL across the harbour to Admiralty Station.

(e) 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 14B(c)(i) above), up to the date of this 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 including the timing of any overall settlement in relation to the Hung Hom Incidents and their respective funding obligations relating to the Hung Hom Incidents Related Costs and the level of recovery from relevant parties 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 2022 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.

(f) Opening of SCL

On 11 February 2020, the Company entered into relevant agreements with the HKSAR Government and KCRC to supplement and amend the current agreements to enable the Company to operate Tuen Ma Line Phase 1 in substantially the same manner as the existing railway network for a period of two years from 14 February 2020 including the supplemental service concession agreement ("**SSCA1-SCL**") signed with KCRC.

On 21 June 2021, the Company entered into relevant agreements with the HKSAR Government and KCRC to supplement and amend the current agreements to enable the Company to operate the entire Tuen Ma Line, being the first part of the SCL, in substantially the same manner as the existing railway network for a period of two years from 27 June 2021 including the supplemental service concession agreement ("**SSCA2-SCL**") signed with KCRC. The SSCA2-SCL replaced the SSCA1-SCL.

On 10 May 2022, the Company entered into relevant agreements with the HKSAR Government and KCRC to supplement and amend the current agreements to enable the Company to operate the SCL as a whole in substantially the same manner as the existing railway network but for a period of ten years from 15 May 2022, being the date of commissioning and commercial operation of the second part of the SCL which extended the East Rail Line (Original) (as defined in the SSCA3-SCL) from Hung Hom Station to Admiralty Station via Exhibition Centre Station, including the supplemental service concession agreement ("**SSCA3-SCL**") signed with KCRC. The SSCA3-SCL superseded and replaced the SSCA2-SCL. Prior to the expiry of this ten-year period, the parties are obliged to commence exclusive negotiations in good faith with a view to agreeing the terms of a legally binding agreement in relation to an extension of SCL concession (including, without limitation, that the Company shall operate the SCL pursuant to a service concession as defined in the Mass Transit Railway Ordinance (Cap. 556 of the Laws of Hong Kong)) which shall apply to the SCL the Operating Agreement dated 9 August 2007 and which should in accordance with the Operating Agreement dated 9 August 2007, enable the Company to earn a commercial rate of return from its operation of the SCL.

15 Property Development in Progress

Movements of property development in progress of the Group during the six months ended 30 June 2022 and the year ended 31 December 2021 are as follows:

in HK$ million	Balance at 1 January	Expenditure	Offset against payments received from developers	Transfer out to profit or loss	Balance at 30 June/ 31 December
At 30 June 2022 (Unaudited)					
Hong Kong Property Development Projects	**11,215**	**516**	**(485)**	**(641)**	**10,605**
At 31 December 2021 (Audited)					
Hong Kong Property Development Projects	11,942	600	(834)	(493)	11,215

16 Deferred Expenditure

As at 30 June 2022, included in deferred expenditure are costs incurred of HK$1.8 billion (31 December 2021: HK$0.9 billion) in relation to certain projects with the HKSAR Government which the project agreements are yet to be reached. The future development of the respective projects is expected to bring future economic benefits to the Group. In the event that in a future period it is no longer considered probable that the corresponding project agreements can be reached, and the costs concerned are no longer considered as recoverable, the costs concerned will be charged to the consolidated profit and loss account in that reporting period.

17 Properties Held for Sale

in HK$ million	At 30 June 2022 (Unaudited)	At 31 December 2021 (Audited)
Properties held for sale		
– at cost	**1,108**	614
– at net realisable value	**25**	25
	1,133	639
Representing:		
Hong Kong property development	**1,109**	543
Mainland China property development	**24**	96
	1,133	639

Properties held for sale represent the Group's interest in unsold properties or properties received by the Group as sharing-in-kind in Hong Kong, and the Group's unsold properties in Mainland China.

