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 AUDITED RESULTS FOR THE YEAR ENDED 31 DECEMBER 2023

RESULTS

HK$ million	**Year ended 31 December 2023**	2022	Favourable / (unfavourable) change
Total revenue	**56,982**	47,812	19.2%
Profit from recurrent businesses	**4,281**	157	n/m
Profit from property development	**2,083**	10,480	(80.1)%
Gain / (loss) from fair value measurement of investment properties	**1,420**	(810)	n/m
Net profit attributable to shareholders of the Company	**7,784**	9,827	(20.8)%

n/m : not meaningful

- Final ordinary dividend of HK$0.89 per share recommended. Total ordinary dividend for the year of HK$1.31 per share, same as that of 2022

HIGHLIGHTS

Hong Kong Businesses
- Our recurrent businesses benefited from continuing recovery in Domestic patronage, the resumption of Cross-boundary and High Speed Rail services and the related Duty Free businesses. Recovery was especially strong in High Speed Rail
- Train service delivery and passenger journeys on-time for heavy rail achieved more than 99.9% world-class level
- Fare Adjustment Mechanism review concluded in March 2023, providing a stable source of recurrent revenue for our railway assets maintenance, renewal and upgrade while maintaining the Company's financial sustainability
- Initial booking on the fair value measurement gain of THE SOUTHSIDE shopping mall
- Our new shopping malls, The Wai in Tai Wai and the first phase of THE SOUTHSIDE in Wong Chuk Hang, opened in July 2023 and December 2023 respectively
- Entered into project agreements with the Government for Tung Chung Line Extension, Tuen Mun South Extension and Kwu Tung Station

HIGHLIGHTS *(continued)*

Mainland China and International Businesses

- Concessions of the South Western Railway in the United Kingdom and Melbourne's metropolitan train service in Australia extended to May 2025 and mid-2026 respectively
- Remaining section of Beijing Metro Line 16 and Northern Section of Beijing Metro Line 17 opened in December 2023
- Due to on-going driver shortages and maintenance issues, which had inevitable impacts on the financial performance, the Group entered into supplementary agreements to early terminate our concessions for both Stockholms pendeltåg and Mälartåg effective 2 March 2024 and 16 June 2024 respectively, and loss provisions, totalling HK$1.0 billion, in respect of those onerous contracts were charged to the Group's 2023 profit or loss

Outlook

- The Corporation continues to navigate a volatile global economic environment fraught with issues such as geopolitical dynamics, inflationary pressures and high interest rates, while maintaining prudent cost management and seeking out smart technologies and innovations to counter these and other challenges
- Subject to the construction and sales progress, we expect to book property development profit from La Montagne (THE SOUTHSIDE Package 4), THE SOUTHSIDE Package 5, Ho Man Tin Station Package 1 and IN ONE (Ho Man Tin Station Package 2), and to continue to book profit from Villa Garda (LOHAS Park Package 11)
- Closely monitor market conditions and review our programme for tendering of property development projects as appropriate. In the next 12 months or so, we expect to re-tender Tung Chung East Station Package 1
- Continue to progress various new railway projects under RDS 2014 and assist on initiatives planned under Hong Kong Major Transport Infrastructure Development Blueprint

The Directors of the Company announce the audited results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2023 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

HK$ million	Year ended 31 December **2023**	2022
Revenue from Hong Kong transport operations	**20,131**	13,404
Revenue from Hong Kong station commercial businesses	**5,117**	3,077
Revenue from Hong Kong property rental and management businesses	**5,079**	4,779
Revenue from Mainland China and international railway, property rental and management subsidiaries	**25,955**	26,016
Revenue from other businesses	**700**	363
	56,982	47,639
Revenue from Mainland China property development	**-**	173
Total revenue	**56,982**	47,812
Expenses relating to Hong Kong transport operations		
- Staff costs and related expenses	**(6,917)**	(6,341)
- Maintenance and related works	**(2,387)**	(2,221)
- Energy and utilities	**(2,427)**	(1,991)
- General and administration expenses	**(940)**	(878)
- Stores and spares consumed	**(605)**	(636)
- Railway support services	**(375)**	(186)
- Government rent and rates	**(155)**	(155)

HK$ million	Year ended 31 December **2023**	2022
- Other expenses	**(371)**	(305)
	(14,177)	(12,713)
Expenses relating to Hong Kong station commercial businesses	**(560)**	(522)
Expenses relating to Hong Kong property rental and management businesses	**(1,063)**	(964)
Expenses relating to Mainland China and international railway, property rental and management subsidiaries	**(24,883)**	(24,751)
Expenses relating to other businesses	**(579)**	(511)
Project study and business development expenses	**(397)**	(326)
	(41,659)	(39,787)
Expenses relating to Mainland China property development	**(13)**	(114)
Operating expenses before depreciation, amortisation and variable annual payment	**(41,672)**	(39,901)
Operating profit / (loss) before Hong Kong property development, fair value measurement of investment properties, depreciation, amortisation and variable annual payment		
- Arising from recurrent businesses	**15,323**	7,852
- Arising from Mainland China property development	**(13)**	59
	15,310	7,911
Hong Kong property development profit from share of surplus, income and interest in unsold properties	**2,329**	11,589
Gain / (loss) from fair value measurement of investment properties	**1,386**	(810)
Operating profit before depreciation, amortisation and variable annual payment	**19,025**	18,690
Depreciation and amortisation	**(6,105)**	(5,769)
Provisions for onerous contracts and impairment loss	**(1,022)**	(962)
Variable annual payment	**(2,355)**	(323)
Share of profit of associates and joint ventures	**1,259**	1,095
Profit before interest, finance charges and taxation	**10,802**	12,731
Interest and finance charges	**(1,139)**	(982)
Profit before taxation	**9,663**	11,749
Income tax	**(1,575)**	(1,608)
Profit for the year	**8,088**	10,141
Attributable to:		
- Shareholders of the Company	**7,784**	9,827
- Non-controlling interests	**304**	314
Profit for the year	**8,088**	10,141

HK$ million	Year ended 31 December **2023**	2022
Profit / (loss) for the year attributable to shareholders of the Company:		
- Arising from recurrent businesses		
- in Hong Kong	**4,940**	384
- outside Hong Kong	**(659)**	(227)
	4,281	157
- Arising from property development		
- in Hong Kong	**2,035**	10,413
- outside Hong Kong	**48**	67
	2,083	10,480
- Arising from underlying businesses	**6,364**	10,637
- Arising from fair value measurement of investment properties	**1,420**	(810)
	7,784	9,827
Earnings per share:		
- Basic	**HK$1.26**	HK$1.59
- Diluted	**HK$1.25**	HK$1.59

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

HK$ million	Year ended 31 December 2023	2022
Profit for the year	**8,088**	10,141
Other comprehensive income / (loss) for the year (after taxation and reclassification adjustments):		
Items that will not be reclassified to profit or loss:		
- Surplus on revaluation of self-occupied buildings	**24**	43
- Remeasurement of net asset / liability of defined benefit schemes	**(194)**	(117)
	(170)	(74)
Items that may be reclassified subsequently to profit or loss:		
- Exchange differences on translation of:		
- financial statements of subsidiaries, associates and joint ventures outside Hong Kong	**(378)**	(1,713)
- non-controlling interests	**26**	(11)
- Cash flow hedges: net movement in hedging reserve	**(608)**	82
	(960)	(1,642)
	(1,130)	(1,716)
Total comprehensive income for the year	**6,958**	8,425
Attributable to:		
- Shareholders of the Company	**6,628**	8,122
- Non-controlling interests	**330**	303
Total comprehensive income for the year	**6,958**	8,425

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

HK$ million	**At 31 December 2023**	At 31 December 2022
Assets		
Fixed assets		
- Investment properties	**98,205**	91,671
- Other property, plant and equipment	**103,721**	102,297
- Service concession assets	**36,710**	35,523
	238,636	229,491
Goodwill and property management rights	**10**	61
Railway construction in progress	**4,256**	-
Property development in progress	**41,728**	41,269
Deferred expenditure	**378**	2,540
Interests in associates and joint ventures	**12,785**	12,338
Deferred tax assets	**603**	606
Investments in securities	**862**	959
Properties held for sale	**1,939**	1,888
Derivative financial assets	**240**	216
Stores and spares	**2,557**	2,261
Debtors and other receivables	**13,756**	13,889
Amounts due from related parties	**5,802**	5,429
Cash, bank balances and deposits	**22,375**	16,134
Assets of disposal group classified as held for sale	**499**	-
	346,426	327,081
Liabilities		
Short-term loans	**1,379**	1,592
Creditors, other payables and provisions	**76,682**	69,692
Current taxation	**1,623**	2,953
Amounts due to related parties	**2,614**	592
Loans and other obligations	**58,112**	46,254
Obligations under service concession	**10,059**	10,142
Derivative financial liabilities	**1,710**	1,104
Loans from holders of non-controlling interests	**141**	140
Deferred tax liabilities	**15,151**	14,700
Liabilities of disposal group classified as held for sale	**99**	-
	167,570	147,169
Net assets	**178,856**	179,912
Capital and reserves		
Share capital	**61,083**	60,547
Shares held for Executive Share Incentive Scheme	**(269)**	(262)
Other reserves	**117,530**	119,001
Total equity attributable to shareholders of the Company	**178,344**	179,286
Non-controlling interests	**512**	626
Total equity	**178,856**	179,912

Notes:

1. AUDITOR'S REPORT

The consolidated financial statements for the year ended 31 December 2023 have been audited in accordance with Hong Kong Standards on Auditing, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), by the Company's auditor, KPMG. Unmodified auditor's report of KPMG is included in the annual report to be sent to shareholders. The consolidated financial statements have also been reviewed by the Company's Audit & Risk Committee.

The financial figures in respect of the Group's consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of financial position and the related notes thereto for the year ended 31 December 2023, as set out in this preliminary announcement, have been compared by KPMG to the amounts set out in the Group's audited consolidated financial statements for the year and the amounts were found to be in agreement. The work performed by KPMG in this respect did not constitute an audit, review or other assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by KPMG on this announcement.

2. BASIS OF PREPARATION

This preliminary announcement of the Company's annual 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 years ended 31 December 2023 and 2022 included in this preliminary announcement of the annual results does not constitute the Company's statutory annual consolidated financial statements for those years but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Cap. 622) is as follows:

- The Company has delivered the financial statements for the year ended 31 December 2022 to the Registrar of Companies in accordance with section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance and will deliver the financial statements for the year ended 31 December 2023 in due course.

- The Company's auditor has reported on those consolidated financial statements of the Group for both years. The auditor's reports were unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its reports; and did not contain a statement under sections 406(2), 407(2) or (3) of the Companies Ordinance.

The consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA.

The HKICPA has issued a new HKFRS and a number of amendments to HKFRSs that are first effective for the current accounting period of the Group. The impacts of adopting certain amended HKFRSs that are relevant to the Group are discussed below. None of the developments have had a material effect on the Group's results and financial position for the current or prior periods. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

(i) Amended HKFRSs

Amendments to HKAS 1, Presentation of financial statements and HKFRS Practice Statement 2, Making materiality judgements: Disclosure of accounting policies

The amendments require entities to disclose material accounting policy information and provide guidance on applying the concept of materiality to accounting policy disclosure. The Group has revisited the accounting policy information it has been disclosing and removed certain immaterial accounting policies.

Amendments to HKAS 12, Income taxes: Deferred tax related to assets and liabilities arising from a single transaction

The amendments narrow the scope of the initial recognition exemption such that it does not apply to transactions that give rise to equal and offsetting temporary differences on initial recognition such as leases and decommissioning liabilities. For leases and decommissioning liabilities, the associated deferred tax assets and liabilities are required to be recognised from the beginning of the earliest comparative period presented, with any cumulative effect recognised as an adjustment to retained earnings or other components of equity at that date. For all other transactions, the amendments are applied to those transactions that occur after the beginning of the earliest period presented. Prior to the amendments, the Group did not apply the initial recognition exemption to lease transactions and had recognised the related deferred tax, except that the Group previously determined the temporary difference arising from a right-of-use asset and the related lease liability on a net basis on the basis they arise from a single transaction. Following the amendments, the Group has determined the temporary differences in relation to right-of-use assets and lease liabilities separately. The change primarily impacts disclosures of components of deferred tax assets and liabilities in note to the financial statements but does not impact the overall deferred tax balances presented in the consolidated statement of financial position as the related deferred tax balances qualify for offsetting under HKAS 12.

