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MTR CORPORATION LIMITED

香港鐵路有限公司

(the "Company")

(Incorporated in Hong Kong with limited liability)

(Stock code: 66)

ANNOUNCEMENT OF UNAUDITED RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2020

RESULTS

HK\$ million	Six months ended 30 June		Change
	2020	2019	
Revenue from recurrent businesses	21,592	28,272	-23.6%
Profit from recurrent businesses [^]	433	2,665	-83.8%
Profit from property development	5,200	775	+571.0%
Investment property revaluation (loss) / gain	(5,967)	2,066	n/m
Net (loss) / profit attributable to shareholders of the Company	(334)	5,506	n/m

[^] : including share of profit/(loss) of associates and joint venture
n/m : not meaningful

- Interim ordinary dividend of HK\$0.25 per share declared (with scrip dividend alternative)

HIGHLIGHTS

Hong Kong Businesses

- Hong Kong transport operations, station commercial and property rental businesses have been significantly and adversely affected as a result of the COVID-19 pandemic. Various relief measures have been offered to our passengers as well as tenants to ease their financial burden during the pandemic
- In spite of the pandemic, train service delivery and passenger journeys on-time in our heavy rail remained at 99.9% world-class level
- Tuen Ma Line Phase 1 was opened in February 2020. Government's application for additional funding for the Shatin to Central Link ("SCL") was approved in June 2020
- Final Report of the Commission of Inquiry ("COI") indicated the relevant structures at and near Hung Hom Station Extension of SCL are safe and fit for purpose. The Company will incorporate the COI's recommendations into our project management and quality assurance systems
- Invitation received from Government to proceed with detailed planning and design of Tung Chung Line Extension and Tuen Mun South Extension
- Acquisition of remaining interest of Telford Plaza II and PopCorn 2 was completed in March 2020
- Property development profit of HK\$5.2 billion was derived from LOHAS Park packages
- Our new shopping mall, THE LOHAS, is scheduled to open in the near future

HIGHLIGHTS *(continued)***Mainland of China and International Businesses**

- Mainland of China and international businesses have been adversely affected to varying degrees due to the COVID-19 pandemic
- Full line opening of Hangzhou Metro Line 5 in April 2020
- Awarded recently the Shenzhen Metro Line 13 Public Private Partnership project

Outlook and Strategy Review

- Despite the continuing challenges posed by COVID-19 pandemic, the Group's financial position remains sound and we are committed to keeping cities moving
- Subject to market conditions, we currently intend to tender out three property development packages by the first quarter of 2021 and pre-sale of two property development packages are expected in the coming months
- Looking longer term over the next 15 years, MTR will focus on driving financial, environmental and social sustainability as a result of our strategy review completed in July, with technology playing a vital role in our future readiness

The Directors of the Company announce the unaudited interim results of the Company and its subsidiaries ("the Group") for the six months ended 30 June 2020 as follows:

CONSOLIDATED PROFIT AND LOSS ACCOUNT (HK\$ MILLION)

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
Revenue from Hong Kong transport operations	6,234	10,690
Revenue from Hong Kong station commercial businesses	1,809	3,555
Revenue from Hong Kong property rental and management businesses	2,582	2,635
Revenue from Mainland of China and international railway, property rental and management subsidiaries	10,465	10,558
Revenue from other businesses	502	834
	21,592	28,272
Revenue from Mainland of China property development	-	-
Total revenue	21,592	28,272
Expenses relating to Hong Kong transport operations		
- Staff costs and related expenses	(3,196)	(3,233)
- Maintenance and related works	(1,061)	(981)
- Energy and utilities	(811)	(891)
- General and administration expenses	(394)	(342)
- Railway support services	(179)	(333)
- Stores and spares consumed	(256)	(260)
- Government rent and rates	(116)	(137)
- Other expenses	(115)	(167)
	(6,128)	(6,344)
Expenses relating to Hong Kong station commercial businesses	(260)	(328)
Expenses relating to Hong Kong property rental and management businesses	(379)	(395)

	Six months ended 30 June	
	2020	2019
	(Unaudited)	(Unaudited)
Expenses relating to Mainland of China and international railway, property rental and management subsidiaries	(10,156)	(9,886)
Expenses relating to other businesses	(564)	(2,737)
Project study and business development expenses	(104)	(171)
	<u>(17,591)</u>	<u>(19,861)</u>
Expenses relating to Mainland of China property development	(4)	(10)
Operating expenses before depreciation, amortisation and variable annual payment	<u>(17,595)</u>	<u>(19,871)</u>
Operating profit before Hong Kong property development, depreciation, amortisation and variable annual payment		
- Arising from recurrent businesses	4,001	8,411
- Arising from Mainland of China property development	(4)	(10)
	<u>3,997</u>	<u>8,401</u>
Profit on Hong Kong property development	6,168	898
Operating profit before depreciation, amortisation and variable annual payment	10,165	9,299
Depreciation and amortisation	(2,613)	(2,592)
Variable annual payment	(457)	(1,506)
Share of profit/(loss) of associates and joint venture	217	(74)
Profit before interest, finance charges and taxation	7,312	5,127
Interest and finance charges	(499)	(442)
Investment property revaluation (loss)/gain	(5,967)	2,066
Profit before taxation	846	6,751
Income tax	(1,157)	(1,147)
(Loss)/profit for the period	<u>(311)</u>	<u>5,604</u>
Attributable to:		
- Shareholders of the Company	(334)	5,506
- Non-controlling interests	23	98
(Loss)/profit for the period	<u>(311)</u>	<u>5,604</u>
(Loss)/profit for the period attributable to shareholders of the Company:		
- Arising from recurrent businesses	433	2,665
- Arising from property development	5,200	775
- Arising from underlying businesses	5,633	3,440
- Arising from investment property revaluation	(5,967)	2,066
	<u>(334)</u>	<u>5,506</u>
(Loss)/earnings per share:		
- Basic	(HK\$0.05)	HK\$0.90
- Diluted	(HK\$0.05)	HK\$0.90

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (HK\$ MILLION)

	Six months ended 30 June	
	2020 (Unaudited)	2019 (Unaudited)
(Loss)/profit for the period	(311)	5,604
Other comprehensive (loss)/income for the period (after taxation and reclassification adjustments):		
Item that will not be reclassified to profit or loss:		
- (Loss)/surplus on revaluation of self-occupied land and buildings	(164)	63
Items that may be reclassified subsequently to profit or loss:		
- Exchange differences on translation of:		
- financial statements of subsidiaries, associates and joint venture outside Hong Kong	(268)	(59)
- non-controlling interests	(20)	(6)
- Cash flow hedges: net movement in hedging reserve	(8)	128
	(296)	63
	(460)	126
Total comprehensive (loss)/income for the period	(771)	5,730
Attributable to:		
- Shareholders of the Company	(774)	5,638
- Non-controlling interests	3	92
Total comprehensive (loss)/income for the period	(771)	5,730

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (HK\$ MILLION)

	As at 30 June 2020 (Unaudited)	As at 31 December 2019 (Audited)
Assets		
Fixed assets		
- Investment properties	89,017	91,712
- Other property, plant and equipment	101,928	102,632
- Service concession assets	31,269	31,261
	222,214	225,605
Goodwill and property management rights	74	77
Property development in progress	11,990	12,022
Deferred expenditure	2,045	1,948
Interests in associates and joint venture	10,418	10,359
Deferred tax assets	186	134
Investments in securities	219	386
Properties held for sale	2,035	1,245

	As at 30 June 2020 (Unaudited)	As at 31 December 2019 (Audited)
Derivative financial assets	431	198
Stores and spares	1,909	1,844
Debtors and other receivables	13,998	11,169
Amounts due from related parties	3,998	3,041
Cash, bank balances and deposits	18,098	21,186
	<u>287,615</u>	<u>289,214</u>
Liabilities		
Bank overdrafts	11	-
Short-term loans	765	3,371
Creditors, other payables and provisions	34,451	33,315
Current taxation	1,243	2,024
Amounts due to related parties	5,587	2,990
Loans and other obligations	40,844	36,085
Obligations under service concession	10,311	10,350
Derivative financial liabilities	630	408
Loan from holders of non-controlling interests	140	144
Deferred tax liabilities	13,612	13,729
	<u>107,594</u>	<u>102,416</u>
Net assets	<u>180,021</u>	<u>186,798</u>
Capital and reserves		
Share capital	58,867	58,804
Shares held for Executive Share Incentive Scheme	(265)	(263)
Other reserves	121,224	128,065
Total equity attributable to shareholders of the Company	<u>179,826</u>	<u>186,606</u>
Non-controlling interests	<u>195</u>	<u>192</u>
Total equity	<u>180,021</u>	<u>186,798</u>

Notes:

1. REVIEW OF INTERIM FINANCIAL REPORT

The interim results set out in this preliminary announcement do not constitute the Group's interim financial report for the six months ended 30 June 2020 but are extracted from that interim financial report.

The interim financial report for the six months ended 30 June 2020 is unaudited, but has been reviewed by the Group's auditor, KPMG, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The unmodified review report of KPMG is included in the interim report to be sent to shareholders. The interim financial report has also been reviewed by the Group's Audit Committee.

2. BASIS OF PREPARATION

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

The financial information relating to the financial year ended 31 December 2019 that is included in this preliminary announcement of the interim results as comparative information does not constitute the Company's statutory annual consolidated accounts for that financial year but is derived from those accounts. Further information relating to these statutory accounts required to be disclosed in accordance with section 436 of the Companies Ordinance is as follows:

- The Company has delivered the accounts for the year ended 31 December 2019 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, KPMG, has reported on the accounts for the year ended 31 December 2019. 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 section 406(2), 407(2) or (3) of the Companies Ordinance.

The unaudited interim results should be read in conjunction with the 2019 annual accounts.

The HKICPA has issued a number of amendments to Hong Kong Financial Reporting Standards 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 the interim financial report. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

The accounting policies adopted for the preparation of the interim financial report are the same as those adopted in the preparation of the 2019 annual accounts.

3. RETAINED PROFITS

The movements of the retained profits during the six months ended 30 June 2020 and the year ended 31 December 2019 are as follows:

HK\$ Million	
Balance as at 1 January 2020	124,880
Loss for the period attributable to shareholders of the Company	(334)
Dividends declared and approved	(6,036)
Balance as at 30 June 2020	<u>118,510</u>

HK\$ Million	
Balance as at 1 January 2019	119,591
Profit for the year attributable to shareholders of the Company	11,932
Other comprehensive income for the year attributable to shareholders of the Company	730
Vesting and forfeiture of award shares of Executive Share Incentive Scheme	(2)
Dividends declared and approved, net of scrip dividend for shares held for Executive Share Incentive Scheme	(7,371)
Balance as at 31 December 2019	<u>124,880</u>

4. PROFIT ON HONG KONG PROPERTY DEVELOPMENT

Profit on Hong Kong property development comprises:

HK\$ Million	Six months ended 30 June	
	2020	2019
Share of surplus, income and interest in unsold properties from property development	6,171	849
Agency fee and other income from West Rail property development	14	83
Overhead and miscellaneous studies	(17)	(34)
	<u>6,168</u>	<u>898</u>

5. INCOME TAX

HK\$ Million	Six months ended 30 June	
	2020	2019
Current tax		
- Hong Kong Profits Tax	1,200	1,055
- Tax outside Hong Kong	94	162
	<u>1,294</u>	<u>1,217</u>
Less: Utilisation of government subsidy for Shenzhen Metro Longhua Line operation	-	(31)
	<u>1,294</u>	<u>1,186</u>
Deferred tax		
- Origination and reversal of temporary differences on:		
- tax losses	(32)	(32)
- depreciation allowances in excess of related depreciation	(35)	(32)
- revaluation of properties	-	(3)
- provisions and others	(70)	28
	<u>(137)</u>	<u>(39)</u>
	<u>1,157</u>	<u>1,147</u>

Current tax provision for Hong Kong Profits Tax for the six months ended 30 June 2020 is calculated at 16.5% (2019: 16.5%) on the estimated assessable profits for the period after deducting accumulated tax losses brought forward, if any. Current taxes for subsidiaries outside Hong Kong are charged at the appropriate current rates of taxation ruling in the relevant tax jurisdictions.

The Company is a qualifying corporation under the two-tiered Profits Tax rate regime in Hong Kong. Under the two-tiered Profits Tax rate regime, the 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 2019.

Provision for deferred tax on temporary differences arising in Hong Kong is calculated at the Hong Kong Profits Tax rate at 16.5% (2019: 16.5%), while that arising outside Hong Kong is calculated at the appropriate current rates of taxation ruling in the relevant tax jurisdictions.

Details of the tax reserve certificates in respect of Hong Kong Profits Tax purchased by the Company are set out in note 10A to this announcement.

6. DIVIDEND

The Board has resolved to pay an interim dividend of HK\$0.25 per share and offer a scrip dividend option to all shareholders of the Company (except for those with registered addresses in New Zealand or the United States of America or any of its territories or possessions). The interim dividend, with a scrip dividend option, is expected to be distributed on 9 October 2020 to shareholders whose names appear on the Register of Members of the Company as at the close of business on 26 August 2020.

7. (LOSS)/EARNINGS PER SHARE

The calculation of basic (loss)/earnings per share is based on the loss attributable to shareholders for the six months ended 30 June 2020 of HK\$334 million (2019: profit of HK\$5,506 million) and the weighted average number of ordinary shares in issue less shares held for Executive Share Incentive Scheme during the period amounting to 6,153,228,828 (2019: 6,135,168,153).