For Hong Kong property development, the net realisable values as at 30 June 2022 and 31 December 2021 were determined by reference to an open market valuation of the properties as at those dates, undertaken by an independent firm of surveyors, Colliers International (Hong Kong) Limited, who have among their staff Members of the Hong Kong Institute of Surveyors.

Properties held for sale at net realisable value as at 30 June 2022 are stated net of provision of HK$4 million (31 December 2021: HK$4 million) made in order to state these properties at the lower of their cost and estimated net realisable value.

18 Derivative Financial Assets and Liabilities

The notional amounts and fair values of derivative financial assets and liabilities are as follows:

	At 30 June 2022 (Unaudited)		At 31 December 2021 (Audited)	
in HK$ million	Notional amount	Fair value	Notional amount	Fair value
Derivative Financial Assets				
Foreign exchange forwards				
– fair value hedges	–	–	498	1
– cash flow hedges	13	–	128	2
– not qualified for hedge accounting	9	–	111	1
Cross currency swaps				
– fair value hedges	928	39	4,969	159
– cash flow hedges	18,762	449	12,742	145
Interest rate swaps				
– fair value hedges	400	1	2,400	26
– cash flow hedges	500	75	500	17
– not qualified for hedge accounting	3,034	55	2,034	12
	23,646	619	23,382	363
Derivative Financial Liabilities				
Foreign exchange forwards				
– fair value hedges	1,974	12	3,450	10
– cash flow hedges	526	41	424	15
– not qualified for hedge accounting	552	38	276	15
Cross currency swaps				
– fair value hedges	3,803	110	783	5
– cash flow hedges	3,634	623	9,654	515
Interest rate swaps				
– fair value hedges	1,600	77	–	–
– not qualified for hedge accounting	300	37	300	1
	12,389	938	14,887	561
Total	36,035		38,269	

19 Debtors and Other Receivables

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

(i) The majority of fare revenue from Hong Kong transport operation (except for that from the High Speed Rail as described in note 19(ii) below) is collected either through Octopus Cards and QR code with daily settlement on the next working day or in cash for other ticket types. A small portion of it is collected through pre-sale agents which settle the amounts due within 30 days.

(ii) In respect of the High Speed Rail, tickets are sold by the Company and other mainland train operators. The clearance centre of China Railway Corporation administers the revenue allocation and settlement system of the Guangzhou-Shenzhen-Hong Kong Express Rail Link and allocates the revenue of the High Speed Rail to the Company under a "section-based" approach with settlement in the following month.

(iii) Fare revenue from SZL4 is collected either through Shenzhen Tong Cards or QR code payment with daily settlement on the next working day or in cash for other ticket types. Fare revenue from MTRX in Sweden is collected through a third party financial institution with settlement within 14 days and sales through pre-sale agents are settled in the following month. Service fees from Macao Light Rapid Transit Taipa Line are billed monthly with due dates in accordance with the terms of the service agreement.

(iv) Franchise revenue in Australia is collected either daily or monthly depending on the revenue nature. The majority of the franchise revenue from operations in Stockholm is collected in the transaction month with the remainder being collected in the following month. Concession revenue for TfL Rail/Elizabeth Line is collected once every 4 weeks.

(v) Rentals, advertising and telecommunication service fees are billed monthly with due dates ranging from immediately due to 60 days. Tenants of the Group's investment properties and station kiosks are required to pay three months' rental deposit upon the signing of lease agreements.