Amendments to HKAS 12, Income taxes: International tax reform – Pillar Two model rules

The amendments introduce a temporary mandatory exception from deferred tax accounting for the income tax arising from tax laws enacted or substantively enacted to implement the Pillar Two model rules published by the Organisation for Economic Co-operation and Development ("OECD") (income tax arising from such tax laws is hereafter referred to as "Pillar Two income taxes"), including tax laws that implement qualified domestic minimum top-up taxes described in those rules. The amendments also introduce disclosure requirements about such tax including the estimated tax exposure to Pillar Two income taxes. The amendments are immediately effective upon issuance and require retrospective application. The Group provided the additional disclosures in the note to the financial statements.

(ii) New HKICPA guidance on the accounting implications of the abolition of the MPF-LSP offsetting mechanism

In July 2023, the HKICPA published "Accounting implications of the abolition of the mandatory provident fund – long service payment offsetting mechanism in Hong Kong" that provides accounting guidance relating to the offsetting mechanism and the abolition of the mechanism. To better reflect the substance of the abolition of the offsetting mechanism, the Group has changed its accounting policy in connection with its long service payment liability and has applied the above HKICPA guidance. This has no material impact on the Group's results and financial position for the prior periods, and the Group recognised total charges of HK$21 million in the consolidated statement of profit or loss for the year ended 31 December 2023.

3. RETAINED PROFITS

The movements of the retained profits during the years ended 31 December 2023 and 2022 are as follows:

HK$ million	Year ended 31 December **2023**	2022
Balance as at 1 January	**116,228**	115,439
Profit for the year attributable to shareholders of the Company	**7,784**	9,827
Other comprehensive loss arising from remeasurement of net asset / liability of defined benefit schemes	**(194)**	(117)
Vesting and forfeiture of award shares of Executive Share Incentive Scheme	**(2)**	(3)
Dividends declared and approved, net of scrip dividend for shares held for Executive Share Incentive Scheme	**(8,128)**	(8,918)
Balance as at 31 December	**115,688**	116,228

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

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

HK$ million	Year ended 31 December **2023**	2022
Share of surplus, income and interest in unsold properties from property development	**2,335**	11,473
Agency fee and other income from West Rail property development	**8**	128
Overheads and miscellaneous studies	**(14)**	(12)
Hong Kong Property Development Profit (Pre-tax)	**2,329**	11,589
Hong Kong Property Development Profit (Post-tax)	**2,035**	10,413

For the year ended 31 December 2023, profit attributable to shareholders of the Company arising from Hong Kong property development of HK$2,035 million (2022: HK$10,413 million) represents Hong Kong property development profit of HK$2,329 million (2022: HK$11,589 million) and related income tax expenses of HK$294 million (2022: HK$1,176 million).

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

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

HK$ million	Year ended 31 December **2023**	2022
Gain / (loss) from fair value remeasurement on investment properties	**26**	(3,076)
Gain from fair value measurement of investment properties on initial recognition from property development	**1,360**	2,266
	1,386	(810)

During the year ended 31 December 2023, investment property with a carrying value of HK$5.2 billion was initially recognised upon the receipt of a shopping mall from a property development project.

Taking into account the outstanding risks and obligations of HK$3.6 billion retained by the Group and HK$0.2 billion cost incurred/to be incurred by the Group in connection with this property development, in accordance with the Group's accounting policies, HK$1.4 billion was recognised as gain from fair value measurement of investment properties on initial recognition from property development in profit or loss for the year ended 31 December 2023. Deferred income of HK$3.6 billion retained was recognised in the Group's consolidated statement of financial position and included in "Creditors, other payables and provisions".

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

6. INCOME TAX

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

HK$ million	Year ended 31 December **2023**	2022
Current tax		
- Hong Kong Profits Tax	**610**	989
- Tax outside Hong Kong	**377**	413
	987	1,402
Deferred tax		
- Origination and reversal of temporary differences on:		
- tax losses	**68**	(44)
- depreciation allowances in excess of related depreciation	**638**	383
- revaluation of properties	**(34)**	3
- provisions and others	**(102)**	(152)
- right-of-use assets	**4**	(11)
- lease liabilities	**14**	27
	588	206
	1,575	1,608

Except for the Company which is a qualifying corporation under the two-tiered Profits Tax rate regime in Hong Kong, the provision for Hong Kong Profits Tax for the year ended 31 December 2023 is calculated at 16.5% (2022: 16.5%) on the estimated assessable profits for the year after deducting accumulated tax losses brought forward, if any. Under the two-tiered Profits Tax rate regime, the Company's first HK$2 million of assessable profits are taxed at 8.25% and the remaining assessable profits are taxed at 16.5%. The provision for Hong Kong Profits Tax for the Company was calculated on the same basis in 2023 and 2022.

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

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

The Group has applied the temporary mandatory exception to recognising and disclosing information about deferred tax assets and liabilities related to Pillar Two income taxes and would account for the tax as current tax when incurred.

Since the Rail Merger in 2007, the Company has claimed annual Hong Kong Profits Tax deductions in respect of the amortisation of upfront payment and cut-over liabilities, and fixed annual payments and variable annual payments relating to the Rail Merger (collectively "the Sums"). The total tax amount in respect of the Sums for the years of tax assessment from 2007/2008 to 2023/2024 amounted to HK$5.1 billion. As disclosed in previous years, the Inland Revenue Department of Hong Kong ("IRD") issued notices of profits tax assessments/additional profits tax assessments for the years of assessment from 2009/2010 to 2017/2018 disallowing deduction of the Sums in the computation of the Company's assessable profits. Based on the strength of advice from the external legal counsels and tax advisor, the Company has lodged objections against these tax assessments (regarding the deductibility of the Sums) and has applied to hold over the additional tax demanded. The IRD has agreed to the holdover of the additional tax demanded subject to the purchases of tax reserve certificates ("TRCs") amounting to HK$2.3 billion. The Company has purchased the required TRCs and the additional tax demanded has been held over by IRD. The purchases of TRCs do not prejudice the Company's tax position and the purchased TRCs were included in "Debtors and other receivables" in the Group's consolidated statement of financial position.

On 20 May 2022, the Commissioner of Inland Revenue issued a determination to the Company disagreeing with the objections lodged by the Company and confirming profits tax assessment/additional profits tax assessments in respect of the Sums in dispute for the years of assessment from 2011/2012 to 2017/2018 (i.e. holding that the Sums are not deductible in the computation of the Company's assessable profits for those years of assessment). The Company re-affirmed the case with the external legal counsel who advised the Company previously and the tax advisor, and obtained further advice from another external legal counsel. Based on the advice from the external legal counsels and tax advisor, the directors of the Company believe that the Company has strong legal grounds and have determined to contest and appeal against the assessments for the years of assessment from 2011/2012 to 2017/2018. Accordingly, the Company lodged a notice of appeal to the Inland Revenue Board of Review on 16 June 2022.

After discussing with the external legal counsels and tax advisor on the approach to the appeal, the Company decided not to pursue its deduction claims in respect of the amortisation of upfront payment and cut-over liabilities during the opening submission before Board of Review. As the Company had already made the related tax provision for the amortisation of upfront payment and cut-over liabilities in the past years taking into account the uncertainty in their tax deductibility, no additional tax provision is required. The hearing of appeal was held before the Board of Review in early 2024. As at the date of the annual report, the Board of Review has yet to hand down its decision.

7. DIVIDENDS

Ordinary dividends to shareholders of the Company comprise:

HK$ million	Year ended 31 December **2023**	 2022
Ordinary dividends attributable to the year		
- Interim ordinary dividend declared and paid of HK$0.42 (2022: HK$0.42) per share	**2,610**	2,604
- Final ordinary dividend proposed after the end of the reporting period of HK$0.89 (2022: HK$0.89) per share	**5,533**	5,520
	8,143	8,124
Ordinary dividends attributable to the previous year		
- Final ordinary dividend of HK$0.89 (2022: HK$1.02 per share attributable to year 2021) per share approved and paid during the year	**5,520**	6,317

The 2023 final ordinary dividend proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

The Company has a progressive ordinary dividend policy. The aim of this policy is to steadily increase or at least maintain the Hong Kong dollar value of ordinary dividends per share annually. In setting the proposed level of dividend payable in respect of any period, the Board considers, inter alia, the financial performance and future funding needs of the Company. The Board has recommended paying a final dividend of HK$0.89 per share in respect of the year ended 31 December 2023 and proposes that a scrip dividend option will be offered 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). Subject to the approval of the shareholders at the Company's forthcoming Annual General Meeting, the proposed 2023 final dividend, with a scrip dividend option, is expected to be distributed on 16 July 2024 to shareholders whose names appear on the Register of Members of the Company as at the close of business on 31 May 2024.

8. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to shareholders of the Company for the year ended 31 December 2023 of HK$7,784 million (2022: HK$9,827 million) and the weighted average number of ordinary shares in issue less shares held for Executive Share Incentive Scheme during the year amounting to 6,202,100,097 shares (2022: 6,190,902,155 shares).

The calculation of diluted earnings per share is based on the profit attributable to shareholders of the Company for the year ended 31 December 2023 of HK$7,784 million (2022: HK$9,827 million) and the weighted average number of ordinary shares in issue less shares held for Executive Share Incentive Scheme during the year after adjusting for the dilutive effect of the Company's Executive Share Incentive Scheme amounting to 6,208,314,965 shares (2022: 6,196,797,798 shares).

Both basic and diluted earnings per share would have been HK$1.03 (2022: HK$1.72), if the calculation is based on profit attributable to shareholders of the Company arising from underlying businesses of HK$6,364 million (2022: HK$10,637 million).

9. SEGMENTAL INFORMATION

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

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

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

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

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

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

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

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

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

HK$ million	**Revenue Year ended 31 December 2023**	Revenue Year ended 31 December 2022	**Contribution to profit / (loss) Year ended 31 December 2023**	Contribution to profit / (loss) Year ended 31 December 2022
Hong Kong transport services				
- Hong Kong transport operations	**20,131**	13,404	**(1,111)**	(4,733)
- Hong Kong station commercial businesses	**5,117**	3,077	**3,792**	2,270
	25,248	16,481	**2,681**	(2,463)
Hong Kong property rental and management businesses	**5,079**	4,779	**3,999**	3,800
Mainland China and international railway, property rental and management businesses*	**25,955**	26,016	**524**	962
Mainland China property development	**-**	173	**(13)**	59
Other businesses	**700**	363	**56**	(213)
	56,982	47,812	**7,247**	2,145
Hong Kong property development			**2,329**	11,589
Project study and business development expenses			**(397)**	(326)
Gain / (loss) from fair value measurement of investment properties			**1,386**	(810)
Provisions for onerous contracts and impairment loss			**(1,022)**	(962)
Share of profit of associates and joint ventures			**1,259**	1,095
Profit before interest, finance charges and taxation			**10,802**	12,731
Interest and finance charges			**(1,139)**	(982)
Income tax			**(1,575)**	(1,608)
Profit for the year			**8,088**	10,141

* *Excluding the special loss provisions, being provisions for onerous contracts made for Stockholms pendeltåg and Mälartåg regional traffic totalling HK$1,022 million in 2023 (as detailed below) and impairment loss made for Shenzhen Metro Line 4 of HK$962 million in 2022*

In 2023, due to on-going manpower shortage and maintenance issues that had inevitable impact on financial performance, the Group entered into a supplemental agreement with the Stockholm Public Transport Authority to terminate the Stockholms pendeltåg concession effective 2 March 2024, resulting in a charge to the Group's profit or loss of approximately HK$0.7 billion in 2023. The loss was comprised of (i) the "exit fee" payable pursuant to the supplemental agreement; (ii) a provision for certain assets to be transferred to the new operator for no consideration; and (iii) a provision for wind-down costs and certain assets which would need to be written off. The provision for wind-down costs also included other net costs which were anticipated to be incurred in meeting the Group's obligations under the assignment agreement until the franchise termination in March 2024.