The calculation of diluted (loss)/earnings per share is based on the loss attributable to shareholders for the six months ended 30 June 2020 of HK\$334 million (2019: profit of HK\$5,506 million) and the weighted average number of ordinary shares in issue less shares held for Executive Share Incentive Scheme during the period after adjusting for the dilutive effect of the Company's share option scheme and Executive Share Incentive Scheme amounting to 6,153,228,828 (2019: 6,143,443,405). The effect of the Group's share option scheme (1,275,714 shares) and Executive Share Incentive Scheme (5,790,973 shares) are anti-dilutive for the six months ended 30 June 2020 since they would result in a decrease in the loss per share.

Both basic and diluted earnings per share would have been HK\$0.92 (2019: HK\$0.56), if the calculation is based on profit attributable to shareholders of the Company arising from underlying businesses of HK\$5,633 million (2019: HK\$3,440 million).

8. SEGMENTAL INFORMATION

The Group's businesses consist of (i) recurrent businesses (comprising Hong Kong transport operations, Hong Kong station commercial businesses, Hong Kong property rental and management businesses, Mainland of China and international railway, property rental and management businesses and other businesses) and (ii) property development businesses (together with recurrent businesses referred to as underlying businesses).

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

(i) Hong Kong transport operations: The provision of passenger operation and related services on the domestic mass transit railway system in Hong Kong, the Airport Express serving both the Hong Kong International Airport and the AsiaWorld-Expo at Chek Lap Kok, cross-boundary railway connection with the border of Mainland of China at Lo Wu and Lok Ma Chau, the Guangzhou-Shenzhen-Hong Kong Express Rail Link (Hong Kong Section), light rail and bus feeder with railway system in the north-west New Territories and intercity railway transport with certain cities in the Mainland of 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 and bandwidth services in railway 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 space 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 of China and international railway, property rental and management businesses: The construction, operation and maintenance of mass transit railway systems including station commercial activities outside of Hong Kong and the letting of retail spaces and provision of estate management services in the Mainland of China.

(vi) Mainland of China property development: Property development activities in the Mainland of 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 and the provision of project management services to the Government of the Hong Kong Special Administrative Region (the "HKSAR Government" or "Government").

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

HK\$ Million	Revenue		Contribution to (loss)/profit	
	Six months ended 30 June 2020	2019	Six months ended 30 June 2020	2019
Hong Kong transport operations	6,234	10,690	(2,579)	952
Hong Kong station commercial businesses	1,809	3,555	1,334	2,679
Hong Kong property rental and management businesses	2,582	2,635	2,193	2,229
Mainland of China and international railway, property rental and management businesses	10,465	10,558	182	560
Mainland of China property development	-	-	(4)	(10)
Other businesses	502	834	(95)	(1,936)
	<u>21,592</u>	<u>28,272</u>	<u>1,031</u>	<u>4,474</u>
Hong Kong property development			6,168	898
Project study and business development expenses			(104)	(171)
Share of profit/(loss) of associates and joint venture			217	(74)
Profit before interest, finance charges and taxation			7,312	5,127
Interest and finance charges			(499)	(442)
Investment property revaluation (loss)/gain			(5,967)	2,066
Income tax			(1,157)	(1,147)
(Loss)/profit for the period			<u>(311)</u>	<u>5,604</u>

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

HK\$ Million	Six months ended 30 June	
	2020	2019
Hong Kong SAR (place of domicile)	11,100	17,689
Australia	6,332	6,237
Mainland of China and Macao SAR	775	895
Sweden	2,257	2,408
United Kingdom	1,128	1,043
	<u>10,492</u>	<u>10,583</u>
	<u>21,592</u>	<u>28,272</u>

9. RAILWAY CONSTRUCTION PROJECTS UNDER ENTRUSTMENT BY THE HKSAR GOVERNMENT

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

(a) HSR Preliminary Entrustment Agreement

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

(b) HSR Entrustment Agreement

In 2009, the HKSAR Government decided that the Company should be asked to proceed with the construction, testing and commissioning of the HSR on the understanding that the Company would subsequently be invited to undertake the operation of the HSR under the service concession approach. On 26 January 2010, the HKSAR Government and the Company entered into another entrustment agreement for the construction, and commissioning of the HSR (the "**HSR Entrustment Agreement**"). Pursuant to the HSR Entrustment Agreement, the Company is responsible for carrying out or procuring the carrying out of the agreed activities for the planning, design, construction, testing and commissioning of the HSR and the HKSAR Government, as owner of HSR, is responsible for bearing and financing the full amount of the total cost of such activities (the "**Entrustment Cost**") and for paying to the Company a fee in accordance with an agreed payment schedule (the "**HSR Project Management Fee**") (subsequent amendments to these arrangements are described below). As of 30 June 2020, the Company had received full payment of the HSR Project Management Fee from the HKSAR Government.

The HKSAR Government has the right to claim against the Company if the Company breaches the HSR Entrustment Agreement (including, if the Company breaches the warranties it gave in respect of its project management services) and, under the HSR Entrustment Agreement, to be indemnified by the Company in relation to losses suffered by the HKSAR Government as a result of any negligence of the Company in performing its obligations under the HSR Entrustment Agreement or any breach of the HSR Entrustment Agreement by the Company. Under the HSR Entrustment Agreement, the Company's total

aggregate liability to the HKSAR Government arising out of or in connection with the HSR Preliminary Entrustment Agreement and the HSR Entrustment Agreement (other than for death or personal injury) is subject to a cap equal to the HSR Project Management Fee and any other fees that the Company receives under the HSR Entrustment Agreement and certain fees received by the Company under the HSR Preliminary Entrustment Agreement (the “**Liability Cap**”). In accordance with general principles of law, such Liability Cap could not be relied upon if the Company were found to be liable for the fraudulent or other dishonest conduct of its employees or agents, to the extent that the relevant loss had been caused by such fraudulent or other dishonest conduct. Although the HKSAR Government has reserved the right to refer to arbitration the question of the Company’s liability for the Current Cost Overrun (as defined hereunder) (if any) under the HSR Preliminary Entrustment Agreement and HSR Entrustment Agreement (as more particularly described in note 9A(c)(iv) below), up to the date of the interim financial report, no claim has been received from the HKSAR Government.

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

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

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

As a result of adjustments being made to certain elements of the Company’s estimated project cost of 30 June 2015, the HKSAR Government and the Company reached agreement that the estimated project cost be reduced to HK\$84.42 billion (the “**Revised Cost Estimate**”). Further particulars relating to the Revised Cost Estimate are set out in notes 9A(c) and (e) below.

(c) HSR Agreement

On 30 November 2015, the HKSAR Government and the Company entered into an agreement (the “**HSR Agreement**”) relating to the further funding and completion of the HSR. The HSR Agreement contains an integrated package of terms (subject to conditions as set out in note 9A(c)(vi) below) and provides that:

- (i) The HKSAR Government will bear and finance the project cost up to HK\$84.42 billion (which includes the original budgeted cost of HK\$65 billion plus the agreed increase in the estimated project cost of HK\$19.42 billion (the portion of the entrustment cost (up to HK\$84.42 billion) that exceeds HK\$65 billion being the “**Current Cost Overrun**”));
- (ii) The Company will, if the project exceeds HK\$84.42 billion, bear and finance the portion of the project cost which exceeds that sum (if any) (the “**Further Cost Overrun**”) except for certain agreed excluded costs (namely, additional costs arising from changes in law, force majeure events or any suspension of construction contracts specified in the HSR Agreement);
- (iii) The Company will pay a special dividend in cash of HK\$4.40 in aggregate per share in two equal tranches (of HK\$2.20 per share in cash in each tranche) (“**Special Dividend**”). The first tranche was paid on 13 July 2016 and the second tranche was paid on 12 July 2017;

- (iv) The HKSAR Government reserves the right to refer to arbitration the question of the Company's liability for the Current Cost Overrun (if any) under the HSR Preliminary Entrustment Agreement and HSR Entrustment Agreement ("**Entrustment Agreements**") (including any question the HKSAR Government may have regarding the validity of the Liability Cap). The Entrustment Agreements contain dispute resolution mechanisms which include the right to refer a dispute to arbitration. Under the HSR Entrustment Agreement, the Liability Cap is equal to the HSR Project Management Fee and any other fees that the Company receives under HSR Entrustment Agreement and certain fees received by the Company under the Preliminary Entrustment Agreement. Accordingly, the Liability Cap increases from up to HK\$4.94 billion to up to HK\$6.69 billion as the HSR Project Management Fee is increased in accordance with the HSR Agreement (as it will be equal to the increased HSR Project Management Fee under the HSR Entrustment Agreement of HK\$6.34 billion plus the additional fees referred to above). If the arbitrator does not determine that the Liability Cap is invalid and determines that, but for the Liability Cap, the Company's liability under the Entrustment Agreements for the Current Cost Overrun would exceed the Liability Cap, the Company shall:
- bear such amount as is awarded to the HKSAR Government up to the Liability Cap;
 - seek the approval of its independent shareholders, at another General Meeting (at which the FSI, the HKSAR Government and their Close Associates and Associates and the Exchange Fund will be required to abstain from voting), for the Company to bear the excess liability; and
 - if the approval of the independent shareholders (referred to immediately above) is obtained, pay the excess liability to the HKSAR Government. If such approval is not obtained, the Company will not make such payment to the HKSAR Government;
- (v) Certain amendments are made to the HSR Entrustment Agreement to reflect the arrangements contained in the HSR Agreement, including an increase in HSR Project Management Fee payable to the Company under HSR Entrustment Agreement to an aggregate of HK\$6.34 billion (which reflects the estimate of the Company's expected internal costs in performing its obligations under HSR Entrustment Agreement in relation to HSR project) and to reflect the HSR Revised Programme;
- (vi) The arrangements under the HSR Agreement (including the payment of the Special Dividend) were conditional on:
- independent shareholder approval (which was sought at the General Meeting held on 1 February 2016); and
 - Legislative Council approval in respect of the HKSAR Government's additional funding obligations.

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

(d) Operations of HSR

On 23 August 2018, the Company and KCRC entered into the supplemental service concession agreement for the HSR to supplement the Service Concession Agreement dated 9 August 2007 in order for KCRC to grant a concession to the Company in respect of the

HSR and to prescribe the operational and financial requirements that will apply to the HSR. The commercial operation of HSR began on 23 September 2018.

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

Having considered the number of contracts yet to be finalised and the contingency allowance currently available, there can be no absolute assurance that the final project cost will not exceed the Revised Cost Estimate, particularly if unforeseen difficulties arise in the resolution of commercial issues during the process of negotiating the final accounts. In such case, under the terms of the HSR Agreement, the Company will be required to bear and finance the portion of the project cost that exceeds the Revised Cost Estimate (if any) except for certain agreed excluded costs (as more particularly described in note 9A(c)(ii) above).

- (f) The Company has not made any provision in its accounts in respect of:
 - (i) any possible liability of the Company for any Further Cost Overrun (if any), given the Company does not currently believe based on information available to date there is any need to revise further the Revised Cost Estimate. However, the final project cost can only be ascertained upon finalisation of all contracts, some of which will involve the resolution of commercial issues and may take several years to reach settlement;
 - (ii) any possible liability of the Company that may be determined in accordance with any arbitration that may take place, (as more particularly described in note 9A(c)(iv) above), given that (a) the Company has not received any notification from the HKSAR Government of any claim by the HKSAR Government against the Company or of any referral by the HKSAR Government to arbitration (which, as a result of the HSR Agreement, cannot take place until after commencement of commercial operations on the HSR) (as of 30 June 2020 and up to the date of the interim financial report); (b) the Company has the benefit of the Liability Cap; and (c) as a result of the HSR Agreement, the Company will not make any payment to the HKSAR Government in excess of the Liability Cap pursuant to a determination of the arbitrator without the approval of its independent shareholders; and
 - (iii) where applicable, because the Company is not able to measure with sufficient reliability the amount of the Company's obligation or liability (if any).
- (g) During the six months ended 30 June 2020, no HSR Project Management Fee (2019: HK\$57 million) was recognised in the consolidated profit and loss account. As at 30 June 2020, the total HSR Project Management Fee and the additional fees referred to above recognised to date in the consolidated profit and loss account amounted to HK\$6,548 million (as at 31 December 2019: HK\$6,548 million).

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

B Shatin to Central Link (“SCL”) Project

(a) SCL Agreements

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

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

Pursuant to the SCL EA2, the Company is responsible for carrying out or procuring the carrying out of the agreed works while the HKSAR Government is responsible for bearing and paying to the Company all the work costs (“EA2 Advance Works Costs”). The EA2 Advance Works Costs and the Interface Works Costs (as described below) are payable by the HKSAR Government to the Company. During the six months ended 30 June 2020, HK\$80 million (2019: HK\$165 million) of costs were incurred by the Company, which are payable by the HKSAR Government. As at 30 June 2020, the amount of such costs which remained outstanding from the HKSAR Government was HK\$1,144 million (as at 31 December 2019: HK\$1,219 million).

The funding for both SCL EA1 and SCL EA2 has been obtained by the HKSAR Government.

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, is 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 SCL Project Management Fee of HK\$7,893 million (the “Original PMC”). As at 30 June 2020 and up to the date of the interim financial report, the Company has received payments of the Original PMC from the HKSAR Government in accordance with the original agreed payment schedule. During the six months ended 30 June 2020, Original PMC of HK\$333 million (2019: HK\$441 million) was recognised in the consolidated profit and loss account. As at 30 June 2020, the total Original PMC recognised to date in the consolidated profit and loss account amounted to HK\$7,661 million (as at 31 December 2019: HK\$7,328 million).