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

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

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

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

19 Debtors and Other Receivables *(continued)*

The ageing analysis of debtors by due dates is as follows:

in HK$ million	**At 30 June 2022 (Unaudited)**	At 31 December 2021 (Audited)
Amounts not yet due	**3,146**	3,779
Overdue by within 30 days	**262**	283
Overdue by more than 30 days but within 60 days	**89**	62
Overdue by more than 60 days but within 90 days	**49**	34
Overdue by more than 90 days	**173**	139
Total debtors	**3,719**	4,297
Other receivables and contract assets	**7,055**	10,500
	10,774	14,797

Included in other receivables as at 30 June 2022 was HK$461 million (31 December 2021: HK4,300 million) in respect of property development profit in Hong Kong distributable from stakeholding funds and receivables from property purchasers based on the terms of the development agreements and sales and purchase agreements. In addition, the Company purchased the tax reserve certificates of Hong Kong Profits Tax in respect of certain payments relating to the Rail Merger. Details are set out in note 8B to this interim financial report.

20 Material Related Party Transactions

The FSI of the HKSAR Government, which holds approximately 74.82% of the Company's issued share capital on trust for the HKSAR Government as at 30 June 2022, is the majority shareholder of the Company. Transactions between the Group and the HKSAR Government departments or agencies, or entities controlled by the HKSAR Government, other than those transactions such as the payment of fees, taxes, leases and rates, etc. that arise in the normal dealings between the HKSAR Government and the Group, are considered to be related party transactions pursuant to HKAS 24 (revised), *Related Party Disclosures*, and are identified separately in this interim financial report.

As at the end of the reporting period, amounts due from/to the HKSAR Government and other related parties in respect of material related party transactions with the Group are stated below:

in HK$ million	**At 30 June 2022 (Unaudited)**	At 31 December 2021 (Audited)
Amounts due from:		
– HKSAR Government	**938**	757
– KCRC	**4,397**	3,507
– associates	**251**	120
	5,586	4,384
Amounts due to:		
– HKSAR Government	**4,820**	86
– KCRC	**639**	333
– associates	**59**	60
	5,518	479

As at 30 June 2022, the amount due from the HKSAR Government mainly related to the recoverable cost for the advanced works in relation to the Shatin to Central Link, reimbursable costs for the essential public infrastructure works in respect of the South Island Line, reimbursement of the fare revenue difference in relation to the "Public Transport Fare Concession Scheme for the Elderly and Eligible Persons with Disabilities", agency fee receivables and reimbursable costs in respect of West Rail property development, as well as receivables and retention for other entrustment and maintenance works.

The amount due to the HKSAR Government as at 30 June 2022 mainly related to the 2021 final ordinary dividend payable (note 9) amounting to HK$4,727 million as well as the land administrative fees in relation to railway extensions.

The amount due from KCRC mainly related to the recoverable cost for certain capital works in accordance with the agreements in relation to the Rail Merger, as well as amounts in relation to the High Speed Rail and Shatin to Central Link. The amount due to KCRC mainly related to the accrued portion of the fixed annual payment and variable annual payment arising from the Rail Merger and operating arrangements of the High Speed Rail and Shatin to Central Link.

20 Material Related Party Transactions *(continued)*

Details of major related party transactions entered into by the Group with the HKSAR Government in prior years that are still relevant for the current period and those with KCRC in respect of the Rail Merger and operating arrangements of the High Speed Rail and Tuen Ma Line were described in the Group's audited accounts for the year ended 31 December 2021. Details of major related party transactions entered into by the Group with KCRC in respect of Shatin to Central Link has been described in note 14B(f). During the six months ended 30 June 2022, amounts recoverable or invoiced by the Company under West Rail Agency Agreement is HK$18 million (2021: HK$24 million) and amount payable or paid by the Company under Service Concession Agreement is HK$573 million (2021: HK$586 million). Net revenue received or receivable from KCRC in respect of High Speed Rail under SSCA-HSR, Tuen Ma Line and Shatin to Central Link under SSCA2-SCL and SSCA3-SCL amounted to HK$935 million (2021: Net revenue received or receivable from KCRC in respect of High Speed Rail under SSCA-HSR and Tuen Ma Line under SSCA1-SCL and SSCA2-SCL amounted to HK$762 million).