The Mälartåg operations were also impacted by the operational challenges. After discussions with the client, Mälardalstrafik, to agree potential commercial and contractual remedies, the Group entered into a supplementary agreement with Mälardalstrafik in February 2024 to terminate the Mälartåg concession effective 16 June 2024. As at 31 December 2023, an onerous contract provision of approximately HK$0.3 billion was made based on the estimated unavoidable costs under the Mälartåg concession. The loss arising under the terms of the supplementary agreement is not expected to be materially different from the provision already made in 2023.

For the year ended 31 December 2023, profit attributable to shareholders of the Company arising from property development of HK$2,083 million (2022: HK$10,480 million) represents Hong Kong property development profit of HK$2,329 million (2022: HK$11,589 million), Mainland China property development loss of HK$13 million (2022: profit of HK$59 million) and the related interest, finance charges and income tax expenses of HK$233 million (2022: HK$1,168 million).

For the year ended 31 December 2023, profit attributable to shareholders of the Company arising from fair value measurement of investment properties of HK$1,420 million (2022: loss of HK$810 million) represents gain from fair value remeasurement on investment properties of HK$26 million (2022: loss of HK$3,076 million), gain from fair value measurement of investment properties on initial recognition from property development of HK$1,360 million (2022: HK$2,266 million) and related income tax credit of HK$34 million (2022: HK$nil).

	Assets At 31 December		**Liabilities At 31 December**	
HK$ million	**2023**	2022	**2023**	2022
Hong Kong transport services				
- Hong Kong transport operations	**142,255**	136,934	**35,199**	34,026
- Hong Kong station commercial businesses	**4,511**	4,175	**2,208**	1,834
	146,766	141,109	**37,407**	35,860
Hong Kong property rental and management businesses	**98,871**	92,208	**2,793**	2,526
Mainland China and international railway, property rental and management businesses	**29,918**	28,742	**12,326**	11,050
Mainland China property development	**3,892**	5,366	**369**	834
Other businesses	**3,717**	3,390	**1,642**	1,886
Hong Kong property development	**44,727**	46,312	**37,637**	31,962
	327,891	317,127	**92,174**	84,118
Unallocated assets / liabilities	**18,535**	9,954	**75,396**	63,051
Total	**346,426**	327,081	**167,570**	147,169

Unallocated assets and liabilities mainly comprise cash, bank balances and deposits, tax reserve certificates, derivative financial assets and liabilities, interest-bearing loans and borrowings, current taxation, as well as deferred tax assets and liabilities.

In 2023, the Group had conducted a strategic review (including divestment) of MTR Express (Sweden) AB, a wholly-owned subsidiary of the Group operating MTRX service in Sweden. With the implementation of an active sale programme, the sale of MTR Express (Sweden) AB is considered as highly probable at 31 December 2023. As such, assets of HK$499 million and liabilities of HK$99 million of MTR Express (Sweden) AB were reclassified as "disposal group held for sale" in the consolidated statement of financial position as at 31 December 2023. Subsequent to the end of reporting period, the Group entered into an agreement with an independent third party on 8 February 2024 for the sale of MTR Express (Sweden) AB. The transaction is expected to be completed by the end of May 2024, following regulatory approval. Subject to the completion of the transaction, the gain to be recognised by the Group in the consolidated statement of profit or loss for the year ending 31 December 2024 arising from the transaction is not expected to be material.

For the year ended 31 December 2023, revenue from one customer (2022: one customer) of the Mainland China and international railway, property rental and management businesses segment has exceeded 10% of the Group's revenue. Approximately 22.31% of the Group's total revenue was attributable to this customer (2022: 17.21%).

The following table sets out information about the geographical location of the Group's revenue from external customers and the Group's fixed assets, goodwill and property management rights, railway construction in progress, property development in progress, deferred expenditure, and interests in associates and joint ventures ("specified non-current assets"). The geographical location of customers is based on the location at which the services were provided or goods were delivered. The geographical location of the specified non-current assets is based on the physical location of the asset in the case of investment properties, other property, plant and equipment, railway construction in progress, and property development in progress, the location of the proposed capital project in the case of deferred expenditure, the location of the operation to which they are related in the case of service concession assets, goodwill and property management rights, and interests in associates and joint ventures.

	Revenue from external customers Year ended 31 December		**Specified non-current assets At 31 December**	
HK$ million	**2023**	2022	**2023**	2022
Hong Kong SAR (place of domicile)	**30,962**	21,586	**280,212**	267,988
Australia	**15,972**	15,708	**900**	918
Mainland China and Macao SAR	**2,027**	2,553	**16,554**	16,229
Sweden	**4,809**	5,232	**116**	557
United Kingdom	**3,212**	2,733	**11**	7
	26,020	26,226	**17,581**	17,711
	56,982	47,812	**297,793**	285,699

10. RAILWAY CONSTRUCTION PROJECTS UNDER ENTRUSTMENT BY THE HKSAR GOVERNMENT

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

(a) Entrustment Agreements

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

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

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

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

(b) HSR Agreement

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

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

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

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

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

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

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

(c) As at 31 December 2023, the Company has not made any provision in its consolidated financial statements in respect of:

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

(ii) any possible liability of the Company that may be determined in accordance with any arbitration that may take place (as more particularly described in note 10A(b)(v) above), given that (a) the Company has not received any notification from the HKSAR Government of any formal claim by the HKSAR Government against the Company or of any referral by the HKSAR Government to arbitration as of 31 December 2023 and up to the date of the annual report and the eventual outcome of any dialogue between the Company and the HKSAR Government on the Areas of Interest remains highly uncertain at the current stage; (b) the Company has the benefit of the Liability Cap; and (c) as a result of the HSR Agreement, the Company will not make any payment to the HKSAR Government in excess of the Liability Cap pursuant to a determination of the arbitrator without the approval of its independent shareholders; and where applicable, because the Company is not able to measure with sufficient reliability the amount of the Company's obligation or liability (if any).

B Shatin to Central Link ("SCL") Project

(a) SCL Agreements

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

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

Pursuant to the SCL EA2, the Company is responsible for carrying out or procuring the carrying out of the agreed works while the HKSAR Government is responsible for bearing and paying to the Company all the work costs ("**EA2 Advance Works Costs**"). The EA2 Advance Works Costs and the Interface Works Costs (as described below) are reimbursable by the HKSAR Government to the Company. During the year ended 31 December 2023, HK$84 million (2022: HK$153 million) of such costs were incurred by the Company, which are payable by the HKSAR Government. As at 31 December 2023, the amount of such costs which remained outstanding from the HKSAR Government was HK$144 million (31 December 2022: HK$209 million).

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

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

(b) SCL EA3 Cost Overrun

(i) Cost to Complete

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

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

(ii) Provision for Additional PMC

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

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

After taking into account the matters described above, and in particular, the Company meeting, on an interim and without prejudice basis (on the basis outlined above), the cost to the Company of continuing to comply with its project management obligations, the Group recognised a provision of HK$1,371 million in its consolidated statement of profit or loss for the year ended 31 December 2020 for the estimated additional cost to the Company of continuing to comply with its project management responsibilities. During the year ended 31 December 2023, the provision utilised amounted to HK$172 million (2022: HK$314 million) and no provision was written back (2022: HK$nil). As at 31 December 2023, the provision of HK$307 million (31 December 2022: HK$479 million), net of amount utilised, is included in "Creditors, other payables and provisions" in the consolidated statement of financial position.

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

(c) Hung Hom Incidents

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

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

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

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

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

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

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

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

(ii) *Provision for the Hung Hom Incidents Related Costs*

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

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

After taking into account the matters described in note 10B(c) above, and in particular, the Company's decision to fund, on an interim and without prejudice basis, the Hung Hom Incidents Related Costs, the Company recognised a provision of HK$2,000 million in its consolidated statement of profit or loss for the year ended 31 December 2019. During the year ended 31 December 2023, the provision utilised amounted to HK$65 million (2022: HK$117 million) and no provision was written back (2022: HK$nil). As at 31 December 2023, the provision of HK$762 million (31 December 2022: HK$827 million), net of amount utilised, is included in "Creditors, other payables and provisions" in the consolidated statement of financial position.

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

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

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

SCL Agreement. It is uncertain as to whether such claim will be made against the Company in the future and, if made, the nature and amount of such claim.

The eventual outcome of the discussions between the Company and the HKSAR Government on various matters remain highly uncertain at the current stage. As a result, no additional provision other than as stated above has been made as the Company is currently not able to measure with sufficient reliability the ultimate amount of the Company's obligation or liability arising from the SCL Project as a whole in light of the significant uncertainties involved. While no provision in respect of the SCL Project related matters was recognised at 31 December 2023 other than as stated above, the Company will reassess on an ongoing basis the need to recognise any further provision in the future in light of any further development.

11. DEBTORS AND CREDITORS

A As at 31 December 2023, the Group's debtors and other receivables amounted to HK$13,756 million (2022: HK$13,889 million), of which debtors accounted for HK$5,739 million (2022: HK$4,310 million). Receivables in respect of rentals, advertising and telecommunication activities are due from immediately to 60 days. Receivables in respect of income from railway subsidiaries outside of Hong Kong are mainly due within 30 days or in the following month. Receivables relating to consultancy services and entrustment works are due within 30 days. Receivables under interest rate and currency swap agreements are due in accordance with the terms of the agreements. Receivables relating to property development are due in accordance with the terms of the relevant development agreements or sale and purchase agreements. The ageing of debtors by due dates as at 31 December 2023 is analysed as follows:

	At 31 December	
HK$ million	**2023**	2022
Amounts not yet due	**5,118**	3,715
Overdue by within 30 days	**218**	210
Overdue by more than 30 days but within 60 days	**89**	74
Overdue by more than 60 days but within 90 days	**29**	27
Overdue by more than 90 days	**285**	284
Total debtors	**5,739**	4,310
Other receivables and contract assets	**8,017**	9,579
	13,756	13,889

B As at 31 December 2023, creditors, other payables and provisions amounted to HK$76,682 million (2022: HK$69,692 million), of which creditors and accrued charges amounted to HK$21,255 million (2022: HK$19,583 million). As at 31 December 2023, the analysis of creditors by due dates is as follows:

	At 31 December	
HK$ million	**2023**	2022
Due within 30 days or on demand	**9,191**	8,143
Due after 30 days but within 60 days	**2,188**	2,012
Due after 60 days but within 90 days	**951**	886
Due after 90 days	**4,460**	4,544
	16,790	15,585
Rental and other refundable deposits	**2,498**	2,459
Accrued employee benefits	**1,967**	1,539
Total creditors and accrued charges	**21,255**	19,583
Other payables, deferred income and provisions	**52,303**	47,522
Contract liabilities	**3,124**	2,587
	76,682	69,692

12. PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

For the year ended 31 Decemer 2023, the Company redeemed its RMB210 million (HK$231 million) and RMB200 million (HK$234 million) bonds at par on 3 July 2023 and 17 November 2023 respectively. The bonds were listed on The Stock Exchange of Hong Kong Limited prior to the redemption. Save as disclosed above, the Group did not purchase, sell or redeem any of the Group's listed securities during the year ended 31 December 2023. However, the Trustee of the Executive Share Incentive Scheme, pursuant to the terms of the rules and the trust deed of the Executive Share Incentive Scheme, purchased on the Hong Kong Stock Exchange a total of 2,370,900 Ordinary Shares of the Company for a total consideration of approximately HK$93 million during the year ended 31 December 2023.

13. CHARGE ON GROUP ASSETS

As at 31 December 2023, MTR Corporation (Shenzhen) Limited, a wholly-owned subsidiary of the Company in Mainland China, has pledged the fare and non-fare revenue and the benefits of insurance contracts in relation to Phase 2 of Shenzhen Metro Line 4 as security for the RMB725 million (HK$798 million) bank loan facility granted to it.

As at 31 December 2023, MTR CREC Metro (Shenzhen) Company Limited, a subsidiary of the Company in Mainland China, has pledged the fare and non-fare revenue in relation to Shenzhen Metro Line 13 as security for the RMB3.20 billion (HK$3.52 billion) bank loan facility granted to it.

Saved as disclosed above, none of the other assets of the Group was charged or subject to any encumbrance as at 31 December 2023.

14. ANNUAL GENERAL MEETING 2024

It is proposed that the Annual General Meeting of the Company will be held on 22 May 2024. For details of the Annual General Meeting, please refer to the Notice of Annual General Meeting which is expected to be published on or about 11 April 2024.