(b) SCL EA3 cost overrun

(i) Cost to complete

The Company has previously announced that, due to the continuing challenges posed by external factors, the Original Entrusted Amount under SCL EA3 would not be sufficient to cover the total estimated cost to complete (“CTC”) and would need to be revised upwards significantly. The Company carried out a detailed review of the estimated CTC for the main construction works in 2017 and submitted a revised estimated total CTC of HK\$87,328

million (“**2017 CTC Estimate**”) to the HKSAR Government on 5 December 2017, taking into account a number of factors, including issues such as archaeological relics, the HKSAR Government’s requests for additional scope and late or incomplete handover of construction sites. The 2017 CTC Estimate represented an increase to the CTC of HK\$16,501 million, including an increase in the SCL Project Management Fee payable to the Company. Since submission of the 2017 CTC Estimate to the HKSAR Government, the Company has been liaising with the HKSAR Government to facilitate their review and verification process.

The Company then carried out and completed a further review and revalidation of the CTC and, on 10 February 2020, notified the HKSAR Government, in accordance with the terms of the SCL EA3, of the latest estimate of the CTC, being HK\$82,999 million (“**2020 CTC Estimate**”), including additional project management fee payable to the Company of HK\$1,371 million (“**Additional PMC**”), being the additional cost to the Company of carrying out its remaining project management responsibilities under the SCL EA3, as detailed in note 9B(b)(ii) below but excluding the Hung Hom Incidents Related Costs in respect of which the Company has already made a provision of HK\$2 billion in its consolidated profit and loss account for the six months ended 30 June 2019 (as detailed in note 9B(c) below). The 2020 CTC Estimate represents an increase of HK\$12,172 million from the Original Entrusted Amount of HK\$70,827 million, which is less than the increase in the 2017 CTC Estimate of HK\$16,501 million.

In accordance with the terms of SCL EA3, the HKSAR Government issued its paper on 18 March 2020 to seek the approval of Legislative Council for additional funding required for the SCL Project amounting to HK\$10,801 million (“Additional Funding”) so that the SCL can be completed. On 12 June 2020, the Legislative Council approved the Additional Funding for the SCL Project. For the avoidance of doubt, the Additional Funding sought by the HKSAR Government and approved by the Legislative Council excluded the Hung Hom Incidents Related Costs (as detailed in note 9B(c)(ii) below) and any Additional PMC for the Company as further detailed in note 9B(b)(ii) below.

(ii) *Additional PMC*

As mentioned above, the Company is responsible for carrying out or procuring the execution of the works specified in the existing entrustment agreements relating to the SCL Project and the HKSAR Government, as the owner of the SCL, is responsible for bearing and financing the full amount of the total cost of such activities and for paying to the Company the Original PMC of HK\$7,893 million in accordance with an agreed payment schedule. As detailed in note 9B(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, including the discovery of archaeological relics in the Sung Wong Toi Station area, requests for additional scope and the late or incomplete handover by third parties of construction sites to the Company. 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, this increase estimated to be around HK\$1,371 million. Regular updates have been provided to, and discussions have been held with, the HKSAR Government on the delays to the programme for the delivery of the SCL Project and the associated impacts on the CTC including the Additional PMC.

Given such significant modifications to the project programme and the associated increase in the project management costs of the Company and following the Company’s receipt of independent expert advice, the Company believes that it is entitled (in accordance with the terms of the SCL EA3) to an increase in the project management fee, to be agreed by way of good faith negotiations or otherwise determined in accordance with the provisions of the SCL EA3. Accordingly, as stated above, the Company has included the Additional PMC of HK\$1,371 million in the 2020 CTC Estimate notified to the HKSAR Government, reflecting the additional scope of work and programme extension.

However, the HKSAR Government has advised the Company that the HKSAR Government considers there has been no material modification in respect of the SCL Project and, therefore, the HKSAR Government disagrees to the inclusion of any Additional PMC in the CTC. Hence, the Additional Funding sought by the HKSAR Government and subsequently approved by the Legislative Council on 12 June 2020 did not include any Additional PMC for the Company.

Despite the fact that this matter needs to be resolved, the Company will, in the interim, continue to comply with its project management obligations under the SCL EA3 and meet the costs thereof, to allow the SCL Project to progress in accordance with the latest programme.

The Board is of the view that the Company's entitlement to any Additional PMC should be resolved with the HKSAR Government in accordance with the terms of the SCL EA3.

Given the uncertainty and potential financial impact to the Company in connection with the Additional PMC, at the appropriate time following further developments relating to this matter, the Company will recognise a provision in its consolidated profit and loss account for an amount of up to HK\$1,371 million to reflect the additional cost to the Company of completing its remaining project management responsibilities.

(c) Hung Hom Incidents

As stated in the Company's announcement dated 18 July 2019, towards the end of the first half of 2018, there were allegations 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. To address the First Hung Hom Incident, the Company submitted to the HKSAR Government a holistic proposal for the verification and assurance of the as-constructed conditions and workmanship quality of the Hung Hom Station extension.

In late 2018 and early 2019, the Company advised the HKSAR Government of an insufficiency of construction records and certain construction issues at the Hung Hom North Approach Tunnel ("**NAT**"), the South Approach Tunnel ("**SAT**") and the Hung Hom Stabling Sidings ("**HHS**"), forming an addition to the First Hung Hom Incident ("**Second Hung Hom Incident**"). To address the Second Hung Hom Incident, the Company submitted to the HKSAR Government a verification proposal for verification of the as-constructed condition and workmanship quality of these areas.

(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). The Company has cooperated fully with the COI. The COI process included hearing of evidence from factual witnesses and reviewing evidence from experts on project management and structural engineering issues. 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 19 February 2019, the HKSAR Government announced that the terms of reference of the COI had been expanded and approved a further extension of time for the COI to submit its report to the Chief Executive by 30 August 2019, or such time as the Chief Executive in Council may allow. Subsequently, the Chief Executive in Council extended the time for the COI to submit its final report to the Chief Executive to 31 March 2020.

On 25 February 2019, the COI submitted an interim report to the Chief Executive on its findings and recommendations on matters covered by the original terms of reference. On 26 March 2019, the HKSAR Government published the redacted interim report in which the COI, while recognising it to be an interim report, 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. The COI also made a number of comments regarding the Company's performance and systems as well as a number of recommendations for the future.

On 18 July 2019, the Company completed and 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 to enable the SCL Project to be completed for public use in accordance with the latest project programme.

On 22 January 2020, the HKSAR Government reiterated, in its closing submissions on factual evidence for the extended inquiry submitted 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 27 March 2020, the COI submitted its final report to the Chief Executive on its findings and recommendations on matters covered by the original and extended terms of reference. On 12 May 2020, the HKSAR Government published the final report in which the COI determined that it is fully satisfied that, with the suitable measure in place, the station box structure will be safe and also fit for purpose. The COI also stated that it is satisfied that, with suitable measures completed, the NAT, SAT and HHS structures will be safe and fit for purpose. The suitable measures for the station box structure were completed in June 2020 and the suitable measures for the NAT, SAT and HHS structures were completed in May 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. Up to the date of the interim financial report, no claim has been received from the HKSAR Government in relation to any SCL Agreement (as detailed in note 9B(c)(iii) below).

(ii) *Hung Hom Incidents Related Costs*

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

In order to progress the SCL Project and to facilitate the Phased Opening in the first quarter of 2020, the Company announced in July 2019 that it would fund, on an interim and without prejudice basis, certain costs arising from the Hung Hom Incidents and certain costs associated with Phased Opening (being costs for alteration works, trial operations and other costs associated with the preparation activities for the Phased Opening) ("**Hung Hom Incidents Related Costs**"), whilst reserving the Company's position as to the ultimate liability for such costs. Currently, the Company's best estimate of such costs is around HK\$2 billion in aggregate. However, there is no certainty that, ultimately, the entirety of this amount will need to be funded.

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 above and in light of the Company's decision to fund, on an interim and without prejudice basis, the Hung Hom Incidents Related Costs, the Company recognised a provision of HK\$2,000 million in its consolidated profit and loss account for the six months ended 30 June 2019. Up to 30 June 2020, the Company has committed and / or paid Hung Hom Incidents Related Costs totaling HK\$978 million, and no provision was written back during the six months ended 30 June 2020. The provision is included in "**Creditors, other payables and provisions**" in the consolidated statement of financial position.

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

(iii) 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 9B(c)(i) above), up to the date of the interim financial report, no claim has been received from the HKSAR Government in relation to any SCL Agreement. It is uncertain as to whether such claim will be made against the Company in the future and, if made, the nature and amount of such claim.

- (iv)* The eventual outcome of the discussions between the Company and the HKSAR Government on various matters including the timing of any overall settlement in relation to the Hung Hom Incidents and their respective funding obligations relating to the Hung Hom Incidents Related Costs, the level of recovery from relevant parties and the development and eventual outcome relating to the Additional PMC (as detailed in note 9B(b)(ii) above) remain highly uncertain at the current stage. As a result, no additional provision other than the HK\$2,000 million referred to 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 other provision on the SCL Project related matters was recognised at 30 June 2020, the Company will reassess on an ongoing basis the need to recognise a further provision in the future in light of any further developments.

(d) Phased Opening of SCL

On 11 February 2020, the Company entered into relevant agreements with the HKSAR Government and KCRC to supplement and amend the current agreements to enable the Company to operate Tuen Ma Line Phase 1 in substantially the same manner as the existing railway network for a period of two years from 14 February 2020 including with KCRC the supplemental service concession agreement ("SSCA-SCL"). Prior to the full opening of the Tuen Ma Line, the parties are obliged to commence exclusive negotiations in good faith with a view to agreeing the terms of a supplemental service concession agreement for the entire Tuen Ma Line (which is intended to replace the SSCA-SCL that was executed on 11 February 2020).

10. DEBTORS AND CREDITORS

A As at 30 June 2020, the Group's debtors and other receivables amounted to HK\$13,998 million (31 December 2019: HK\$11,169 million), of which debtors accounted for HK\$3,461 million (31 December 2019: HK\$3,220 million). Receivables in respect of rentals, advertising and telecommunication activities are due from immediately to 50 days. Receivables in respect of income from railway subsidiaries outside of Hong Kong are mainly due within 30 days or in the following month. Receivables relating to consultancy services and entrustment works are due within 30 days. Receivables under interest rate and currency swap agreements are due in accordance with the terms of the agreements. Receivables relating to property development are due in accordance with the terms of the relevant development agreements or sale and purchase agreements. The ageing of debtors as at 30 June 2020 is analysed as follows:

<i>in HK\$ million</i>	At 30 June 2020 (Unaudited)	At 31 December 2019 (Audited)
Amounts not yet due	3,141	2,775
Overdue by 30 days	173	153
Overdue by 60 days	40	59
Overdue by 90 days	21	41
Overdue by more than 90 days	86	192
Total debtors	3,461	3,220
Other receivables and contract assets	10,537	7,949
	13,998	11,169

During the years ended 31 December 2017 and 2018, the Inland Revenue Department of Hong Kong ("IRD") issued notices of assessment/additional assessment for the years of assessment 2010/2011 to 2017/2018 following queries in connection with the tax deductibility of certain payments relating to the Rail Merger.

Based on the strength of advice from external senior counsels and tax advisor, the directors of the Company have determined to strongly contest the assessments raised by the IRD. The Company has lodged objections against these tax assessments 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\$1,816 million and HK\$462 million in 2017 and 2018 respectively. 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. No additional tax provision has been made in respect of the above notices of assessment/additional assessment.

B As at 30 June 2020, creditors, other payables and provisions amounted to HK\$34,451 million (31 December 2019: HK\$33,315 million), of which creditors and accrued charges amounted to HK\$20,842 million (2019: HK\$19,315 million). As at 30 June 2020, the analysis of creditors by due dates is as follows:

<i>in HK\$ million</i>	At 30 June 2020 (Unaudited)	At 31 December 2019 (Audited)
Due within 30 days or on demand	7,100	7,157
Due after 30 days but within 60 days	974	1,559
Due after 60 days but within 90 days	674	774
Due after 90 days	5,148	4,978
	13,896	14,468
Rental and other refundable deposits	2,906	2,857
Accrued employee benefits	2,545	1,990
Dividends payable to other equity shareholders	1,495	-
	20,842	19,315

11. PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

The Group did not purchase, sell or redeem any of the Group's listed securities during the six months ended 30 June 2020. However, the Trustee of the Executive Share Incentive Scheme, pursuant to the terms of the rules and the trust deed of the Executive Share Incentive Scheme, purchased on the Hong Kong Stock Exchange a total of 2,020,000 Ordinary Shares of the Company for a total consideration of approximately HK\$86 million during the six months ended 30 June 2020.

12. CHARGE ON GROUP ASSETS

As at 30 June 2020, MTR Corporation (Shenzhen) Limited, an indirect wholly owned subsidiary of the Company in the Mainland of China, has pledged the fare and non-fare revenue and the benefits of insurance contracts in relation to Phase 2 of Shenzhen Metro Longhua Line as security for the RMB1,750 million bank loan facility granted to it.

Saved as disclosed above, none of the other assets of the Group was charged or subject to any encumbrance as at 30 June 2020.

13. CORPORATE GOVERNANCE

During the six months ended 30 June 2020, the Company has complied with the Code Provisions set out in the Corporate Governance Code, contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

14. PUBLICATION OF THE INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This interim results announcement is published on the Company's website at www.mtr.com.hk and the website of the Stock Exchange of Hong Kong Limited ("the Stock Exchange"). The Interim Report will also be available at the Company's and the Stock Exchange's websites and will be despatched to shareholders of the Company in early September 2020.

