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 financial statements 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 2022 annual financial statements. The condensed consolidated interim financial statements and notes thereto do not include all of the information required for a complete set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), and should be read in conjunction with the 2022 annual financial statements.

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

- The Company has delivered the financial statements for the year ended 31 December 2022 to the Registrar of Companies in accordance with section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance.
- The Company's auditor has reported on those consolidated financial statements. 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 new HKFRS and 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.

On 4 July 2023, the HKICPA issued guidance on the accounting considerations for the mandatory provident fund – long service payment offsetting mechanism in Hong Kong, and the abolition of such mechanism, which was gazetted by the Government of the Hong Kong Special Administrative Region (the "HKSAR Government" or "Government") on 9 June 2022. The Group has not yet implemented the accounting policy change brought by the HKICPA guidance on the basis that additional time and efforts are required to collate the necessary data and to implement the policy change. Please refer to note 30 for further details.

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

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 2023		Six months ended 30 June 2022	
in HK$ million	Revenue	Expenses	Revenue	Expenses
Melbourne Train	**7,232**	**6,684**	6,742	6,162
Sydney Metro North West	**410**	**372**	306	279
Sydney Metro City & Southwest	**772**	**751**	1,203	1,090
MTR Nordic	**2,394**	**2,691**	2,798	2,810
London Elizabeth Line	**1,408**	**1,338**	1,283	1,189
Shenzhen Metro Line 4 ("SZL4")	**381**	**291**	337	294
Shenzhen Metro Line 13 (note 13A)	**109**	**109**	90	90
Others	**373**	**311**	391	313
	13,079	**12,547**	13,150	12,227
Property development in Mainland China	**–**	**9**	138	89
Total Mainland China and international subsidiaries	**13,079**	**12,556**	13,288	12,316

2 Revenue and Expenses relating to Mainland China and International Subsidiaries *(continued)*

MTR Nordic comprises the Mälartåg, MTR Tech, MTRX, Stockholm Commuter Rail ("Stockholms pendeltåg") and Stockholm Metro operations in Sweden. MTRX operations were stable during the six months ended 30 June 2023. However, due to various challenges, the Group is exploring other options for this business including divestment. Separately, Stockholms pendeltåg continued to face challenges from a shortage of local drivers and maintenance issues during the reporting period and the Group is studying options for this business. As previously announced by the Stockholm Transport Authority, this contract will not be extended when it ends in 2026. Mälartåg operations over the six months ended 30 June 2023 were also impacted by the shortage of local drivers and maintenance issues. If the improvement in financial performance of Mälartåg in the near term falls short of expectation, the financial sustainability of this contract may be impacted and a loss provision would need to be considered. The Group is currently studying options as to the way forward of this business.

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, and other businesses (collectively referred to as "recurrent businesses in Hong Kong"), and Mainland China and international railway, property rental and management businesses (referred as "recurrent businesses outside of Hong Kong"), and both excluding fair value measurement of investment properties) and (ii) property development businesses (together with recurrent businesses referred to as "underlying businesses").

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

(i) Hong Kong transport operations: The provision of passenger operation and related services on the domestic mass transit railway system in Hong Kong, the Airport Express serving both the Hong Kong International Airport and the AsiaWorld-Expo at Chek Lap Kok, cross-boundary railway connection with 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 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 Mainland China.

(vi) Mainland China property development: Property development activities in 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 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 2023									
Revenue from contracts with customers within the scope of HKFRS 15	**9,342**	**780**	**170**	**–**	**13,012**	**–**	**277**	**–**	**23,581**
– Recognised at a point in time	**8,670**	**13**	**–**	**–**	**2,272**	**–**	**149**	**–**	**11,104**
– Recognised over time	**672**	**767**	**170**	**–**	**10,740**	**–**	**128**	**–**	**12,477**
Revenue from other sources	**–**	**1,635**	**2,286**	**–**	**67**	**–**	**5**	**–**	**3,993**
Total revenue	**9,342**	**2,415**	**2,456**	**–**	**13,079**	**–**	**282**	**–**	**27,574**
Operating expenses	**(6,662)**	**(255)**	**(458)**	**–**	**(12,547)**	**(9)**	**(240)**	**–**	**(20,171)**
Project study and business development expenses	**–**	**–**	**–**	**–**	**(128)**	**–**	**–**	**(28)**	**(156)**
Operating profit/(loss) before Hong Kong property development, fair value measurement of investment properties, depreciation, amortisation and variable annual payment	**2,680**	**2,160**	**1,998**	**–**	**404**	**(9)**	**42**	**(28)**	**7,247**
Hong Kong property development profit from share of surplus and interest in unsold properties	**–**	**–**	**–**	**783**	**–**	**–**	**–**	**–**	**783**
Gain/(loss) from fair value measurement of investment properties	**–**	**–**	**1,089**	**–**	**(84)**	**–**	**–**	**–**	**1,005**
Operating profit/(loss) before depreciation, amortisation and variable annual payment	**2,680**	**2,160**	**3,087**	**783**	**320**	**(9)**	**42**	**(28)**	**9,035**
Depreciation and amortisation	**(2,644)**	**(123)**	**(5)**	**–**	**(242)**	**–**	**(32)**	**–**	**(3,046)**
Variable annual payment	**(810)**	**(239)**	**(3)**	**–**	**–**	**–**	**–**	**–**	**(1,052)**
Share of profit of associates and joint ventures	**–**	**–**	**–**	**–**	**362**	**–**	**270**	**–**	**632**
(Loss)/profit before interest, finance charges and taxation	**(774)**	**1,798**	**3,079**	**783**	**440**	**(9)**	**280**	**(28)**	**5,569**
Interest and finance charges	**–**	**–**	**–**	**–**	**(11)**	**37**	**–**	**(615)**	**(589)**
Income tax	**–**	**–**	**–**	**(71)**	**(124)**	**(8)**	**–**	**(424)**	**(627)**
(Loss)/profit for the six months ended 30 June 2023	**(774)**	**1,798**	**3,079**	**712**	**305**	**20**	**280**	**(1,067)**	**4,353**

