

# CEO'S REVIEW AND OUTLOOK

## Dear Shareholders and other Stakeholders,

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 45<sup>th</sup> 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