KEY STATISTICS

	Six months ended 30 June	
	2020	2019
Total passenger boardings for Hong Kong transport operations (in millions)		
- Domestic Service	553.6	830.2
- Cross-boundary Service	7.4	57.6
- High Speed Rail (Hong Kong Section)	1.1	9.9
- Airport Express	2.1	9.0
- Light Rail and Bus	73.0	114.4
Average number of passengers (in thousands)		
- Domestic Service (weekday)	3,321	4,892
- Cross-boundary Service (daily)	40.6	318.4
- High Speed Rail (Hong Kong Section) (daily)	5.8	54.9
- Airport Express (daily)	11.4	49.7
- Light Rail and Bus (weekday)	416.3	657.5
EBITDA margin [^]		
- Including Mainland of China and international subsidiaries	18.5%	29.7%
- Excluding Mainland of China and international subsidiaries [°]	33.2%	43.7%
EBIT margin*		
- Including Mainland of China and international subsidiaries	4.3%	15.2%
- Excluding Mainland of China and international subsidiaries [°]	6.7%	21.2%

[^] Operating profit before Hong Kong property development, depreciation, amortisation and variable annual payment as a percentage of total revenue

[°] Excluding the relevant revenue and expenses of Mainland of China and international subsidiaries of HK\$10,465 million and HK\$10,160 million (2019: HK\$10,558 million and HK\$9,896 million) respectively

* Profit before interest, finance charges and taxation (excluding profit on Hong Kong property development and share of profit/(loss) of associates and joint venture) as a percentage of total revenue

[°] Excluding the relevant revenue, expenses, depreciation and amortisation of Mainland of China and international subsidiaries of HK\$10,465 million, HK\$10,160 million and HK\$127 million (2019: HK\$10,558 million, HK\$9,896 million and HK\$112 million) respectively

MANAGEMENT REVIEW AND OUTLOOK

It has now been just over a year since I took up the role of CEO of MTR. Back then, preparing my first interim report was a relatively straightforward exercise. Today, external circumstances have made the situation very different.

During the early months of 2020, we continued to feel the impact of the public order events of last year. Then, just as we were starting to recover from these events, the coronavirus pandemic struck, which affected all areas of our business not only in Hong Kong but across our entire global footprint.

In response to the COVID-19 outbreak, we immediately took steps to ensure our trains and stations were safe for our customers by implementing a comprehensive cleaning programme throughout our network that, among other measures, included the use of specialised sanitising robots to thoroughly cleanse MTR facilities. We also provided our staff with protective equipment such as face masks and encouraged our office staff to work from home.

To ease the financial burden of the public, we offered additional fare rebates to our passengers and rental concession to most of our tenants at stations and MTR malls. We also donated

masks to people in need. At the same time, the members of our Board and Executive Directorate volunteered to donate part of their remuneration to charitable groups in the community.

During the period under review, there were other challenges as well. On 12 May 2020, Government released the Final Report of the Commission of Inquiry (“COI”) into the Construction Works at and near the Hung Hom Station Extension under the Shatin to Central Link project. Another report, concerning the Hung Hom derailment incident on 17 September 2019, was also released during the period. Both reports helped us to reflect on what we could have done better with regard to our project management and railway operations, and we have since implemented a number of measures to ensure incidents of a similar nature do not reoccur in future. Further details on the reports and our rectification actions are presented in the “Transport Operations” and “Shatin to Central Link” sections of this interim report.

Despite these challenges, we made several important achievements both in Hong Kong and internationally. Good progress continued to be made on the Shatin to Central Link project, including the opening of the Tuen Ma Line Phase 1 on 14 February 2020. Government’s application for additional funding for the Shatin to Central Link project had been approved by the Finance Committee of the Legislative Council (“LegCo”) on 12 June 2020. Furthermore, Hangzhou Metro Line 5 (“HZL5”) achieved full line opening in April 2020.

Our service performance during the period was once again maintained at a world-class level with a 99.9% record of train service delivery and passenger journeys on-time. To continue improving our customer experience and operations, we enhanced our MTR Mobile and introduced smart asset management as part of our overall effort to incorporate the latest technology into our operations.

In our property business, we launched pre-sales of several property development projects and awarded LOHAS Park Package 12. The draft Outline Zoning Plans of the Tung Chung Traction Substation and Pak Shing Kok Ventilation Building were also gazetted in June 2020.

In our Hong Kong railway business, we were invited by Government to proceed with detailed planning and design of the Tung Chung Line Extension and Tuen Mun South Extension under the Railway Development Strategy 2014 (“RDS 2014”) in April and May 2020 respectively.

Although patronage was affected significantly outside Hong Kong by COVID-19, we announced on 3 August 2020 that we were awarded the tender for the Shenzhen Metro Line 13 (“SZL13”) Private-Public-Partnership (“PPP”) project for the investment in, construction of, and operations and maintenance of SZL13 for 30 years after completion. We will also continue to seek other growth opportunities beyond our core market.

Looking at the financial performance, recurrent business profit in the first six months of 2020 decreased by 83.8% to HK\$433 million. Property development profit for the period increased from HK\$775 million to HK\$5,200 million. As a result, underlying business profit was 63.8% higher at HK\$5,633 million. Including the revaluation loss on investment properties of HK\$5,967 million, net loss attributable to shareholders of the Company was HK\$334 million, compared to a net profit of HK\$5,506 million in the same period in 2019. In response to this challenging situation, we have taken a number of cost control measures to reduce the financial damage, including a recruitment freeze and cutting of overhead expenditures. The impact of the COVID-19 outbreak on the Group is likely to continue for some time, but the precise timing and scale of the impact is difficult to predict and will depend on how the situation develops.

The Board of Directors of the Company is of the view that the overall financial position of the Group remains sound and has declared an interim dividend of HK\$0.25 per share.

CORPORATE STRATEGY

Today, the operating environment for MTR is being driven by a confluence of factors that include changing demographics, the emergence of new technologies and disruptors such as the COVID-19 pandemic. Together, they are reshaping the future of cities and mobility.

MTR has a significant role to play as cities strive to tackle and master the “new normal”. Our vision is to become an internationally-recognised leading company that connects and grows communities with caring, innovative and sustainable services. To that end, we are embarking on a re-examination of our strategic direction with the aim of strengthening our existing core competitive advantages, increasing agility and developing new capabilities. This timely and ongoing review will enable us to harness opportunities in the fast-changing environment and to deliver the best possible service to the cities in which we operate.

We also seek to attain the full potential of Hong Kong’s core business while maintaining the growth of our Mainland of China and International Business with new products and hubs. Technology will play an instrumental role as both an enabler and a new growth engine, through investments in rail-tech and smart mobility services.

Part of this strategic review is to more fully and more explicitly integrate Environmental, Social and Governance (“ESG”) objectives into our businesses and operations to create value for all our stakeholders, fulfilling our long term fiduciary duties.

Our ESG strategy will be guided by our commitment to put people and the communities we serve first. With our scale of operation, MTR is well positioned to play an impactful role in the sustainable growth of our communities. The upcoming ESG strategy and initiatives will also leverage our DNA as an environmentally-friendly people mover, as well as a provider of caring services to millions of customers around the world every day and as an employer of 50,000 people in Hong Kong and globally through our subsidiaries and associates. By focusing more on how we care for the environment and our communities, we will create new opportunities and be better positioned to respond to societal needs.

Successfully implementing this ESG strategy means embedding all of these ESG principles into MTR’s businesses and designing new policies and processes that reflect our values.

Underlying all of these initiatives, there will be various measures to achieve a more entrenched financial accountability of each business unit. On a wider scale, we will also work to enhance our governance and streamline our processes. A Transformation Management Office has been set up with a dedicated management team to enable and deliver this strategic transformation.

HONG KONG BUSINESSES

On account of the novel coronavirus outbreak, our businesses in Hong Kong experienced substantially reduced revenue and incurred an operating loss in our Hong Kong transport operations during the first half of the year. Nevertheless, our overall financial position remains strong as a result of our proven “Rail plus Property” business model, which in addition to our railway network includes proven station commercial activities, property rental and property developments over and adjacent to our railway stations and depots.

Transport Operations

Highlights

- Maintained world-class 99.9% train service delivery and passenger journeys on-time
- Opening of Tuen Ma Line Phase 1 in February 2020
- Total patronage at 637.3 million, decreased by 37.7% from the same period last year mainly due to COVID-19

HK\$ million	Six months ended 30 June		
	2020	2019	Inc./ (Dec.) %
Hong Kong Transport Operations			
Total Revenue	6,234	10,690	(41.7)
Operating profit before depreciation, amortisation and variable annual payment ("EBITDA")	106	4,346	(97.6)
Operating (loss)/profit before interest and finance charges and after variable annual payment ("EBIT")	(2,579)	952	n/m
EBITDA Margin (in %)	1.7%	40.7%	(39.0)% pts.
EBIT Margin (in %)	(41.4)%	8.9%	n/m

n/m: not meaningful

During the first half of 2020, total revenue from Hong Kong transport operations amounted to HK\$6,234 million, a decrease of 41.7% as compared with the corresponding period in 2019. Operating loss before interest and finance charges and after variable annual payment was HK\$2,579 million. Reductions from the same period last year were mainly due to the adverse impact of the COVID-19 outbreak with lower patronage and average fare.

Patronage and Revenue

Hong Kong Transport Operations	Patronage <i>In million</i>		Revenue <i>HK\$ million</i>	
	Six months ended 30 June 2020	Inc./ (Dec.) %	Six months ended 30 June 2020	Inc./ (Dec.) %
	Domestic Service	553.6	(33.3)	4,657
Cross-boundary Service	7.4	(87.2)	514	(70.0)
High Speed Rail ("HSR")	1.1	(89.4)	658	(41.6)
Airport Express	2.1	(77.0)	107	(81.4)
Light Rail and Bus	73.0	(36.2)	243	(34.3)
Intercity	0.1	(91.7)	21	(77.9)
	637.3	(37.7)	6,200	(41.7)
Others			34	(34.6)
Total			6,234	(41.7)

In the first six months of 2020, patronage was heavily affected by COVID-19 owing to fewer passengers travelling on our network because of social distancing measures, including work-from-home arrangements and school closures. This resulted in a 33.3% decline in our Domestic Service patronage to 553.6 million. The impact of the pandemic led to the closure of several boundary crossings between Hong Kong and the Mainland (including the crossings at our Lo Wu, Lok Ma Chau and Hong Kong West Kowloon stations, as well as the Intercity Through Train control point at Hung Hom Station), resulting in a significant decrease in patronage of Cross-boundary Service and HSR. Similarly, patronage of the Airport Express recorded a 77.0% drop due to the decline in air travellers during the period.

For the period from 1 January to 30 June 2020, total patronage of all of our rail and bus passenger services in Hong Kong decreased by 37.7%, to 637.3 million passenger trips, as compared to the same period in 2019. Average weekday patronage decreased by 36.1% to 3.79 million.

In response to the possible “new normal” that the COVID-19 outbreak has imposed, we have been investigating ways of stimulating ridership or adjusting train service delivery to accommodate fluctuations in demand. These include developing products that encourage travel during non-peak hours, reviewing fares and ticket promotions, and leveraging our mobile app to encourage more usage. With the drastic fall in overseas tourism, we are determining the optimal level of service for the Airport Express and looking at promotions when more air travel becomes possible. We also see opportunities to promote internal leisure travel within Hong Kong via MTR.

Market Share

The Company’s overall share of the franchised public transport market in Hong Kong in the first five months of 2020 was 44.6%, as compared with 48.8% in the same period of 2019. The decrease was due mainly to the significant reduction in cross-boundary and Airport Express patronage, following the COVID-19 pandemic outbreak in late January this year, with closures of several boundary crossings between Hong Kong and the Mainland as well as the reduction in air travellers. Within this total, the share of cross-harbour traffic was 65.1%, as compared with 68.2% during the same period last year. For MTR’s Cross-boundary Service and HSR, our share of the cross-boundary business for the first five months of 2020 fell from 51.5% to 48.8%. Our market share to and from the airport fell from 21.8% to 16.3%.

Fare Adjustments, Promotions and Concessions

The overall adjustment rate of MTR fares for 2019/2020, in accordance with the Fare Adjustment Mechanism (“FAM”), was +3.3%. We offered a 3.3% rebate for all Octopus users on every paid journey they take on the MTR, Light Rail and MTR Bus from 30 June 2019 up to 4 April 2020 which was then further extended and translates into no actual MTR fare increase for these Octopus users.

For 2020/2021, the fare adjustment rate is +2.55% according to the FAM. In view of the Affordability Cap, there is no fare increase for 2020, and the fare adjustment rate of +2.55% for 2020/21 will be recouped over the subsequent two years, with +1.28% to be recouped in 2021/22 and +1.27% to be recouped in 2022/23. At the same time, a series of promotions have been implemented:

- The committed “3% Rebate for Every Octopus Trip” is enhanced to “3.3% Rebate for Every Octopus Trip” from the end of June 2020 until 1 January 2021. Under such arrangement, the actual Octopus fares paid by passengers will have remained unchanged for two consecutive years since January 2019.
- No price adjustment will be made on MTR City Saver and Tuen Mun-Nam Cheong Day Pass until 1 January 2021. The new prices will take effect from 2 January 2021.

- No price adjustment will be made for Monthly Pass Extras until December 2020. The new prices will take effect from January 2021.
- The Early Bird Discount Promotion was extended for one year from 1 June 2020 to 31 May 2021.

Under these promotions, passengers are expected to save more than HK\$700 million in 2020/2021. We also continue to offer over HK\$2.6 billion every year in on-going fare concessions to customers from different walks of life, including the elderly, children, eligible students as well as persons with disabilities.