3 Segmental Information *(continued)*

in HK$ million	Hong Kong transport services				Mainland China and international affiliates				
	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

Profit attributable to shareholders of the Company arising from recurrent businesses in Hong Kong for the six months ended 30 June 2023 of HK$2,227 million (2022: loss of HK$232 million) represents (i) the profit for the period of HK$3,294 million (2022: HK$242 million) arising from recurrent businesses in Hong Kong (after excluding gain from fair value measurement of investment properties of HK$1,089 million (2022: loss of HK$2,336 million)) and (ii) un-allocated expenses of HK$1,067 million (2022: HK$474 million) in Hong Kong.

Profit attributable to shareholders of the Company arising from recurrent businesses outside Hong Kong for the six months ended 30 June 2023 of HK$193 million (2022: loss of HK$446 million) represents (i) the profit for the period of HK$368 million (2022: loss of HK$250 million) arising from recurrent business outside Hong Kong (after excluding loss from fair value measurement of investment properties of HK$84 million (2022: HK$53 million) and related income tax credit of HK$21 million (2022: HK$13 million)), and (ii) net of profit attributable to non-controlling interests of HK$175 million (2022: HK$196 million).

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

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

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

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

5 Gain/(Loss) from Fair Value Measurement of Investment Properties

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

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

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

Taking into account the outstanding risks and obligations of HK$4.0 billion retained by the Group and HK$0.2 billion cost incurred/to be incurred by the Group in connection with this property development, in accordance with the Group's accounting policies, HK$1.0 billion was recognised as gain from fair value measurement of investment properties on initial recognition from property development in profit or loss for the six months ended 30 June 2023. Deferred income of HK$4.0 billion retained was recognised in the Group's consolidated statement of financial position and included in "Creditors, other payables and provisions" (note 23).

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

6 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 2023**	Six months ended 30 June 2022
Share of profit before taxation	**900**	822
Share of income tax expenses	**(268)**	(332)
	632	490

7 Interest and Finance Charges

Interest and finance charges comprise:

in HK$ million	**Six months ended 30 June 2023**		Six months ended 30 June 2022	
Interest expenses in respect of:				
– Bank loans, overdrafts and capital market instruments	**797**		428	
– Obligations under service concession	**341**		344	
– Lease liabilities	**21**		23	
– Others	**21**		21	
Finance charges	**22**		21	
Exchange gain	**(22)**		(152)	
		1,180		685
Utilisation of government subsidy for SZL4 operation		**–**		(21)
Derivative financial instruments:				
– Fair value hedges	**(2)**		(17)	
– Cash flow hedges:				
– transferred from hedging reserve to interest expenses	**(11)**		(11)	
– transferred from hedging reserve to offset exchange gain	**45**		163	
– Derivatives not qualified for hedge accounting	**16**		(7)	
		48		128
Interest expenses capitalised		**(283)**		(177)
		945		615
Interest income in respect of:				
– Deposits with banks	**(302)**		(119)	
– Others	**(54)**		(38)	
		(356)		(157)
		589		458

8 Income Tax

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

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

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

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

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

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

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

9 Dividends

Ordinary dividends to shareholders of the Company are as follows:

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

The 2023 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.

For 2023 interim ordinary dividend, the Board resolved that a scrip dividend option will be offered to all shareholders of the Company whose names appeared on the register of members of the Company as at the close of business on 30 August 2023 (except for those with registered addresses in New Zealand or the United States of America or any of its territories or possessions).

The Company has recognised 2022 final ordinary dividend payable of HK$4,124 million to the Financial Secretary Incorporated (the "FSI") of the HKSAR Government and HK$1,396 million to other shareholders in the "Amounts due to related parties" (note 22) and "Creditors, other payables and provisions" (note 23) respectively in the consolidated statement of financial position as at 30 June 2023.