15. CORPORATE GOVERNANCE

During the year ended 31 December 2023, the Company has complied with the code provisions set out in Appendix C1 (Corporate Governance Code) to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

16. PUBLICATION OF THE RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This 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 Annual 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 mid April 2024.

KEY STATISTICS AND FINANCIAL

	Year ended 31 December	
	2023	2022
Hong Kong transport operations		
Total passenger boardings (in millions)		
- Domestic Service	**1,586.7**	1,334.6
- Cross-boundary Service	**71.5**	0.4
- High Speed Rail	**20.1**※	-
- Airport Express	**10.8**	3.1
- Light Rail and Bus	**207.7**	180.0
Average number of passengers (in thousands)		
- Domestic Service (weekday)	**4,669.8**	3,920.1
- Cross-boundary Service (daily)	**195.9**	1.2
- High Speed Rail (daily)	**57.3**※	-
- Airport Express (daily)	**29.7**	8.5
- Light Rail and Bus (weekday)	**601.8**	515.7
Financial		
EBITDA margin^		
- Including Mainland China and international subsidiaries	**26.9%**	16.5%
- Excluding Mainland China and international subsidiariesδ	**45.9%**	30.5%
EBIT margin*		
- Including Mainland China and international subsidiaries	**10.2%**#	1.8%#
- Excluding Mainland China and international subsidiariesφ	**20.4%**	3.7%
Profit attributable to shareholders of the Company arising from Hong Kong property development (HK$'million)	**2,035**	10,413
Profit attributable to shareholders of the Company arising from underlying businesses (HK$'million)	**6,364**	10,637

※ High Speed Rail service was resumed on 15 January 2023. The number of passengers only counts the day from 15 January 2023 to 31 December 2023

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

δ Excluding the relevant revenue and expenses of Mainland China and international subsidiaries of HK$25,955 million and HK$24,896 million (2022: HK$26,189 million and HK$24,865 million) respectively

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

Excluding special loss provisions, being provisions for onerous contracts made for Stockholms pendeltåg and Mälartåg regional traffic totalling HK$1,022 million in 2023 and impairment loss made for Shenzhen Metro Line 4 of HK$962 million in 2022, the EBIT margin would have been 12.0% and 3.8% in 2023 and 2022 respectively

φ Excluding the relevant revenue, expenses, depreciation and amortisation, and provisions for onerous contracts and impairment loss of Mainland China and international subsidiaries of HK$25,955 million, HK$24,896 million, HK$548 million and HK$1,022 million (2022: HK$26,189 million, HK$24,865 million, HK$303 million and HK$962 million) respectively

CEO'S REVIEW AND OUTLOOK

With 2023 now behind us, I believe we can look back on the year with a sense of accomplishment, especially given the multitude of challenges everyone has worked so hard to overcome during and after the pandemic era. The financial performance of MTR Corporation Limited's recurrent businesses was satisfactory in the context of a transitional year, and the Company was also able to attain world-class service delivery even as patronage continued to climb. We also kept improving our organisation and its operations across the board by closely following our Corporate Strategy to drive sustainable growth through healthy, diversified revenue streams; strongly emphasising innovation and technology; and remaining firmly committed to world-class environmental, social and governance ("ESG") standards. Now, looking towards the future, there is a feeling of guarded optimism as we pick up speed along a track towards recovery, prosperity and a new normalcy.

BUSINESS PERFORMANCE AND GROWTH

Revenue grew in 2023, and a major contributing factor was the resumption of our Cross-boundary and High-speed Rail ("HSR") services, both of which gradually returned to service starting from January. This positively impacted not just fare revenue, but also rental revenue, as the end of COVID-related restrictions enabled us to restart our Duty Free business, which had been dormant since the initial outbreak. Patronage for our HSR service in 2023 exceeded that of 2019, spurred in part by higher frequencies as well as expanded coverage that now includes 73 direct destinations in Mainland China. Patronage of our Cross-boundary Service has yet to return to pre-pandemic levels, although we are still encouraged by the service's on-going recovery. Meanwhile, Domestic Service patronage for the year was close to returning to pre-pandemic levels. We were also pleased to achieve more than 99.9% train service delivery and passenger journeys on-time for our heavy rail network in 2023.

In March 2023, MTR and Government concluded the review of the Fare Adjustment Mechanism ("FAM") and determined that the direct-drive formula shall be maintained for the five-year cycle (from 2023/2024 to 2027/2028). This will help guarantee a stable source of recurrent revenue for the maintenance, upgrading and renewal of the Company's railway assets while also ensuring the financial sustainability needed to pursue important new projects for Hong Kong. To help ensure the reasonableness of fare increases, we have introduced initiatives such as referring the "Productivity Factor" in the formula to the post-tax profit from property developments in Hong Kong and enhancing the service performance rebate with a new "Thank You Day" arrangement featuring a half-price fare discount.

To ensure that MTR delivers on its promise to Keep Cities Moving, the Company regularly upgrades and renews its railway assets for safety, efficiency, convenience and comfort. In 2023, we continued to "Go Smart Go Beyond" by launching a HK$1.3 billion programme to upgrade the Automatic Fare Collection system and add more e-payment options to meet passengers' needs.

In 2023, we proudly welcomed two new shopping malls to our retail portfolio: The Wai, located in Tai Wai, and THE SOUTHSIDE, situated in Wong Chuk Hang. THE SOUTHSIDE began a phased opening in December 2023. Once they are both fully open, these two new malls will cover approximately 107,620 square metres, expanding our total attributable gross floor area ("GFA") by around 30% while offering quality shopping, dining, entertainment and services to the community. We are also currently making progress on 14 residential property development projects that will provide approximately 14,000 quality units to the local housing market in the coming years.

We were pleased to sign project agreements with Government in 2023 for the Tung Chung Line Extension, Tuen Mun South Extension and Kwu Tung Station on the East Rail Line, all of which are important components of Government's Railway Development Strategy 2014 ("RDS 2014"). These new projects are designed to facilitate Hong Kong's sustainable, long-term economic development while helping build thriving and prosperous communities along the city's rail lines. As always, MTR is excited at the opportunity to "Go Beyond Boundaries" in support of Government's strategy to create the city's infrastructure network of the future.

In December 2023, the Transport and Logistics Bureau announced the "Hong Kong Major Transport Infrastructure Development Blueprint" ("the Blueprint"), which maps the way forward for Hong Kong's transport infrastructure through projects that support sustainable development and reinforce the city's strategic position. The Blueprint recommends three enhanced strategic railway projects as well as two new railway projects in the Northern Metropolis, the "Northern Link Eastern Extension" and "Northeast New Territories Line". MTR welcomes this announcement and pledges its full support for the further development of Hong Kong's railway capacity.

In 2023, we also continued to explore opportunities in Mainland China and overseas. The remaining section of Beijing Metro Line 16 and the Northern Section of Beijing Metro Line 17 commenced passenger service in December 2023, and our contract for the South Western Railway in the UK and the franchise for the Melbourne metropolitan rail network in Australia were extended to May 2025 and mid-2026, respectively. In Sweden, due to on-going driver shortages and maintenance issues that inevitably impacted financial performance, we entered into mutual agreements for the early termination of our concessions for Stockholms pendeltåg and Mälartåg, effective 2 March 2024 and 16 June 2024, respectively. Loss provisions were made in respect of these two businesses in 2023. Our bid for the new Stockholm Metro service contract was unsuccessful. In February 2024, we entered into an agreement to divest of MTRX.

We regard ESG as an important aspect of our business and activities, and we strive to take a leadership role in our core focus areas of Reducing Greenhouse Gas ("GHG") Emissions, promoting Social Inclusion and fostering Advancement & Opportunities. In April 2023, our carbon reduction targets covering MTR's railway and investment property businesses in Hong Kong were approved by the international Science Based Targets initiative. According to these targets, we shall considerably reduce the GHG emissions from our rail transport operations and investment properties by 2030 compared to the base year of 2019. The approval also marks a significant step towards attaining our long-term goal of achieving carbon neutrality by 2050. In 2023, we also supported various events and launched initiatives promoting diversity and inclusion, focusing on disability inclusion, ethnic diversity, gender equity, and intergenerational relationships in society and the workplace. We also strove to further equal opportunities through volunteer projects, arts appreciation programmes, and long-term partnerships with NGOs and social enterprises through our ESG Project Allies Programme. In terms of advancement and opportunities, we are committed to upskilling our employees, enhancing the future skills and innovative capacity of our next generations, and fostering the sustainable growth of local enterprises in the cities where we operate.

FINANCIAL PERFORMANCE

MTR's financial performance was supported by the resumption of its Cross-boundary and HSR services and Duty Free business. Profit attributable to equity shareholders from recurrent businesses increased to HK$5,303 million before the HK$1,022 million provisions made in respect of Stockholms pendeltåg and Mälartåg. Property development profit decreased to HK$2,083 million, resulting in a decrease of 40.2% to HK$6,364 million in profit attributable to shareholders from underlying businesses. Including the gain arising from the fair value measurement of investment properties (a non-cash accounting item), net profit attributable to the shareholders of the Company decreased by 20.8% to HK$7,784 million, representing earnings per share of HK$1.26.

Your Board has proposed a final ordinary dividend of HK$0.89 per share, which together with the interim dividend of HK$0.42 per share brings the full-year dividend to HK$1.31 per share, same as that of 2022.

OUTLOOK

The past year was about recovery. Moving forward – the theme of this report – we intend to capitalise on the momentum gained in 2023 to help propel MTR and Hong Kong towards a new era of growth. We have broken ground on important new projects that will enhance connectivity and boost prosperity for communities across the city. Our Cross-boundary, HSR and Duty Free businesses are back in operation and already making solid contributions to our recurrent revenue. There are also numerous strategic railway and property development projects on the horizon, and we will strive tirelessly to help Government achieve its goals for infrastructure network development and housing supply.

In the short term, we expect to continue dealing with a volatile global economic environment fraught with issues such as geopolitical dynamics, inflationary pressures and high interest rates. To counter these challenges, we will keep practising prudent cost management while seeking out smart technologies and innovations that can help make our railway operations and maintenance even more efficient. We will also continue to expand our railway network in Hong Kong and seek commercially viable opportunities in Mainland China and overseas to drive business growth. Meanwhile, Domestic Service patronage has gradually recovered compared to pre-pandemic levels, and patronage of our Cross-boundary Service is ramping up following three years of inactivity. Of course, further recovery will depend on the health of the Hong Kong and Mainland Chinese economies. Our station retail and property rental businesses continue to be impacted by negative rental reversions, a lingering effect of the pandemic era. Advertising revenue remains dependent on economic recovery as well as consumer sentiment and spending.

Given the uncertainties in the global economy and interest rate trends, as well as the Hong Kong Government's cancellation of Special Stamp Duty, Buyer's Stamp Duty and New Residential Stamp Duty for residential properties in February 2024, we are closely monitoring market conditions and reviewing our programme for the tendering of property development projects. In the next 12 months or so, we expect to re-tender Tung Chung East Station Package 1 while the Oyster Bay project is undergoing advance works, and we continue to anticipate intake of the first batch of residents in 2030. Our applications for presale consent for LOHAS Park Package 13 and the Yau Tong Ventilation Building are in progress. Subject to the progress of construction and sales, we expect to book property development profit from La Montagne (THE SOUTHSIDE Package 4), THE SOUTHSIDE Package 5, Ho Man Tin Station Package 1 and IN ONE (Ho Man Tin Station Package 2), and to continue booking profit from Villa Garda (LOHAS Park Package 11) in 2024.

We look forward to working together with Government on the RDS 2014 initiative – for projects both existing and new – as well as the Blueprint as we continue to build the networks of the future.

In 2023, we were delighted to celebrate the expansion of our operating network in Mainland China by opening new sections of Beijing Metro Line 16 and Beijing Metro Line 17. As always, we will continue to seek opportunities in Mainland China and overseas to support this growth pillar and export MTR's brand and business to potentially lucrative markets outside of Hong Kong.

I would like to take the opportunity to thank Mr Herbert L. W. Hui, who retired from the position of Finance Director immediately after 31 December 2023, for his valuable contributions to the Company. I would also like to welcome Mr Michael Fitzgerald, who succeeded Mr Hui effective 1 January 2024.

