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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)

VOLUNTARY ANNOUNCEMENT

UPDATE ON PROFITS TAX ASSESSMENT

Reference is made to the Company's announcement of unaudited results for the six months ended 30 June 2024 (the "**2024 Interim Results Announcement**") in relation to the decision of the Inland Revenue Board of Review ("**Board of Review**").

Background on the Profits Tax Assessment

With effect from 2 December 2007, the Company was granted a service concession by Kowloon-Canton Railway Corporation ("**KCRC**") to access, use and operate the KCRC system for an initial term of 50 years (the "**Concession Period**"). In this connection, the Company paid to KCRC an upfront payment ("**Upfront Payment**"), assumed the cut-over liabilities ("**Cut-over Liabilities**") and, on an ongoing basis and annually, is required to pay to KCRC Fixed Annual Payments ("**FAPs**") and Variable Annual Payments ("**VAPs**") for the right to use and operate the concession property for the operation of the service concession. For the years of tax assessment 2007/2008 and subsequently, the Company has claimed annual Hong Kong profits tax deductions in respect of the amortisation of the Upfront Payment and Cut-over Liabilities, and the FAPs and the VAPs (collectively the "**Sums**"). The total tax amount in respect of the Sums for the years of tax assessment from 2007/2008 to the first six months of 2024/2025 amounted to HK\$5.4 billion (for the years of tax assessment from 2007/2008 to 2023/2024: HK\$5.1 billion).

As previously disclosed by the Company, including in the 2024 Interim Results Announcement:

- (i) The Inland Revenue Department of Hong Kong ("**IRD**") issued notices of profits tax assessments/additional profits tax assessments for the years of assessment from 2009/2010 to 2017/2018 disallowing the deduction of the Sums in the computation of the Company's assessable profits. Based on the strength of advice from external legal counsel and its tax advisor, the Company lodged objections against these tax assessments (regarding the deductibility of the Sums) and applied to hold over the

additional tax demanded. The IRD has agreed to the holdover of the additional tax demanded subject to the purchases of tax reserve certificates (“TRCs”) amounting to HK\$2.3 billion. The Company has purchased the required TRCs and the additional tax demanded has been held over by IRD. The purchases of TRCs do not prejudice the Company’s tax position and the purchased TRCs were included in “Debtors and other receivables” in the Group’s consolidated statement of financial position.

- (ii) On 20 May 2022, the Commissioner of Inland Revenue (the “CIR”) issued a determination to the Company disagreeing with the objections lodged by the Company and confirming profits tax assessment/additional profits tax assessments in respect of the Sums in dispute for the years of assessment from 2011/2012 to 2017/2018 (i.e. holding that the Sums are not deductible in the computation of the Company’s assessable profits for those years of assessment). The Company re-affirmed the case with external legal counsel who advised the Company previously and its tax advisor and obtained further advice from another external legal counsel. Based on the advice from external legal counsel and its tax advisor, the directors of the Company believe that the Company has strong legal grounds and have determined to contest and appeal against the assessments for the years of assessment from 2011/2012 to 2017/2018. On 16 June 2022, the Company lodged a notice of appeal to the Board of Review against the CIR’s determination.
- (iii) After discussing with external legal counsel and its tax advisor on the approach to the appeal, the Company decided not to pursue its deduction claims in respect of the amortisation of the Upfront Payment and the Cut-over Liabilities. As the Company had already made the related tax provision for the amortisation of the Upfront Payment and the Cut-over Liabilities in the past years taking into account the uncertainty in their tax deductibility, no additional tax provision is required to be made by the Company in respect of such amounts.

As of 30 June 2024, the related tax provision made for the amortisation of the Upfront Payment and Cut-over Liabilities amounted to HK\$0.2 billion (as of 31 December 2023: HK\$0.2 billion).

The hearing of appeal was held before the Board of Review in early 2024. On 6 August 2024, the Board of Review issued its decision (the “**Board of Review Decision**”) and disagreed with the deduction claims of the FAPs and VAPs for the years of assessment from 2011/2012 to 2017/2018. It confirmed the relevant profits tax assessment/additional profits tax assessments in respect of the FAPs and VAPs being non-tax deductible.

The Company conferred with external legal counsel and its tax advisor and the initial advice obtained as at the date of the 2024 Interim Results Announcement was that the Company continued to have strong legal grounds to support its position. As such, no additional tax provision was made.

Appeal against the Board of Review Decision

The Company, external legal counsel and its tax advisor have now completed their review of the Board of Review Decision and the advice obtained continues to be that the Company has strong legal grounds to support its position. Based on the strength of advice from external legal counsel and its tax advisor, on 4 September 2024, the Company lodged an application

to the Court of First Instance of the High Court of the Hong Kong Special Administrative Region for leave to appeal against the Board of Review Decision.

The Company will issue further announcement(s) as and when appropriate in accordance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

By Order of the Board
Gillian Elizabeth Meller
Company Secretary

Hong Kong, 4 September 2024

As at the date of this announcement:

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

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

* *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.