On 8 April 2020, we announced new relief measures amid COVID-19 pandemic. The relief measures include:

- 20% Rebate for Every Octopus Trip from 1 July 2020 to 1 January 2021, an enhancement over the 3.3% Rebate for Every Octopus Trip.
- A HK\$100 discount was offered on MTR City Saver from 1 July 2020 until 1 January 2021.
- A HK\$100 discount was offered for Monthly Pass Extras from July to December 2020.

The total revenue forgone for these relief measures will amount to about HK\$1.6 billion. The Government will bear half of the total actual revenue forgone with a cap of HK\$0.8 billion, while MTR Corporation will shoulder the remainder. This COVID-19 relief package is a special one-off, six-month relief measure outside of the existing FAM.

Service Performance

Although the coronavirus outbreak presented challenges from an operational perspective, we were nevertheless able to maintain a high level of service performance throughout the first six months of the year. Train service delivery and passenger journeys on-time in our heavy rail network were kept to a world-class level of 99.9%, exceeding the targets set in the Operating Agreement for MTR as well as our own more rigorous Customer Service Pledges. Train service delivery is a measure of the actual train trips run against the train trips scheduled to be run by the Company, and passenger journeys on-time is a measure of all passenger journeys that are completed within five minutes of their scheduled journey times.

During the review period, we have run more than 900,000 train trips on our heavy rail network and more than 500,000 trips on our light rail network. On heavy rail, there were five delays lasting 31 minutes or more attributable to factors within MTR's control, which was two more than in the same period last year. We investigated the cases carefully and where appropriate implemented suitable measures to prevent future reoccurrence. No such delays were recorded for Light Rail during the period which maintained the record from the same period last year.

The results of the investigation into the train derailment near Hung Hom Station in September 2019 were made public on 3 March 2020. The report concluded that the incident was caused by dynamic track gauge widening at a turnout near Hung Hom Station. The Company has accepted the recommendations made by the investigation panel and is taking action to prevent incidents of a similar nature re-occurring in future.

Enhancing the Customer Experience

For the comfort and convenience of passengers, we have been implementing major upgrades and replacements to our existing rail network.

Greater Comfort for Passengers

For Heavy Rail, we have ordered 93 new trains, of which 9 had been delivered by the end of June 2020 and are currently in the process of being tested and commissioned.

For Light Rail, we have also ordered a total of 40 new light rail vehicles. As at 30 June 2020, four new light rail vehicles had been delivered and two had been tested and commissioned in preparation for passenger service later in the year.

In order to provide a more comfortable environment for passengers and our staff, we have been replacing more than half of the chillers in our stations and depots. Up to June 2020, we had completed three out of five replacement phases, with 92 chillers replaced in total. Target completion for the remaining two phases is in 2023.

In order to increase the overall capacity of our services, we are in the process of upgrading our signalling system. The signalling upgrade for Tsuen Wan Line would now take approximately three years for completion (around 2023). During the period, work was under way on the replacement of the signalling systems for the Tsuen Wan, Island, Kwun Tong, Tseung Kwan O, Tung Chung and Disneyland Resort lines, as well as the Airport Express. More than 80% of the hardware installation work had been completed for the Kwun Tong Line as at 30 June 2020. Enabling works also began on the Tseung Kwan O Line during the period.

We will continue to address the challenge of peak hour demand, although this is a situation that will only be partly alleviated on the existing cross-harbour section of Tsuen Wan Line after the completion of the new cross-harbour rail line of the Shatin to Central Link.

Enhancing Station Facilities

In addition to carrying out major asset upgrades, we continued to make other customer experience enhancements during the first half of 2020. These included additions or improvements to station facilities such as public toilets, baby care rooms, drinking water dispensers, platform seats and mobile charging spots.

As part of our commitment to provide public toilets at all interchange stations, we opened public toilets and baby care rooms at the three new stations on the Tuen Ma Line Phase 1 in February 2020, as well as in Yau Ma Tei Station in June 2020.

Drinking water dispensers were also added at Tung Chung, Tsuen Wan, Prince Edward and Tiu Keng Leng stations, with the objective of improving passengers' travel experience while also encouraging the use of refillable bottles. As the response from customers has been very positive, we will install drinking water dispensers at a total of 18 stations across the MTR network by 2022.

We also continued to install mobile charging outlets so that our customers can stay charged and in touch throughout their journeys. In addition to the mobile charging outlets already installed in 13 stations, we installed USB charging sockets and wireless charging facilities in another 16 stations across our network. As a result, these outlets are now available at all interchange stations for customers. We are also extending our provision of free WiFi services from station hotspots to all station area including concourses and platforms.

Focus on Technology

As the world becomes increasingly interconnected through technology, we are focusing on the development of new digital initiatives in line with our strategy to become a tech-enabled company.

Among our customer tech initiatives, we have been building up the capabilities of our mobile apps in order to provide seamless digital experience to our customers and develop full Mobility-as-a-Service functionality. In the first half of 2020, we upgraded our all-in-one MTR

Mobile with a new loyalty programme that enables customers to earn “MTR points” when using our railway and bus services and shopping in our station shops and shopping malls. We also enhanced our “Macy” chatbot service and introduced a section on MTR Mobile for providing the latest news on our transportation services and shopping malls, as well as other lifestyle information. In addition to providing a new in-app purchase functionality for “Monthly Pass Extra” in June, we made preparations to launch smart ticketing with a QR code mobile payment option. The MTR Mobile had exceeded 1 million active users per month in the first half of 2020.

Smart asset management is another technology we have been adopting to help us improve the reliability of our railway services. To that end, we have begun installing sensors on new equipment and set up a data studio to perform maintenance analysis using Artificial Intelligence, the Internet of Things and cloud computing, with the objective of identifying potential failures and taking action before they occur. On 3 April 2020, we signed a Memorandum of Understanding with the Hong Kong Applied Science and Technology Research Institute (ASTRI) to establish a railway innovation laboratory for developing innovative solutions for smart railway development in Hong Kong.

Five robots will join the station operations team and are targeted to begin service at Kai Tak Station starting from the third quarter of 2020. These five robots will answer passenger enquiries on journey planning, check the status of our station facilities and clean stations after they close. Our maintenance team is also using an “Underframe Inspection Robot” in our Pat Heung Depot that will inform our maintenance team if any abnormalities are found.

In addition to these initiatives, we are looking at opportunities to make our projects and community planning smarter by harnessing a variety of technologies that will take MTR to the next level.

Station Commercial Businesses

Highlights

- Increase in number of station shops and advertising units due to the opening of Tuen Ma Line Phase 1
- 5G services were launched by some telecom operators at ten stations by June 2020
- Closure of boundary crossings between Hong Kong and Mainland of China resulting in closure of Duty Free shops in our stations

HK\$ million	Six months ended		
	30 June		
	2020	2019	Inc./ (Dec.) %
Hong Kong Station Commercial Businesses			
Station Retail Rental Revenue	1,183	2,507	(52.8)
Advertising Revenue	213	606	(64.9)
Telecommunication Income	365	376	(2.9)
Other Station Commercial Income	48	66	(27.3)
Total Revenue	1,809	3,555	(49.1)
EBITDA	1,549	3,227	(52.0)
EBIT	1,334	2,679	(50.2)
EBITDA Margin (in %)	85.6%	90.8%	(5.2)% pts.
EBIT Margin (in %)	73.7%	75.4%	(1.7)% pts.

During the first half of the year, total revenue from all Hong Kong station commercial activities decreased by 49.1% to HK\$1,809 million, mainly due to rental concession granted to Duty Free Shops resulting from boundary closure and also concession to shops as a result of the COVID-19 outbreak.

Rental revenue from station shops was HK\$1,183 million during the period, a decline of 52.8%, mainly as a result of rental concessions granted to shops due to the closure of border stations and rental concessions granted to tenants during the COVID-19 outbreak. The total number of retail shops in our stations as of 30 June 2020 was 1,523, covering 67,195 square metres of station retail area. The increase in the number of station shops compared with the end of 2019 was mainly due to the opening of the Tuen Ma Line Phase 1. Rental reversion and the average occupancy rate in the first half of 2020 in our station kiosks were -5.4% and 98.5% respectively.

To provide relief measures for our small to medium tenants during the pandemic, we offered a half-month reduction of their rents from February to April. The amount of rental concession for large corporations was determined on a case-by-case basis in this period. Concession was continued to be offered in May and June to all tenants.

Revenue from advertising decreased by 64.9% to HK\$213 million in the first half of the year, mainly due to lower advertising spending as a result of the drop in retail sales and tourist arrivals. As at 30 June 2020, the total number of advertising units in stations and trains was 49,502, including new advertising panels launched along the Tuen Ma Line Phase 1.

Looking at the impact of COVID-19, in our station retail business, we are considering more flexible leasing terms and enhancing the telecom infrastructure to support tenants' new offline/online retail models. In our advertising business, we have been digitalising our advertising panels and back-end system to allow for more flexible, dynamic and visually attractive media campaigns.

Revenue from our telecommunications business in the first half of 2020 decreased by 2.9% to HK\$365 million. Our project to install a new commercial telecom system at 31 of our stations to create more capacity made progress during the first six months of 2020, with 22 stations completed by June. 5G services were launched by certain telecom operators at ten stations by June 2020.

Property and Other Businesses

Highlights

- Awarded LOHAS Park Package 12 in February 2020
- Acquired remaining interest of Telford Plaza II and PopCorn 2
- Booking of property development profit from LOHAS Park Package 6

Property Rental and Management

HK\$ million	Six months ended		
	30 June		
	2020	2019	Inc./ (Dec.) %
Hong Kong Property Rental and Property Management Businesses			
Revenue from Property Rental	2,469	2,492	(0.9)
Revenue from Property Management	113	143	(21.0)
Total Revenue	2,582	2,635	(2.0)
EBITDA	2,203	2,240	(1.7)
EBIT	2,193	2,229	(1.6)
EBITDA Margin (in %)	85.3%	85.0%	0.3% pt.
EBIT Margin (in %)	84.9%	84.6%	0.3% pt.

Property rental revenue decreased by 0.9% to HK\$2,469 million in the first six months of 2020, mainly due to rental concession granted to tenants as a result of the COVID-19 outbreak. Such rental concession granted will be amortised to the profit and loss account over the remaining lease terms of respective tenants, of which only a small portion had been charged to the profit and loss account for the six months ended 30 June 2020. The Corporation acquired the remaining interests in Telford Plaza II and PopCorn 2 shopping malls. Rental income from these new acquisitions has helped reducing the impact on revenue by COVID-19. Our shopping malls in Hong Kong recorded a negative rental reversion of 17.6% during the first six months of 2020. In the first half of 2020, our shopping malls in Hong Kong and the company's 18 floors in Two International Finance Centre were 99.2% and 99.8% let respectively on average.

During the pandemic, we granted rental concessions to our tenants in recognition of the long-term relationships we have developed with them, with priority given to small to medium tenants. For the period from February to April 2020, we offered a half-month rental reduction to our small to medium tenants and supported large corporate tenants with rental reductions on a case-by-case basis. From May 2020 onwards, the relief measures continued based on the impact on different trade categories and the arrangement is reviewed on monthly basis..

Overall, the pandemic has less long-term impact on many of our mall tenants offering daily necessities and services. Food and beverage outlets were affected as consumers chose food delivery services and take-aways rather than dining in. To increase mall traffic, we are collaborating with e-commerce and online merchants who are planning to open pop-up stores across our portfolio. We are also exploring the possibility of adding more entertainment and sports facilities to our malls.

With the acquisition of the remaining interests in Telford Plaza II and PopCorn 2 from New World Development Company and Chow Tai Fook Enterprises Limited in March 2020, we now hold the entire economic interests of these two shopping centres.

As at 30 June 2020, our attributable share of investment properties in Hong Kong was 230,263 square metres of lettable floor area of retail properties, 39,410 square metres of lettable floor area of office space and 17,764 square metres of property for other use.

At Telford Plaza II, repartitioning work on the former Piago space on the fourth and fifth floors was completed and the shops opened progressively from May 2020 onwards.

Our property management revenue in Hong Kong decreased by 21.0% to HK\$113 million in the first six months of 2020. As at 30 June 2020, MTR managed more than 104,000 residential units and more than 772,000 square metres of office and commercial space in Hong Kong.

Property Development

Hong Kong property development profit was HK\$5,171 million, which was mainly derived from the surplus proceeds from LOHAS Park Package 6 and sales of inventory units.

During the period, pre-sales activities continued for the property development projects in LOHAS Park. As at 30 June 2020, about 94% of units of MARINI (LOHAS Park Package 9A), about 92% of units of GRAND MARINI (LOHAS Park Package 9B), about 88% of units of OCEAN MARINI (LOHAS Park Package 9C) and about 98% of the units of LP6 (LOHAS Park Package 6) had been sold. Pre-sale of SEA TO SKY (LOHAS Park Package 8) was launched in June 2020, with about 32% of the units sold.

In February 2020, LOHAS Park Package 12 was awarded to a subsidiary of Wheelock and Company Limited.

For the West Rail property development projects where we act as agent for the relevant subsidiaries of Kowloon-Canton Railway Corporation ("KCRC"), sales continued for Cullinan West III (Nam Cheong Station) and Sol City (Long Ping Station (South)).

Other Businesses

Revenue from Ngong Ping 360 decreased by 85.3% in the first six months of 2020 to HK\$36 million, reflecting a drop in visitor numbers of 85.2% to about 130,000.

Our share of profit from Octopus Holdings Limited in the first six months of 2020 decreased by 15.0% to HK\$102 million, mainly due to lower transport transaction volume and lower sales of consumer products. As at 30 June 2020, more than 23,000 service providers in Hong Kong accepted Octopus payments. Total cards and other stored-value Octopus products in circulation were 34.4 million, while average daily transaction volumes and value were 11.3 million and HK\$185.6 million respectively.