The pandemic era was a long and difficult time for our communities around the world. Through it all, our dedicated staff members worked professionally and tirelessly to Keep Cities Moving for the millions upon millions of people who depend on MTR every day, and their heroic efforts have been a great source of inspiration for me. Now, as MTR celebrates its 45th year of growing and connecting communities, I believe the Company and Hong Kong are well on track towards recovery and growth, and I look forward to continuing this journey together with important stakeholders like you over the coming months and years.

Dr Jacob Kam Chak-pui
Chief Executive Officer
Hong Kong, 7 March 2024

HONG KONG BUSINESSES

MTR's Hong Kong businesses feature two key components: "Hong Kong Transport Services", comprising rail and bus transport services as well as commercial activities at stations; and property-related activities including the development, rental and management of the Company's railway-linked properties. MTR operates largely under a rail-plus-property business model that enables the Company to deliver shareholder value while contributing to the growth and prosperity of the local communities it serves.

Hong Kong Transport Services – Transport Operations

HK$ million	Year ended 31 December **2023**	2022	Inc./(Dec.) %
Hong Kong Transport Operations			
Total Revenue	**20,131**	13,404	50.2
Operating Profit before Depreciation, Amortisation and Variable Annual Payment ("EBITDA")	**5,954**	691	761.6
(Loss)/Profit before Interest, Finance Charges and Taxation and after Variable Annual Payment ("EBIT")	**(1,111)**	(4,733)	76.5
EBITDA Margin (in %)	**29.6%**	5.2%	24.4% pts.
EBIT Margin (in %)	**(5.5)%**	(35.3)%	29.8% pts.

In 2023, total revenue from Hong Kong transport operations increased by 50.2% to HK$20,131 million compared to the HK$13,404 million recorded in 2022, leading to a 76.5% decrease in loss before interest, finance charges and taxation and after variable annual payment to HK$1,111 million. These results were primarily due to the resumptions of Cross-boundary Service and High Speed Rail ("HSR") as well as recovery in our Domestic Service patronage.

Patronage and Revenue

	Patronage *In million*		Revenue *HK$ million*	
Hong Kong Transport Operations	**2023**	Inc./(Dec.) %	**2023**	Inc./(Dec.) %
Domestic Service	**1,586.7**	18.9	**13,995**	24.5
Cross-boundary Service	**71.5**	n/m	**2,206**	n/m
HSR	**20.1**	n/m	**2,503**	78.7
Airport Express	**10.8**	249.6	**664**	418.8
Light Rail and Bus	**207.7**	15.4	**658**	17.3
	1,896.8	24.9	**20,026**	50.1
Others			**105**	61.5
Total			**20,131**	50.2

n/m: not meaningful

Total patronage for all MTR rail and bus services increased by 24.9% to 1,896.8 million compared to the 1,518.1 million recorded in 2022. This followed the lifting of anti-pandemic restrictions and phased resumptions of rail services to Mainland China. Average weekday patronage increased by 24.3% to 5.52 million.

Market Share
MTR's overall share of the franchised public transport market in Hong Kong increased to 50.1% in 2023 compared with 48.3% in the previous year. This was due to additional patronage from the opening of the East Rail Line cross-harbour extension in May 2022 as well as patronage recovery for Cross-boundary Service, HSR and Airport Express – in which we have a relatively higher market share than other franchised public transport operators – following the lifting of anti-pandemic measures. The Company's share of cross-harbour traffic was 72.3% compared with 70.1% in 2022. Our share of the cross-boundary business, including Cross-boundary Service and HSR, was 53.0% compared to 0% in 2022 (due to service closures). Our share of traffic to and from the airport was 19.9% compared to 18.2% in 2022.

Fare Adjustment, Promotions and Concessions
In March 2023, MTR and Government concluded the FAM review, a regular exercise that takes place every five years. It was agreed that the current direct-drive FAM formula will be retained for the five-year cycle from 2023/2024 to 2027/2028 in order to provide a stable source of recurrent revenue for the maintenance, upgrading and renewal of railway assets. In addition, the formula's productivity factor has been amended to take account of the Company's post-tax property development profit in Hong Kong. The Overall Fare Adjustment Rate for 2023/2024 was +2.3% after a special reduction of 1.2 percentage points as well as a special deferral of 1.65 percentage points and a voluntary deferral of 0.2 percentage point – both deferrals to 2024/2025 – to support the post-pandemic economic recovery.

During the year, we continued to support Government's efforts to boost the economy by giving away free rides and holding shopping promotions at MTR Malls and station outlets. We also continued to offer on-going fare concessions to customers, including general commuters, the elderly, children, eligible students and persons with disabilities, which amounted to approximately HK$2.9 billion in 2023.

Service Performance
MTR is committed to meeting and exceeding world-class reliability and service standards. In 2023, we exceeded 99.9% in passenger journeys on-time and train service delivery for our heavy rail network.

In 2023, we ran more than 1.79 million train trips on our heavy rail network and more than 0.92 million trips on our light rail network. There were seven delays (defined as those lasting 31 minutes or more and attributable to factors within the Company's control) on the heavy rail network and three such delays on the light rail network.

Following two incidents in late 2022, an Expert Panel was appointed to undertake a comprehensive review of MTR's railway asset management and maintenance regime. The panel completed this review in June 2023, and the Company is now in the midst of implementing its recommendations, which include investing in railway asset renewal and maintenance and accelerating the application of innovation and technology to maintain railway assets at an even higher standard.

Enhancing the Customer Service Experience
We are always exploring the latest innovations and making improvements to provide better, smarter and more comfortable rail transit services for passengers. With the addition of new HSR routes, passengers were able to reach 73 Mainland destinations directly from Hong Kong as at end-2023. In March 2023, the Company launched a HK$1.3 billion programme to upgrade 2,400 of its Automatic Fare Collection System ticket gates, one feature of which will be more e-payment options for greater customer convenience. Throughout the year, we continued to put new SACEM Q-trains into service along the Kwun Tong Line as part of our programme to phase out existing trains and replace them with newer, more comfortable models; as at 31 December, 13 of these new trains had been put into service. Our programme to replace our existing SACEM signalling system with a communication-based train control signalling system ("CBTC System") along the Tsuen Wan, Island, Kwun Tong and Tseung Kwan O lines is on-going. The new system, which will allow us to boost our trains' overall carrying capacity, is expected to be commissioned

on the Tsuen Wan Line between 2025 and 2026, followed by implementation along the other lines. We are also in the midst of another chiller replacement programme to replace older units with newer, more efficient models for greater passenger comfort and better energy efficiency. Between the programme's start date of 2022 and 2025, we anticipate the replacement of an additional 31 units. Elsewhere, our programme to install automatic platform gates at 35 platforms in 13 stations along the section between Lo Wu/ Lok Ma Chau and Mong Kok East on the East Rail Line commenced in May 2023, with gates installed in Racecourse and Lok Ma Chau stations during the year. This project is expected to be completed by 2025.

Smart Mobility, Operations and Maintenance
"Go Smart Go Beyond" represents MTR's quest to adopt the latest technologies for improved operations, maintenance, customer service and sustainability. Two excellent examples of our commitment to innovation in 2023 include the "Train Performance and Health Monitoring System", an initiative to optimise our maintenance regime while increasing train availability and reliability by monitoring fleet health and performance; and "Smart Train Planning", a cloud-based AI platform co-developed with Alibaba that enhances train mileage regulation and planning. We also installed the AI-powered SACEM Remote Monitoring and Alarm Detection system in trains and depots to achieve real-time analysis of our operations and prevent potential service issues. As one of the first enterprises in Hong Kong to experience AI with the Microsoft 365 Copilot system, we will utilise AI-enabled solutions to optimise our operations, enhance customer service and streamline internal workflows. Also, the implementation of video analytics at East Rail Line station platforms has strengthened our ability to prevent accidents proactively by identifying abnormal passenger behaviour.

Hong Kong Transport Services – Station Commercial Businesses

HK$ million	**Year ended 31 December 2023**	2022	Inc./(Dec.) %
Hong Kong Station Commercial Businesses			
Station Retail Rental Revenue	**3,429**	1,544	122.1
Advertising Revenue	**981**	836	17.3
Telecommunication Income	**603**	616	(2.1)
Other Station Commercial Income	**104**	81	28.4
Total Revenue	**5,117**	3,077	66.3
EBITDA	**4,557**	2,555	78.4
EBIT	**3,792**	2,270	67.0
EBITDA Margin (in %)	**89.1%**	83.0%	6.1% pts.
EBIT Margin (in %)	**74.1%**	73.8%	0.3% pt.

In 2023, total revenue from all Hong Kong station commercial activities increased by 66.3% to HK$5,117 million. This was primarily from the resumption of our Duty Free business following the reopening of cross-boundary stations in early 2023.

Station retail rental revenue increased by 122.1% to HK$3,429 million, which was primarily due to the return of our Duty Free business following years of pandemic-related closure. This increase in revenue was partially offset by negative rental reversions. Rental reversion and average occupancy rates for station kiosks were approximately -6.9% and 97.3%, respectively. During the year, we sought to drive traffic to station shops and spur consumer spending by launching numerous promotions via the MTR Mobile app, including the MTR Points loyalty scheme and Stamp Reward programme. We also introduced pop-up stores and regularly reviewed our tenant mix to ensure customer appeal.

As at 31 December 2023, the lease expiry profile of our station kiosks (including Duty Free shops) by area occupied was such that approximately 31% will expire in 2024, 33% in 2025, 26% in 2026, and 10% in 2027 and beyond.

In terms of trade mix, food and beverage accounted for approximately 45% of the leased area of our station kiosks (excluding Duty Free shops) as at 31 December 2023, followed by cake shops at 13%, convenience stores at 12%, passenger services at 12% and others at 18%.

Advertising revenue increased by 17.3% to HK$981 million in 2023 due to general economic recovery and increased tourism from Mainland China following Hong Kong's full reopening, both of which drove higher advertising spending at cross-boundary stations. During the year, we continued to innovate our advertising offerings through digital technology and offer audience-targeting and online-to-offline options.

Telecommunications revenue was HK$603 million in 2023, a 2.1% year-on-year decrease. As at 31 December 2023, 5G services were available at 79 stations. In July, we awarded the tender for a new commercial system at 24 stations that will offer users more capacity and higher data speed. About 80% of the capacity at our Tseung Kwan O data service centre had been reserved as at 31 December 2023, and we continue to explore opportunities for additional data centres elsewhere.

Property Businesses

Property Rental and Management

	Year ended 31 December		
HK$ million	**2023**	2022	Inc./(Dec.) %
Hong Kong Property Rental and Management Businesses			
Revenue from Property Rental	**4,795**	4,525	6.0
Revenue from Property Management	**284**	254	11.8
Total Revenue	**5,079**	4,779	6.3
EBITDA	**4,016**	3,815	5.3
EBIT	**3,999**	3,800	5.2
EBITDA Margin (in %)	**79.1%**	79.8%	(0.7)% pt.
EBIT Margin (in %)	**78.7%**	79.5%	(0.8)% pt.

In 2023, revenue from property rental and management increased by 6.3% year on year to HK$5,079 million, which was mainly due to having lower amortisation of rental concessions charged to the statement of profit or loss, as well as additional contributions following the opening of our two new shopping malls, The Wai in July 2023 and THE SOUTHSIDE in December 2023. Revenue gains continued to be partially offset by negative rental reversions. MTR shopping malls recorded a rental reversion of -8.4% and the average occupancy rate was 99%. The average occupancy rate for the Company's 18 floors in Two International Finance Centre was 96%.

July marked the soft opening of The Wai, our new, 60,620-square-metre shopping mall at Tai Wai Station that hosts approximately 150 retail tenants providing dining, entertainment and other services for the community. In December, we began the first phase of the soft opening of THE SOUTHSIDE shopping mall in Wong Chuk Hang. In this first phase, about 30 merchants collectively occupying roughly 20% of the mall's total floor area, have commenced business. In 2023, a fair value measurement gain of HK$1,360 million was recognised from the initial booking of THE SOUTHSIDE shopping mall.

The Company worked diligently throughout the year to spur mall traffic and help tenants' businesses recover in the wake of the pandemic. Highlights included hosting the "Happy Music Festival" to support Government's "Happy Hong Kong" campaign; the "'Happy Together' Click & Grab Coupon" campaign, pursuant to which more than HK$20 million in shopping vouchers were given away; and an MTR Mobile "instant win" lucky draw promotion.