The Company entered into entrustment agreements with the HKSAR Government for the design, site investigation, procurement activities, construction, testing and commissioning of High Speed Rail and Shatin to Central Link. Detailed description of the agreements and the amount of project management fees recognised for the six months ended 30 June 2022 are provided in notes 14A and 14B. In addition, an amount of HK$247 million was paid/payable to the HKSAR Government (net of amount received/receivable) during the six months ended 30 June 2022 (2021: HK$30 million) under SCL EA3's payment arrangement with the HKSAR Government and relevant contractors.

In addition, in connection with the property developments along the railway system, the Company has been granted land lot by the HKSAR Government in respect of the following site during the six months ended 30 June 2022:

Property development site	Land grant/land premium offer acceptance date	Total land premium in HK$ million	Land premium settlement date
Pak Shing Kok Ventilation Building	**27 April 2022**	**1,101**	**27 April 2022 and 8 July 2022**

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

On 2 July 2020, the Company entered into a contract with the HKAA for the maintenance of the System for a seven-year period effective from 6 January 2021. In respect of the services provided, HK$84 million was recognised as consultancy income during the six months ended 30 June 2022 (2021: HK$102 million).

During the six months ended 30 June 2022, the Group had the following transactions with its associates, namely Octopus Holdings Limited and its subsidiaries ("Octopus Group") (in Hong Kong) and NRT Group Holdings Pty Ltd and its subsidiaries ("NRT Group") (in Australia):

in HK$ million	**Six months ended 30 June 2022**	Six months ended 30 June 2021
Octopus Group		
– Expenses paid or payable in respect of central clearing services provided by Octopus Group	**41**	44
– Fees received or receivable in respect of load agent, Octopus card issuance and refund services, computer equipment and relating services and warehouse storage space provided to Octopus Group	**6**	11
NRT Group		
– Fees received or receivable in respect of mobilisation, operations and maintenance as well as design, delivery and integration services provided to NRT Group	**1,514**	1,157

21 Creditors, Other Payables and Provisions

The analysis of creditors by due dates is as follows:

in HK$ million	**At 30 June 2022 (Unaudited)**	At 31 December 2021 (Audited)
Due within 30 days or on demand	**8,295**	7,631
Due after 30 days but within 60 days	**1,622**	1,754
Due after 60 days but within 90 days	**957**	730
Due after 90 days	**4,554**	4,088
	15,428	14,203
Rental and other refundable deposits	**2,779**	2,818
Accrued employee benefits	**2,054**	1,599
Dividends payable to other shareholders	**1,590**	–
Total creditors and accrued charges	**21,851**	18,620
Other payables and provisions (notes 14B(b)(iii) & (c)(iii))	**16,168**	18,583
Contract liabilities	**2,371**	2,874
	40,390	40,077

22 Loans and Other Obligations

Notes issued by the Group during the six months ended 30 June 2022 and 2021 comprise:

	Six months ended 30 June 2022		Six months ended 30 June 2021	
in HK$ million	Principal amount	Net consideration received	Principal amount	Net consideration received
Debt issuance programme notes	**–**	**–**	5,225	5,225

During the six months ended 30 June 2022, the Group did not issue any listed or unlisted debt securities (2021: issued RMB2,600 million (HK$3,097 million) of its listed debt securities and issued HK$1,418 million and RMB600 million (HK$710 million) of its unlisted debt securities in the respective currency).

As at 30 June 2022 and 31 December 2021, there were outstanding debt securities issued by a wholly-owned subsidiary, MTR Corporation (C.I.) Limited ("MTRCI"). The obligations of the debt securities issued by MTRCI are direct, unsecured and unsubordinated to the other unsecured obligations of MTRCI which are unconditionally and irrevocably guaranteed by the Company. The obligations of the Company under the guarantee are direct, unsecured, unconditional, and unsubordinated to other unsecured and unsubordinated obligations of the Company.