GROWING OUR HONG KONG BUSINESSES

Highlights

- Shatin to Central Link: completed 99.95% of the Tai Wai to Hung Hom Section and 86.9% of the Hung Hom to Admiralty Section by end of June 2020
- Invitation received from Government to proceed with detailed planning and design of the Tung Chung Line Extension and Tuen Mun South Extension. The latter is an extension of Tuen Ma Line.

Our key areas of growth in Hong Kong are the development of new railway lines in our home market as well as the expansion of our property portfolio. In addition to the Shatin to Central Link, which remains under construction, the seven new railway projects under RDS 2014 have the potential to increase Hong Kong's railway network by a further 35 km.

Shatin to Central Link

By 30 June 2020, we had completed 99.95% of the Tai Wai to Hung Hom Section and 86.9% of the Hung Hom to Admiralty Section of the Shatin to Central Link, a project managed by MTR on behalf of Government. When the entire 17-km Shatin to Central Link goes into operation, it will provide greater connectivity and substantially reduced travelling times across Hong Kong.

On 14 February 2020, we opened the first part of Tai Wai to Hung Hom section, now called Tuen Ma Line Phase 1, allowing passengers on the Ma On Shan Line to travel directly to Kai Tak Station in East Kowloon district via Hin Keng Station and Diamond Hill Station. The opening of this line has been greatly welcomed by the community in the area. Average daily usage of the three stations since their opening totalled approximately 119,000 passengers up to the end of June 2020.

The full line opening of the Tuen Ma Line, where the Tuen Ma Line Phase 1 will connect to the West Rail Line via Sung Wong Toi, To Kwa Wan, Ho Man Tin and Hung Hom stations, is anticipated to be in the third quarter of 2021. As for the Hung Hom to Admiralty Section (East Rail Line extending to Admiralty Station), the targeted completion in the first quarter of 2022 is still facing challenges and there are continuing efforts being made to meet the programme.

We are also planning to commission a new signalling system for the Shatin to Central Link and will launch new 9-car trains in preparation for the extension of the East Rail Line across Victoria Harbour to Admiralty Station. The new signalling system will improve train headway on the railway service, and the new 9-car trains will provide a more spacious and comfortable travelling environment for passengers.

On 12 May 2020, the Government released the Final Report of the Commission of Inquiry ("COI") on construction works at and near the Hung Hom Station Extension under the Shatin to Central Link. The report has concluded that the relevant structures at and near the Hung Hom Station Extension are safe and fit for purpose with the completion of suitable measures. Works for the suitable measures were completed in mid-2020 and service reinstatement in Hung Hom Station has commenced.

The Company notes that in the Final Report, COI has identified a number of inadequacies in respect of the construction process (including failures in respect thereof, such as poor workmanship incidents 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 on the Company's project management practices. Based on COI's interim report and the recommendations of the review carried out by the Capital Works Committee of the Board aided by an external consultant Turner & Townsend ("T&T") in 2018, the Company has been updating and improving a number of its project management practices over the past two years. Many of these have already been incorporated into the Company's standard practices. Out of the 38 practices recommended by T&T, 31 recommendations have been implemented, and implementation of the remaining 7 recommendations was underway. The Company noted the comments and recommendations made by the COI in the Final Report. These will be incorporated into our ongoing efforts to improve our project management and quality assurance systems for the delivery of future railway projects that will serve the people of Hong Kong.

In the meantime, we are continuing our discussions with the contractor about fulfilling their contractual responsibilities, and will be considering our legal position.

The Company carried out a further review and revalidation of the Shatin to Central Link Cost to Complete which was submitted to Government on 10 February 2020. The Company's submission included an additional amount of project management cost for the Company. However, Government advised the Company that Government considers there has been no material modification in respect of the Shatin to Central Link project and, therefore, Government disagrees to the inclusion of any additional project management cost in the Cost to Complete. The additional funding sought by Government and subsequently approved by the Legislative Council on 12 June 2020 did not include any additional amount of project management cost for the Company. The Board is of the view that the Company's entitlement to any additional project management cost should be resolved with Government in accordance with the terms of the relevant entrustment agreement between the Company and

Government. The Company will, in the interim, continue to comply with its obligations under the agreement and meet the costs thereof, to allow the Shatin to Central Link project to progress in accordance with the latest programme. The Company continues to exercise rigorous cost control with the objective of ensuring that construction costs are contained as far as possible.

Given the uncertainty and potential financial impact to the Company in connection with any increase in the project management fee sought by the Company in respect of the Shatin to Central Link project, at the appropriate time following further developments relating to this matter, the Company will recognise a provision in its consolidated profit and loss account of an amount of up to HK\$1,371 million to reflect the additional cost to the Company of completing its remaining project management responsibilities in respect of the Shatin to Central Link project. The Company will continue to reassess the position on an ongoing basis.

Other New Railway Projects

The RDS 2014 was introduced as a framework for the future expansion of Hong Kong's railway network up to the year 2031. Under this strategy, seven rail projects were recommended by Government. As announced in the Chief Executive's 2019 Policy Address, Government intends to commence detailed planning and design for three of these projects: the Tung Chung Line Extension, Tuen Mun South Extension and Northern Link (and Kwu Tung Station).

We welcomed Government's decision to invite us to proceed with the detailed planning and design of the Tung Chung Line Extension in April 2020 and Tuen Mun South Extension in May 2020. Government has also announced that these two projects will be progressed using the ownership model. The design consultancy of the Tung Chung Line Extension was awarded in June 2020, marking an important step forward on this project.

In addition, we look forward to participating in detailed planning and design for the Northern Link (including Kwu Tung Station). A proposal for an alternative underground scheme for this project was submitted to Government in May 2020.

Project proposals for the East Kowloon Line and North Island Line were also submitted. As both projects will encounter technical challenges in the alignment and surrounding interfaces, we have been working closely with Government to address their comments and are preparing supplementary information for Government as requested.

For another project, Hung Shui Kiu Station, we submitted a proposal to Government in May 2020, whereas for South Island Line (West), we are undertaking a technical study in preparation for project proposal submission by the end of 2020.

Expanding the Property Portfolio

Investment Properties

In the next few years, we will open new malls that will add around 46% to the attributable GFA of our existing retail portfolio as at 30 June 2020, bringing the total up to 152,120 square metres.

As at 30 June 2020, the construction of our new shopping mall, The LOHAS, was 90% completed, and will open Phase 1 of the mall in the near future. Our shopping centres in Tai Wai and Wong Chuk Hang are expected to open in 2023.

Residential Property Development

As at 30 June 2020, the 15 new residential property projects under development will provide about 20,000 new residential units over the next seven years.

For the Siu Ho Wan Depot site, we began detailed technical studies and continued our discussions with Government on developing 14,000 public and private housing units, community facilities and a 30,000 square metres shopping mall. There is still no assurance at this early stage whether or not it will be commercially viable.

During the period, we continued to look for other opportunities to develop property along our existing railway lines and new railway projects. To that end, we submitted and obtained agreement for the rezoning proposals for our existing Tung Chung Traction Substation in Tung Chung and Pak Shing Kok Ventilation Building in Tseung Kwan O from the Town Planning Board in May 2020. The draft Outline Zoning Plans of these two sites were gazetted in June 2020. We are also exploring sites with development potential along the Tung Chung Line Extension.

MAINLAND OF CHINA AND INTERNATIONAL BUSINESSES

Highlights

- Full line opening of Hangzhou Metro Line 5 in April 2020
- Awarded the tender of SZL13 PPP project
- Signed joint venture agreement for exploration and development of station commercial and related businesses in Chengdu

Beyond our core market of Hong Kong, we have been building a growing portfolio of railway-related businesses in the Mainland of China, Macao, Europe and Australia. These businesses carried a total of about 603 million passengers and an average of about 4.0 million passengers per weekday during the first half of 2020.

During the first six months of the year, our international railway businesses, as well as those in the Mainland of China and Macao, were affected by the coronavirus outbreak. Patronage was down in all markets, although the financial impact on MTR varied depending on the business model in different business contracts.

Mainland of China and International Businesses												
HK\$' million	Mainland of China and Macao Railway, Property Rental and Property Management Businesses						International Railway Businesses			Total		
	Management Businesses			International Railway Businesses			Total					
	Six months ended 30	Six months ended 30	Inc./ (Dec.) %	Six months ended 30	Six months ended 30	Inc./ (Dec.) %	Six months ended 30	Six months ended 30	Inc./ (Dec.) %			
	June 2020	June 2019	(Dec.) %	June 2020	June 2019	(Dec.) %	June 2020	June 2019	(Dec.) %			
RECURRENT BUSINESSES												
<u>Subsidiaries</u>												
Revenue	753	873	(13.7)	9,712	9,685	0.3	10,465	10,558	(0.9)			
EBITDA	119	289	(58.8)	190	383	(50.4)	309	672	(54.0)			
EBIT	113	282	(59.9)	69	278	(75.2)	182	560	(67.5)			
EBIT (Net of Non-controlling Interests)	113	282	(59.9)	46	180	(74.4)	159	462	(65.6)			
EBITDA Margin (in %)	15.8%	33.1%	(17.3)% pts.	2.0%	4.0%	(2.0)% pts.	3.0%	6.4%	(3.4)% pts.			
EBIT Margin (in %)	15.0%	32.3%	(17.3)% pts.	0.7%	2.9%	(2.2)% pts.	1.7%	5.3%	(3.6)% pts.			
Recurrent Business Profit/(loss)	92	258	(64.3)	(12)	82	n/m	80	340	(76.5)			
<u>Associates and Joint Venture</u>												
Share of EBIT	288	522	(44.8)	28	(450)	n/m	316	72	338.9			
Share of Profit/(Loss)	88	257	(65.8)	27	(451)	n/m	115	(194)	n/m			
<u>EBIT of Subsidiaries (Net of Non-controlling Interests) and Share of EBIT of Associates and Joint Venture</u>												
	401	804	(50.1)	74	(270)	n/m	475	534	(11.0)			
PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY												
- Arising from Recurrent Businesses (before Business Development Expenses)							195	146	33.6			
- Business Development Expenses							(53)	(142)	(62.7)			
- Arising from Recurrent Businesses (after Business Development Expenses)							142	4	n/m			
- Arising from Mainland of China Property Development							29	25	16.0			
Total							171	29	489.7			

n/m: not meaningful

In the Mainland of China and Macao, recurrent business profit from our railway, property rental and property management subsidiaries decreased by 64.3% to HK\$92 million, mainly due to the negative impact of COVID-19 on fare revenue of Shenzhen Metro Line 4 ("SZL4") and the granting of rental concessions to our shopping mall tenants.

In our International businesses, recurrent business loss from our railway subsidiaries for the period was HK\$12 million compared to a recurrent business profit of HK\$82 million in the first half of 2019. This was mainly due to lower farebox revenue from Metro Trains Melbourne Pty. Ltd. ("MTM") because of the COVID-19 outbreak and an initial operating loss by our Operations and Maintenance ("O&M") business at Sydney Metro North West, which was partially offset by the improvement of Stockholms pendeltåg with better operating performances.

Our share of results from our associates and joint venture increased from a loss of HK\$194 million to a profit of HK\$115 million, mainly due to the one-off onerous contract provision made in 2019 for First MTR South Western Trains Limited of HK\$436 million, partially offset by the negative impact of COVID-19 on our Hangzhou and Beijing operations.

As a result, excluding Mainland of China property development, our railway, property rental and management subsidiaries (after business development expenses), together with our associates and joint venture outside of Hong Kong, contributed a net after-tax profit of HK\$142 million in the first half of 2020 on an attributable basis, whilst in the first half of 2019 was HK\$4 million (or HK\$440 million if the onerous contract provision made for First MTR South Western Trains Limited was excluded).

Railway Businesses in the Mainland of China

Beijing

In Beijing, our associate operates Beijing Metro Line 4 ("BJL4"), the Daxing Line, the first three phases of Beijing Metro Line 14 ("BJL14") and the Northern Section of Beijing Metro Line 16 ("BJL16"). The average on-time performance of these four lines in the first half of 2020 was 99.9%.

Both BJL4 and the Daxing Line recorded a drop in patronage as a result of the pandemic, with total ridership of about 81.0 million passenger trips and average weekday patronage of 522,000.

The first three phases of BJL14 recorded a combined passenger trips of about 52 million and average weekday patronage of 348,000 in the period.

Construction works on the full BJL14 and BJL16 lines made slower progress during the first six months of 2020, and the tentative full opening date for these lines is scheduled for the end of 2021 at the earliest.

Beijing Metro Line 17 will be opened in phases, and the first phase opening of the line is targeted for the end of 2021. Our associate will lease the rolling stock over a 20-year period, with lease payments to be made in instalments after the opening of each phase.

Shenzhen

SZL4, operated by our wholly-owned subsidiary, also recorded a decline in patronage in the first half of 2020 due to COVID-19. Patronage declined by 46% to 63 million passengers, average weekday patronage dropped to 386,000, and on-time performance remained at 99.9%.

There has been no increase in fares at SZL4 since we began operating the line in 2010. In July 2020, Shenzhen Municipal Government has publicised a fare adjustment framework for Shenzhen Metro network which will take effect on 1 January 2021 for 5 years. The framework sets out the mechanism of fare setting and the procedures of fare adjustment. If a suitable fare increase and adjustment mechanism are not implemented soon, the long-term financial viability of this line will be impacted.

In the first half of the year, negotiations regarding the operation arrangement of the SZL4 North Extension continued in preparation for the opening of the extended section at the end of 2020. Testing and commissioning of new trains was underway.