As at 31 December 2023, the lease expiry profile of our shopping malls by area occupied was such that approximately 30% will expire in 2024, 22% in 2025, 31% in 2026, and 17% in 2027 and beyond.

In terms of trade mix, food and beverage accounted for approximately 30% of the leased area of our shopping malls as at 31 December 2023, followed by services (21%), fashion, beauty and accessories (21%), leisure and entertainment (19%), and department stores and supermarkets (9%).

Property Development and Tendering

In 2023, Hong Kong property development profit (post-tax) was HK$2,035 million. This was mainly derived from initial profit recognition from Villa Garda (LOHAS Park Package 11) and residual profits from various completed projects.

Pre-sales and sale activities continued during the year for several property development projects. As at 31 December 2023, SOUTHLAND and La Marina (THE SOUTHSIDE Package 1 and Package 2) were 79% and 89% sold, respectively, while units of Villa Garda I, II and III (LOHAS Park Package 11) were 79%, 24% and 26% sold, respectively. Pre-sales activities launched for La Montagne (THE SOUTHSIDE Package 4) Phase 4A in July; the development was 12% sold as at 31 December 2023. Pre-sales activities also launched for IN ONE (Ho Man Tin Station Package 2) Phases IA, IB and IC in May, March and April, respectively, and these properties were 17%, 98% and 85% sold as at the end of the year. Pre-sales for YOHO WEST (Tin Wing Stop Phase 1) launched in November, with 78% of units sold as at 31 December 2023. We obtained pre-sale consents for LOHAS Park Package 12 (Phases 12A and 12B) in August 2023, Ho Man Tin Station Package 1 (Phases IIA and IIB) in November 2023, THE SOUTHSIDE Package 3 (Phases 3B and 3C) in December 2023 and LOHAS Park Package 12 (Phase 12C) in January 2024.

By November, we had received no tender submissions for Tung Chung East Station Package 1. We are closely monitoring market conditions and will review our programme for the tendering of property development projects as appropriate. We expect to re-tender Tung Chung East Station Package 1 in the next 12 months or so while the Oyster Bay project is undergoing advance works, and we continue to target for the first intake of residents in 2030.

GROWING OUR HONG KONG BUSINESSES

Following the service commencement of the East Rail Line cross-harbour extension in May 2022, MTR is now supporting Government on the next phase in Hong Kong's railway infrastructure development. This includes projects under Railway Development Strategy 2014 ("RDS 2014") and the "Hong Kong Major Transport Infrastructure Development Blueprint" ("the Blueprint"). Together, these initiatives will enhance local connectivity, strengthen links with the Greater Bay Area, and create opportunities for the Company to build and enhance communities while delivering shareholder value.

Building Hong Kong's Future Railway Network

In 2023, MTR entered into agreements with Government on a number of important RDS 2014 projects.

Tung Chung Line Extension
In February, the Company signed the project agreement for the Tung Chung Line Extension, which will serve new towns in the Tung Chung East new reclamation area and Tung Chung West. A ground-breaking ceremony was held in May, making this the first RDS 2014 project to commence construction. Two major civil works contracts have also been awarded. We anticipate that construction for the Tung Chung Line Extension will be completed in 2029. The Company will also undertake the construction of the Airport Railway Extended Overrun Tunnel ("ARO"). Construction of the ARO is targeted to commence in 2025 and be completed in 2032.

Tuen Mun South Extension
In September, we signed the project agreement for the Tuen Mun South Extension, which will provide direct railway connectivity to the Tuen Mun South community and serve the transport needs of commuters living and working in the area. A kick-off event was held in October 2023, and construction is targeted for completion in 2030.

Kwu Tung Station on the East Rail Line
Also in September, the Company signed the project agreement for Kwu Tung Station on the East Rail Line, a new station to be located in the town centre of the future Kwu Tung North New Development Area. A ground-breaking ceremony was held in September, and construction is expected to be completed in 2027. Once commissioned, Kwu Tung Station will be the 100th rail station in the MTR network.

Oyster Bay Station
Meanwhile, construction on Oyster Bay Station commenced in December 2023. This project has a targeted completion date of 2030. Oyster Bay Station will be located in Siu Ho Wan between Sunny Bay and Tung Chung stations and cater to the future population growth of Oyster Bay.

Other New Railway Projects
In 2023, we also continued to progress other important RDS 2014 initiatives. The Northern Link Main Line railway scheme was gazetted under the Railways Ordinance in October, and we are now working on pre-construction statutory procedures. Construction for this project is scheduled to commence in 2025 for completion in 2034. In parallel, we are working with Government to bring forward the Northern Link Spur Line project to the detailed planning and design stage. We are currently in the detailed planning and design stage for Hung Shui Kiu Station, which will be located on the Tuen Ma Line between Tin Shui Wai and Siu Hong stations. It is important to note that the Company is still in various stages of discussion with Government and has yet to enter into project agreements for the Northern Link and Hung Shui Kiu Station projects. Government has announced its intention to proceed with MTR on these projects using the ownership approach. Different funding models, including the "Rail plus Property" development model, may be deployed to ensure commercial returns on the Company's investments. We also continue to closely monitor the progress of the South Island Line (West), which was featured in the Blueprint, and provide full support accordingly.

In his Policy Address 2023, the Chief Executive proposed further extension of Hong Kong's railway network as well as accelerated long-term land development. Among the many important initiatives cited is the enhanced "Three Railways" proposal, which includes the provision of three intermediate stations along the Central Rail Link at Northeast Tsuen Wan, Northeast Kwai Chung and the Tsuen King Circuit to enable transit to the Tsuen Wan Line; the Tseung Kwan O Line Southern Extension and Hong Kong–Shenzhen Western Rail Link linking Hung Shui Kiu with Qianhai in Shenzhen; and two new railway projects, the "Northern Link Eastern Extension" and "Northeast New Territories Line" connecting Heung Yuen Wai to Fanling Station on the East Rail Line. MTR welcomes these projects and will continue to fully support Government's strategy for the future development of Hong Kong. Meanwhile, we continue to conduct research on construction for Pak Shek Kok Station on the East Rail Line while closely monitoring the development of smart and green mass transit in areas such as East Kowloon, Kai Tak, Hung Shui Kiu and Ha Tsuen.

Expanding the Property Portfolio

Our two new malls, The Wai and THE SOUTHSIDE, offer exciting new shopping experiences for shoppers, while our 14 new residential property projects are expected to provide approximately 14,000 quality housing units to the market in the near to medium term. The Company also continues to explore areas for potential development along its existing and future lines, such as the Northern Link. Meanwhile, at the invitation of Government, we are studying ways to unleash the development potential of land around the proposed Pak Shek Kok Station. We are also carrying out a study to re-plan Hung Hom Station and its vicinity.

MAINLAND CHINA AND INTERNATIONAL BUSINESSES

Our Mainland China and international businesses form one of our three strategic growth pillars, enabling us to generate geographically diversified revenue streams while exporting MTR's brand and expertise. In 2023, we served approximately 2.37 billion passenger journeys in Mainland China, Macao, Europe and Australia through our subsidiaries, associates and joint ventures.

	Mainland China and International Businesses								
Year ended 31 December	Mainland China and Macao Railway, Property Rental and Property Management Businesses			International Railway Businesses			Total		
HK$' million	**2023**	2022	Inc./(Dec.) %	**2023**	2022	Inc./(Dec.) %	**2023**	2022	Inc./(Dec.) %
Recurrent Businesses									
Subsidiaries									
Revenue	**1,974**	2,355	(16.2)	**23,981**	23,661	1.4	**25,955**	26,016	(0.2)
EBITDA	**286**	105	172.4	**786**	1,160	(32.2)	**1,072**	1,265	(15.3)
EBIT	**(42)**	42	n/m	**566**	920	(38.5)	**524**	962	(45.5)
EBITDA Margin (in %)	**14.5%**	4.5%	10.0 % pts.	**3.3%**	4.9%	(1.6)% pts.	**4.1%**	4.9%	(0.8)% pt.
EBIT Margin (in %)	**(2.1)%**	1.8%	n/m	**2.4%**	3.9%	(1.5)% pts.	**2.0%**	3.7%	(1.7)% pts.
Recurrent Business (Loss)/ Profit (Net of Non-controlling Interests)	**(101)**	**28**	**n/m**	**(33)**	**267**	**n/m**	**(134)**	**295**	**n/m**
Associates and Joint Ventures									
Share of Profit	**707**	**640**	**10.5**	**50**	**55**	**(9.1)**	**757**	**695**	**8.9**
Total Recurrent Business Profit (before Business Development Expenses and Special Loss Provisions*)	**606**	**668**	**(9.3)**	**17**	**322**	**(94.7)**	**623**	**990**	**(37.1)**
Profit/ (Loss) Attributable to Shareholders of the Company for the year									
- Arising from Recurrent Businesses (before Business Development Expenses and Special Loss Provisions*)							**623**	**990**	**(37.1)**
- Business Development Expenses							**(260)**	(255)	(2.0)
- Arising from Recurrent Businesses (after Business Development Expenses but before Special Loss Provisions*)							**363**	**735**	**(50.6)**
- Special Loss Provisions*							**(1,022)**	(962)	**(6.2)**
- Arising from Recurrent Businesses (after Business Development Expenses and Special Loss Provisions*)							**(659)**	**(227)**	**(190.3)**
- Arising from Mainland China Property Development							**48**	67	(28.4)
- Arising from Underlying Businesses							**(611)**	**(160)**	**(281.9)**

n/m: not meaningful

** Special loss provisions represent provisions for onerous contracts made for Stockholms pendeltåg and Mälartåg regional traffic totalling HK$1,022 million in 2023, and impairment loss made for Shenzhen Metro Line 4 of HK$962 million in 2022*

Excluding Mainland China property development, our recurrent business profit outside of Hong Kong from our subsidiaries, associates and joint ventures (after business development expenses but before special loss provisions) was HK$363 million in 2023 on an attributable basis. This represented a decrease of 50.6% compared with 2022.

In Mainland China and Macao, recurrent business loss from our railway, property rental and property management subsidiaries was HK$101 million in 2023. Results were mainly impacted by the continued losses with depletion of government subsidies at Shenzhen Metro Line 4 ("SZL4"). Our share of profit from our Mainland China businesses associates and joint ventures increased by 10.5% to HK$707 million in 2023, primarily because of improved performance following post-pandemic recovery in patronage.

In our international businesses, due to the operational challenges of Stockholms pendeltåg and Mälartåg, recurrent business loss from our railway subsidiaries was HK$33 million in 2023. Our share of profit from our international businesses associates and joint ventures was HK$50 million in 2023. Loss provisions of HK$1,022 million had also been made in relation to Stockholms pendeltåg and Mälartåg.

Mainland China and Macao
In Beijing, our associate operates Beijing Metro Line 4, the Daxing Line, Beijing Metro Line 14, Beijing Metro Line 16 ("BJL16"), and the Southern and Northern Sections of Beijing Metro Line 17 ("BJL17"). The remaining section of BJL16 and the Northern Section of BJL17 opened in December 2023, and the remaining sections of BJL17 are under construction. All lines achieved stable operations during the year.

In Shenzhen, our wholly owned subsidiary operates SZL4 and the SZL4 North Extension, which maintained stable operations in 2023. However, as we have previously reported, there has been no increase in fares for SZL4 since we began operating the line in 2010. We expect that the mechanism and procedures for fare adjustments will take time to implement and that patronage will remain at a lower level for longer than expected. Therefore, an impairment provision of HK$962 million was recognised for the SZL4 service concession assets in the first half of 2022. Elsewhere, construction on Shenzhen Metro Line 13 continued to progress as planned, and all key contracts have been awarded.

In Hangzhou, Hangzhou Metro Line 1 ("HZL1"), the Xiasha Extension and Airport Extension, and Hangzhou Metro Line 5 all achieved stable operations in 2023 with on-time performance exceeding 99.9%. As previously reported, HZL1 has been suffering from losses for many of the past several years due to slow growth in patronage and the pandemic. As there is no patronage protection mechanism under this concession agreement, the line's long-term financial viability will be impacted if patronage remains at a lower level over a further period of time, especially when compounded by the lower average fare resulting from the expanded network.