10 Earnings Per Share

A Basic Earnings Per Share

The calculation of basic earnings per share is based on the profit attributable to shareholders of the Company for the six months ended 30 June 2023 of HK$4,178 million (2022: HK$4,732 million) and the weighted average number of ordinary shares in issue less shares held for Executive Share Incentive Scheme, which is calculated as follows:

	Six months ended 30 June 2023	Six months ended 30 June 2022
Issued ordinary shares at 1 January and 30 June	**6,202,060,784**	6,193,462,514
Less: Shares held for Executive Share Incentive Scheme	**(5,808,651)**	(5,378,222)
Weighted average number of ordinary shares less shares held for Executive Share Incentive Scheme for the six months ended 30 June	**6,196,252,133**	6,188,084,292

B Diluted Earnings Per Share

The calculation of diluted earnings per share is based on the profit attributable to shareholders of the Company for the six months ended 30 June 2023 of HK$4,178 million (2022: HK$4,732 million) and the weighted average number of ordinary shares in issue less shares held for Executive Share Incentive Scheme after adjusting for the dilutive effect of the Company's Executive Share Incentive Scheme, which is calculated as follows:

	Six months ended 30 June 2023	Six months ended 30 June 2022
Weighted average number of ordinary shares less shares held for Executive Share Incentive Scheme for the six months ended 30 June	**6,196,252,133**	6,188,084,292
Effect of shares awarded under Executive Share Incentive Scheme	**6,089,105**	5,787,213
Weighted average number of shares (diluted) for the six months ended 30 June	**6,202,341,238**	6,193,871,505

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

11 Other Comprehensive Income/(Loss)

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

in HK$ million	Six months ended 30 June 2023 Before-tax amount	Six months ended 30 June 2023 Tax (expenses)/ credit	Six months ended 30 June 2023 Net-of-tax amount	Six months ended 30 June 2022 Before-tax amount	Six months ended 30 June 2022 Tax credit/ (expenses)	Six months ended 30 June 2022 Net-of-tax amount
Exchange differences on translation of:						
– Financial statements of subsidiaries, associates and joint ventures outside Hong Kong	**(738)**	**–**	**(738)**	(951)	–	(951)
– Non-controlling interests	**(4)**	**–**	**(4)**	(9)	–	(9)
	(742)	**–**	**(742)**	(960)	–	(960)
Surplus/(loss) on revaluation of self-occupied land and buildings (note 12B)	**22**	**(4)**	**18**	(25)	4	(21)
Cash flow hedges: net movement in hedging reserve (note 11B)	**(51)**	**8**	**(43)**	375	(62)	313
Other comprehensive (loss)/income	**(771)**	**4**	**(767)**	(610)	(58)	(668)

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 2023	Six months ended 30 June 2022
Cash flow hedges:		
Effective portion of changes in fair value of hedging instruments recognised during the period	**(97)**	213
Amounts transferred to profit or loss during the period:		
– Interest and finance charges (note 7)	**34**	152
– Other expenses	**12**	10
Deferred tax on the above items	**8**	(62)
	(43)	313

12 Investment Properties and Other Property, Plant and Equipment

A Investment Properties

Investment properties of the Group in Hong Kong and Mainland China were remeasured at the reporting date by independent firms of surveyors, 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.

Movements of the Group's investment properties, all of which being held in Hong Kong and Mainland China and carried at fair value, are as follows:

in HK$ million	Six months ended 30 June 2023 (Unaudited)	Year ended 31 December 2022 (Audited)
At 1 January	**91,671**	84,801
Additions*	**5,776**	9,977
Fair value remeasurement on investment properties (note 5)	**–**	(3,076)
Exchange loss	**(15)**	(31)
At 30 June/31 December	**97,432**	91,671

* Additions for the six months ended 30 June 2023 include the fair value measurement of investment properties on initial recognition from property development of HK$5,211 million (note 5) (for the year ended 31 December 2022: HK$9,186 million) and transfer from deferred expenditure of HK$92 million (for the year ended 31 December 2022: HK$398 million).

Investment properties are remeasured semi-annually and future market condition changes may result in further gains or losses to be recognised through consolidated statement of profit or loss 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 2023, the Group acquired assets (other than right-of-use assets) at a total cost of HK$2,322 million before offset by government grant (2022: HK$1,790 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 an independent firm of surveyors, Colliers International (Hong Kong) Limited. The valuation resulted in a revaluation surplus of HK$22 million (2022: loss of HK$25 million) and related deferred tax expenses of HK$4 million (2022: related deferred tax credit of HK$4 million), which has been recognised in other comprehensive income (note 11A) and accumulated in the fixed assets revaluation reserve account.

C Right-of-use Assets

During the six months ended 30 June 2023, additions to right-of-use assets were HK$5,814 million (2022: HK$324 million). This amount primarily related to additions of leasehold investment properties of HK$5,776 million (note 12A) (2022: HK$98 million) and plant and equipment leased of HK$24 million (2022: HK$200 million).

13 Service Concession Assets

A During the six months ended 30 June 2023, the Group incurred HK$1,174 million (2022: HK$1,113 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$39 million (2022: HK$44 million) and HK$43 million (2022: HK$22 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, as well as HK$109 million (2022: HK$90 million) of expenditure for asset additions in respect of Shenzhen Metro Line 13.

B 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 2023, 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.

At 30 June 2022, as it was 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 statement of profit or loss for the six months ended 30 June 2022. The recoverable amount for impairment had been determined based on a value in use calculation covering the remaining service concession period. An estimated pre-tax discount rate of 9.2% was used in estimating SZL4's value in use as at 30 June 2022.

Based on the review performed by the Group as at 30 June 2023, no further impairment loss was recognised as at 30 June 2023.

