THE YEAR IN REVIEW

BUSINESS PERFORMANCE

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	
	2023	Inc./(Dec.) %	**2023**	Inc./(Dec.) %
Hong Kong Transport Operations				
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 enhanced 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.

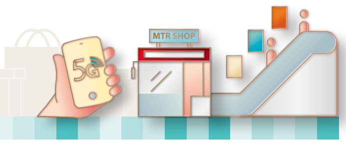
Enhancing the Customer Service Experience

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.

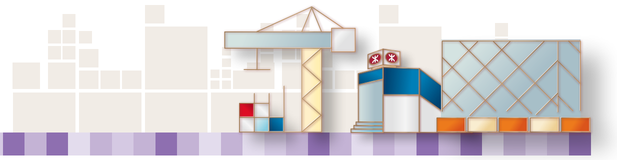
In terms of trade mix, food and beverage accounted for approximately 30% of the leased area of our shopping malls as at 31 December 2023, followed by services (21%), fashion, beauty and accessories (21%), leisure and entertainment (19%), and department stores and supermarkets (9%).

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								
	Mainland China and Macao Railway, Property Rental and Property Management Businesses			International Railway Businesses			Total		
Year ended 31 December 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 of the transaction, 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, most of the KPIs had either been achieved or were 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.

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 Profitζ				
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 Profitε	**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.

EBIT

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 annual report, the Board of Review has yet to hand down its decision. Further details are set out in Note 16 "Income Tax in the Consolidated Statement of Profit or Loss" of the Consolidated Financial Statements.

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.