During the six months ended 30 June 2022, the Group redeemed RMB1,350 million (HK$1,606 million) of its listed debt securities (2021: HK$nil). The Group redeemed HK$2,230 million and RMB250 million (HK$296 million) (2021: HK$2,313 million, RMB720 million (HK$783 million) and USD60 million (HK$465 million)) of its unlisted debt securities in respective currency.

As at 30 June 2022, MTR Corporation (Shenzhen) Limited, a wholly owned subsidiary of the Company in the 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 RMB922 million (HK$1,081 million) bank loan facility granted to it.

As at 30 June 2022, MTR CREC Metro (Shenzhen) Company Limited (formerly translated as "MTR CREG Metro (Shenzhen) Company Limited"), a subsidiary of the Company in the 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$3.8 billion) bank loan facility granted to it.

Saved as disclosed above and those disclosed elsewhere in this interim financial report, none of the other assets of the Group was charged or subject to any encumbrance as at 30 June 2022.

23 Deferred Tax Assets and Liabilities

A Movements of deferred tax assets and liabilities during the six months ended 30 June 2022 and the year ended 31 December 2021 are as follows:

	Deferred tax arising from					
in HK$ million	Depreciation allowances in excess of related depreciation	Revaluation of properties	Provision and other temporary differences	Cash flow hedges	Tax losses	Total
Balance as at 1 January 2022	**13,669**	**716**	**(463)**	**1**	**(104)**	**13,819**
Credited to consolidated profit and loss account	**(5)**	**(9)**	**(146)**	**–**	**(24)**	**(184)**
(Credited)/charged to reserves	**–**	**(4)**	**–**	**62**	**–**	**58**
Exchange differences	**(5)**	**2**	**23**	**–**	**10**	**30**
Balance as at 30 June 2022 (unaudited)	**13,659**	**705**	**(586)**	**63**	**(118)**	**13,723**
Balance as at 1 January 2021	13,365	723	(314)	29	(148)	13,655
Charged/(credited) to consolidated profit and loss account	302	(30)	(225)	–	36	83
Charged/(credited) to reserves	–	23	43	(28)	–	38
Exchange differences	2	–	33	–	8	43
Balance as at 31 December 2021 (audited)	13,669	716	(463)	1	(104)	13,819

B Deferred tax assets and liabilities recognised in the consolidated statement of financial position are as follows:

in HK$ million	**At 30 June 2022 (Unaudited)**	At 31 December 2021 (Audited)
Net deferred tax assets	**(669)**	(599)
Net deferred tax liabilities	**14,392**	14,418
	13,723	13,819

24 Share Capital and Shares Held for Executive Share Incentive Scheme

A Share Capital

	Six months ended 30 June 2022		Year ended 31 December 2021	
	Number of shares	HK$ million	Number of shares	HK$ million
Ordinary shares, issued and fully paid:				
At 1 January	**6,193,462,514**	**60,184**	6,180,927,873	59,666
Shares issued in respect of scrip dividend of 2020 final ordinary dividend	**–**	**–**	8,510,398	369
Shares issued in respect of scrip dividend of 2021 interim ordinary dividend	**–**	**–**	1,676,743	74
Vesting of shares of Executive Share Incentive Scheme	**–**	**4**	–	3
Shares issued under the share option scheme	**–**	**–**	2,347,500	72
At 30 June/31 December	**6,193,462,514**	**60,188**	6,193,462,514	60,184

24 Share Capital and Shares Held for Executive Share Incentive Scheme *(continued)*

B New shares issued and fully paid up during the six months ended 30 June 2021 comprise:

	Number of shares	Weighted average exercise price HK$
Employee share options exercised:		
– 2007 Share Option Scheme	2,347,500	28.65

C As at 30 June 2021, all outstanding share options granted under the 2007 Share Option Scheme had been exercised and/or lapsed. Movements in the number of share options outstanding during the six months ended 30 June 2021 are as follows:

	2007 Share Option Scheme
Outstanding at 1 January 2021	2,347,500
Exercised during the six months ended 30 June 2021	(2,347,500)
Outstanding at 30 June 2021	–
Exercisable at 30 June 2021	–

D During the six months ended 30 June 2022, the Company awarded Performance Shares and Restricted Shares under the Company's Executive Share Incentive Scheme to certain eligible employees of the Company. A total of 240,700 Performance Shares (2021: 1,558,050) and 2,639,250 Restricted Shares (2021: 1,955,950) were awarded and accepted by the grantees on 8 April 2022 (2021: 8 April 2021). The fair value of these awarded shares was HK$42.05 per share (2021: HK$44.05 per share) at the grant date.

E During the six months ended 30 June 2022, 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 2,560,000 Ordinary Shares (2021: 2,650,000) of the Company for a total consideration of approximately HK$109 million (2021: HK$116 million).

F During the six months ended 30 June 2022, 1,958,452 award shares (2021: 2,954,337) were transferred to the awardees under the Executive Share Incentive Scheme upon vesting. The total cost of the vested shares was HK$86 million (2021: HK$133 million). During the six months ended 30 June 2022, HK$4 million (2021: HK$3 million) was credited to share capital in respect of vesting of shares whose fair values at the grant date were higher than the costs of the vested shares. During the six months ended 30 June 2022, 96,119 award shares (2021: 727,369) were forfeited.

25 Fair Value Measurement

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

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

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

Level 3: Fair value measured using significant unobservable inputs

A Fair Value Measurements of Fixed Assets

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

During the six months ended 30 June 2022 and 2021, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 in respect of the Group's investment properties and self-occupied buildings. The Group's policy is to recognise transfers between levels of fair value hierarchy at the end of the reporting period in which they occur.

B Fair Value Measurements of Financial Instruments

(i) Financial Assets and Liabilities Carried at Fair Value

Included in the Group's investments in securities as at 30 June 2022, there were HK$266 million (31 December 2021: HK$272 million) of debt securities carried at fair value using Level 1 measurements, HK$500 million (31 December 2021: HK$499 million) of investment in bank medium-term notes carried at fair value using Level 2 measurements and HK$704 million (31 December 2021: HK$708 million) of unlisted equity securities carried at fair value using Level 3 measurements.

25 Fair Value Measurement *(continued)*

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

The Group's derivative financial instruments were carried at fair value using Level 2 measurements. As at 30 June 2022, the fair values of derivative financial assets and derivative financial liabilities were HK$619 million (31 December 2021: HK$363 million) and HK$938 million (31 December 2021: HK$561 million) respectively.

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

During the six months ended 30 June 2022, the additions to the investments in unlisted equity securities amounted to HK$nil (2021: HK$110 million), and the Group recognised the net increase in fair value of HK$11 million (2021: HK$10 million) in the consolidated profit and loss account. The fair value of the Group's investments in unlisted equity securities is determined based on the adjusted net asset method. The significant unobservable input includes the fair value of the individual assets less liabilities (recognised and unrecognised). The fair value measurement is positively correlated to the fair value of the individual assets less liabilities (recognised and unrecognised).

As at 30 June 2022, it is estimated that a 5-percent increase/decrease in fair value of the total individual assets less liabilities (recognised and unrecognised), with all other variables held constant, would increase/decrease the Group's profit after tax by approximately HK$26 million/ HK$26 million (31 December 2021: HK$27 million/HK$27 million).

At the end of each interim and annual reporting period, valuations are performed for the financial instruments which are categorised into Level 3 of the fair value hierarchy, and the valuation assumptions and results are reviewed by the Group's management accordingly.

During the six months ended 30 June 2022 and 2021, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy at the end of the reporting period in which they occur.