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) Entrustment Agreements

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

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

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

The HKSAR Government has the right to claim against the Company if the Company breaches the HSR Entrustment Agreement (including, if the Company breaches the warranties it gave in respect of its project management services) and, under the HSR Entrustment Agreement, to be indemnified by the Company in relation to losses suffered by the HKSAR Government as a result of any negligence of the Company in performing its obligations under the HSR Entrustment Agreement or any breach of the HSR Entrustment Agreement by the Company. Under the HSR Entrustment Agreement, the Company's total aggregate liability to the HKSAR Government arising out of or in connection with the Entrustment Agreements (other than for death or personal injury) is subject to a cap equal to the total of HSR Project Management Fee and any other fees that the Company receives under the HSR Entrustment Agreement and certain fees received by the Company under the HSR Preliminary Entrustment Agreement (the "**Liability Cap**"). In accordance with general principles of law, such Liability Cap could not be relied upon if the Company were found to be liable for the fraudulent or other dishonest conduct of its employees or agents, to the extent that the relevant loss had been caused by such fraudulent or other dishonest conduct. Although the HKSAR Government has reserved the right to refer to arbitration the question of the Company's liability for the Current Cost Overrun (as defined hereunder) (if any) under the HSR Preliminary Entrustment Agreement and the HSR Entrustment Agreement (as more particularly described in note 14A(b)(v) below), up to the date of this interim financial report, no claim has been received from the HKSAR Government.

(b) HSR Agreement

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

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

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

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

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

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

- bear such amount as is awarded to the HKSAR Government up to the Liability Cap;
- seek the approval of its independent shareholders, at another General Meeting (at which the 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.

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)*

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

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

(ii) any possible liability of the Company that may be determined in accordance with any arbitration that may take place (as more particularly described in note 14A(b)(v) above), given that (a) the Company has not received any notification from the HKSAR Government of any claim by the HKSAR Government against the Company or of any referral by the HKSAR Government to arbitration as of 30 June 2023 and up to the date of 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 where applicable, because the Company is not able to measure with sufficient reliability the amount of the Company's obligation or liability (if any).

B Shatin to Central Link ("SCL") Project

(a) SCL Agreements

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

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

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

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

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

(b) SCL EA3 Cost Overrun

(i) Cost to Complete

The Company has previously announced that, due to the continuing challenges posed by external factors, including issues such as delays due to the discovery of archaeological relics, the HKSAR Government's requests for additional scope and late or incomplete handover of construction sites, the Original Entrusted Amount under SCL EA3 would not be sufficient to cover the total estimated cost to complete ("**CTC**") and would need to be revised upwards significantly. After carrying out detailed reviews of the estimated CTC for the main construction works, on 10 February 2020, the Company submitted a revised estimated total CTC of HK$82,999 million ("**2020 CTC Estimate**"), including additional project management fee payable to the Company of HK$1,371 million ("**Additional PMC**"), being the additional cost to the Company of carrying out its remaining project management responsibilities under the SCL EA3, as detailed in note 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 statement of profit or loss for the year ended 31 December 2019 (as detailed in note 14B(c)(ii) below). The 2020 CTC Estimate represents an increase of HK$12,172 million from the Original Entrusted Amount of HK$70,827 million.

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

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

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

(ii) Provision for 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.

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

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

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

(c) Hung Hom Incidents

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

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

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

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

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

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

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

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

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

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

(ii) Provision for the Hung Hom Incidents Related Costs

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

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

After taking into account the matters described in note 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 statement of profit or loss for the year ended 31 December 2019. During the six months ended 30 June 2023, the provision utilised amounted to HK$24 million (2022: HK$66 million) and no provision was written back (2022: HK$nil). As at 30 June 2023, the provision of HK$803 million (31 December 2022: HK$827 million), net of amount utilised, is included in "Creditors, other payables and provisions" in the consolidated statement of financial position.

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

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

The HKSAR Government has the right to claim against the Company if the Company breaches the SCL Agreements (including, if the Company breaches the warranties it gave in respect of its project management services) and, under each SCL Agreement, to be indemnified by the Company in relation to losses incurred by the HKSAR Government as a result of the negligence of the Company in performing its obligations under the relevant SCL Agreement or breach thereof by the Company. Under the SCL EA3, the Company's total aggregate liability to the HKSAR Government arising out of or in connection with the SCL Agreements (other than for death or personal injury) is subject to a cap equal to the fees that the Company receives under the SCL Agreements. In accordance with general principles of law, such cap could not be relied upon if the Company were found to be liable for the fraudulent or other dishonest conduct of its employees or agents, to the extent that the relevant loss had been caused by such fraudulent or other dishonest conduct. Although the HKSAR Government has stated that it reserves all rights to pursue further actions against the Company and related contractors and has made the statements in its closing submission to the COI (as stated in note 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 remain highly uncertain at the current stage. As a result, no additional provision other than as stated above has been made as the Company is currently not able to measure with sufficient reliability the ultimate amount of the Company's obligation or liability arising from the SCL Project as a whole in light of the significant uncertainties involved. While no provision in respect of the SCL Project related matters was recognised at 30 June 2023 other than as stated above, the Company will reassess on an ongoing basis the need to recognise any further provision in the future in light of any further development.