In Macao, we operate and maintain the Macao Light Rapid Transit Taipa Line, the city's first rapid transit system. Train services achieved stable operations during the year. The operations and maintenance contract for this service will end in 2024.

MTR is also involved in the development of commercial and residential properties as well as station commercial business in Mainland China. Foot traffic at both TIA Mall in Shenzhen and Ginza Mall in Beijing experienced gradual recovery as the pandemic subsided. Construction of our shopping mall at Tianjin Beiyunhe Station continued during the year and is expected to be completed in 2024. The Company is studying possible strategic options for all our malls in Mainland China in response to the challenging retail property market conditions. Our mixed-use transit-oriented development ("TOD") project at Hangzhou West Station and our station commercial business in Chengdu continued to progress.

Europe
In the UK, the Elizabeth line saw its peak time frequency increased to 24 trains per hour in each direction between Paddington and Whitechapel stations, up from 22, in May 2023. In 2022, the concession to operate the Elizabeth line was extended to May 2025. Our associate operates the South Western Railway, one of the UK's largest rail networks, which also achieved stable operations. In February 2023, the National Rail Contract was extended by two years to May 2025. Under this agreement, the UK Department for Transport retains all revenue risk and substantially all cost risk.

MTR operated four businesses in Sweden during the reporting period, making it the country's largest rail operator by passenger volume. Stockholm Metro (Stockholms tunnelbana) achieved steady operations in 2023. This service contract will end in 2025, and our bid for the new Stockholm Metro service contract was unsuccessful. MTRX also achieved steady operations during the year. On 8 February 2024, we entered into an agreement to divest of MTRX. The transaction is expected to be completed by the end of May 2024, following regulatory approval.

Subject to completion, the gain to be recognised in 2024 from the transaction is not expected to be material. Stockholms pendeltåg and Mälartåg continued to face challenges from driver shortages and maintenance issues. In November 2023, we announced that we had entered into a supplemental agreement with the Stockholm Public Transport Authority for the early termination of our concession for Stockholms pendeltåg, effective 2 March 2024, and a loss provision of HK$702 million from the early termination was recognised in 2023. In February 2024, we also entered into a supplemental agreement with our client, Mälardalstrafik for the early termination of our concession of Mälartåg effective 16 June 2024. A loss provision of HK$320 million was recognised for this business in 2023.

Australia
Our subsidiary in Melbourne operates the city's metropolitan network and achieved steady operations in 2023. The concession for this service has been extended to mid-2026. We continue to support our client, the Victoria State Government, on various network improvement initiatives. The Sydney Metro North West Line also achieved stable operational performance and a high level of customer satisfaction during the year. For the Sydney Metro City & Southwest Project, we continue to test trains running under Sydney Harbour prior to the launch of passenger services for the line's City section in 2024.

Growth Outside of Hong Kong
The Company regularly explores opportunities to grow its business in Mainland China, including the Greater Bay Area, as well as overseas. In July, we signed a Memorandum of Understanding with MRT Corporation in Malaysia on the collaboration framework for a TOD project adjacent to the terminal station of a new rapid transit line.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE
ESG (environmental, social and governance) plays a crucial role in MTR's day-to-day operations as well as the Company's long-term planning for sustainable growth. In 2023, we set 44 key performance indicators ("KPIs") to drive progress in 10 focus areas underpinning our three main Environmental and Social Objectives, namely Greenhouse Gas ("GHG") Emissions Reduction, Social Inclusion, and Advancement and Opportunities. During the year, 41 were achieved or on track to be achieved.

Environmental Aspects
We take our leadership role as a provider of low-carbon mass transit seriously and strive to limit our GHG emissions wherever possible. In 2023, we were pleased to announce that the Science Based Targets initiative ("SBTi") approved our targets for reducing GHG emissions in our Hong Kong railway operations and investment properties. Under these targets, we will reduce about half of our GHG emissions by 2030, using the base year of 2019 for comparison. This represents an important step towards attaining our long-term goal of achieving carbon neutrality by 2050. The current key initiatives include a chiller replacement programme, the introduction of electric buses, waste management programmes, and the adoption of green and low-carbon designs for our future rail and property developments.

Social Aspects
One of MTR's most important missions is to provide safe, reliable and efficient railway services for passengers from all walks of life. In 2023, we promoted Universal Basic Mobility by introducing new assistance features for the elderly and those in need on our "MTR • Care" mobile app and working with a variety of support groups to better understand the needs of different communities. MTR was awarded the "CareER Inclusive Employer Badge" for participating in their Disability Inclusion Index and providing job opportunities for people with disabilities. The Company also sponsored numerous events in Hong Kong organised to support disability inclusion, ethnic diversity and gender equity in the community and workforce.

We presented a vibrant and varied programme of events at the Living Art Stage at Hong Kong Station, including performances by artists ranging from the internationally renowned Mr Doodle to bagpipers and buskers, in order to enhance the passenger journey experience. In June, we also collaborated with the exhibition organiser for Florentijn Hofman's Double Ducks, taking these iconic rubber duck images to Admiralty Station and multiple other locations along our railway lines to create opportunities for passenger interaction.

Passenger and staff safety is always our top priority. In 2023, the number of reportable events increased in both our heavy rail and light rail networks by 48% and 14%, respectively. Many of these incidents were related to escalators; in response, we continued to carry out numerous safety initiatives on operational and escalator safety, focusing in particular on youth and the elderly.

In 2023, we continued to organise and support activities that create opportunities for youth, our communities and business partners. During the year, we revamped our " 'Train' for Life's Journeys" youth programme to include design thinking, entrepreneurship, financial literacy and AI usage. We also participated in a variety of learning and development programmes for students and working youth focused on areas including STEM, ESG, entrepreneurship and more.

Governance

MTR maintains a robust corporate governance framework to ensure ethical and transparent conduct and protect the best interests of its shareholders and stakeholders. We regularly review our governance practices to achieve the ESG goals set out in our Corporate Strategy. As at the end of 2023, over a quarter of our Board of Directors were female.

The Company's robust enterprise risk management framework covers a wide range of risks, including strategic, operational, financial, safety, compliance and reputational risks, as well as preparedness, mitigation and contingency measures. We conduct regular reviews of our top risks, emerging risks and ESG-related risks to account for our constantly evolving business and operating environments. Our "three lines of defence" framework also helps ensure proactive and effective management of risk.

HUMAN RESOURCES

As at 31 December 2023, the Company and its subsidiaries employed 17,405 staff in Hong Kong and 16,000 staff outside Hong Kong. Our associates and joint ventures employed an additional 21,498 staff in Hong Kong and worldwide. In 2023, the voluntary staff turnover rate in Hong Kong was 7.2%.

MTR seeks to be an employer of choice by offering competitive pay and benefits, short- and long-term incentive schemes, career development opportunities, and performance-based recognition and rewards. We emphasise advancement and opportunities through a range of training and career development programmes, and our well-being initiatives and family-friendly policies help staff achieve work-life balance. Our graduate, apprenticeship and internship recruitment initiatives also provide career opportunities for local youth.

We adopt the listening strategy of conducting Employee Engagement Surveys regularly in order to solicit employees' valuable feedback and to take action to create continuous improvement. With management's support, 80 taskforce members launched more than 120 initiatives between 2022 and 2023, so as to address the needs voiced by employees. The Employee Engagement Survey 2023 was conducted in late 2023 and achieved a 77% response rate. The results will be shared with staff in the first quarter of 2024 with follow-up action plans to be developed gradually and implemented from June 2024 onwards.

THE YEAR IN REVIEW – FINANCIAL PERFORMANCE

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

Consolidated Profit or Loss

HK$ million	Year ended 31 December 2023	2022	Favourable / (Unfavourable) Change HK$ million	%
Total Revenue	**56,982**	**47,812**	**9,170**	**19.2**
Recurrent Business Profit ζ				
EBIT# *				
Hong Kong Transport Services				
- Hong Kong Transport Operations	**(1,111)**	(4,733)	3,622	76.5
- Hong Kong Station Commercial Businesses	**3,792**	2,270	1,522	67.0
Total Hong Kong Transport Services	**2,681**	(2,463)	5,144	n/m
Hong Kong Property Rental and Management Businesses	**3,999**	3,800	199	5.2
Mainland China and International Railway, Property Rental and Management Subsidiaries*	**524**	962	(438)	(45.5)
Other Businesses, Project Study and Business Development Expenses	**(341)**	(539)	198	36.7
Share of Profit of Associates and Joint Ventures	**1,259**	1,095	164	15.0
Total Recurrent EBIT (before Special Loss Provisions)	**8,122**	**2,855**	**5,267**	**184.5**
Interest and Finance Charges	**(1,213)**	(1,061)	(152)	(14.3)
Income Tax	**(1,302)**	(361)	(941)	(260.7)
Non-controlling Interests	**(304)**	(314)	10	3.2
Recurrent Business Profit (before Special Loss Provisions)	**5,303**	**1,119**	**4,184**	**373.9**
Provisions for Onerous Contracts and Impairment Loss	**(1,022)**	(962)	(60)	(6.2)
Recurrent Business Profit (after Special Loss Provisions)	**4,281**	**157**	**4,124**	**n/m**
Property Development Profit (Post-tax)				
Hong Kong	**2,035**	10,413	(8,378)	(80.5)
Mainland China	**48**	67	(19)	(28.4)
Property Development Profit (Post-tax)	**2,083**	**10,480**	**(8,397)**	**(80.1)**
Underlying Business Profit ε	**6,364**	**10,637**	**(4,273)**	**(40.2)**
Gain / (Loss) from Fair Value Measurement of Investment Properties (Post-tax)				
Gain / (Loss) from Fair Value Remeasurement on Investment Properties	**60**	(3,076)	3,136	n/m
Gain from Fair Value Measurement of Investment Properties on Initial Recognition from Property Development	**1,360**	2,266	(906)	(40.0)
Gain / (Loss) from Fair Value Measurement of Investment Properties (Post-tax)	**1,420**	(810)	2,230	n/m
Net Profit Attributable to Shareholders of the Company	**7,784**	**9,827**	**(2,043)**	**(20.8)**

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 China and international railway, property rental and management businesses and other businesses (excluding fair value measurement of investment properties in Hong Kong and Mainland China)*

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

* : *Excluding special loss provisions, being provisions for onerous contracts made for Stockholms pendeltåg and Mälartåg regional traffic totalling HK$1,022 million in 2023 and impairment loss made for Shenzhen Metro Line 4 of HK$962 million in 2022*

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

n/m : *not meaningful*

In 2023, the Group achieved satisfactory financial performance in its recurrent businesses, benefiting from the resumptions of Cross-boundary, HSR and Duty Free businesses, as well as solid revenue contributions from continuing recovery in Domestic Service patronage after anti-pandemic restrictions were lifted. Our property development business recorded modest profits from LOHAS Park Package 11 and various completed projects, as compared to profits from three development projects recognised in 2022.

Total Revenue

The Group's total revenue in 2023 increased by 19.2% to HK$56,982 million compared to 2022. This increase was mainly contributed by (i) the gradual ramping-up of Cross-boundary and HSR fare revenue together with Duty Free rental income following the reopening of rail links with Mainland China; and (ii) strong recovery in Domestic Service patronage compared to the low base of revenue recorded during the first half in 2022, when the outbreak of the fifth wave of COVID-19 impacted Hong Kong.

Recurrent Business Profit

The Group recorded recurrent business profit of HK$4,281 million in 2023 compared to HK$157 million last year after taking into account the special loss provisions made on Stockholms pendeltåg and Mälartåg regional traffic in 2023 and Shenzhen Metro Line 4 in 2022. The improvement in recurrent business profit was mainly attributable to the increased EBIT of Hong Kong transport operations ("HKTO") and Hong Kong station commercial businesses ("HKSC") as a result of the aforementioned resumptions of cross-boundary rail services and Duty Free business and the recovery of Domestic Service patronage.