(ii) Financial Assets and Liabilities Not Carried at Fair Value

The carrying amounts of the Group's financial assets and liabilities not carried at fair value are not materially different from their fair values as at 30 June 2022 and 31 December 2021 except for capital market instruments and other obligations, for which their carrying amounts and fair values are disclosed below:

	At 30 June 2022 (Unaudited)		At 31 December 2021 (Audited)	
in HK$ million	Carrying amount	Fair value	Carrying amount	Fair value
Capital market instruments	**32,396**	**32,808**	37,027	41,102
Other obligations	**1,596**	**1,626**	1,574	1,663

The above fair value measurement is categorised as Level 2. The discount cash flow method, which discounts the future contractual cash flows at the current market interest rates, is the main valuation technique used to determine the fair value of the Group's capital market instruments and other obligations. The discount rates used were derived from the swap curves of the respective currencies at the end of the reporting period. Closing exchange rates at the end of the reporting period were used to convert value in foreign currency to local currency.

26 Cash Generated from Operations

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

in HK$ million	**Six months ended 30 June 2022 (Unaudited)**	Six months ended 30 June 2021 (Unaudited)
Operating profit before Hong Kong property development, fair value measurement of investment properties, depreciation, amortisation and variable annual payment from recurrent businesses	**3,633**	3,924
Adjustments for non-cash items	**165**	96
Operating profit before working capital changes	**3,798**	4,020
(Increase)/decrease in debtors and other receivables	**(358)**	1,717
Increase in stores and spares	**(207)**	(141)
Increase/(decrease) in creditors, other payables and provisions	**1,384**	(849)
Cash generated from operations	**4,617**	4,747

27 Capital Commitments

A Outstanding capital commitments as at 30 June 2022 and 31 December 2021 not provided for in this interim financial report were as follows:

in HK$ million	Hong Kong transport operations, station commercial and other businesses	Hong Kong railway extension projects	Hong Kong property rental and development	Mainland China and overseas operations	Total
At 30 June 2022 (Unaudited)					
Authorised but not yet contracted for	**12,638**	**2,459**	**1,752**	**2**	**16,851**
Authorised and contracted for	**18,686**	**3,115**	**1,179**	**41**	**23,021**
	31,324	**5,574**	**2,931**	**43**	**39,872**
At 31 December 2021 (Audited)					
Authorised but not yet contracted for	10,741	5,773	2,242	28	18,784
Authorised and contracted for	19,670	1,413	1,364	35	22,482
	30,411	7,186	3,606	63	41,266

In addition to the above, the Group has the following capital commitments in respect of its investments in subsidiary and associate:

(i) In respect of Shenzhen Metro Line 13, the Group is responsible to contribute equity injection of up to RMB1,428 million (HK$1,674 million). Up to 30 June 2022, the Group has contributed RMB571 million (HK$669 million) equity to the project.

(ii) In respect of Sydney Metro City & Southwest, the Group is expected to further contribute equity of approximately AUD12.7 million (HK$69 million) and loans of approximately AUD13.3 million (HK$72 million) to the project for the share of investment.

B The capital commitments not provided for in this interim financial report under Hong Kong transport operations, station commercial and other businesses comprise the following:

in HK$ million	Improvement, enhancement and replacement works	Acquisition of property, plant and equipment	Additional concession property	Total
At 30 June 2022 (Unaudited)				
Authorised but not yet contracted for	**6,712**	**1,642**	**4,284**	**12,638**
Authorised and contracted for	**15,280**	**671**	**2,735**	**18,686**
	21,992	**2,313**	**7,019**	**31,324**
At 31 December 2021 (Audited)				
Authorised but not yet contracted for	5,990	1,168	3,583	10,741
Authorised and contracted for	16,044	659	2,967	19,670
	22,034	1,827	6,550	30,411

28 Comparative Figures

Certain comparative figures have been reclassified to conform to current period's presentation.

29 Approval of Interim Financial Report

The interim financial report was approved by the Board on 11 August 2022.