15 Railway Construction in Progress

Movements of railway construction in progress of the Group during the six months ended 30 June 2023 and the year ended 31 December 2022 are as follows:

in HK$ million	Balance at 1 January	Additions	Utilisation of government grant	Balance at 30 June/ 31 December
At 30 June 2023 (Unaudited)				
Oyster Bay Station	**–**	**71**	**(71)**	**–**
Tung Chung Line Extension	**–**	**1,125**	**–**	**1,125**
	–	**1,196**	**(71)**	**1,125**
At 31 December 2022 (Audited)				
Oyster Bay Station	–	98	(98)	–

The additions represent capital expenditure incurred and transferred from deferred expenditure.

The Oyster Bay Station project is targeted to complete in 2030. Total capital cost for the Oyster Bay Station project based on the defined scope of works and programme is estimated at HK$6.5 billion. As at 30 June 2023, the Company has incurred cumulative expenditure of HK$169 million (31 December 2022: HK$98 million), which was wholly offset by the government grant, and has authorised outstanding commitments totalling HK$6.3 billion in relation to the Oyster Bay Station project which are included in "Capital Commitments" (note 29A).

The Tung Chung Line Extension project is targeted to complete in 2029. Total capital cost for Tung Chung Line Extension project based on the defined scope of works and programme is estimated at HK$24.2 billion. As at 30 June 2023, the Company has incurred cumulative expenditure of HK$1,125 million and has authorised outstanding commitments totalling HK$23.1 billion in relation to the Tung Chung Line Extension project which are included in "Capital Commitments" (note 29A).

16 Property Development in Progress

Movements of property development in progress of the Group during the six months ended 30 June 2023 and the year ended 31 December 2022 are as follows:

in HK$ million	Balance at 1 January	Net additions*	Transfer out to profit or loss	Balance at 30 June/ 31 December
At 30 June 2023 (Unaudited)				
Hong Kong Property Development Projects	**41,269**	**196**	**–**	**41,465**
At 31 December 2022 (Audited)				
Hong Kong Property Development Projects	11,215	41,088	(11,034)	41,269

* The net additions represent expenditure incurred for Hong Kong property development projects, including the amount of land premium, capital expenditure and development costs transferred from deferred expenditure, and be offset by payments received from developers and utilisation of government grant (if any).

17 Deferred Expenditure

As at 30 June 2023, deferred expenditure included costs of HK$1.9 billion (31 December 2022: HK$2.3 billion) mainly incurred for certain railway projects which the project agreements are yet to be reached with the HKSAR Government. 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 statement of profit or loss in that reporting period.

18 Interests in Associates and Joint Ventures

Hangzhou MTR Corporation Limited ("HZMTR"), a 49% owned associate of the Group, operates Hangzhou Metro Line 1 ("HZL1"), the HZL1 Xiasha Extension and HZL1 Airport Extension. HZMTR has been suffering from losses for much of the past several years due to slow growth in patronage and the pandemic. As there is no patronage protection mechanism under this concession agreement, the long-term financial viability of this line will be impacted if patronage remains at a lower level over a further period of time, especially when compounded by the lower average fare resulting from the expanded network.

19 Properties Held for Sale

in HK$ million	At 30 June 2023 (Unaudited)	At 31 December 2022 (Audited)
Properties held for sale		
– at cost	**1,547**	1,307
– at net realisable value	**485**	581
	2,032	1,888
Representing:		
Hong Kong property development	**2,021**	1,876
Mainland China property development	**11**	12
	2,032	1,888

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 2023 and 31 December 2022 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 2023 are stated net of provision of HK$40 million (31 December 2022: HK$43 million) made in order to state these properties at the lower of their cost and estimated net realisable value.

20 Derivative Financial Assets and Liabilities

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

	At 30 June 2023 (Unaudited)		At 31 December 2022 (Audited)	
in HK$ million	Notional amount	Fair value	Notional amount	Fair value
Derivative Financial Assets				
Foreign exchange forwards				
– cash flow hedges	**340**	**7**	178	5
– not qualified for hedge accounting	**241**	**5**	152	5
Cross currency swaps				
– fair value hedges	**698**	**7**	1,213	25
– cash flow hedges	**5,529**	**19**	12,915	45
Interest rate swaps				
– fair value hedges	**8,497**	**49**	5,392	39
– cash flow hedges	**7,123**	**105**	4,442	26
– not qualified for hedge accounting	**1,300**	**54**	2,534	71
	23,728	**246**	26,826	216
Derivative Financial Liabilities				
Foreign exchange forwards				
– fair value hedges	**–**	**–**	1,475	(6)
– cash flow hedges	**1,796**	**(31)**	383	(30)
– not qualified for hedge accounting	**362**	**(18)**	223	(18)
Cross currency swaps				
– fair value hedges	**7,011**	**(435)**	4,565	(261)
– cash flow hedges	**17,034**	**(738)**	9,649	(600)
Interest rate swaps				
– fair value hedges	**7,828**	**(157)**	2,401	(142)
– not qualified for hedge accounting	**534**	**(45)**	300	(47)
	34,565	**(1,424)**	18,996	(1,104)
Total	**58,293**		45,822	

21 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 operations (except for that from the High Speed Rail as described in note 21(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 Sweden is collected in the transaction month with the remainder being collected in the following month. Concession revenue for London 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 generally required to pay three to six 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.

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

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

Included in other receivables as at 30 June 2023 was HK$672 million (31 December 2022: HK$2,962 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.