Hangzhou

Through our associate in Hangzhou, we operate Hangzhou Metro Line 1 and the Hangzhou Metro Line 1 Extension. Patronage on these lines was affected by the pandemic during the period, dropping by 43.2% to 82 million, with an average weekday patronage of 486,000. On-time train performance continued at 99.9%.

A highlight of the period was the full line opening of the 56.2-km HZL5 in April 2020. The latter section of HZL5 added 27 new stations to the 12 stations in the initial section of HZL5 that opened in June 2019. Total patronage was 27 million in the first half of 2020, with an average weekday patronage of 164,000.

Property Businesses in the Mainland of China

The Tiara residential development at Shenzhen Metro Longhua Line Depot Site Lot 1, has a total developable GFA of approximately 206,167 square metres with a retail centre of about 10,000 square metres (GFA). More than 98% of the residential units have been sold and handed over to buyers.

The Company also manages self-developed and other third-party properties in the Mainland of China, with a total managed area of approximately 406,000 square metres as at 30 June 2020. The average occupancy rates were 83% for Ginza Mall in Beijing and 71% for the TIA Mall in Shenzhen during the first half of 2020.

To support the tenants of TIA Mall in Shenzhen and Ginza Mall in Beijing to survive the crisis of COVID-19 outbreak, MTR offered rental concession in the month of February to May 2020.

In Tianjin, a Sale and Purchase Agreement was signed in 2018 for the acquisition of a shopping centre to be developed on the Beiyunhe Station site. Based on the construction progress, project completion is expected to be delayed from 2022 to 2024 due to the additional works required for railway safety assurance during basement construction.

We also provide Transit Oriented Development technical assistance in the Greater Bay Area to an associated company of Country Garden Group and Foshan Shunde District Metro Company Limited.

Macao Railway Business

In Macao, we operate and maintain the city's first rapid transit system, the 9.3-km Macao Light Rapid Transit ("LRT") Taipa Line with 11 stations. Since opening on 10 December 2019, it has been operating smoothly in general but with reduced patronage as a result of the pandemic.

European Railway Businesses

United Kingdom

In London, our wholly owned subsidiary operates the Crossrail operating concession under the TfL Rail brand.

The service between Liverpool Street Station and Shenfield has been in operation since May 2015, while the service from Paddington Station to Heathrow Airport commenced operation in May 2018. In December 2019, service commenced between Paddington Station and Reading. As the operator, we continue to support Transport for London on its phased opening, and the service will be renamed Elizabeth line upon the opening of the Central Operating Section.

Also in the UK, our associate operates the South Western Railway franchise, one of the UK's largest rail networks. The financial performance of this franchise continued to suffer for a number of reasons, and in 2019 a provision of HK\$436 million representing our share of the maximum potential loss under the Franchise Agreement was made.

Both TfL Rail and South Western Railway services were substantially reduced from late March 2020 and gradually increased after lockdown measures in the UK eased. TfL Rail's financial position should be well protected in the pandemic owing to it being a concession operation without fare revenue risks, and South Western Railway was temporarily transitioned into an Emergency Measures Agreement for about six months starting March 2020.

Sweden

MTR is the largest rail operator in Sweden by passenger volume, with three rail businesses in the country: Stockholm Metro, MTRX (formerly known as "MTR Express") and the Stockholm commuter rail service ("Stockholms pendeltåg"). All of these services are managed by our wholly owned subsidiaries.

During the COVID-19 outbreak, Stockholm Metro continued to run a full service while maintaining good punctuality.

MTRX has been running a reduced service since late March due to travel restrictions from local authorities and thereby lower demand. This has seriously impacted revenue. Travel restrictions were eased mid-June and services will continue during the summer at a reduced level.

During the period, Stockholms pendeltåg continued to run a full service, with further improvements to operational and financial performances. However, our wholly owned

subsidiary that operates Stockholms pendeltåg, will likely remain in a loss-making position this year or so.

Australian Railway Businesses

The Melbourne metropolitan rail network, which is managed by our subsidiary, experienced reduced patronage and revenue during the first six months of 2020 owing to the COVID-19 pandemic. In May 2020, the subsidiary reached agreement with the State government for a support package for the impact due to COVID-19.

The Sydney Metro North West Line, managed by our subsidiary, continued to offer a full service during the coronavirus outbreak but with much lower patronage. We do not take on patronage revenue risk according to the terms of this franchise.

Work progress of our delivery contract for the Sydney Metro City and Southwest railway has been slightly impacted owing to material and people flow restrictions between countries during COVID-19. Detailed design work has been progressing.

Growth Outside of Hong Kong

In Shenzhen, we submitted a bid for two railway services, Shenzhen Metro Line 12 and SZL13. We announced on 3 August 2020 that the consortium led by our wholly owned subsidiary was awarded the tender for SZL13 PPP project. The project includes the investment in, construction of, and operations and maintenance of SZL13 for 30 years after completion.

The PPP project will be undertaken by a company in which our wholly owned subsidiary will have an effective interest of 83%.

The PPP project covers track laying, rolling stock and electrical and mechanical systems including the signalling system and the automated fare collection system, with a total capital cost of approximately RMB4.91 billion to be financed by both debt and equity.

The 22.4-km SZL13 includes 16 stations and is expected to commence service in 2023.

In Chengdu, a joint-venture agreement was signed in June 2020 with Chengdu Rail Transit Group to set up a new company for exploring and developing station commercial and related businesses in Chengdu.

Our rolling stock maintenance joint venture with the CRRC Nanjing Puzhen Co., Ltd. consortium won the tender in June 2020 for the Hangzhou Metro Line 4 rolling stock overhaul project.

During the period, we continued our discussions on opportunities for building transport infrastructure and property/community building projects in the Mainland of China, in particular, the Guangdong-Hong Kong-Macao Greater Bay Area.

In Sweden, we are preparing for a potential bid submission for Sweden Mälartåg in September 2020. Our bid for the O&M of Roslagsbanan, however, was unsuccessful.

FINANCIAL REVIEW

In addition to the above brief report of the Group's results and operations, this section discusses and analyses such results in more details.

Profit and Loss

HK\$ million	Six months ended		Inc./ (Dec.) HK\$ million	%
	2020	2019		
Total Revenue	21,592	28,272	(6,680)	(23.6)
Recurrent Business Profit^ζ				
EBIT				
Hong Kong Transport Operations	(2,579)	952	(3,531)	n/m
Hong Kong Station Commercial Businesses	1,334	2,679	(1,345)	(50.2)
Hong Kong Property Rental and Management Businesses	2,193	2,229	(36)	(1.6)
Mainland of China and International Railway, Property Rental and Management Subsidiaries	182	560	(378)	(67.5)
Others #	(199)	(2,107)	1,908	90.6
Share of Profit / (Loss) of Associates and Joint Venture	217	(74)	291	n/m
Profit before Interest, Finance Charges and Taxation	1,148	4,239	(3,091)	(72.9)
Interest and Finance Charges	(537)	(480)	57	11.9
Income Tax	(155)	(996)	(841)	(84.4)
Non-controlling Interests	(23)	(98)	(75)	(76.5)
Recurrent Business Profit	433	2,665	(2,232)	(83.8)
Property Development Profit				
Hong Kong	5,171	750	4,421	589.5
Mainland of China	29	25	4	16.0
Property Development Profit	5,200	775	4,425	571.0
Underlying Business Profit^ε	5,633	3,440	2,193	63.8
Investment Property Revaluation (Loss) / Gain	(5,967)	2,066	(8,033)	n/m
Net (Loss) / Profit Attributable to Shareholders of the Company	(334)	5,506	(5,840)	n/m

ζ : Recurrent business profit represents profit from the Group's Hong Kong transport operations, Hong Kong station commercial businesses, Hong Kong property rental and management businesses, Mainland of China and international railway, property rental and management businesses and other businesses.

ε : Underlying business profit represents profit from the Group's recurrent businesses and property development businesses.

n/m: not meaningful

: Others represent other businesses, and project study and business development expenses.

Total Revenue

Total revenue of the Group for the six months ended 30 June 2020 was HK\$21,592 million, decreased by 23.6% when compared to the same period in 2019, mainly due to the decrease in fare revenue of our Hong Kong transport operations and the decrease in station retail rent and associated revenue of our Hong Kong Station Commercial businesses as a result of the COVID-19 pandemic and the deterioration of the general economic environment.

Recurrent Business Profit

Various measures have been implemented in Hong Kong and globally to address the outbreak of COVID-19, and these measures, coupled with the deterioration of the general economic environment, have had a significant adverse impact on the Group's recurrent businesses. The estimated total adverse financial impact of the COVID-19 pandemic on the Group's recurrent business profit for the six months ended 30 June 2020 amounted to around HK\$5 billion (as measured predominantly by reference to the first half of 2019). As a result, the Group's recurrent business profit for the six months ended 30 June 2020 decreased by 83.8% to HK\$433 million.

EBIT

EBIT of Hong Kong transport operations decreased by HK\$3,531 million and reported a loss of HK\$2,579 million, mainly due to a substantial reduction of 37.7% in total patronage resulting from the COVID-19 pandemic and related governmental measures such as the closure of several boundary crossings between Hong Kong and the Mainland of China (including the crossings at Lo Wu, Lok Ma Chau and Hong Kong West Kowloon stations, as well as the Intercity through train control point at Hung Hom Station), travel restrictions, social distancing, work-from-home and school closure measures.

EBIT of the Hong Kong station commercial businesses decreased by 50.2% to HK\$1,334 million, mainly due to the Group granting rental concessions to support the operators of duty free shops and some station kiosks as a result of the closure of several boundary crossings between Hong Kong and the Mainland of China, as well as the Group granting rental concessions to the retail tenants of other station kiosks, coupled with the sharp drop in our advertising revenue.

EBIT of the Hong Kong property rental and management businesses slightly decreased by 1.6% to HK\$2,193 million, mainly due to rental concessions granted by the Group to our affected retail tenants. Such rental concession granted will be amortised to the profit and loss account over the remaining lease terms of respective tenants, of which only a small portion was charged to the profit and loss account for the six months ended 30 June 2020. The decrease in EBIT was partly offset by the profit contributions brought by the Group's newly acquired remaining economic interests in Telford Plaza II and PopCorn2 since the end of March 2020, as well as the rental growth of our investment properties in Two International Finance Centre.

Our Mainland of China and international railway, property rental and management subsidiary businesses have been adversely affected to varying degrees (with Melbourne Train being affected the most) due to the COVID-19 pandemic and related governmental measures, resulting in a decrease in EBIT of 67.5% to HK\$182 million.

EBIT of others (mainly including project management services performed for the HKSAR Government, Ngong Ping 360 and consultancy businesses, net of project study and business development expenses) reported a loss of HK\$199 million for the six months ended 30 June 2020, compared to a loss of HK\$2,107 million for the same period in 2019 which included a provision of HK\$2 billion made for the Hung Hom incidents of the Shatin to Central Link ("SCL") project in Hong Kong. If the provision in 2019 had been excluded, the EBIT loss in 2020 would have increased by HK\$92 million, mainly due to the revenue loss from the service suspension of Ngong Ping 360 in 2020 as a result of the COVID-19 pandemic.

Share of Profit of Associates and Joint Venture

Share of profit of associates and joint venture was HK\$217 million in the six months ended 30 June 2020, compared to a loss of HK\$74 million for the same period in 2019 which included a provision of onerous contract of HK\$436 million made in respect of the South Western Railway franchise agreement in the United Kingdom. If the provision in 2019 had been excluded, the share of profit in 2020 would have decreased by HK\$145 million or 40.1%, mainly due to the financial performance of our associates in Beijing and Hangzhou being adversely affected by the COVID-19 pandemic.

Property Development Profit

Property development profit (post-tax) increased from HK\$775 million to HK\$5,200 million for the six months ended 30 June 2020, mainly derived from the share of surplus proceeds of LP6 (LOHAS Park Package 6) and sales of inventory units.

Net Loss Attributable to Shareholders of the Company

Revaluation of the Group's investment properties in Hong Kong and Mainland of China, which was performed by independent professional valuation firms, resulted in a revaluation loss of HK\$5,967 million for the six months ended 30 June 2020, compared to a revaluation gain of HK\$2,066 million for the same period in 2019. The revaluation loss was due to the adverse impact of the COVID-19 pandemic and the deterioration of the general economic environment on rents. Taking into account the Group's recurrent businesses, property development businesses and investment property revaluation, the Group reported a net loss attributable to shareholders of the Company of HK\$334 million for the six months ended 30 June 2020, compared to a net profit of HK\$5,506 million for the same period in 2019.

Financial Position

HK\$ million	As at 30 June 2020	As at 31 December 2019	Inc./ (Dec.) HK\$ million	%
Net Assets	180,021	186,798	(6,777)	(3.6)
Total Assets	287,615	289,214	(1,599)	(0.6)
Total Liabilities	107,594	102,416	5,178	5.1
Gross Debt [^]	41,620	39,456	2,164	5.5
Net Debt-to-equity Ratio ^δ	18.9%	15.4%		3.5% pts

[^] : Gross debt represents loans and other obligations, short-term loans and bank overdrafts.

^δ : Net debt-to-equity ratio represents loans and other obligations, short-term loans, bank overdrafts, obligations under service concession and loan from holders of non-controlling interests net of cash, bank balances and deposit in the consolidated statement of financial position as a percentage of the total equity.

Net Assets

Our financial position remained strong. The Group's net assets decreased by 3.6% from HK\$186,798 million as at 31 December 2019 to HK\$180,021 million as at 30 June 2020.