In 2023, the Group recognised special loss provisions totalling HK$1,022 million, of which HK$702 million related to the early termination of the Stockholms pendeltåg concession effective 2 March 2024, and HK$320 million related to the on-going operational challenges of the Mälartåg regional traffic concession in respect of which a supplementary agreement was signed with Mälardalstrafik in February 2024 to early terminate our service of Mälartåg regional traffic effective 16 June 2024. The provision for onerous contract of Stockholms pendeltåg comprised (i) the "exit fee"; (ii) provisions for certain assets written-off; and (iii) a provision for wind-down costs. For Mälartåg regional traffic, the provision for onerous contract was made based on the estimated unavoidable costs in accordance with the accounting standard requirement, and the loss arising under the terms of the supplementary agreement is not expected to be materially different from the provision already made in 2023. In 2022, an impairment loss of HK$962 million was recognised in respect of Shenzhen Metro Line 4.

<u>EBIT</u>

HKTO: EBIT loss narrowed substantially by HK$3,622 million, or 76.5%, to HK$1,111 million in 2023 compared to an EBIT loss of HK$4,733 million in 2022. This was the result of increased revenue brought by (i) recoveries in Cross-boundary Service, HSR and Airport Express patronage; (ii) the rebound in Domestic patronage after the end of the pandemic; and (iii) a full-year contribution from the East Rail Line cross-harbour extension which opened in May 2022.

These favourable results were partially offset by (i) increased operating expenses due to higher energy tariff, inflation, enhanced train services for our Domestic Service, resumptions of Cross-boundary Service and HSR operations, and incremental costs from the new East Rail Line cross-harbour extension; (ii) higher depreciation from railway asset renewals or commissionings; and (iii) higher variable annual payment to KCRC in line with increased revenue.

HKSC: EBIT increased significantly by HK$1,522 million, or 67.0%, to HK$3,792 million, predominantly due to the resumption of Duty Free Shop rental revenue after the reopening of boundary crossing stations. Other station retail rentals continued to be adversely affected by overall negative rental reversions on renewals and new lets.

Hong Kong property rental and management businesses: EBIT increased by HK$199 million, or 5.2%, to HK$3,999 million. This was mainly due to lower amortisation of rental concessions charged in 2023 as well as additional contributions following the opening of our two new shopping malls: The Wai in July 2023, and the first phase opening of THE SOUTHSIDE in December 2023. The increase was partly offset by the adverse impact of overall negative rental reversions as the gradual recovery of the retail market was affected by the increasing trend of northbound spending.

Mainland China and international railway, property rental and management subsidiaries: In 2023, EBIT saw a significant decrease of HK$438 million, or 45.5%, to HK$524 million before special loss provisions. This was mainly due to (i) the continuous challenges being faced regarding the operational and financial performances of Stockholms pendeltåg and Mälartåg regional traffic; and (ii) the depletion of government subsidy in late 2022 for Shenzhen Metro Line 4, which resulted in no government subsidy being booked in profit or loss in 2023. These adverse factors were partially mitigated by the post-pandemic patronage recovery of Shenzhen Metro Line 4.

Other businesses, project study and business development expenses: EBIT loss from these businesses was HK$341 million in 2023, compared to the loss of HK$539 million recorded in 2022. The reduction in loss of HK$198 million, or 36.7%, was due to increased visitor numbers at Ngong Ping 360 and, hence, improved financial performance.

Share of Profit of Associates and Joint Ventures
Share of profit of associates and joint ventures increased by HK$164 million, or 15.0%, to HK$1,259 million in 2023. This was mainly due to (i) higher profit sharing in Octopus Holdings Limited resulting from boundary reopening and improved consumer sentiment after the lifting of social distancing policies; and (ii) the improved performance of our operations in Mainland China due to patronage recovery.

Total Recurrent EBIT (before Special Loss Provisions)
Total recurrent EBIT (before special loss provisions) increased by HK$5,267 million to HK$8,122 million.

Income Tax
Income tax increased by HK$941 million to HK$1,302 million in 2023. This was mainly due to the increase in recurrent business profit in Hong Kong.

Since the Rail Merger in 2007, the Company has claimed annual Hong Kong Profits Tax deductions in respect of certain payments relating to the Rail Merger (collectively "the Sums"). The total tax amount in respect of the Sums for the years of tax assessment from 2007/2008 to 2023/2024 amounted to HK$5.1 billion. On 20 May 2022, the Commissioner of Inland Revenue issued a determination to the Company disagreeing that the Sums are tax deductible. The Company lodged a notice of appeal to the Inland Revenue Board of Review on 16 June 2022. After discussing with the external legal counsels and tax advisor on the approach to the appeal, the Company decided not to pursue its deduction claims in respect of the amortisation of upfront payment and cut-over liabilities during the opening submission before Board of Review. As the Company had already made the related tax provision for the amortisation of upfront payment and cut-over liabilities in the past years taking into account the uncertainty in their tax deductibility, no additional tax provision is required. The hearing of appeal was held before the Board of Review in early 2024. As at the date of this announcement, the Board of Review has yet to hand down its decision. Further details are set out in Note 6 "Income Tax" above of this annual results announcement.

Property Development Profit (Post-tax)
Property development profit (post-tax) was HK$2,083 million in 2023, which was mainly derived from initial profit from LOHAS Park Package 11 and residual profits from various completed projects. The decrease of HK$8,397 million compared to the HK$10,480 million recorded in 2022 as profits in respect of three of our development projects were recognised.

Gain / (Loss) from Fair Value Measurement of Investment Properties (Post-tax)
Gain from fair value measurement of investment properties in Hong Kong and Mainland China was HK$1,420 million in 2023. This comprised (i) a portion of gain of HK$1,360 million recognised from the initial fair value measurement of our sharing-in-kind property (i.e., THE SOUTHSIDE shopping mall); and (ii) a marginal gain of HK$60 million from investment property fair value remeasurement after tax.

Net Profit Attributable to Shareholders of the Company
Taking into account the Group's recurrent businesses, property development businesses and fair value measurement of investment properties, the Group reported a net profit attributable to shareholders of the Company of HK$7,784 million in 2023, a decrease of HK$2,043 million, or 20.8%, compared to the HK$9,827 million recorded in 2022.

Consolidated Financial Position

HK$ million	**31 December 2023**	31 December 2022	Inc. / (Dec.) HK$ million	Inc. / (Dec.) %
Net Assets	**178,856**	179,912	(1,056)	(0.6)
Total Assets	**346,426**	327,081	19,345	5.9
Total Liabilities	**167,570**	147,169	20,401	13.9
Gross Debt^	**59,491**	47,846	11,645	24.3
Net Debt-to-equity Ratio$^{\delta}$	**26.5%**	23.3%		3.2% pts

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

δ : *Net debt-to-equity ratio represents net debt of HK$47,316 million (2022: HK$41,994 million), which comprises loans and other obligations, short-term loans, obligations under service concession and loans from holders of non-controlling interests net of cash, bank balances and deposits in the consolidated statement of financial position, as a percentage of the total equity of HK$178,856 million (2022: HK$179,912 million)*

Net Assets
Our financial position remains strong. The Group's net assets decreased slightly by HK$1,056 million to HK$178,856 million as at 31 December 2023. This is mainly attributable to the payments of 2022 final and 2023 interim ordinary dividends, decrease in other reserves, but offset by the net profit recorded for the year.

Total Assets
Total assets increased by 5.9% to HK$346,426 million. This was mainly due to the increase in cash, bank balances and deposits as well as the receipt of our shopping mall THE SOUTHSIDE as an investment property.

Total Liabilities
Total liabilities increased by 13.9% to HK$167,570 million. This was mainly due to the net drawdown of loans, the deferred income retained regarding a portion of the gain from the initial fair value measurement of THE SOUTHSIDE shopping mall after considering the outstanding risks and obligations relating to THE SOUTHSIDE Package 3 property development project and the amount received in respect of our Hong Kong property development.

Gross Debt and Cost of Borrowing
As at 31 December 2023, the Group's gross debt (being loans and other obligations, and short-term loans) was HK$59,491 million, an increase of 24.3%, or HK$11,645 million, over the previous year. The weighted average borrowing cost of the Group's interest-bearing borrowings was 3.5% p.a. in 2023, an increase of 1.0% point from 2.5% p.a. in 2022.

Net Debt-to-equity Ratio and Interest Cover
Net debt-to-equity ratio increased by 3.2% points to 26.5% as at 31 December 2023 from 23.3% as at 31 December 2022. This was mainly due to an increase in net debt for capital expenditure of new railway projects. The Group's interest cover in 2023 was 9.8 times compared to 14.2 times in the previous year.

Consolidated Cash Flows

HK$ million	Year ended 31 December 2023	2022
Net Cash Generated from Operating Activities	**11,197**	**6,757**
Receipts from Property Development	**7,109**	14,162
Payments of Property Development	**(1,007)**	(9,245)
Fixed and Variable Annual Payments	**(1,073)**	(1,010)
Other Net Cash Outflow from Investing Activities	**(11,846)**	(10,219)
Net Cash Used in Investing Activities	**(6,817)**	**(6,312)**
Net Drawdown of Debts, Net of Lease Rental and Interest Payments	**10,005**	4,100
Dividends Paid to Shareholders of the Company	**(7,595)**	(8,562)
Other Net Cash Outflow from Financing Activities	**(537)**	(109)
Net Cash Generated from / (Used in) Financing Activities	**1,873**	**(4,571)**
Effect of Exchange Rate Changes	**82**	(710)
Cash, Bank Balances and Deposits reclassified as Disposal Group Held for Sale	**(94)**	-
Increase / (Decrease) in Cash, Bank Balances and Deposits	**6,241**	**(4,836)**

Net Cash Generated from Operating Activities

Net cash generated from operating activities was HK$11,197 million compared to HK$6,757 million in 2022. This was mainly due to the increase in recurrent business profit as discussed above.

Net Receipts from Property Development

Net receipts from property development were HK$6,102 million, comprising (i) cash receipts of HK$7,109 million mainly from the Tai Wai station property development project, various LOHAS Park packages and Ho Man Tin Station package, which were partially offset by (ii) cash payments of HK$1,007 million mainly for Oyster Bay Project.

Other Net Cash Outflow from Investing Activities

Other net cash outflow from investing activities was HK$11,846 million. This mainly included capital expenditure of HK$12,576 million, comprising HK$8,463 million for investments in additional assets such as station renovation works, new trains and signalling systems for existing Hong Kong railways and related operations; HK$2,309 million for Hong Kong railway extension projects; HK$1,250 million for Hong Kong investment properties, in particular the fitting-out works for The Wai and THE SOUTHSIDE; and HK$554 million for Mainland China and overseas subsidiaries such as Shenzhen Metro Line 13.

Dividends Paid to Shareholders of the Company

In 2023, the Group paid dividends of HK$7,595 million in cash (being the 2022 final dividend of HK$0.89 per share and the 2023 interim dividend of HK$0.42 per share) compared to HK$8,562 million in 2022 (being the 2021 final dividend of HK$1.02 per share and the 2022 interim dividend of HK$0.42 per share). The decrease in dividend cash outflow was because the proportion of interim dividend per share to the annual dividend per share had increased in 2022 interim.

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

Hong Kong, 7 March 2024

CLOSURE OF REGISTER OF MEMBERS

Annual General Meeting 2024

The Register of Members of the Company will be closed from 16 May 2024 to 22 May 2024 (both dates inclusive), during which time no transfers of shares in the Company will be effected. To be eligible to attend, speak and vote at the Company's Annual General Meeting to be held on 22 May 2024, all completed transfer documents, accompanied by the relevant share certificates must be lodged for registration with the Company's Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on 14 May 2024 (Hong Kong time).

2023 Final Dividend

The Register of Members of the Company will be closed from 28 May 2024 to 31 May 2024 (both dates inclusive), during which time no transfers of shares in the Company will be effected. To qualify for the proposed 2023 final dividend, all completed transfer documents, accompanied by the relevant share certificates must be lodged for registration with the Company's Share Registrar, at the address mentioned in the preceding paragraph, no later than 4:30 p.m. on 27 May 2024 (Hong Kong time).

As at the date of this announcement:

Members of the Board: Dr Rex Auyeung Pak-kuen *(Chairman)* **, Dr Jacob Kam Chak-pui *(Chief Executive Officer)*, Andrew Clifford Winawer Brandler*, Dr Bunny Chan Chung-bun*, Walter Chan Kar-lok*, Dr Dorothy Chan Yuen Tak-fai*, Cheng Yan-kee*, Hui Siu-wai*, Sunny Lee Wai-kwong*, Rose Lee Wai-mun*, 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.