On 23 March 2017, MTR Property (Tianjin) No.1 Company Limited ("MTR TJ No.1") entered into a Framework Agreement comprising, inter alia, a Share Transfer Agreement, with Tianjin Xingtai Jihong Real Estate Co., Ltd. ("TJXJRE"), a wholly-owned subsidiary of Beijing Capital Land Ltd., for the disposal of MTR TJ No.1's 49% equity interest in Tianjin TJ – Metro MTR Construction Company Limited at a consideration of RMB1.3 billion; and MTR TJ No.1's future acquisition of a shopping mall to be developed on the same site at a consideration of RMB1.3 billion. The disposal of equity interest was completed on 10 July 2017 and consequently a prepayment is recognised on the Group's consolidated statement of financial position.

The construction of this shopping mall is targeted for completion in 2024. The Group is now studying possible strategic options of this mall in light of the challenging retail property market conditions. A performance bond in the amount of RMB1.6 billion (HK$1.7 billion) issued by a Hong Kong licensed bank has been provided by TJXJRE to MTR TJ No.1 to guarantee its obligations under the Framework Agreement.

22 Material Related Party Transactions

The FSI of the HKSAR Government, which holds approximately 74.72% of the Company's issued share capital on trust for the HKSAR Government as at 30 June 2023, 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, *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 2023 (Unaudited)**	At 31 December 2022 (Audited)
Amounts due from:		
– HKSAR Government	**1,024**	1,017
– KCRC	**4,409**	4,157
– associates	**282**	255
	5,715	5,429
Amounts due to:		
– HKSAR Government	**4,259**	145
– KCRC	**1,537**	387
– associates	**62**	60
	5,858	592

As at 30 June 2023, 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 2023 mainly related to the 2022 final ordinary dividend payable (note 9) amounting to HK$4,124 million as well as the land administrative fees in relation to railway extensions.

As at 30 June 2023, the amount due from KCRC mainly related to the revenue receivable in respect of High Speed Rail and Shatin to Central Link under relevant supplemental service concession agreements. 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.

Major related party transactions entered into by the Group which are relevant for the current period includes transactions entered into by the Group with the HKSAR Government in prior years and those with KCRC in respect of the Rail Merger and operating arrangements of the High Speed Rail and Shatin to Central Link, the details were described in the Group's audited financial statements for the year ended 31 December 2022. During the six months ended 30 June 2023, amounts recoverable or invoiced by the Company under West Rail Agency Agreement is HK$18 million (2022: HK$18 million) and amount payable or paid by the Company under Service Concession Agreement is HK$1,427 million (2022: HK$573 million). Net revenue received or receivable from KCRC in respect of High Speed Rail, Tuen Ma Line and Shatin to Central Link under relevant supplemental service concession agreements amounted to HK$844 million (2022: HK$935 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 is provided in notes 14A and 14B. In addition, an amount of HK$240 million was paid/payable to the HKSAR Government (net of amount received/receivable) during the six months ended 30 June 2023 (2022: HK$247 million) under SCL EA3's payment arrangement with the HKSAR Government and relevant contractors.

22 Material Related Party Transactions *(continued)*

On 28 February 2023, the Company entered into a project agreement with the HKSAR Government for the financing, design, construction, completion, pre-operation, operation and maintenance of the Tung Chung Line Extension. Pursuant to the project agreement, total amount of land premium payable by the Company in respect of the proposed property development at new Tung Chung East Station shall be assessed by the Government as the full market value of the site (taking into account the presence of the railway) less a total amount of HK$18,365 million ("Reduction Amount") for the purpose of bridging the funding gap of the Tung Chung Line Extension project. The proposed property development site will be developed in portions and the land premium assessment for each portion will be carried out, at the time of the relevant tender, with a specified tranche of the Reduction Amount being deducted.

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$88 million was recognised as consultancy income during the six months ended 30 June 2023 (2022: HK$84 million).

During the six months ended 30 June 2023, 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 2023**	Six months ended 30 June 2022
Octopus Group		
– Expenses paid or payable in respect of central clearing services provided by Octopus Group	**62**	41
– 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	**15**	6
– Dividend received from Octopus Group	**150**	–
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	**1,147**	1,514

23 Creditors, Other Payables and Provisions

The analysis of creditors by due dates is as follows:

in HK$ million	**At 30 June 2023 (Unaudited)**	At 31 December 2022 (Audited)
Due within 30 days or on demand	**8,636**	8,143
Due after 30 days but within 60 days	**1,741**	2,012
Due after 60 days but within 90 days	**811**	886
Due after 90 days	**4,732**	4,544
	15,920	15,585
Rental and other refundable deposits	**2,508**	2,459
Accrued employee benefits	**1,926**	1,539
Dividends payable to other shareholders	**1,396**	–
Total creditors and accrued charges	**21,750**	19,583
Other payables, deferred income and provisions (notes 14B(b)(ii) & (c)(ii))	**52,878**	47,522
Contract liabilities	**2,437**	2,587
	77,065	69,692

Other payables included contract retentions. Deferred income related to (i) the surplus amounts of payments received from property developers in excess of the balance in property development in progress, (ii) portion of fair value amount of shopping mall received from property development in connection with the outstanding risks and obligations retained by the Group (note 5), as well as (iii) the unutilised government grant of HK$31,051 million (31 December 2022: HK$31,522 million).