Total Assets

Total assets decreased slightly by 0.6% from HK\$289,214 million to HK\$287,615 million. This was mainly due to a combination of:

- decrease in investment properties due to the revaluation loss on our existing portfolio;
- decrease in cash balances; and
- increase in property development receivables upon the recognition of property development profit of LP6.

Total Liabilities

Total liabilities increased by 5.1% from HK\$102,416 million to HK\$107,594 million. This was mainly due to a combination of:

- accrual for the 2019 final ordinary dividend;
- net increase in borrowings; and
- settlement of the variable annual payment payable to KCRC and current tax paid.

Gross Debt and Cost of Borrowing

Gross debt of the Group (being loans and other obligations, bank overdrafts and short-term loans) increased by 5.5% to HK\$41,620 million. Weighted average borrowing cost of the Group's interest-bearing borrowings for the six months ended 30 June 2020 was at 2.6% p.a., compared to 2.7% p.a. in the same period in 2019.

Net Debt-to-equity Ratio

Net debt-to-equity ratio was 18.9% at 30 June 2020, an increase of 3.5% points from 15.4% as at 31 December 2019, mainly due to the decrease in cash balances and the increase in borrowings as a result of the cash paid for the acquisition of the remaining 50% economic interests in Telford Plaza II and 30% in PopCorn2, payments for capital expenditure of our Hong Kong existing railways and related operations, as well as net cash used in operating activities after variable annual payment.

Cash Flow

HK\$ million	Six months ended 30 June	
	2020	2019
Net Cash (Used in) / Generated from Operating Activities after Variable Annual Payment	(1,881)	7,738
Net Receipts from Property Development	3,323	4,223
Other Net Cash Outflow from Investing Activities	(6,120)	(3,860)
Net Drawdown / (Repayment) of Debts, Net of Interest Payment	1,828	(4,403)
(Decrease) / increase in Cash, Bank Balances and Deposits[#]	(2,883)	3,649

[#] Excluding effect of exchange rate change

Net Cash Used in Operating Activities after Variable Annual Payment

Net cash used in operating activities after variable annual payment for Hong Kong railway and related operations was HK\$1,881 million for the six months ended 30 June 2020, compared to net cash generated of HK\$7,738 million for the same period in 2019, mainly due to decrease in operating profit and increase in tax payments in the first half of 2020 resulting from the timing difference for 2019 provisional tax payments.

Net Receipts from Property Development

Net receipts from property development were HK\$3,323 million, comprising mainly cash receipts from LOHAS Park packages.

Other Net Cash Outflow from Investing Activities

Other net cash outflow from investment activities was HK\$6,120 million, which mainly included capital expenditure of HK\$6,306 million (comprising HK\$3,285 million for Hong Kong

investment properties, HK\$2,805 million for investments in additional assets for Hong Kong existing railways and related operations, HK\$77 million for Hong Kong railway extension projects and HK\$139 million for the Mainland of China and overseas subsidiaries).

Financing Activities

The global economies and markets experienced substantial turbulence in the first half of 2020. Lockdowns and social distancing, aiming at slowing down the spread of the COVID-19, adversely affected many business sectors. In response, the US Federal Reserve cut the range of the federal funds target rate twice in March by a total of 1.50 percentage points down to 0.00% - 0.25% p.a. The 3-month USD-LIBOR correspondingly fell from 1.91% p.a. at the start of the year to 0.30% p.a. at the end of June. While HKD short term interest rates remained higher than the USD rates, significant fund flows into the territory since middle of April reduced some of the interest rate differential, with 3-month HKD-HIBOR falling from 2.43% p.a. at the start of the year down to 0.78% p.a. at the end of June.

Major central banks also announced substantial quantitative easing measures, injecting ample liquidity into the market. Longer term USD and HKD rates both fell substantially. The 10-year US Treasury fell from 1.92% p.a. at the start of the year to 0.66% p.a. by end of June, surpassing the last all-time low of 1.36% p.a. set in July 2016. Similarly, the 10-year HKD swap rate also fell below the last all-time low of 1.26% p.a. seen in November 2012, moving from 2.04% p.a. beginning January to 1.04% p.a. by end of June.

The Company started the year carrying out financing activities with shorter tenor aiming at lowering the overall borrowing cost. With the business climate changing sharply by the middle of March, the Company started to focus more on financing facilities with drawdown flexibility and longer tenor. Total new financing of HK\$16.5 billion was arranged, including HK\$4.2 billion of medium term notes ("MTN") and HK\$12.3 billion of bank loans. Notably, a HK\$500 million 35-year green MTN was issued amongst the total of HK\$4.5 billion of financing arranged under the Green Finance Framework where the proceeds are earmarked for eligible green projects. As at end of June 2020, the Group's undrawn committed facilities amounted to HK\$8,504 million.

The weighted average cost of the Group's interest bearing borrowings over the first six months was 2.6% p.a., as compared to 2.7% p.a. for the same period last year. As at the end of June, around 63.4% of the Group's borrowings were fixed rate borrowings with an average interest rate of 2.8% p.a. and maturity of 14.5 years.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

MTR attaches great importance to ESG. The review of our Corporate Strategy outlined above will continue to guide our efforts to grow our business. With a keen focus on being green and compassionate, we understand that our environmental and social goals will not only determine how we conduct and sustain our business. They will also help us to maintain our reputation as a responsible business that connects communities and better the lives of our passengers, customers and employees.

At MTR, we have been looking into current trends in sustainability and adjusting our ESG strategy accordingly. These adjustments include promoting inclusive mobility and low-carbon transport, reducing congestion and providing better access to multi-modal forms of transit, as well as ensuring greater diversity in our workforce. Beyond this, we encourage every part of our business to be conscious of ESG. In our heavy rail network, for example, we have set targets to reduce electricity consumption per passenger-km by 21% by 2020 as compared with 2008. In our investment property portfolio, we have set targets to reduce energy use by 12% in 2023 as compared with 2013.

We also understand the importance of engaging our stakeholders. Consequently, we have introduced various engagement activities that connect us with the communities we serve and support the changing needs of society for the benefit of young people, children, the elderly and vulnerable social groups. In addition, we aim to create a work environment that is engaging and supportive of our staff, whom we consider to be our most valuable asset.

Just as important is the need to ensure and maintain high corporate governance standards in order to align ourselves with the interests of our stakeholders. We have thus adopted best practices in corporate governance, with a well-defined governance structure, board diversity and mechanism for effective crisis management.

Safety First

Safety, which is always our highest priority, is a key element of our ESG strategy. We ensure a safe and healthy environment by cultivating a safety-first culture, promoting continuous improvement, and engaging and educating our stakeholders on the requirements of our Corporate Safety Policy.

For the safety of our passengers, we stepped up our regular cleaning routine soon after the first case of novel coronavirus was recorded in Hong Kong in order to minimise the risk of infection on our trains, in our stations, shopping malls and other premises. We also introduced a sophisticated new vaporised hydrogen peroxide robot to increase our disinfection of stations and trains, especially in small gaps that are normally difficult to reach. We applied a Photo Catalyst “Nano Silver-Titanium Dioxide Coating” to kill a wide range of viruses and bacteria on surfaces that passengers commonly touch, such as grab poles and straphangers. Furthermore, we have enhanced ventilation and filter cleaning and replacement for trains and stations, as well as in our shopping malls.

In order to gain the public’s confidence, we have been implementing other hygiene measures such as sensor lift buttons that do not need to be touched. Our objective is to demonstrate that MTR cares for the health of our customers and, by so doing, make hygiene a competitive advantage for the Company.

In terms of the number of reportable incidents on our heavy rail and light rail networks during the first half of 2020, these have been reduced by 36% as compared with the same period in 2019.

Enterprise Risk Management

On an ongoing basis, business units across the Company follow the Company’s Enterprise Risk Management framework that underpins their day-to-day business activities. Our business by its very nature is subject to a variety of risks and uncertainties, many of which may change over time, as well as new risks that might arise. Over the past six months, the COVID-19 pandemic has emerged as a more significant key risk that is being managed by the Company. At this point, the scale and duration of COVID-19’s impact remains uncertain. Various mitigation measures and controls have been implemented, and the Company will continue to closely monitor this risk as part of the Company’s enterprise risk profile and will develop further mitigation measures as required.

HUMAN RESOURCES

As at 30 June 2020, MTR and its subsidiaries employed 17,569 people in Hong Kong and 16,508 people outside of Hong Kong, while our affiliates employed an additional 16,631 people in and outside of Hong Kong.

During the first six months of the year, we implemented various initiatives to enhance talent acquisition, staff engagement, motivation and talent development. Our efforts to engage and develop our colleagues are reflected in our stable workforce, with the voluntary staff turnover rate in Hong Kong staying low at 3.8% during the first half of the year. We provided an average of 2.5 training days per staff in Hong Kong during the period.

The worldwide impact of COVID-19 posed unprecedented challenges to the Company's business performance during the period. As a responsible employer, we believe it is important to protect jobs and to ensure business sustainability in the midst of this crisis. To safeguard our colleagues against the COVID-19 pandemic, we proactively enhanced the protective measures for colleagues and initiated appropriate flexible work arrangements.

As part of our commitment to promote total well-being, we launched Well-being Leave and Flexible Benefits On-line Platform in January and March 2020 respectively.

MTR ACADEMY

During the first six months of 2020, the MTR Academy continued to offer high quality programmes that bring MTR's railway management and engineering expertise to the Mainland of China and Belt and Road countries, as well as accredited programmes and short courses for the next generation of railway professionals. Programmes were provided during the novel coronavirus outbreak through online teaching and virtual examination rooms rather than in face-to-face classroom settings.

OUTLOOK

For MTR, and Hong Kong as a whole, the past six months have been exceptionally challenging. As a result of the aftermath of the public order events from last year and the advent of the COVID-19 pandemic, our railway operations, shopping malls, station retail rental and advertising revenue have all been affected in ways that go beyond their financial implications. The estimated total financial impact of the COVID-19 outbreak in the first half of 2020 amounted to around HK\$5 billion on the net profit of the Group's recurrent businesses. The impact of the COVID-19 outbreak on the Group is likely to continue for some time, but the precise timing and scale of the impact is difficult to predict and will depend on the development of the situation. The investment property revaluation loss of HK\$5,967 million recorded in the first half was mainly attributable to COVID-19 and the asset value of our investment property portfolio may be further affected as market conditions change.

At the same time, I am deeply proud of our staff who have persevered through these most difficult times to continue providing the world-class service that our passengers and customers have come to expect of us.

Aside from these challenges, we learned some hard lessons about the way we manage our projects and run our railways. We have since taken steps to improve our project management and the maintenance of our railway following a number of projects and railway incidents in the last few years.

On a brighter note, we successfully opened the Tuen Ma Line Phase 1 and received official invitations to proceed with the detailed design and planning of two new railway projects under RDS 2014. We also look forward to participating in more property development projects, such as new shopping malls and residential developments.

In addition, subject to market conditions, we will be inviting tenders for three property development packages from now till the end of March next year, which will provide a total of around 4,350 residential units. Depending on market conditions, we currently expect to conduct pre-sales of LOHAS Park Package 10 and Tai Wai Station in the coming months.

While we will likely continue to encounter challenges during the remainder of the year, particularly if we see a resurgence of COVID-19 cases, I can assure you that MTR is financially sustainable and ready to continue providing railway services that are among the most reliable and efficient in the world.

As far as growth opportunities outside Hong Kong are concerned, we will continue to explore and compete in these markets. In August, our wholly owned subsidiary, MTR Consulting (Shenzhen) Co. Ltd., taking the lead in a partnership with China Railway Electrification Bureau (Group) Co., Ltd, was awarded the tender for SZL13. However, we are still at heart a Hong Kong company and Hong Kong will remain our core market for well into the foreseeable future.

I look forward to working with our hard-working colleagues and members of the Board during the remaining months of 2020 to keep Hong Kong and all the cities that we serve moving forward. Please stay safe, healthy and hopeful.

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

Hong Kong, 6 August 2020

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 21 August 2020 to 26 August 2020 (both dates inclusive), during which time no transfers of shares in the Company will be effected. To qualify for the 2020 interim dividend, all completed transfer documents, accompanied by the relevant share certificates have to be lodged with the Company's Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on 20 August 2020 (Hong Kong time).

As at the date of this announcement:

Members of the Board: Rex Auyeung Pak-ken (*Chairman*) **, Dr Jacob Kam Chak-pui (*Chief Executive Officer*), Andrew Clifford Winawer Brandler*, Dr Bunny Chan Chung-bun*, Walter Chan Kar-lok*, Dr Pamela Chan Wong Shui*, Dr Dorothy Chan Yuen Tak-fai*, Cheng Yan-kee*, Dr Anthony Chow Wing-kin*, Dr Eddy Fong Ching*, James Kwan Yuk-choi*, Rose Lee Wai-mun*, Lucia Li Li Ka-lai*, Jimmy Ng Wing-ka*, Benjamin Tang Kwok-bun*, Johannes Zhou Yuan*, Christopher Hui Ching-yu (*Secretary for Financial Services and the Treasury*)**, *Secretary for Transport and Housing (Frank Chan Fan)***, *Permanent Secretary for Development (Works) (Lam Sai-hung)*** and *Commissioner for Transport***

Members of the Executive Directorate: Dr Jacob Kam Chak-pui, Adi Lau Tin-shing, Roger Francis Bayliss, Margaret Cheng Wai-ching, Linda Choy Siu-min, Dr Peter Ronald Ewen, Herbert Hui Leung-wah, Dr Tony Lee Kar-yun, Gillian Elizabeth Meller, David Tang Chi-fai and Jeny Yeung Mei-chun

* *independent non-executive Director*

** *non-executive Director*

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