24 Loans and Other Obligations

A Bonds and Notes Issued and Redeemed

Notes issued by the Group during the six months ended 30 June 2023 and 2022 comprise:

	Six months ended 30 June 2023		Six months ended 30 June 2022	
in HK$ million	Principal amount	Net consideration received	Principal amount	Net consideration received
Debt issuance programme notes	**7,482**	**7,468**	–	–

During the six months ended 30 June 2023, the Group issued RMB345 million (HK$399 million) of listed debt securities (2022: HK$nil). The Group issued HK$5,137 million, RMB400 million (HK$456 million) and USD190 million (HK$1,490 million) of unlisted debt securities in respective currency (2022: HK$nil).

During the six months ended 30 June 2023, the Group did not redeem any of its listed debt securities (2022: redeemed RMB1,350 million (HK$1,606 million)). The Group redeemed RMB350 million (HK$414 million) of its unlisted debt securities (2022: HK$2,230 million and RMB250 million (HK$296 million) in the respective currency).

As at 30 June 2023 and 31 December 2022, 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.

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

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

Saved as disclosed above 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 2023.

25 Deferred Tax Assets and Liabilities

A The components of deferred tax assets and liabilities recognised in the consolidated statement of financial position and the movements during the six months ended 30 June 2023 and the year ended 31 December 2022 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 2023	**14,033**	**752**	**(574)**	**18**	**(135)**	**14,094**
(Credited)/charged to profit or loss	**(17)**	**(9)**	**47**	**–**	**(57)**	**(36)**
Charged/(credited) to other comprehensive income	**–**	**4**	**–**	**(8)**	**–**	**(4)**
Exchange differences	**(6)**	**(6)**	**14**	**–**	**5**	**7**
Balance as at 30 June 2023 (Unaudited)	**14,010**	**741**	**(513)**	**10**	**(187)**	**14,061**
Balance as at 1 January 2022	13,669	716	(463)	1	(104)	13,819
Charged/(credited) to profit or loss	359	17	(126)	–	(44)	206
Charged/(credited) to other comprehensive income	–	9	(38)	17	–	(12)
Exchange differences	5	10	53	–	13	81
Balance as at 31 December 2022 (Audited)	14,033	752	(574)	18	(135)	14,094

25 Deferred Tax Assets and Liabilities *(continued)*

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

in HK$ million	**At 30 June 2023 (Unaudited)**	At 31 December 2022 (Audited)
Net deferred tax assets	**(600)**	(606)
Net deferred tax liabilities	**14,661**	14,700
	14,061	14,094

26 Share Capital and Shares Held for Executive Share Incentive Scheme

A Share Capital

	Six months ended 30 June 2023 (Unaudited)		Year ended 31 December 2022 (Audited)	
	Number of shares	HK$ million	Number of shares	HK$ million
Ordinary shares, issued and fully paid:				
At 1 January	**6,202,060,784**	**60,547**	6,193,462,514	60,184
Shares issued in respect of scrip dividend of 2021 final ordinary dividend	**–**	**–**	5,772,961	246
Shares issued in respect of scrip dividend of 2022 interim ordinary dividend	**–**	**–**	2,825,309	113
Vesting of shares of Executive Share Incentive Scheme	**–**	**1**	–	4
At 30 June/31 December	**6,202,060,784**	**60,548**	6,202,060,784	60,547

In accordance with section 135 of the Companies Ordinance, the ordinary shares of the Company do not have a par value.

B Shares Held for Executive Share Incentive Scheme

During the six months ended 30 June 2023, the Company awarded Performance Shares and Restricted Shares under the Company's Executive Share Incentive Scheme to certain eligible employees of the Group. A total of 42,850 Performance Shares and 2,561,550 Restricted Shares were awarded and accepted by the grantees on 11 April 2023 (2022: 132,000 Restricted Shares were awarded and accepted by a grantee on 1 April 2022, and a total of 240,700 Performance Shares and 2,507,250 Restricted Shares were awarded and accepted by the grantees on 8 April 2022). The fair value of these awarded shares was HK$39.10 per share on 11 April 2023 (2022: HK$42.35 per share on 1 April 2022 and HK$42.05 per share on 8 April 2022).

During the six months ended 30 June 2023, the Trustee of the Executive Share Incentive Scheme, pursuant to the terms of the rules and the trust deed of the Executive Share Incentive Scheme, purchased on the Hong Kong Stock Exchange a total of 2,310,000 Ordinary Shares (2022: 2,560,000 Ordinary Shares) of the Company for a total consideration of approximately HK$91 million (2022: HK$109 million).

During the six months ended 30 June 2023, 1,963,938 award shares (2022: 1,958,452 award shares) were transferred to the awardees under the Executive Share Incentive Scheme upon vesting. The total cost of the vested shares was HK$85 million (2022: HK$86 million). During the six months ended 30 June 2023, HK$1 million (2022: HK$4 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 2023, 88,376 award shares (2022: 96,119 awards shares) were lapsed/forfeited.

27 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 2023 and the year ended 31 December 2022, 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 2023, there were HK$261 million (31 December 2022: HK$290 million) of listed debt securities carried at fair value using Level 1 measurements and HK$655 million (31 December 2022: HK$669 million) of unlisted equity securities carried at fair value using Level 3 measurements.

The Group's derivative financial instruments were carried at fair value using Level 2 measurements. As at 30 June 2023, the fair values of derivative financial assets and derivative financial liabilities were HK$246 million (31 December 2022: HK$216 million) and HK$1,424 million (31 December 2022: HK$1,104 million) respectively.

Included in the Group's cash, bank balances and deposits as at 30 June 2023, there were HK$1,083 million (31 December 2022: HK$1,718 million) of structured bank deposits carried at fair value using Level 3 measurements. The fair values of structured bank deposits are based on the statements provided by the counterparty financial institutions.

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 and derivative financial instruments. 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.

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). The movements of the investments in unlisted equity securities during the period are as follows:

in HK$ million	**Six months ended 30 June 2023 (Unaudited)**	Year ended 31 December 2022 (Audited)
At 1 January	**669**	708
Additions	**16**	39
Disposal	**(5)**	(57)
Changes in fair value recognised in profit or loss	**–**	38
Exchange differences recognised in other comprehensive income	**(25)**	(59)
At 30 June/31 December	**655**	669

As at 30 June 2023, 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$25 million/HK$25 million (31 December 2022: HK$25 million/HK$25 million).

27 Fair Value Measurement *(continued)*

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

During the six months ended 30 June 2023, the disposal of structured bank deposits amounted to HK$635 million (during the year ended 31 December 2022: additions amounted to HK$1,718 million). As at 30 June 2023, the fair value of structured bank deposits was HK$1,083 million (31 December 2022: HK$1,718 million). The fair value is determined by discounting the estimated future cash inflows considering the interest rates and exchange rates linked to the deposits. Sensitivity analysis for structured bank deposits with fair value measurement are not disclosed as the effect is considered insignificant.

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 2023 and the year ended 31 December 2022, 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 as 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 2023 and 31 December 2022 except for capital market instruments and other obligations, for which their carrying amounts and fair values are disclosed below:

	At 30 June 2023 (Unaudited)		At 31 December 2022 (Audited)	
in HK$ million	Carrying amount	Fair value	Carrying amount	Fair value
Capital market instruments	**47,600**	**45,645**	40,794	38,860
Other obligations	**1,602**	**1,598**	1,687	1,691

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.

28 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 2023**	Six months ended 30 June 2022
Operating profit before Hong Kong property development, fair value measurement of investment properties, depreciation, amortisation and variable annual payment from recurrent businesses	**7,256**	3,633
Adjustments for non-cash items	**62**	165
Operating profit before working capital changes	**7,318**	3,798
Increase in debtors and other receivables	**(1,376)**	(358)
Increase in stores and spares	**(235)**	(207)
Increase in creditors, other payables and provisions	**387**	1,384
Cash generated from operations	**6,094**	4,617

29 Capital Commitments

A Outstanding capital commitments as at 30 June 2023 and 31 December 2022 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 (note a)	Hong Kong property rental and development	Mainland China and overseas operations (note b)	Total
At 30 June 2023 (Unaudited)					
Authorised but not yet contracted for	**30,759**	**22,489**	**5,675**	**1,028**	**59,951**
Authorised and contracted for	**19,312**	**10,631**	**2,174**	**2,407**	**34,524**
	50,071	**33,120**	**7,849**	**3,435**	**94,475**
At 31 December 2022 (Audited)					
Authorised but not yet contracted for	30,961	7,819	8,097	1,123	48,000
Authorised and contracted for	18,699	3,752	1,037	2,574	26,062
	49,660	11,571	9,134	3,697	74,062

Note:

(a) As at 30 June 2023, capital commitments of Hong Kong railway extension project included costs of HK$29.4 billion (31 December 2022: HK$6.4 billion) in respect of which the project agreements have been signed, remaining costs of HK$3.7 billion (31 December 2022: HK$5.2 billion) in relation to certain projects with the HKSAR Government in respect of which the project agreements are yet to be reached. These costs are approved by the Board of Directors but yet to be incurred as at 30 June 2023.

(b) As at 30 June 2023, capital commitment of Mainland China and overseas operations included the authorised outstanding commitments totalling HK$3.4 billion (31 December 2022: HK$3.7 billion) for the capital expenditure in relation to the Shenzhen Metro Line 13 project.

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$1,610 million). Up to 30 June 2023, the Group has contributed RMB785 million (HK$916 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$65.9 million) and loans of approximately AUD13.3 million (HK$69.0 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 2023 (Unaudited)				
Authorised but not yet contracted for	**22,620**	**2,914**	**5,225**	**30,759**
Authorised and contracted for	**15,738**	**1,555**	**2,019**	**19,312**
	38,358	**4,469**	**7,244**	**50,071**
At 31 December 2022 (Audited)				
Authorised but not yet contracted for	24,352	2,165	4,444	30,961
Authorised and contracted for	15,379	983	2,337	18,699
	39,731	3,148	6,781	49,660

30 Accounting Implications of the Abolition of the MPF-LSP Offsetting Mechanism in Hong Kong

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

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

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

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

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

31 Approval of Interim Financial Report

The interim financial report was approved by the Board on 10 August 2023.